

Market Guide

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A budget is telling your
money where to go instead
of wondering where it went.
~ Dave Ramsey

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Historic Budget Underscores Gains from Fiscal Consolidation

On March 7, Minister of Finance and the Public Service, Dr. Nigel Clarke, tabled a trillion-dollar budget in the House of Representatives, the largest in Jamaica's history, while simultaneously announcing that there would be "No New Taxes". The government's ability to avoid implementing new revenue measures for a 6th consecutive year reflects the benefits of continued fiscal prudence and the reduction in the public debt and debt servicing costs. The \$1Tn budget will be funded by tax revenues and non-tax receipts, which are expected to be higher buoyed by the recovery in economic activity and higher inflation. A series of proposals to enhance Jamaica's regulatory, fiscal, and business framework were also presented by the Minister. There are plans to continue the reform of the public sector compensation system; to reduce the energy bill and use of non-renewable energy through the provision of incentives for residential use of solar energy; reduce tax leakage through reform of General Consumption Tax (GCT) treatment of second-hand car sales; boost agriculture sectors; and bolster commitment to fiscal prudence through the appointment of the first Fiscal Commissioner. Importantly, the budget and initiatives being implemented for FY 2023/24 continue to reflect the government's commitment to fiscal

consolidation and is aimed at generating fiscal and primary surpluses and debt reduction.

The combination of the planned expenditure and projected revenues is expected to result in fiscal surplus in-line with fiscal rule. The main planned expenditure items comprise non-debt recurrent expenditure of \$657.2Bn, capital expenditure (CAPEX) of \$75.4Bn, and debt servicing of \$280.6Bn¹ (see Fig 1). Relative to last year's 2022/2023 budget, health has the greatest increase in funds allocated at 26.9%, while recurrent expenditure and CAPEX are 21.8% and 15.9% higher. In keeping with the continuation of the execution of 50 investment projects in FY 2023/24, \$75.4Bn will be allocated to improving key infrastructure across the island including, completion of the Manchester leg of the east west highway, 85% completion on the Harbour View to Port Antonio section, the Montego Bay Perimeter Project², and the Essex Valley Irrigation Infrastructure Development Programme. These infrastructural investments are critical to foster growth in the transport industry and to stimulate jobs, and economic development. A part of the increase in recurrent expenditure is tied to continued public sector reform, especially wage adjustments. Amidst the ongoing public sector

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	337,897.10	-1.54%	-8.3%
Main Market Index	325,461.60	-1.51%	-8.6%
Select Index	8,035.81	-0.40%	-9.7%
Junior Market Index	3,736.05	-1.84%	-6.3%

WINNERS & LOSERS (FOR THE WEEK ENDED MAR 17, 2023)

	\$ Change	% Change
JPS 7%	+\$71.94	+87.58%
PAL	+\$0.74	+27.31%
JMMBGL 7% Pref	-\$0.36	-15.06%
MPC	-\$15.32	-17.02%

MARKET OVERVIEW

Last week's trading session resulted in all major indices on the combined market declining despite the continued deceleration in the inflation rate. This is the second week since the start of 2023 that all major indices have declined week over week; however, year to date, all indices are down. The JSE USD Equities Index, the JSE Cross Listed Index and the JSE Financial Index saw the most significant declines of 9.24%, 2.58% and 1.95% respectively. The 12.58% week-over-week (WoW) decline in the share price of Productive Business Solutions Limited (PBS) a large market capitalization stock contributed to the fall in the USD equities index. Of the 5 largest market capitalization stocks on the financial index, 3 were down (WoW) namely; Guardian Holdings Limited (-5.45%), Sagicoor Group Limited (-3.18%) and Scotia Group Jamaica Limited (-1.79%). The decline in Guardian Holdings Limited also impacted the JSE Cross Listed index. Of note, there was no direct news to support the falloff in prices. However, there has been an overall low investor sentiment toward financial sector stocks due to the impact of higher interest rates on bonds and stocks in their proprietary portfolios. Furthermore, recession risks exist, and geopolitical tensions persist, which have kept investor risk aversion elevated, affecting trading activity as well as investment banking. These risks have enhanced the attractiveness of the money market and other fixed-income instruments, putting downward pressure on stock prices as some investors shift to money market assets in search of higher returns and lower risk. Of the 27 financial stocks on the JSE, 16 reported a falloff in prices week-over-week, a little less than the 19 that declined the week before.

On a positive note, inflation results released last week for February 2023 indicated that inflation continued to decelerate for a third consecutive month. Point to Point inflation fell further, to 7.8% in February from 8.1% in January. However, this would have been overshadowed by global news of the financial system stress following the failures of Silicon Valley Bank and Signature Bank. This resulted in instability in the global markets ahead of the Fed's interest rate decision this week. While we cannot make a direct connection with the news and movement in the local stock market, investor sentiments continue to be impacted by negative market news.

¹ This is a component to the allocation of the finance sector

² This focuses on the construction of a 15 kilometre, 4-lane carriageway from Iron shore to Bogue in Montego Bay and an 11 kilometre, 4-lane divided carriageway to by-pass the Long Hill Road corridor.

reform and the anticipated increase in the wage bill, the Minister noted that this would not disrupt the government's balanced budget. The record expenditure will be made possible by increased revenue and grant inflows, estimated at \$1.05Tn, and is projected to generate a fiscal surplus of \$9.9Bn or 0.3% of GDP³, consistent with fiscal rules. Tax revenues are forecasted to increase by 22.7%, supported by the improvement in overall economic activities, reforms to fuel tax compliance and digitization efforts to enhance tax collection. The primary balance needed for debt service and to generate the targeted fiscal balance is currently targeted at approximately \$165Bn or 5.6% of GDP⁴. Notably, Jamaica's debt reduction strategies are bearing fruit, with expenditure for debt servicing projected to fall by \$26.9Bn (-8.7%). The reduction will give the government more fiscal space to direct funds to promote growth initiatives. The overall public debt is forecast to end FY 2022-23 at 79.7% of GDP and is expected to decline further to 74.3% of GDP by fiscal year 2023/24. Should this (projection) be achieved, it would mark the first time debt has entered the domain of pre-FINSAC levels⁵. This would be further evidence that the country is heading in the right direction to a stronger fiscal and debt position likely supporting a rating upgrade from the rating agencies⁶ in the near-medium term.

The government has also outlined plans to address climate change, and bolster commitment to fiscal prudence through the appointment of the first Fiscal Commissioner. A significant proposal this year includes a provision for an income tax credit equivalent to 30% of the purchase price for solar photovoltaic systems, up

to a maximum cost of \$4Mn, as part of efforts to reduce energy costs and demand for fossil fuels. This move is anticipated to increase the availability and use of renewable energy, hence reducing the environmental footprint of residential homes. While the loss in potential revenues from the implementation of this measure is estimated at \$100Mn, the Minister posited that the potential losses would be offset by positive socio-economic gains; including environmental gains from reducing carbon dioxide emissions, diversifying local energy supply and reducing the demand for crude oil. Notably, ahead of the start of the new fiscal year, as further evidence of its commitment to remain fiscally prudent, the GOJ appointed the country's first fiscal Commissioner – Mr. Courtney Williams. The Fiscal Commission will be the guardian and interpreter of Jamaica's fiscal rules and is required to monitor the adherence to Jamaica's fiscal rules and to provide independent assessments of budgetary outcomes, in addition to independent fiscal analysis.

The government's plans for the upcoming fiscal year should help to build on its strong economic policy framework, boosting investor sentiments, and the country's credit quality; however, downside risks exist. Jamaica has a strong, stability-oriented economic policy framework supported by the Bank of Jamaica's (BOJ) inflation-targeting monetary policy and fiscal policy anchored on debt reduction targets. The policy framework was robust to withstand the double shocks of the pandemic and, more recently, the exogenous energy and commodity price shocks. Though inflation is still outside of the bank's target range, it continues to trend downwards⁷ and is projected to fall

...while record expenditure of \$1Tn is planned, the government envisages tight spending control and improving tax collection based on enhanced digitalization, which should allow positive fiscal balances to be maintained. This will, therefore, keep the country's debt on a falling trajectory.

within the Bank's targeted range of 4%-6% by the end of Dec. 2023, depicting the effectiveness of domestic monetary policy. On the fiscal policy front, while record expenditure of \$1Tn is planned, the government envisages tight spending control and improving tax collection based on enhanced digitalization, which should allow positive fiscal balances to be maintained. This will, therefore, keep the country's debt on a falling trajectory. However, the prolonged conflict between Russia and Ukraine especially, if it escalates further than anticipated, higher commodity prices, a global slowdown, and tighter than expected global financial conditions are downside risks that could temper the pace of economic recovery. This could also stymie current debt and fiscal projections. Further, currency depreciation, rising interest rates and high inflation are risk factors that could put upward pressure on debt service costs. Overall, all things being constant, Jamaica's strong governance and commitment to debt reduction have rendered a positive outlook from Fitch Ratings.

³For FY2022/23, the Primary Balance target as a percent of GDP was estimated to be 5.9%.

⁴For FY2022/23, the Fiscal Balance target as a percent of GDP was estimated to be 0.3%.

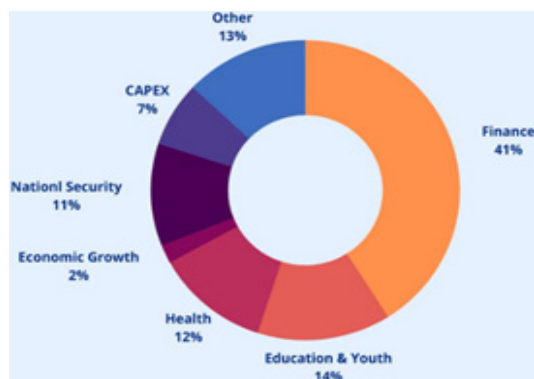
⁵The Financial Sector Adjustment Company (FINSAC) is a massive entity established by the Jamaican government to address the financial sector crisis in the 1990s.

⁶Fitch could upgrade Jamaica's rating if a large and sustained decline in government debt-to-GDP ratio over the medium term, because of consistent adherence to the fiscal framework or a strengthening of growth prospects without the emergence of macroeconomic or fiscal imbalances.

⁷Inflation rate at the end of February was 7.8% the lowest since December 2021 and down from the 9.5% and 8.1% at the of December 2022 and January 2023.

This should help to channel investments to the country, especially as other emerging countries face negative outlooks from a pending slowdown, thereby supporting local capital markets and economic growth.

Fig 1: 2023/2024 Budget- Expenditure by Sector (%)



Source: MOF & NCBCM

Foreign Exchange Market

The impact of tax season on end-user behaviour continued to influence foreign exchange market activity and support an appreciation in the JMD. With end users eliminating USD-long positions in favour of JMD long positions to meet tax payments, there was a reduction in the demand for the US dollar. Against this background, the Jamaican dollar appreciated by 1.03% relative to the USD, week over week, with the USD selling rate moving from J\$153.55 on March 10th, 2023, to J\$151.99 on March 17th, 2023.

Of note, the JMD appreciated against all 3 major currencies last week.

Selling	Close: 10/03/23	Close: 17/03/23	Change
J\$/US\$1	\$153.55	\$151.00	-\$1.56
J\$/CDN\$1	\$111.32	\$111.03	-\$0.29
J\$/GBP£1	\$185.83	\$185.53	-\$0.30

Global Bond Prices

Global Bond prices declined week over week. The U.S. government bond yields fell steeply, with some durations marking their biggest drops in decades, as investors bet the Federal Reserve would likely curb its aggressive rate hike trajectory to avoid exacerbating financial system stress following the failures of Silicon Valley Bank and Signature Bank. The volatility in fixed income markets has unsettled investors, and falling yields reflect expectations that the Fed will cut rates.

The near-term trajectory of yields will likely hinge on

this week's Federal Reserve meeting. Signs that the central bank may prioritize financial stability and slow or pause its rate increases could pull yields even lower. Conversely, yields could rebound if the Fed signals that bringing down inflation, which remains high despite a barrage of rate increases, is their top priority. For the first time during this Fed tightening cycle, the Fed now has to balance its inflation-fighting credibility with financial market stability. Garrett Melson, portfolio strategist at Natixis Investment Managers Solutions indicated that for now, the futures markets indicate that investors are assigning a 60% probability of a 25 basis point rate increase at the Fed's March 21-22 meeting, with rate cuts to follow later in the year - a sharp turnaround from the hawkish expectations that prevailed earlier this month.

On Tuesday March 14, the US Core CPI results for February were released. Inflation eased for an eighth straight month in February, as a slowing in the pace of increase in food costs offset a bump in gasoline prices and another spike in rent. Consumer prices increased 6% from a year earlier, down from 6.4% in January and a 40-year high of 9.1% in June, according to the Labour Department's consumer price index. However, price increases rose sharply again on a monthly basis, fuelling concerns that a steady pullback in inflation at the end of last year has stalled. On a monthly basis, though, prices advanced 0.4% following a 0.5% increase in January. Previously, monthly cost increases had slid to 0.1% from 0.2%. All else equal, a resurgence of faster inflation could have led the Federal Reserve to approve a half-point interest rate increase this week, after gradually moderating the pace of its hikes to a quarter point in the last meeting. But some top economists say the collapse of Silicon Valley Bank and the risks to the financial system posed by other troubled regional banks could lead the Fed to pause its hiking campaign or lift rates by a quarter point at most.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
Sagicor Fin 2028 (5.30%)	BB-/ Positive	97.25	5.93%	BUY
TPHLTT 2029 (9.00%)	BB/ Stable	106.75	7.64%	BUY
MARFRIG 2026 (7.00%)	BB+/ Stable	100.75	6.73%	BUY
BERMUD 2027 (3.72%)	A2/ Stable	97.75	4.36%	BUY
PRIO 2026 (6.13%)	BB-/ Positive	95.55	7.71%	BUY
ALSEA 2026 (7.75%)	Ba3/ Stable	97.50	8.54%	BUY
DomRep (6.6%) 2024	BB-/ Stable	102.00	4.16%	BUY
DomRep (5.88%) 2024	BB-/ Stable	101.75	4.18%	BUY
DomRep (5.50%) 2025	BB-/ Stable	100.75	5.06%	BUY

Bonds	Current Rating	Indicative Price	Yield	Recommendation
DomRep (6.88%) 2026	BB-/ Stable	103.25	5.62%	BUY
DomRep (8.63%) 2027	BB-/ Stable	106.25	6.84%	BUY
DomRep (5.95%) 2027	BB-/ Stable	99.75	6.02%	BUY
DomRep (5.50%) 2029	BB-/ Stable	94.75	6.58%	BUY
DomRep (6.00%) 2033	BB-/ Stable	91.50	67.21	BUY
PYPL 2029 (2.85%)	A-/Stable	88.00	5.03%	BUY
Jaman 2025 (7.63%)	B+/ Positive	104.25	5.62%	BUY
NFE 2025 (6.75%)	BB-/ Stable	96.25	8.46%	HOLD
NFE 2026 (6.50%)	BB-/ Stable	92.00	9.21%	HOLD
FRICON 2028 (7.7%)	B+/ Stable	73.50	15.11%	BUY

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	103.85	5.68%
	2039	118.75	6.07%
	2045	114.50	6.62%

NB: The rates quoted above are opening indicative levels on the international market and are subject to change as market conditions vary throughout the trading session. Additionally, the prices quoted to clients of NCB Capital Market Limited (NCBCLM) are adjusted to reflect the costs associated with completing the transaction on the respective client's behalf.

Dates to watch this week

■ International ■ Local

February-March 2023

MON	TUE	WED	THUR	FRI
20	21	22	23	24
138SL Annual/ Extra-Ordinary General Meeting	CAD Core CPI (YoY, MoM) (Feb)	FED Interest Rate Decision	BOE Interest Rate Decision	
		GBP Core CPI (YoY, MoM) (Feb)	ECL Annual/ Extra-Ordinary General Meeting	
		GBP Core PPI (YoY, MoM) (Feb)	MTL Annual/ Extra-Ordinary General Meeting	
		CAR Dividend Payment Date		

Money Market

Last week, market liquidity, as represented by the BOJ's aggregate current balances, declined by \$10.5Bn week-over-week to J\$7.4Bn, down from the J\$17.9Bn on March 9th. Rates have increased on JMD placements week over week for all tenures, which along with the low current balances, signal a tightening of market liquidity. Brokers generally have smaller volumes to lend especially on a short-term basis as funds continued to exit the market to fulfill tax obligations and local and corporate bond offer in the market. The Government of Jamaica came to market with the re-opening of notes FR 9.625% BIN- Due 2031 and FR 12.25% BIN- Due 2050; and issued a new Benchmark Investment Note-- FR 10.00% BIN- Due 2028-- seeking to raise \$21.5Bn, \$11Bn and \$2.5Bn respectively.

Relative to last week, the average yield from BOJ's competitive price auction increased to 10.54% versus the 10.44% in the prior week. The auction was oversubscribed with bids received totalling J\$14.9Bn relative to the offer size of J\$12Bn. The highest bid rate for full allocation was 13%, which is a decrease of 200 basis points relative to last week's auction.

The USD money market liquidity has tightened compared to previous weeks, especially for shorter term placements. Rates have predictably risen given the impact of the tax season on the demand for USD. Consequently rates ranged from a high of 5% on 30 day placements up to a high of 6% on 365 days' placements, an increase of 100 basis points. There was no BOJ intervention in the foreign exchange market via B-FXITT this week.

Local Corporate Bonds

Name	Maturity	Coupon	Price	Yield
SJPC	2032	8.85%	104.00	8.22%
BDHR	2027	8.15%	100.50	8.00%
PBS	2025	6.50%	101.00	6.13%

Recommendations

Ticker	Closing Price (Mar. 20)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	\$17.17	14.6x	14.4x	BUY
GK	\$78.24	11.0x	9.9x	BUY
ELITE	\$2.72	23.2x	21.5x	BUY
IPCL	\$1.87	24.6x	21.5x	BUY
JBG	\$33.10	8.7x	14.4x	BUY
ECL	\$5.46	35.4x	19.1x	BUY
CAR	\$8.20	10.6x	14.4x	BUY
CPJ	\$9.86	12.7x	14.4x	BUY
KWL	\$33.37	17.7x	5.6x	HOLD
FESCO	\$4.20	19.7x	17.7x	BUY
FNTA	\$8.19	14.4x	17.7x	BUY

Regional News

Banxico governor sees no contagion in Mexico from U.S. banking crisis (Reuters)

The Bank of Mexico's Governor Victoria Rodriguez said on Friday the Mexican banking system is solid, vowing to remain vigilant but emphasizing there was no current reason for authorities to intervene. Rodriguez, a former deputy finance minister, was asked about possible contagion from the collapse of U.S. lenders Silicon Valley Bank and Signature Bank and market turmoil that ensnared Credit Suisse Group AG (CSGN.S). The failed U.S. banks were regional lenders and have no systemic impact, Rodriguez told Reuters in an interview on the sidelines of Mexico's annual banking convention in the southern city of Merida. She said, "The relationship between them and the Mexican system is practically non-existent... We do not see a contagion or banks that are in a similar situation in our country." Asked about the latest inflation data in Mexico and what that could mean for interest rates, Rodriguez noted February inflation data was good news, underscoring that upcoming data will need to be considered before the bank's next monetary policy decision.

"There is still relevant information that is going to emerge and we will be analyzing it," said Rodriguez. The rise in Mexico's core consumer prices slowed by more than expected to 8.29% in the year to February, data from statistics agency INEGI showed last week, providing some relief as Latin America's second-largest economy grapples with high inflation and interest rates.

IDB Invest, Banco de Bogota announce \$230Mn sustainability bond (Reuters)

The private investment arm of the Inter-American Development Bank's parent group on Friday March 17 announced alongside Colombia's Banco de Bogota the issuance of a sustainability bond worth \$230 million funding social and climate projects. Following a presentation at an annual banking meeting in Panama, the private investment arm known as IDB Invest said the bonds will be issued on the international market by Banco de Bogota with a term of up to 10 years. "The issuance of this type of bond will serve as a basis and example for the development of the capital market for this type of instrument in Latin America and the Caribbean," said IDB Invest's Chief Investment Officer Gema Sacristan in a statement.

Sustainability bonds are a form of debt instrument in which the proceeds are used to finance or re-finance a combination of both green and social projects. Banco de Bogota will use the funds to finance a portfolio of micro, small and medium-sized enterprises led and owned by women, it added, as well as low-income and priority housing. The Washington-based Inter-American Development Bank, along with its subsidiaries, is among the top providers of development finance in Latin America. IDB Invest said the funds generated by the new sustainability bond will also be used to pay for green buildings, renewable energy, energy efficiency projects, circular economy and sustainable agriculture.

International News

Credit Suisse takeover, central bank action calm jittery markets (Reuters)

Moves by authorities to avert a global banking crisis lifted market confidence on Monday as investors welcomed a historic Swiss-backed acquisition of troubled Credit Suisse by UBS Group and emergency dollar liquidity from top central banks. In a package orchestrated by Swiss regulators on Sunday, UBS Group AG (UBSG.S) will pay 3 billion Swiss francs (\$3.23 billion) for 167-year-old Credit Suisse Group AG (CSGN.S) and assume up to \$5.4 billion in losses. Major central banks, faced with the risk of a fast-moving loss of confidence in the financial system, also scrambled on Sunday to bolster the flow of cash around the world with a series of coordinated currency swaps to ensure banks have the dollars needed to operate.

The shotgun Swiss banking marriage is backed by a massive government guarantee, helping prevent what would have been one of the largest banking collapses since the fall of Lehman Brothers in 2008. UBS CEO Ralph Hamers said there were still many details to be worked through. In a global response not seen since the height of the pandemic, the Fed said it had joined central banks in Canada, England, Japan, the EU and Switzerland in a coordinated action to enhance market liquidity. The European Central Bank vowed to support euro zone banks with loans if needed, adding the Swiss rescue of Credit Suisse was “instrumental” in restoring calm.

On Monday, there were no apparent signs of disruption at Credit Suisse’s operations, while financial authorities in Asia said they were monitoring market conditions but saw no immediate distress. Financial markets initially staged a modest relief rally in Asian trade but were wary about a range of risks including contagion, the fragile state of U.S. regional banks, and moral hazard. Bloomberg News reported Credit Suisse had urged its staff to go to work and assured them that bonuses would still be paid this week.

ECB hawks press case for more rate hikes to fight dogged inflation (Reuters)

The European Central Bank (ECB) will likely need to raise interest rates further to tame persistent inflation, two leading hawks on the bank’s policymaking Governing Council said on Saturday, while playing down the risk of repeat of the 2008 financial crisis. The comments from the central bank chiefs of Austria and Belgium backed up remarks a day earlier from two fellow hawks - their Slovakian and Lithuanian peers - and pressed the case for higher rates to tame inflation running at 8.5% in the euro zone.

The ECB raised interest rates as promised by 50 basis points on Thursday, sticking with its fight against inflation and facing down calls by some investors to hold back on policy tightening until turmoil in the banking sector eases. Robert Holzmann of Austria and Pierre Wunsch of Belgium said further action would likely be needed. “Inflation is proving much tougher than thought,” Holzmann told Austria’s ORF 1 radio. “I do expect some more interest rate hikes.” He added that the extent of further increases would be data-dependent.

The ECB has hiked rates by 350 basis points since last July, lifting its benchmark refinancing rate to 3.5% on Thursday. The ECB on Thursday projected inflation would remain above its 2% target through 2025, based on forecasts it said had been formulated before a huge selloff in bank shares this week. The ECB also acknowledged on Thursday the outlook had become more uncertain after the collapse of two banks in the United States and more problems at Credit Suisse Group (CSGN.S).

NCB Capital Markets Ltd (formerly Edward Gayle and Co.) established in 1968 is Jamaica's oldest stockbrokerage. The company became a part of the National Commercial Bank (NCB) Group in 1994 and a fully owned subsidiary in October 2002. In December 2002, the then Edward Gayle and Co. was merged with another NCB subsidiary, NCB Investments. The products distributed by this combined subsidiary cover the traditional money market product offerings (J\$ and US\$ Repos), primary dealer services, stock brokerage and investment advisory services. Edward Gayle was renamed NCB Capital Markets Ltd. in October 2003.

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