



CONNOR, CLARK & LUNN

CAPITAL MARKETS

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**Canadian Banc Capital
Securities Trust**

Semi-Annual Report

June 30, 2011

Canadian Banc Capital Securities Trust Message to Unitholders

August 25, 2011

Dear Investor,

We are pleased to provide you with the semi-annual report for Canadian Banc Capital Securities Trust (the "Fund") for the six month period ending June 30, 2011.

The Fund has been designed to provide investors with tax-efficient exposure to an actively managed portfolio consisting primarily of Innovative Tier 1 Capital Securities of the largest Canadian banks. The portfolio is actively managed by Connor, Clark & Lunn Investment Management Ltd. (the "Investment Manager"). The Fund's investment objectives are to: i) provide Unitholders with attractive tax-advantaged quarterly cash distributions; and ii) return to Unitholders the original issue price of the Units upon termination of the Fund on June 30, 2014. Distributions are initially targeted to be \$1.50 per annum per Unit consisting primarily of returns of capital, representing a yield on the issue price of 6.0% per annum.

The Fund has performed well. The net asset value ("NAV") for Class A units at June 30, 2011 was \$26.71 and distributions of \$3.09 have been paid out since inception. This compares favourably with the opening NAV of 23.46 after the deduction of agents' fees and issuance expenses. During this reporting period, the increase in net asset value is primarily due to a drop in the benchmark government bond yields. This increase has been partially offset by a small increase in credit spreads for the banking sector.

The Investment Manager continues to monitor the companies in the portfolio. Fundamentals in the Canadian banking sector remained strong during the period which translated into a continued improvement to the average Tier1 ratio from 12.6 % a year ago to 13.1% at the end of the period. Despite these positive results, bank spreads fell victim to the overall "risk off" impact on credit, which widened slightly during the second quarter. The long-awaited ruling by the Office of the Superintendent of Financial Institutions (OSFI) on the phaseout of specific capital securities was finally announced during the period. OSFI encouraged banks "to the maximum extent possible" to redeem "instruments at their regular par redemption date". OSFI further characterized redemption due to a regulatory event as being an extraordinary measure that should only be used by a bank if it is not able to manage within the global banking guidelines and would require OSFI approval. In our view, this essentially eliminated the risk of capital securities with regulatory par call features being called prematurely prior to 2020. The Investment Manager continues to believe that 10 year Government of Canada bonds will be range bound, trading in a range between 3.0% and 3.5%.

Please check our web site for quarterly investment updates and other timely information. We appreciate your investment in the Fund and look forward to continued strong performance by the Fund.

Yours truly,



W. Neil Murdoch
Chief Executive Officer
Connor, Clark & Lunn Capital Markets

Management Report of Fund Performance

This semi-annual management report of fund performance for Canadian Banc Capital Securities Trust (the “Fund”) contains financial highlights but does not contain the complete semi-annual financial statements of the Fund. **The semi-annual financial statements and accompanying notes are attached to this report.**

You can obtain a copy of the Semi-Annual financial statements at no cost by writing to the Manager to the following address: Connor, Clark & Lunn Capital Markets Inc., Suite 300, 181 University Avenue, Toronto, Ontario M5H 3M7, or calling (416) 862-2020 or visiting the Manager’s website at www.cclcapitalmarkets.com or by visiting www.sedar.com.

Securityholders may also contact us using one of these methods to request a copy of the Fund’s proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Note that any reference to “Net Assets” or “Net Assets per Unit” or “GAAP Net Assets” means that the value was determined in accordance with the Canadian Generally Accounting Principles “GAAP” for financial statements purposes. Also any reference to “Net Asset Value” or “Net Asset Value per Unit” or “Transactional NAV” means that the value was determined for valuation and transactional purposes. An explanation of the difference between both values can be found in note 3 to the financial statements.

Investment Objectives and Strategy

The Fund is an investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement between Connor, Clark & Lunn Capital Markets Inc. (the “Manager”) the Manager of the Fund and RBC Dexia Investor Services Trust (the “Trustee”) dated May 22, 2009. The Fund’s principal office is at 181 University Avenue, Suite 300, Toronto, Ontario M5H 3M7. The fiscal year-end of the Fund is December 31. Beneficial interest in the net assets and net income of the Fund is divided into units of two classes, Class A Units (“the Class A Units”) and Class F Units (the “Class F Units”). Class A Units are listed on the Toronto Stock Exchange under the symbol CSB.UN. Class F Units are not listed on a stock exchange but may be converted into Class A Units on a weekly basis. The principal differences between the Class A Units and the Class F Units are that the agents’ fees payable with respect to the original issuance of the units were lower for the Class F Units, and that the service fee component of the manager’s fee and the TSX listing fees are not paid by Class F Units.

The Fund’s investment objectives are to:

- (i) provide Unitholders with attractive tax-advantaged quarterly cash distributions; and
- (ii) return to Unitholders the original issue price of the Units upon termination of the Fund on June 30, 2014.

Distributions are initially targeted to be \$1.50 per annum per Unit consisting primarily of returns of capital, representing a yield on the issue price of 6.0% per annum.

In order to achieve the Fund’s investment objectives, the Fund obtains exposure, in a tax-efficient manner, to the performance of a portfolio (the “Portfolio”) held by Portfolio Trust (the “Portfolio Trust” or the “Trust”). Connor, Clark & Lunn Investment Management Ltd. (the “Investment Manager”), the Trust’s investment manager, actively manages the Portfolio. The Portfolio consists primarily of Innovative Tier 1 Capital Securities of the six largest Canadian banks and large Canadian life insurance companies. The Portfolio includes a minimum of 80% Canadian Bank Capital Securities. The Portfolio Manager may also invest up to 20% of the Portfolio (measured at the time of investment) in Bank Shares and Life Insurance Company Securities. The Fund may also invest in other securities issued by Canadian financial institutions, including subordinated debt, preferred shares and common shares.

The Fund doesn’t invest directly in the Portfolio Trust, the Fund used the net proceeds of the initial public offering of its Class A and Class F Units to pre-pay its purchase obligations under a forward purchase and sale agreement (the “Forward Agreement”) with The Bank of Montreal (the “Counterparty” or “BMO”). Under the Forward Agreement, the Fund will

receive, on or before June 30, 2014, a specified portfolio consisting of securities of Canadian public issuers that are “Canadian securities” for the purposes of the Tax Act (“Canadian Securities”) in an amount equal to the value of the Portfolio Trust. Partial settlements under the Forward Agreement are intended to ensure that Unitholders have economic exposure to the distributions effected by Portfolio Trust. A fee of 0.35% per annum, calculated with reference to the NAV of the Portfolio Trust, is payable to BMO under the Forward Agreement.

Risk

Changes in the risk exposure of the Fund occurred in the following areas:

- **Use of leverage**

The Fund is entitled to employ leverage of up to 25% of the total Portfolio held by Portfolio Trust. The Fund applied leverage in the range from 19.7% to 22.0%. The leverage factor as of June 30, 2011 was 20.7%.

For full disclosure of risks associated with an investment in the Fund’s units, please refer to the Prospectus dated May 27, 2009 and to the Fund’s most recent Annual Information Form.

Recent Developments

Future accounting changes

The Canadian Accounting Standards Board (“CASB”) previously confirmed that effective January 1, 2011, International Financial Reporting Standards (“IFRS”) will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. In June 2010, the CASB issued an exposure draft “Adoption of IFRSs by Investment Companies”, proposing that investment companies currently applying Accounting Guideline 18 (“AcG 18”) “Investment Companies” issued by the Canadian Institute of Chartered Accountants (“CICA”), defer the adoption of IFRS by one year to fiscal years beginning on or after January 1, 2012. In September 2010, the CASB approved the optional one year deferral from IFRS adoption for investment companies applying AcG 18.

At its January 12, 2011 meeting, the AcSB decided to extend the deferral of mandatory adoption of IFRS for Investment Companies and Segregated Accounts of Life Insurance Enterprises for one additional year. The decision is in response to the International Accounting Standards Board’s announcement in late 2010 that its Investment Company project is delayed and will not likely be issued before January 1, 2012, which is the current date of mandatory adoption of IFRS for these entities. As a result, the Fund will delay implementation of IFRS until January 1, 2013.

The Fund’s Manager has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund’s current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on the GAAP Net Assets of the Fund. Management has presently determined that there will be no significant impact to the GAAP Net Assets per Unit as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

Results of Operations

Portfolio Manager Commentary

Throughout the period, investors vacillated between “risk-on” (bullish) and “risk-off” (bearish) sentiments. Initially, investor confidence in the global recovery remained resilient despite the geopolitical unrest in North Africa and in the Middle East, and the devastating natural disaster in Japan. But expectations turned negative as economic releases confirmed that the global economy was entering a soft patch while the resurgence of the Greek sovereign debt crisis added to concerns. In the latter part of June 2011, investors became more upbeat given some better-than-expected economic news and the passing of a second Greek bailout package.

On the monetary front, while Canadian inflation became elevated during the second quarter, the Bank of Canada opted to keep its policy rate unchanged signaling a gradual withdrawal of monetary stimulus in the not too distant future. The US

Federal Reserve ended its quantitative easing program (QE2) as scheduled but maintained the size of its balance sheet and stated continued support for an extended period of very low interest rates. The net results were interest rates that remained initially within a trading range mostly dictated by the uncertainty linked to temporary but nonetheless major macro shocks. In the second quarter, yields declined toward the lows reached last October as the bond market benefited from a flight to safety due to the negative impact of economic releases on equity investors.

Fundamentals in the Canadian banking sector remained strong during the period which translated into a continued improvement to the average Tier1 ratio from 12.6 % a year ago to 13.1% at the end of the period. Despite these positive results, bank spreads fell victim to the overall “risk off” impact on credit, which widened slightly during the second quarter. We added slightly to TD Bank and it remains the portfolio’s largest exposure based on its strong fundamentals, its very large domestic franchise and robust capital position.

On the insurance front, the period started on an encouraging note reflecting a friendlier environment for the sector. This was short lived as deteriorating economic fundamentals, declining equity markets and overall interest rates reversed the optimism that initially prevailed putting upward pressure on overall spread.

The long-awaited ruling by the Office of the Superintendent of Financial Institutions (OSFI) on the phaseout of specific capital securities was finally announced during the period. OSFI encouraged banks “to the maximum extent possible” to redeem “instruments at their regular par redemption date”. OSFI further characterized redemption due to a regulatory event as being an extraordinary measure that should only be used by a bank if it is not able to manage within the global banking guidelines and would require OSFI approval. In our view, this essentially eliminated the risk of capital securities with regulatory par call features being called prematurely prior to 2020. Further, the major Canadian banks have publicly announced their intention not to exercise the regulatory par call feature prior to 2022.

Outlook

We expect that economic growth in North America will re-accelerate and result in a moderately positive economic outlook for the remainder of the year. While many positive factors such as the rebound of the Japanese economy, the reversal in commodity prices and sustained business spending, support our outlook, we expect that the influence of monetary tightening in emerging markets to control inflation will most likely keep a lid on the pace of overall global growth. A confluence of external factors, such as the risk of contagion from the European sovereign debt situation, further uprisings in the Middle East and the US debt ceiling situation, could lead to heightened market volatility in the near term. However, the commitment of the US Federal Reserve to maintain an accommodative rate environment should help to offset some of the market’s concerns. In Canada, we expect the Bank of Canada will resume raising its policy rate sometime in the second half of the year and we feel the bond market is currently underestimating the probability of higher rates. The Bank of Canada will ultimately find itself in a tight situation having to balance a strong consumer and housing sector versus pressure on the trade sector arising from the appreciation in the Canadian dollar.

We expect yields to grind higher through the remainder of the year, but longer-term yields should remain within a fairly tight range of 3.0% to 3.6% for Canada 10-year. We still expect financials to perform well under this scenario of low interest rates from a historical perspective and continued improving fundamentals as they get ready to meet the Basel III requirements.

Capital transactions

On June 9, 2009, the Fund completed an initial public offering pursuant to the prospectus dated May 27, 2009. \$90,000,000 was raised through the issue of 3,600,000 Class A Units and \$6,289,000 was raised through the issue of 251,560 Class F Units. The Class A Units were issued at \$25 per unit and incurred agents fees and issue expenses of \$5,694,889 or \$1.53 per unit, for an opening Transactional NAV of \$23.47 per unit. The Class F Units were issued at \$25 per unit and incurred agents fees and issue expenses of \$199,486 or \$0.76 per unit, for an opening Transactional NAV of \$24.24 per unit.

On July 6, 2009, the Agents exercised an over-allotment option in respect of 108,000 Class A Units, raising a further \$2,700,000. Agents’ fees were \$141,750 or \$1.31 per unit.

On October 27, 2009, the Fund raised an additional \$663,999 through the issue of 25,149 Class F Units at \$26.40 per unit from a private placement increasing the number of Class F Units issued to 276,709 units.

The Fund had 4,200 Class F Units converted to 4,388 Class A Units for a total value of \$119,538 during the six months period ended June 30, 2011 (800 Class F Units were converted to 829 Class A Units for a total value of \$22,094 during the

six months period ended June 30, 2010). The Fund also had 2,000 Class F Units redeemed for the amount \$51,538 during the same period (no units were redeemed during the six months period ended June 30, 2010).

Market repurchases

The Trust Agreement provides that the Fund may, in its sole discretion, from time to time, purchase (in the open market or by invitation for tenders) Class A Units for cancellation subject to applicable law and stock exchange requirements, based on the Manager's assessment that such purchases are accretive to Unitholders, in all cases at a price per Class A Unit not exceeding the most recently calculated Net Asset Value per Class A Unit immediately prior to the date of any such purchase of Units.

There were no units purchased for cancellation during the six months period ended June 30, 2011 (the Fund purchased 800 Class A Units for cancellation for a total cost of \$19,359 during the six months period ended June 30, 2010).

Net Assets

The net assets per unit is calculated as the value of the prepaid amount to the counterparty under forward agreement plus any other investments held by the Fund, plus the value of any gain or loss on the Forward Agreement, less any net liabilities of the Fund. The resulting amount is assigned to Class A and Class F Unitholders using an allocation percentage that takes into consideration any class level specific expenses.

On June 30, 2011, the value of the prepaid amount to counterparty under forward agreement was \$103,214,480. Since the Fund can at any time terminate the Forward Agreement with the Counterparty in exchange for the value of the Portfolio Trust, the value of the Forward Agreement to the Fund is equal to the value of the Portfolio Trust less the value of the prepaid amount to counterparty under the forward agreement. On June 30, 2011 the value of the unrealized gain on forward agreement balance was \$25,381,569. Other liabilities net of other assets in the Fund totalled \$30,119,917 leaving net assets of \$98,476,132. By assigning this amount to Class A and Class F Unitholders, as mentioned in the previous paragraph, the GAAP Net assets per unit was \$26.63 per Class A Units and \$27.86 per Class F Units (On June 30, 2010, the value of the prepaid amount to counterparty under forward agreement was \$114,677,068. Since the Fund can at any time terminate the Forward Agreement with the Counterparty in exchange for the value of the Portfolio Trust, the value of the Forward Agreement to the Fund is equal to the value of the Portfolio Trust less the value of the prepaid amount to counterparty under the forward agreement. On June 30, 2010 the value of the unrealized gain on forward agreement balance was \$19,378,650. Other liabilities net of other assets in the Fund totalled \$28,597,587 leaving net assets of \$105,458,131. On June 30, 2010 the GAAP Net assets per unit was \$26.41 per Class A Units and \$27.43 per Class F Units.)

Leverage

The Fund's exposure to the securities in the Portfolio Trust, through the Forward Agreement, may be increased to 25% of the NAV (being the aggregate value of the assets of the Portfolio Trust) (tested daily) for the purposes of adding leverage to the Fund and such other short term funding purposes as may be determined by the Investment Manager from time to time and in accordance with the Investment Strategy. The use of leverage has the potential to enhance or reduce returns.

The Fund entered into a letter of agreement (the "Credit Agreement") dated June 9, 2009, between the Manager and the Bank of Montreal (the "Counterparty" or "BMO"), to borrow amounts up to 25% of the NAV of the Portfolio Trust as being part of the Forward Agreement (see note 8). Under the provisions of the Credit Agreement the Counterparty will also charge the Fund a fee of 0.25% of any unfunded leverage amount (the difference between the maximum allowable leveraged amount and the actual funded leverage amount). This agreement will be terminated on the earlier of (i) June, 23, 2014, and (ii) the date on which this Transaction is pre-settled in full pursuant to the terms of the Credit Agreement.

During the six month period ended June 30, 2011, the Fund had bank indebtedness balances between \$26,340,000 and \$28,290,000 or 19.75% to 22.0% of its NAV (\$25,300,000 and \$25,300,000 or 19.5% to 21.7% of its NAV during the six month period ended June 30, 2010). The related interest expense during the same period was \$372,487 (\$267,834 during the six month period ended June 30, 2010). At June 30, 2011, the borrowed balance was \$28,290,000 (\$27,490,000 at December 31, 2010).

Distributions

The Fund pays quarterly distributions initially at \$0.375 per Unit, representing a return of 6.0% per annum on the Unit issue price. The Fund paid an initial distribution of \$0.4615 for unitholders with record date September 30, 2009 and regular quarterly distributions of \$0.375 per calendar quarter thereafter.

The Fund has made all its scheduled distributions during the six month period ended June 30, 2011 paying \$0.75 per Class A Unit and \$0.75 per Class F Unit (\$0.75 per Class A Unit and \$0.75 per Class F Unit during the six month period ended June 30, 2010).

Recommendations or Reports by the Independent Review Committee

The Independent Review Committee of the Board of Advisors tabled no special reports and made no extraordinary material recommendations to management of the Fund during the six months period ended June 30, 2011.

Related Party Transactions

Management Fees

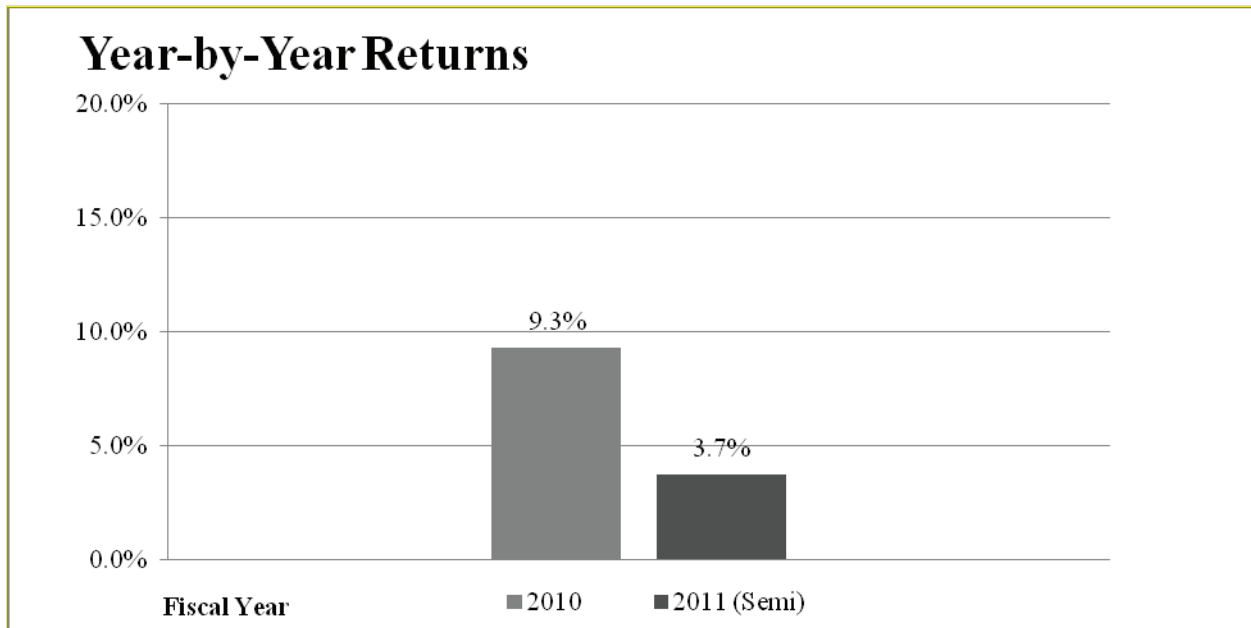
The Manager receives a Management Fee from the Fund and Portfolio Trust equal in the aggregate to 0.50% per annum of the applicable Net Asset Value, (0.25% from the Fund and 0.25% from the Portfolio Trust), calculated and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund and the Portfolio Trust on a combined basis during the six months period ended June 30, 2011 were \$266,850 (2010 - \$249,455). The Manager is responsible for payment of the investment management fees out of these management fees.

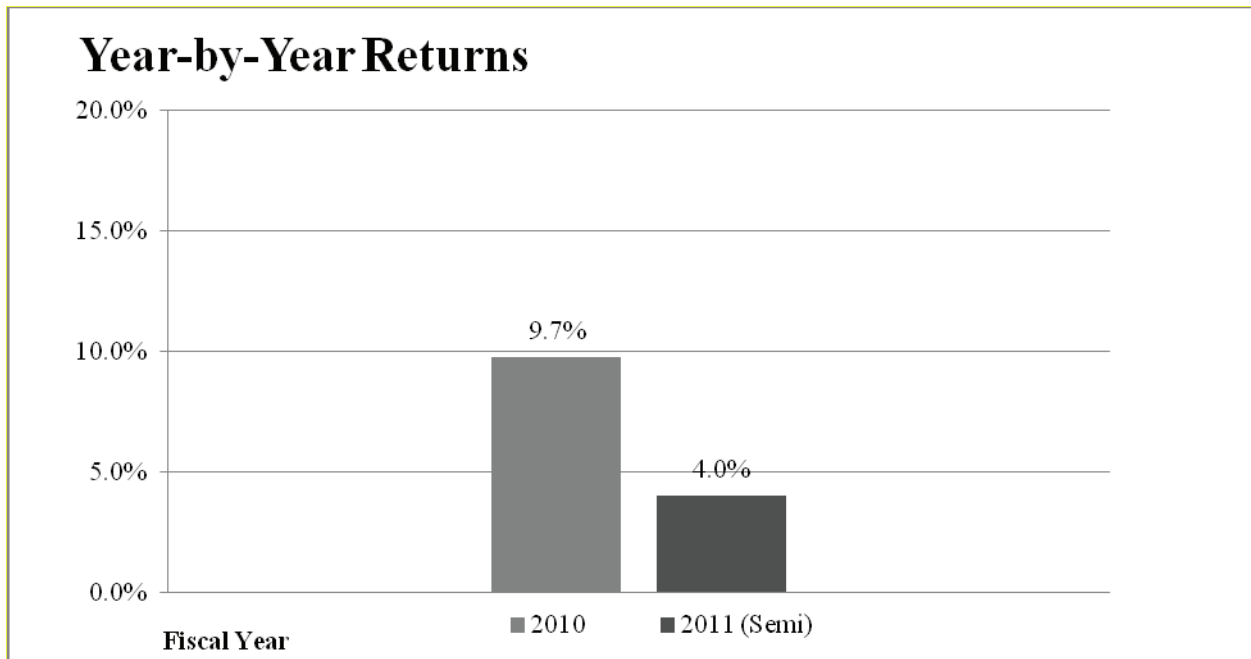
Past Performance

The following bar charts show the Fund's Class A and Class F annual performance for the year ended December 31, 2010. It also shows the semi annual performance for the six-month period ended June 30, 2011 assuming all the distributions made by the Fund during the periods shown were reinvested. This bar chart shows, in percentage terms, how much an investment made on the first day of the period would have grown or decreased by the last day of the period. Past performance is not necessarily indicative of future performance.

Class A:



Class F:



Financial Highlights

The following tables show selected key financial information about the Fund and are intended to aid in understanding the Fund's financial performance since inception. This information is derived from the Fund's audited annual financial statements:

Class A Units:

The Fund's Net Assets per Class A Unit:

	June 30, 2011 ⁽²⁾	December 31, 2010	December 31, 2009 ⁽¹⁾
Net Assets, beginning of period	26.38	25.50	25.00
Unit issue expense ⁽³⁾	–	(0.01)	(1.54)
Increase (decrease) from operations:			
Total revenues	–	–	–
Total expenses	(0.27)	(0.48)	(0.25)
Realized gains (losses) for the period	0.18	0.60	0.04
Unrealized gains (losses) for the period	1.09	2.28	3.09
Total increase (decrease) from operations ⁽⁴⁾	1.00	2.40	2.88
Distributions:			
From income (excluding dividends)	–	–	–
From dividends	–	–	–
From capital gains	–	–	–
Return of capital	(0.75)	(1.50)	(0.84)
Total Distributions ⁽⁵⁾	(0.75)	(1.50)	(0.84)
Net Assets, end of period ⁽⁶⁾	26.63	26.38	25.50

⁽¹⁾ Results for the period from June 09, 2009 (commencement of operations) to December 31, 2009.

⁽²⁾ Results for six month period ended June 30, 2011.

⁽³⁾ Issue expense of \$5,726,569 incurred in connection with the Class A Units issuance. The full amount of issue expenses was deducted from the unit capital for accounting purposes and is amortized over a period of five years for tax purposes.

⁽⁴⁾ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of units outstanding over the financial period.

⁽⁵⁾ The percentages used to allocate distributions among income, dividends, capital gain and return on capital are based on estimates.

⁽⁶⁾ This is not reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data (Class A Units):

	June 30, 2011 ⁽²⁾	December 31, 2010	December 31, 2009 ⁽¹⁾
Net asset value (000's)	92,137	91,235	95,373
Number of units outstanding	3,449,291	3,444,903	3,721,115
Base Management expense ratio ⁽³⁾⁽⁴⁾	1.27%	1.25%	1.32%
Issue expenses ratio ⁽³⁾⁽⁴⁾	0.00%	0.03%	6.19%
Interest expense ratio ⁽³⁾⁽⁴⁾	0.77%	0.59%	0.50%
Management expense ratio (annualized) ⁽⁴⁾	2.04%	1.87%	8.01%
Management expense ratio before waivers or absorptions (annualized) ⁽⁴⁾	2.04%	1.87%	8.01%
Portfolio turnover rate ⁽⁵⁾	0.00%	106.93%	0.00%
Trading expense ratio ⁽⁶⁾	0.00%	0.00%	0.00%
Net asset value per unit ⁽⁷⁾	26.71	26.48	25.63
Closing market price (TSX)	26.25	26.15	25.20

⁽¹⁾ Results for the period from June 09, 2009 (commencement of operations) to December 31, 2009.

⁽²⁾ Results for six month period ended June 30, 2011.

⁽³⁾ A separate base management expense ratio has been presented to include the normal operating expenses and exclude the Issue expense ratio: representing all agents' fees and unit issue expenses, and Interest expense ratio: representing cost of leverage.

⁽⁴⁾ Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net asset value during the period. Unit issue expenses, representing all Agents' fees and other offering expenses, which are one-time expenses, are not annualized.

⁽⁵⁾ The Fund's turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund's buying and selling all of the securities (including fixed income) in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Fund.

⁽⁶⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

⁽⁷⁾ The net asset value (Transactional NAV) per unit is based on the last traded price for the day of the underlying portfolio, whereas the net assets per unit (GAAP Net Assets) is based on the closing bid prices of the underlying portfolio; hence the difference between the two amounts.

Class F Units:

The Fund's Net Assets per Class F Unit:

	June 30, 2011 ⁽²⁾	December 31, 2010	December 31, 2009 ⁽¹⁾
Net Assets, beginning of period	27.50	26.42	25.00
Unit issue expense ⁽³⁾	—	(0.01)	(0.79)
Increase (decrease) from operations:			
Total revenues	—	—	—
Total expenses	(0.28)	(0.50)	(0.26)
Realized gains (losses) for the period	0.19	0.62	0.04
Unrealized gains (losses) for the period	1.22	2.49	3.20
Total increase (decrease) from operations ⁽⁴⁾	1.13	2.61	2.98
Distributions:			
From income (excluding dividends)	—	—	—
From dividends	—	—	—
From capital gains	—	—	—
Return of capital	(0.75)	(1.50)	(0.84)
Total Distributions ⁽⁵⁾	(0.75)	(1.50)	(0.84)
Net Assets, end of period ⁽⁶⁾	27.86	27.50	26.42

⁽¹⁾ Results for the period from June 09, 2009 (commencement of operations) to June 30, 2009.

⁽²⁾ Results for six month period ended June 30, 2011.

⁽³⁾ Issue expense of \$201,795 incurred in connection with the Class F Units issuance. The full amount of issue expenses was deducted from the unit capital for accounting purposes and is amortized over a period of five years for tax purposes.

⁽⁴⁾ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of units outstanding over the financial period.

⁽⁵⁾ The percentages used to allocate distributions among income, dividends, capital gain and return on capital are based on estimates.

⁽⁶⁾ This is not reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data (Class F Units):

	June 30, 2011 ⁽²⁾	December 31, 2010	December 31, 2009 ⁽¹⁾
Net asset value (000's)	6,632	6,722	6,989
Number of units outstanding	237,309	243,509	263,209
Base Management expense ratio ⁽³⁾⁽⁴⁾	0.87%	0.81%	0.87%
Issue expenses ratio ⁽³⁾⁽⁴⁾	0.00%	0.03%	3.06%
Interest expense ratio ⁽³⁾⁽⁴⁾	0.77%	0.59%	0.50%
Management expense ratio (annualized) ⁽⁴⁾	1.64%	1.43%	4.43%
Management expense ratio before waivers or absorptions (annualized) ⁽⁴⁾	1.64%	1.43%	4.43%
Portfolio turnover rate ⁽⁵⁾	0.00%	106.93%	0.00%
Trading expense ratio ⁽⁶⁾	0.00%	0.00%	0.00%
Net asset value per unit ⁽⁷⁾	27.95	27.60	26.55

⁽¹⁾ Results for the period from June 09, 2009 (commencement of operations) to June 30, 2009.

⁽²⁾ Results for six month period ended June 30, 2011.

⁽³⁾ A separate base management expense ratio has been presented to include the normal operating expenses and exclude the Issue expense ratio: representing all agents' fees and unit issue expenses, and Interest expense ratio: representing cost of leverage.

⁽⁴⁾ Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period. Unit issue expenses, representing all Agents' fees and other offering expenses, which are one-time expenses, are not annualized.

⁽⁵⁾ The Fund's turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund's buying and selling all of the securities (including fixed income) in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Fund.

⁽⁶⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

⁽⁷⁾ The net asset value (Transactional NAV) per unit is based on the last traded price for the day of the underlying portfolio, whereas the net assets per unit (GAAP Net Assets) is based on the closing bid prices of the underlying portfolio; hence the difference between the two amounts.

Summary of Investment Portfolio as of June 30, 2011

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update is available at www.cclcapitalmarkets.com and at www.sedar.com.

<i>Investment portfolio of the Portfolio Trust</i>			
	Fair value \$	%	of NAV
Portfolio by Category			
Derivative contracts	128,888,873	130.0%	
Cash	30,473	0.0%	
Information Technology	7,605	0.0%	
Top 25 Holdings			
Prepaid forward agreement	128,888,873	130.0%	
Cash	30,473	0.0%	
Celestica Inc.	7,605	0.0%	
Net asset value	98,768,956		

The Fund obtained exposure to the performance of the portfolio held by Portfolio Trust through the Forward Agreement (see Investment Objective and Strategy). The following is the summary of investment portfolio for Portfolio Trust as of June 30, 2011:

<i>Investment portfolio of the Portfolio Trust</i>				
	Coupon Rate %	Maturity date	Fair value \$	%
				of NAV
Portfolio by Category				
Corporate Bonds			124,651,636	96.7%
Cash & Short-term investments			4,011,738	3.1%
Foreign currency forward contracts			135,807	0.1%
Top 25 Holdings				
TD Capital Trust (CaTS III)	7.2%	Dec-18	27,821,978	21.6%
TD Bank (CGR III)	5.8%	Dec-17	25,019,556	19.4%
NBC Capital Trust	7.2%	Jun-18	19,296,414	15.0%
RBC Capital Trust (TruCS V)	6.8%	Jun-18	16,309,573	12.7%
Manulife Financial Capital (MaCS II)	7.4%	Dec-19	12,891,862	10.0%
NBC Asset Trust	7.4%	Jun-20	10,628,203	8.2%
Great West Life Co. (US dollars)	7.2%	May-16	6,492,723	5.0%
Great West Lifeco Finance (Delaware) LP II	7.1%	Jun-18	4,439,523	3.4%
Cash & Short-term investments			4,011,738	3.1%
Bank of Montreal	5.8%	Sep-17	1,751,804	1.4%
Foreign currency forward contracts			135,807	0.1%
Net asset value			128,888,873	

Canadian Banc Capital Securities Trust

Financial Statements (Unaudited)

June 30, 2011

Notice to Reader:

These interim financial statements and related notes for the six month period ended June 30, 2011 have been prepared by Management of Connor, Clark & Lunn Capital Markets Inc. The auditors of the Fund have not audited or reviewed these interim financial statements.

Canadian Banc Capital Securities Trust

Statements of Net Assets (Unaudited)

As at June 30, 2011 and December 31, 2010

	2011	2010
	\$	\$
Assets		
Cash	30,473	85,178
Investments at fair value (cost - \$10,035, December 31, 2010 - \$10,035)	7,605	8,685
Prepaid forward agreement (note 8)	128,596,049	126,850,071
Other receivables	11,493	-
	<u>128,645,620</u>	<u>126,943,934</u>
Liabilities		
Bank indebtedness (note 5)	28,290,000	27,490,000
Interest payable	192,454	180,549
Distributions payable	1,382,475	1,383,155
Accounts payable and accrued liabilities	283,746	291,430
Management fees payable	20,813	21,455
	<u>30,169,488</u>	<u>29,366,589</u>
Net assets and unitholders' equity	<u>98,476,132</u>	<u>97,577,345</u>
Net Assets		
Class A Units	91,863,531	90,881,874
Class F	<u>6,612,601</u>	<u>6,695,471</u>
	<u>98,476,132</u>	<u>97,577,345</u>
Units issued and outstanding (note 6)		
Class A Units	3,449,291	3,444,903
Class F	237,309	243,509
Net assets per unit		
Class A Units	26.63	26.38
Class F	27.86	27.50
Unitholders' equity		
Unit Capital (note 6)	75,070,185	77,852,001
Surplus	<u>23,405,947</u>	<u>19,725,344</u>
Unitholders' equity - end of period	<u>98,476,132</u>	<u>97,577,345</u>

Approved on behalf of the Manager,
Connor, Clark & Lunn Capital Markets Inc.



Director



Director

Canadian Banc Capital Securities Trust

Statements of Operations (Unaudited)

For the six month period ended June 30, 2011 and 2010

	2011	2010
	\$	\$
Income		
Interest income	329	150
Expenses		
Interest expense	372,487	267,834
Forward fees (note 8)	222,455	228,202
Service fees (note 11)	195,566	197,312
Management fees (note 10)	124,921	135,809
Administration fees	13,545	12,771
Custodial and other unitholder fees	13,123	13,689
Audit fees	9,565	8,249
TMX listing fees	8,734	10,407
Printing and mailing fees	7,040	6,231
Transfer agent fees	6,591	7,222
Filing fees	6,271	6,425
Legal fees	2,533	2,603
IRC fees	963	990
Other fees	1,228	336
	985,022	898,080
Investment income (loss)	(984,693)	(897,930)
Unrealized gain (loss) on investments		
Change in unrealized gain (loss) on investments	(1,080)	(1,615)
Change in unrealized gain (loss) on forward agreement (note 8)	4,043,080	7,121,160
	4,042,000	7,119,545
Realized gain (loss) on investments		
Net realized gain (loss) on forward agreement (note 2 and 8)	657,898	447,468
Net gain (loss) on investments	4,699,898	7,567,013
Increase (decrease) in net assets from operations	3,715,205	6,669,083
Increase (decrease) in net assets from operations for		
Class A Units	3,448,192	6,201,753
Class F Units	267,013	467,330
Increase (decrease) in net assets from operations per unit		
Class A Units	1.00	1.66
Class F Unit	1.11	1.73
Distributions paid per		
Class A Units	(0.75)	(0.75)
Class F Unit	(0.75)	(0.75)

Canadian Banc Capital Securities Trust
 Statements of Changes in Net Assets and Surplus (Deficit)
 For the six month period ended June 30, 2011 and 2010

	Class A		Class F		Total	
	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$
Increase (decrease) in net assets from operations	<u>3,448,192</u>	<u>6,201,753</u>	<u>267,013</u>	<u>467,330</u>	<u>3,715,205</u>	<u>6,669,083</u>
Distributions to unitholders from:						
Return of capital	<u>(2,586,073)</u>	<u>(2,790,558)</u>	<u>(178,807)</u>	<u>(197,107)</u>	<u>(2,764,880)</u>	<u>(2,987,665)</u>
Unitholders' transactions (note 6)						
Transfers in from Class F	119,538	22,094	-	-	119,538	22,094
Transfer out to Class A	-	-	(119,538)	(22,094)	(119,538)	(22,094)
Agents' fees and issue expenses	-	(31,670)	-	(2,320)	-	(33,990)
Payments on redemption/cancellation of units (note 6 & 7)	<u>-</u>	<u>(19,359)</u>	<u>(51,538)</u>	<u>-</u>	<u>(51,538)</u>	<u>(19,359)</u>
	<u>119,538</u>	<u>(28,935)</u>	<u>(171,076)</u>	<u>(24,414)</u>	<u>(51,538)</u>	<u>(53,349)</u>
Change in net assets during the period	<u>981,657</u>	<u>3,382,260</u>	<u>(82,870)</u>	<u>245,809</u>	<u>898,787</u>	<u>3,628,069</u>
Net assets - Beginning of period	<u>90,881,874</u>	<u>94,876,956</u>	<u>6,695,471</u>	<u>6,953,106</u>	<u>97,577,345</u>	<u>101,830,062</u>
Net assets - End of period	<u>91,863,531</u>	<u>98,259,216</u>	<u>6,612,601</u>	<u>7,198,915</u>	<u>98,476,132</u>	<u>105,458,131</u>
Surplus (deficit), beginning of period	18,389,951	10,656,302	1,335,394	738,941	19,725,345	11,395,243
Increase (decrease) in net assets from operations	3,448,192	6,201,753	267,013	467,330	3,715,205	6,669,083
Cost of shares repurchased in excess of original issue price	<u>-</u>	<u>(1,252)</u>	<u>(34,603)</u>	<u>(3,207)</u>	<u>(34,603)</u>	<u>(4,459)</u>
Surplus (deficit), end of period	<u>21,838,143</u>	<u>16,856,803</u>	<u>1,567,804</u>	<u>1,203,064</u>	<u>23,405,947</u>	<u>18,059,867</u>

Canadian Banc Capital Securities Trust

Statements of Cash Flow (Unaudited)

For the six month period ended June 30, 2011 and 2010

	2011	2010
	\$	\$
Operating Activities		
Increase (decrease) in net assets from operations	3,715,205	6,669,083
Items not affecting cash:		
Change in unrealized (gain) loss on investments	1,080	1,615
Change in unrealized (gain) loss on forward agreement (note 8)	(4,043,080)	(7,121,160)
Net realized gain (loss) on forward agreement	(657,898)	(447,468)
Changes in non-cash working capital:		
(Increase) decrease in other receivables	(11,493)	-
Increase (decrease) in accounts interest payable	11,905	12,777
Increase (decrease) in accounts payable and accrued liabilities	(7,684)	(119,733)
Increase (decrease) in management fees payable	(642)	(23,332)
Settlement (investment) in forward agreement	(800,000)	910,000
Market value of Canadian Securities delivered by Counterparty under the forward agreement through partial pre-settlement	3,755,000	3,735,000
Purchase of investment portfolio	-	(10,035)
Proceeds on disposition of investment portfolio	-	9,011
Net cash flow provided by (used in) operating activities	<u>1,962,393</u>	<u>3,615,758</u>
Financing Activities		
Unit issue costs	-	(33,990)
Payments on redemption and cancellation of units (note 5 and 6)	(51,538)	(19,359)
Distributions to unitholders	(2,765,560)	(2,987,955)
Proceeds from bank indebtedness	1,950,000	1,390,000
Principal payments on bank indebtedness	(1,150,000)	(2,300,000)
Net cash flow provided by (used in) financing activities	<u>(2,017,098)</u>	<u>(3,951,304)</u>
Net increase (decrease) in cash	(54,705)	(335,546)
Cash and short-term notes - beginning of period	<u>85,178</u>	<u>336,497</u>
Cash and short-term notes - end of period	<u>30,473</u>	<u>951</u>
Supplementary Information		
Interest paid	360,582	255,057

Canadian Banc Capital Securities Trust

Statement of Investments (Unaudited)

As at June 30, 2011

	%	Maturity	Number	Average	Fair	%
	Rate	date	of shares / par value	cost	value	of
			\$	\$	\$	NAV
Investments						
Canadian common stocks						
Information Technology						
Celestica Inc.			900	10,035	7,605	0.0%
Total Canadian common stocks				<u>10,035</u>	<u>7,605</u>	<u>0.0%</u>
Forward agreement:						
Investments held in Portfolio Trust under the Forward Agreement						
Short-term investments						
Bearer Deposit Notes						
Bank of Nova Scotia	1.19%	8/15/2011	200,000	199,414	199,414	0.2%
Bank of Nova Scotia	1.17%	9/19/2011	850,000	847,576	847,576	0.9%
Bank of Nova Scotia	1.27%	9/26/2011	2,850,000	2,842,035	2,842,035	2.9%
Banker's Acceptance						
Bank of Nova Scotia	1.12%	7/4/2011	100,000	99,718	99,718	0.1%
				<u>3,988,743</u>	<u>3,988,743</u>	<u>4.1%</u>
Fixed Income						
Corporate Bonds (denominated in CAD unless otherwise indicated)						
Bank of Montreal	5.75%	9/26/2017	1,574,000	1,752,558	1,746,902	1.8%
Great West Lifeco Finance (Delaware) LP II	7.13%	6/26/2018	3,913,000	4,408,777	4,421,443	4.5%
Great West Life Co. (US dollars)	7.15%	5/16/2016	6,500,000	5,839,640	6,461,357	6.6%
NBC Asset Trust	7.45%	6/30/2020	9,052,000	10,756,533	10,608,402	10.8%
Manulife Financial Capital (MaCS II)	7.41%	12/31/2019	11,300,000	11,300,000	12,867,143	13.1%
RBC Capital Trust (TruCS V)	6.82%	6/30/2018	14,120,000	15,829,357	16,282,216	16.5%
NBC Capital Trust	7.24%	6/30/2018	16,700,000	19,188,752	19,259,883	19.6%
TD Bank (CGR III)	5.76%	12/18/2017	22,759,000	24,964,190	24,941,070	25.3%
TD Capital Trust (CaTS III)	7.24%	12/31/2018	23,581,000	27,634,677	27,770,395	28.2%
				<u>121,674,484</u>	<u>124,358,811</u>	<u>126.4%</u>
Total investments				<u>125,663,227</u>	<u>128,347,554</u>	<u>130.5%</u>
	Number of	Maturity	Contract	Fair	Unrealized	%
	contracts	date	price / rate	value	gain (loss)	of
			\$	\$	\$	NAV
Bought CAD 6,709,998 sold USD 6,797,000	1	09/20/11	1.0130	6,574,193	135,807	0.1%
Other assets net of other liabilities of the Portfolio Trust					<u>112,688</u>	<u>0.1%</u>
Net assets of the Portfolio Trust					<u>128,596,049</u>	<u>130.6%</u>
Prepaid forward agreement					<u>128,596,049</u>	<u>130.6%</u>
Other liabilities net of other assets of the Fund					<u>(30,127,522)</u>	<u>-30.6%</u>
Net assets of the Fund					<u>98,476,132</u>	<u>100.0%</u>

(See accompanying notes to financial statements)

Canadian Banc Capital Securities Trust

Notes to Financial Statements (Unaudited)

June 30, 2011

1 Corporate activities

The Canadian Banc Capital Securities Trust (the "Fund") is an investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement between Connor, Clark & Lunn Capital Markets Inc. (the "Manager") the Manager of the Fund and RBC Dexia Investor Services Trust (the "Trustee") dated May 22, 2009. The Fund's principal office is at 181 University Avenue, Suite 300, Toronto, Ontario M5H 3M7. The fiscal year-end of the Fund is December 31. The Fund is divided into units of two classes, Class A Units and Class F Units. Class A Units are listed on the Toronto Stock Exchange under the symbol CSB.UN. Class F Units are not listed on a stock exchange but may be converted into Class A Units on a weekly basis.

2 Investment objectives

The Fund's investment objectives as set out in the Prospectus dated May 27, 2009 are to:

- (i) provide Unitholders with attractive tax-advantaged quarterly cash distributions; and
- (ii) return to Unitholders the original issue price of the Units upon termination of the Fund on June 30, 2014.

Distributions are initially targeted to be \$1.50 per annum per Unit consisting primarily of returns of capital, representing a return on the issue price of 6.0% per annum.

In order to achieve the Fund's investment objectives, the Fund obtained exposure, in a tax-efficient manner, to the performance of a portfolio (the "Portfolio") held by Portfolio Trust (the "Portfolio Trust" or the "Trust"). Connor, Clark & Lunn Investment Management Ltd. (the "Investment Manager"), the Trust's investment manager, actively manages the Portfolio. The Portfolio consists primarily of Innovative Tier 1 Capital Securities of the six largest Canadian banks and large Canadian life insurance companies. The Portfolio includes a minimum of 80% Canadian Bank Capital Securities. The Investment Manager may also invest up to 20% of the Portfolio (measured at the time of investment) in Bank Shares and Life Insurance Company Securities. The Fund may also invest in other securities issued by Canadian financial institutions, including subordinated debt, preferred shares and common shares.

3 Summary of significant accounting policies

Basis of presentation

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from these estimates. The following is a summary of the significant accounting policies of the Fund.

Future accounting changes

The Canadian Accounting Standards Board ("CASB") previously confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. In June 2010, the CASB issued an exposure draft "Adoption of IFRSs by Investment Companies", proposing that investment companies currently applying Accounting Guideline 18 ("AcG 18") "Investment Companies" issued by the Canadian Institute of Chartered Accountants ("CICA"), defer the adoption of IFRS by one year to fiscal years beginning on or after January 1, 2012. In September 2010, the CASB approved the optional one year deferral from IFRS adoption for investment companies applying AcG 18.

At its January 12, 2011 meeting, the AcSB decided to extend the deferral of mandatory adoption of IFRS for Investment Companies and Segregated Accounts of Life Insurance Enterprises for one additional year. The decision is in response to the International Accounting Standards Board's announcement in late 2010 that its Investment Company project is delayed and will not likely be issued before January 1, 2012, which is the current date of mandatory adoption of IFRS for these entities. As a result, the Fund will delay implementation of IFRS until January 1, 2013.

The Fund's Manager has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on the GAAP Net Assets of the Fund. Management has presently determined that there will be no significant impact to the GAAP Net Assets per Unit as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

Valuation of investments

Investments are deemed to be categorized as "held for trading" in accordance with CICA 3855, Financial Instruments – Recognition and Measurement ("Section 3855") and therefore are recorded at fair value, established by the closing bid price for a security on the recognized exchange on which it is principally traded ("GAAP Net Assets"). Should the quoted value for a security, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value of the security is estimated based on valuation techniques. Fair value is determined by the Manager on the basis of the most recently reported information for the security, similar securities and the markets in which the security is active. Investment purchase and sale transactions are recorded as of the trade date and realized and unrealized gains and losses on investments are determined using average cost. Brokers' commissions and other transaction charges are immediately charged to net income in the period incurred. The Canadian Securities Administrators allow investment funds to calculate the daily net asset value for the purpose of processing unitholder transactions using the last traded price for the day as fair value of financial instruments traded in an active market, which is referred to as a "Transactional NAV". The fund processes unitholder transactions using Transactional NAV.

As at June 30, 2011, the Fund's net asset value was \$26.71 per Class A Unit and \$27.95 per Class F Unit. The difference between the net asset value per unit and the net assets per unit as shown on the Statement of Net Assets is due to the different pricing methodology discussed above. The reconciliation between the Transactional NAV and the GAAP Net Assets as a result of the adoption of Section 3855 is as follows:

Canadian Banc Capital Securities Trust

Notes to Financial Statements (Unaudited)

June 30, 2011

	Transactional NAV	Section 3855 Adjustment	GAAP Net Assets
Per Class A Unit			
Opening Value – December 31, 2010	26.48	(0.10)	26.38
Closing Value – June 30, 2011	26.71	(0.08)	26.63
Per Class F Unit			
Opening Value – December 31, 2010	27.60	(0.10)	27.50
Closing Value – June 30, 2011	27.95	(0.09)	27.86

Cash and short term investments

Cash and short term investments include cash and cash equivalents with maturities of less than 90 days from the date of acquisition.

Income recognition

Income from investments is recognized on an accrual basis. Dividend income is recognized at the time a security trades on an ex-dividend basis. Interest income is based on the number of days the investment is held during the period. All income, realized and unrealized net gains (losses) and transaction costs (apart from an insignificant amount of income arising from cash) are attributable to investments and derivatives which are deemed held for trading.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the end of the year. Purchases and sales of investments and income and expenses are translated into Canadian dollars at the exchange rate prevailing on the transaction dates.

Increase (decrease) in net assets from operation per unit

This calculation is based on the increase (decrease) in net assets from operations attributable to each class divided by the weighted average number of units of that class outstanding during the period.

Valuation of series

A separate net assets per unit is calculated for each class. The net assets of a class are computed by calculating the class' proportionate share of the assets and liabilities to all classes, less the liabilities attributable only to that class. Expenses directly attributable to a class are charged to that class. Other expenses, income, realized and unrealized gains and losses are allocated proportionately to each class based upon the relative net assets of each class..

4 Custodian

Pursuant to the Trust Agreement RBC Dexia Investor Services Trust ("the Custodian") acts as custodian of the assets of the Fund. The Custodian is also responsible for certain aspects of the Fund's day-to-day operations, including calculating the Net Asset Value ("NAV"), net income and net realized capital gains of the Fund and maintaining the books and records of the Fund. In consideration for these services, the Fund pays a fee to the Custodian.

5 Bank indebtedness

The Fund's exposure to the securities in the Portfolio Trust, through the Forward Agreement, may be increased to 25% of the NAV (being the aggregate value of the assets of the Portfolio Trust) (tested daily) for the purposes of adding leverage to the Fund and such other short term funding purposes as may be determined by the Investment Manager from time to time and in accordance with the Investment Strategy. The use of leverage has the potential to enhance or reduce returns.

The Fund entered into a letter of agreement (the "Credit Agreement") dated June 9, 2009, between the Manager and the Bank of Montreal (the "Counterparty" or "BMO"), to borrow amounts up to 25% of the NAV of the Portfolio Trust as being part of the Forward Agreement (see note 8). Under the provisions of the Credit Agreement the Counterparty will also charge the Fund a fee of 0.25% of any unfunded leverage amount (the difference between the maximum allowable leveraged amount and the actual funded leverage amount). This agreement will be terminated on the earlier of (i) June, 23, 2014, and (ii) the date on which this Transaction is pre-settled in full pursuant to the terms of the Credit Agreement.

During the six month period ended June 30, 2011, the Fund had bank indebtedness balances between \$26,340,000 and \$28,290,000 or 19.75% to 22.0% of the NAV of Portfolio Trust (\$25,300,000 and \$25,300,000 or 19.5% to 21.7% of its NAV during the six month period ended June 30, 2010). The related interest expense during the same period was \$372,487 (\$267,834 during the six month period ended June 30, 2010). At June 30, 2011, the borrowed balance was \$28,290,000 (\$27,490,000 at December 31, 2010).

6 Unitholders' equity

On June 9, 2009, the Fund completed an initial public offering pursuant to the prospectus dated May 27, 2009. \$90,000,000 was raised through the issue of 3,600,000 Class A Units and \$6,289,000 was raised through the issue of 251,560 Class F Units. The Class A Units were issued at \$25 per unit and incurred agents fees and issue expenses of \$5,553,139 or \$1.53 per unit, for an opening Transactional NAV of \$23.47 per unit. The Class F Units were issued at \$25 per unit and incurred agents fees and issue expenses of \$199,486 or \$0.76 per unit, for an opening Transactional NAV of \$24.24 per unit.

Canadian Banc Capital Securities Trust

Notes to Financial Statements (Unaudited)

June 30, 2011

On July 6, 2009, the Agents exercised an over-allotment option in respect of 108,000 Class A Units, raising a further \$2,700,000. Agents' fees were \$141,750 or \$1.31 per unit.

On October 27, 2009, the Fund raised an additional \$663,999 through the issue of 25,149 Class F Units at \$26.40 per unit from a private placement increasing the number of Class F Units issued to 276,709 units.

The Fund had 4,200 Class F Units converted to 4,388 Class A Units for a total value of \$119,538 during the six months period ended June 30, 2011 (800 Class F Units were converted to 829 Class A Units for a total value of \$22,094 during the six months period ended June 30, 2010). The Fund also had 2,000 Class F Units redeemed for the amount \$51,538 during the same period (no units were redeemed during the six months period ended June 30, 2010).

Class A Units and Class F Units may be redeemed on an Annual Redemption Date, subject to certain conditions and, in order to effect such a redemption, the Units must be surrendered by no later than 5:00 p.m. (Toronto time) on the last Business Day of October in the year of redemption. Unitholders whose Units are redeemed on an Annual Redemption Date will receive a redemption price in an amount equal to 100% of the Net Asset Value per Unit of the relevant class less any costs associated with the redemption, including brokerage costs, and less any net realized capital gains to the Fund that are distributed to a Unitholder concurrently with the proceeds of disposition on redemption.

In addition to the annual redemption right, Class A Units and Class F Units may also be redeemed on a Monthly Redemption Date, subject to certain conditions and, in order to effect such a redemption, the Units must be surrendered by no later than 5:00 p.m. (Toronto time) on the date which is the last Business Day of the month preceding the Monthly Redemption Date. Payment of the redemption price will be made on or before the Redemption Payment Date, subject to the Manager's right to suspend redemptions in certain circumstances. Concurrently with the payment of the proceeds of redemption, the Fund may pay to the redeeming Unitholder a cash distribution in the amount of the net realized capital gains of the Fund incurred by it to fund the payment of the redemption price. Unitholders surrendering a Class A Unit for redemption will receive a redemption price equal to the lesser of (i) 95% of the Market Price of a Class A Unit, and (ii) 100% of the Closing Market Price of a Class A Unit on the applicable Monthly Redemption Date less, in each case, any costs associated with the redemption, including brokerage costs, being the Monthly Redemption Amount. Unitholders surrendering a Class F Unit for redemption will receive an amount equal to the product of (i) the Monthly Redemption Amount and (ii) a fraction, the numerator of which is the most recently calculated Net Asset Value per Class F Unit and the denominator of which is the most recently calculated Net Asset Value per Class A Unit.

Changes in outstanding units during the six months periods ended June 30, 2011 and 2010 are summarized as follows:

	Class A Units		Class F Units	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Balance – beginning of period/year	3,444,903	3,721,115	243,509	263,209
Class F Units converted to Class A Units	4,388	829	(4,200)	(800)
Units redeemed	–	–	(2,000)	–
Units cancelled (note 7)	–	(800)	–	–
Balance – end of period/year	<u>3,449,291</u>	<u>3,721,144</u>	<u>237,309</u>	<u>262,409</u>

The Fund considers capital to include all units issued and outstanding. The Fund manages its capital in accordance with the objectives outlined in Note (2).

7 Market Purchase Program

The Trust Agreement provides that the Fund may, in its sole discretion, from time to time, purchase (in the open market or by invitation for tenders) Class A Units for cancellation subject to applicable law and stock exchange requirements, based on the Manager's assessment that such purchases are accretive to Unitholders, in all cases at a price per Class A Unit not exceeding the most recently calculated Net Asset Value per Class A Unit immediately prior to the date of any such purchase of Units.

There were no units purchased for cancellation during the six months period ended June 30, 2011 (the Fund purchased 800 Class A Units for cancellation for a total cost of \$19,359 during the six months period ended June 30, 2010).

8 Forward Agreement

The Fund does not invest directly in the Portfolio Trust, the Fund used the net proceeds of the initial public offering of its Class A and Class F Units to pre-pay its purchase obligations under a forward purchase and sale agreement (the "Forward Agreement") with The Bank of Montreal (the "Counterparty" or "BMO"). Under the Forward Agreement, the Fund will receive, on or before June 30, 2014, a specified portfolio consisting of securities of Canadian public issuers that are "Canadian securities" for the purposes of the Tax Act ("Canadian Securities") in an amount equal to the value of the Portfolio Trust. Partial settlements under the Forward Agreement are intended to ensure that Unitholders have economic exposure to the distributions effected by Portfolio Trust. A fee of 0.35% per annum, calculated with reference to the principal amount of the CLN, is payable to BMO under the Forward Agreement.

On June 30, 2011, the value of the prepaid amount to counterparty under forward agreement was \$103,214,480. Since the Fund can at any time terminate the Forward Agreement with the Counterparty in exchange for the value of the Portfolio Trust, the value of the Forward Agreement to the Fund is equal to the value of the Portfolio Trust less the value of the prepaid amount to counterparty under the forward agreement. On June 30, 2011 the value of the unrealized gain on forward agreement balance was \$25,381,569. Other liabilities net of other assets in the Fund totalled \$30,119,917 leaving net assets of \$98,476,132. By assigning this amount to Class A and Class F Unitholders, as mentioned in the previous paragraph, the GAAP Net assets per unit was \$26.63 per Class A Units and \$27.86 per Class F Units (On June 30, 2010, the value of the prepaid amount to counterparty under forward agreement was \$114,677,068. Since the Fund can at any time terminate the Forward Agreement with the Counterparty in exchange for the value of the Portfolio Trust, the value of the Forward Agreement to the Fund is equal to the value of the Portfolio Trust less the value of the prepaid amount to counterparty under the forward agreement. On June 30, 2010 the value of the unrealized gain on forward agreement balance was \$19,378,650. Other liabilities net of other assets in the Fund totalled \$28,597,587 leaving net assets of \$105,458,131. On June 30, 2010 the GAAP Net assets per unit was \$26.41 per Class A Units and \$27.43 per Class F Units).

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9 Distributions

The Fund pays quarterly distributions initially at \$0.375 per Unit, representing a return of 6.0% per annum on the Unit issue price. The Fund paid an initial distribution of \$0.4615 for unitholders with record date September 30, 2009 and regular quarterly distributions of \$0.375 per calendar quarter thereafter.

The Fund has made all its scheduled distributions during the six month period ended June 30, 2011 paying \$0.75 per Class A Unit and \$0.75 per Class F Unit (\$0.75 per Class A Unit and \$0.75 per Class F Unit during the six month period ended June 30, 2010).

10 Management Fees

The Manager receives a Management Fee from the Fund and Portfolio Trust equal in the aggregate to 0.50% per annum of the applicable Net Asset Value, (0.25% from the Fund and 0.25% from the Portfolio Trust), calculated and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund and the Portfolio Trust on a combined basis during the six months period ended June 30, 2011 were \$266,850 (2010 - \$249,455). The Manager is responsible for payment of the investment management fees out of these management fees.

11 Service Fee

The Fund pays to the Manager a Service Fee (calculated quarterly and paid as soon as practicable after the end of each calendar quarter); solely with respect to the Class A Units, equal to 0.40% per annum of the Net Asset Value attributable to the Class A Units, plus applicable taxes. The Service Fee is applied by the Manager to pay a service fee in an equivalent aggregate amount, plus applicable taxes, to brokers based on the number of Class A Units held by clients of such brokers at the end of the relevant quarter. No Service Fee is payable in respect of the Class F Units.

The service fees charged to the Fund during the six months period ended June 30, 2011 was \$195,566 (\$197,312 during the six months period ended June 30, 2010).

12 Income taxes

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) and, accordingly, is subject to tax on its investment income, including net realized capital gains, for any calendar year in which its net investment income or sufficient net realized capital gains are not paid or payable to its unitholders as at the end of the calendar year. It is the intention of the Manager that all annual net investment income and sufficient net taxable capital gains will be distributed to unitholders on a calendar year basis such that Canadian income taxes payable by the Fund under present legislation will be eliminated. As a result thereof, and of the deduction of expenses in computing its taxable income, no provisions for income taxes are made in the financial statements.

The Fund did not have any net taxable capital losses carry forward balances as at December 31, 2010 and 2009, and had non-capital losses of \$3,608,238 (2009 - \$1,670,291), which will expire within the next twenty years as shown in the following table:

Year of the realized non-capital tax loss	Amount of tax loss	Expiry date
2009	1,670,291	2029
2010	1,937,947	2030
Total	3,608,238	

13 Broker commission charges and soft dollar services

There were \$nil of broker commissions paid during the six months period ended June 30, 2011 in connection with portfolio transactions. No contractual arrangements for soft dollar services exist in the broker commission charges (\$nil during the six months period ended June 30, 2010).

14 Financial instruments

	June 30, 2011	December 31, 2011
Assets	\$	\$
Cash	30,473	85,178
Held for trading	128,603,654	126,858,756
Loans and receivables	11,493	-
Total assets	128,645,620	126,943,934
Liabilities		
Financial liabilities at amortized cost	30,169,488	29,366,589
Total liabilities	30,169,488	29,366,589

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For the purposes of categorization in accordance with CICA Section 3862, Financial Instruments - Disclosures, bank indebtedness, interest payable, distributions payable, management fees payable and accounts payable and accrued liabilities are deemed to be financial liabilities and reported at amortized cost.

The following table illustrates the classification of the Fund's and the Portfolio Trust's financial instruments within the fair value hierarchy as at June 30, 2011 and December 31, 2010:

Assets at fair value as at June 30, 2011	Level 1	Level 2	Level 3	Total
Equities	7,605	–	–	7,605
Bonds	–	124,358,811	–	124,358,811
Short-term investments	–	3,988,743	–	3,988,743
Foreign currency forward contracts	–	135,807	–	135,807
Total	7,605	128,483,361	–	128,490,966

Assets at fair value as at December 31, 2010	Level 1	Level 2	Level 3	Total
Equities	8,685	–	–	8,685
Bonds	–	123,462,763	–	123,462,763
Short-term investments	–	3,194,341	–	3,194,341
Foreign currency forward contracts	–	75,625	–	75,625
Total	8,685	126,732,729	–	126,741,414

Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

Equities: The Fund's long equity positions are classified as Level 1 as the security held is actively traded and a reliable quote is observable.

Bonds and Short-term investments: Bonds and Short-term investments are classified as Level 2 as they are valued using observable inputs, including interest rate curves, credit spreads and volatilities.

Foreign currency forward contracts: Foreign currency forward contracts for which inputs, including interest rates, forward market rates and credit spreads are observable and reliable, or for which unobservable inputs are determined not to be significant to fair value, are classified as Level 2.

There were no transfers among the three levels during the six months periods ended June 30, 2011 and during the year ended December 31, 2010.

15 Financial instrument risk

The Fund obtained exposure to the performance of the portfolio held by Portfolio Trust through the Forward Agreement (see note 8) and therefore the risks associated with an investment in the Fund's units are best defined by including the financial risks associated with an investment in the Portfolio Trust's portfolio.

Interest rate risk

Interest rate risk arises on interest-bearing financial instruments held in the investment portfolio such as bonds and short term notes. The Fund is exposed to the risk that the value of interest-sensitive financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. The table below summarizes the Fund's combined exposure to interest rate risks from the financial instruments held by the Fund and Portfolio Trust.

June 30, 2011:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	–	–	6,461,357	117,897,454	7,605	124,366,416
Cash and cash equivalents	3,988,743	–	–	–	53,468	4,042,211
Other assets	–	–	–	–	273,028	273,028
Liabilities	(28,290,000)	–	–	–	(1,915,523)	(30,205,523)
Net assets						98,476,132

December 31, 2010:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	–	–	–	123,462,763	8,685	123,471,448
Cash and cash equivalents	3,302,833	–	–	–	–	3,302,833
Other assets	–	–	–	–	206,998	206,998
Liabilities	(27,490,000)	–	–	–	(1,913,934)	(29,403,934)
Total	(24,187,167)	–	–	123,462,763	(1,698,251)	97,577,345

As at June 30, 2011, had prevailing interest rates raised or lowered by 1.0%, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$6,931,000 (December 31, 2010 - \$7,220,000). In practise, actual results may differ from this sensitivity analysis and the difference could be material.

Currency risk

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Currency risk arises from financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's functional currency. The Fund is exposed to the risk that the value of securities denominated in other currencies will fluctuate due to changes in exchange rates. The Statement of Investments identifies all securities denominated in foreign currencies.

The table below summarizes the Fund's combined exposure to foreign currencies held by the fund and Portfolio Trust. Amounts shown are based on the carrying values of monetary and non-monetary assets as well as the underlying principal amounts of foreign currency derivatives such as forward contracts. Other financial assets and liabilities that are denominated in foreign currencies do not expose the Fund to significant currency risk. The table below summarizes the Fund's significant exposure to foreign currencies and the approximate impact on net assets had the Canadian Dollar ("CAD") weakened by 5% in relation to these currencies. If the Canadian dollar were to strengthen relative to these currencies, the opposite would occur. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

June 30, 2011:

	Monetary instruments \$	Non-monetary instruments \$	Derivative instruments \$	Total \$	% of Net Assets	Sensitivity (based on devaluation of CAD) \$
US Dollar	6,461,357	–	(6,559,798)	(98,441)	(0.1%)	(5,000)

December 31, 2010:

	Monetary instruments \$	Non-monetary instruments \$	Derivative instruments \$	Net Exposure \$	% of Net Assets	Sensitivity (based on devaluation of CAD) \$
US Dollar	6,458,729	–	(6,399,110)	59,619	0.1%	3,000

Credit risk

The Fund and Portfolio Trust are exposed to the risk that a security issuer or counterparty will be unable to pay amounts in full when due. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of debt investments and unrealized gain on derivative instruments outstanding with counterparties represents the maximum credit risk exposure as at June 30, 2011 and December 31, 2010.

The tables below summarize the Fund's exposure to credit risk through exposure to Portfolio Trust as of 30, 2011 and December 31, 2010. Amounts shown are based on the carrying value of debt investments and the unrealized gain on derivative instruments outstanding with counterparties

June 30, 2011	
Rating ⁽¹⁾	(% of Net Assets)
AA	1.8%
A+	0.1%
A	87.6%
BBB	37.0%
A-1+	4.1%
Total	130.6%

December 31, 2010	
Rating	(% of Net Assets)
AAA	0.6%
A+	2.8%
A	85.3%
A-	11.2%
BBB+	30.0%
Total	129.9%

As at June 30, 2011 and December 31, 2010, no debt securities were contractually past due and no longer meeting interest payment obligations.

All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

Liquidity risk

Liquidity risk is the risk of not being able to meet the Fund's cash requirements in a timely manner and includes the risk of not being able to liquidate assets at reasonable prices. This risk arises mainly from the Fund's exposure to daily cash redemptions from its market purchase program which is limited to certain conditions (see note 7). The Fund is also exposed to unlimited annual anniversary redemptions on November 30 of every year (see note 6). Therefore, the Fund invests the majority of its assets in investments that can be readily disposed. In addition, the Fund retains sufficient cash and cash equivalent positions to meet its daily cash requirements. All liabilities (other than bank indebtedness) are due within three months.