

Market Guide

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Options- Options are contracts giving the purchaser the right – but not the obligation -- to buy or sell a security at a fixed price within a specific period of time.

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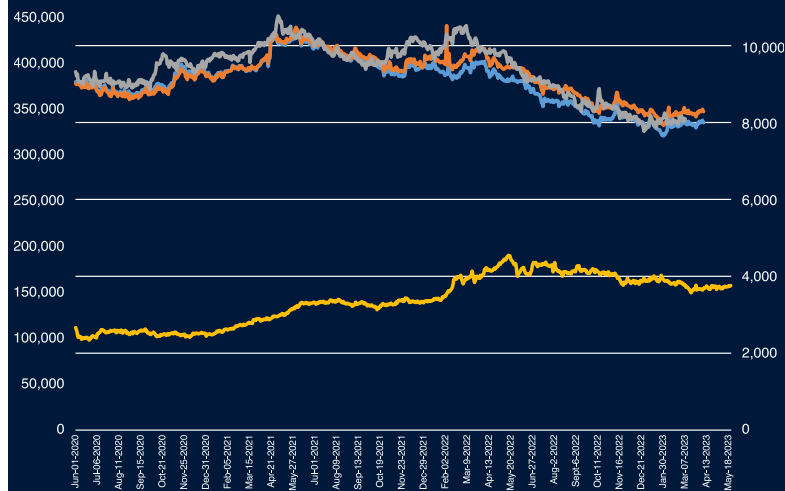
Expected Shift In Interest Rate Environment Could Boost Financial Sector

Financial sector stocks have and continue to bear the brunt of the impact of the Covid-19 pandemic and subsequent high inflation and interest rate environment, with these heavily weighted stocks seeing significant declines in prices and the JSE Financial index seeing the sharpest decline relative to the other indices. Although there was widespread decline in the sector's stock prices, the actual financial performance of these companies has been mixed. Depending on portfolio composition and revenue lines, the impact of the current economic recovery, high interest rate environment, and market volatility, has varied for some companies resulting in differences in their earnings performance. While bottom-line growth improved for four of the eleven companies, namely - Victoria Mutual Investment (VMIL), Barita, Sygnus Credit Investment (SCI), and Sagicor Group (SJ), supported by topline growth, the performances of other financial companies were stymied by factors such as lower net interest income, foreign exchange losses, and lower trading gains due to the impact of higher interest rates of asset prices in the global and local financial markets. Further, although banks have benefitted from the interest rate environment through higher net interest

income, other factors like credit impairment losses as well as investing and insurance activities have partially offset the increase. Although elevated interest and inflation rates have weighed on investor sentiments and valuations, there has recently been cautious optimism in the market as local inflation has trended lower inflation, with the most recent reading at 5.78% for April 2023. Further, while the US banking system is "sound and resilient," the upheaval in the financial system could slow borrowing, spending and growth, and influence the Federal Reserve to pause its rate hikes. The recent minor increase in unemployment in the country¹, could also support a pause in the hikes, which could reduce some of the volatility in the bond market. This should support a recovery in bond portfolios which should boost the fair value and or trading gains for securities dealers, banks, and insurance companies. Additionally, although at a slower pace, the local economy continues to grow, expanding by an estimated 2.7% during Q1 2023, which should help to sustain demand for financial services. Going forward, we anticipate that earnings will improve across financial sector companies in the near term, supported by a possible shift to lower interest rates and the ongoing economic growth.

¹ The unemployment rate was 3.7% in May

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	347,786.24	-0.30%	-5.6%
Main Market Index	335,597.54	-0.43%	-5.7%
Select Index	8,156.98	-0.09%	-8.3%
Junior Market Index	3,785.33	0.94%	-5.0%

WINNERS & LOSERS (FOR THE WEEK ENDED JUNE 2, 2023)

	\$ Change	% Change
OFF	+\$0.47	+38.5%
JPS7	+\$18.83	+31.4%
FOSRICH	-\$0.70	-25.1%
138SLVR	-\$16.52	-15.7%

MARKET OVERVIEW

Last week's trading activity resulted in a majority of the indices (7/9) declining, a downturn from the previous week where most indices advanced. The JSE All Jamaican Composite Index (0.52%) and the JSE Main Index (0.43%) saw the largest declines, while the Junior Market Index and the JSE USD Equities Index advanced WoW. The major advancers were Caribbean Flavours & Fragrances Limited (38.5%) and JPS Company Limited 7% shares (31.4%). CFF's price appreciation could be due to improved investor sentiments towards the company as it has launched a new product targeting the baked-goods market across the region. The company, which received its first batch of enzymes and emulsions late last year, is already pitching the product to local bakeries. Simultaneously, Caribbean Flavours is looking to Guyana as the first regional market outside its home to deepen trade in the bakery sector. The major decliners were Fosrich Company Limited (25.1%) and 138 Student Living Variable Preference shares (15.7%). The decline in 138SL's share price could be a result of investors taking gains given the 9.2% appreciation seen over the end of April to mid-May.

Overall market activity was influenced by trading in 122 stocks of which 61 advanced, 51 declined and 10 traded firm. Market volume amounted to 140,001,560 units valued at over \$582,258,398.08. Transjamaican Highway Ltd. with 48,715,946 units (34.29%), Fosrich Company Ltd. with 12,651,079 units (8.90%) and Wigton Windfarm Ltd. Ordinary Shares with 12,173,916 units (8.57%) were the volume leaders.

If this has the intended positive impact on investor sentiments, it could also result in better prices, as investor demand for the undervalued stocks in the sector rises. However, there are risks to the outlook such as the potential of a global recession and additional rate hikes by central bankers.

The performance of the main market financial sector continued to feel the effects of the high interest rate environment, and as such, most are not yet in full recovery mode as seen from the most recent earnings releases. VMIL (41.2%), Barita (24.3%), and SCI (285.8%) all reported favourable quarterly performances, with year over year (YoY) increases in net profit for their respective quarters ended March 2023. Sagicor Group recorded a significant increase in earnings to \$2.18Bn from a \$770.93Mn net loss the year before. These outcomes were supported by strong revenue growth fueled by higher net interest income, net fee and commission income, net underwriting income, trading gains, and unrealised capital gains. However, NCB Financial Group (NCBFG), Guardian Holdings Limited (GHL), Sterling Investment Limited (SIL), Sagicor Select Funds (SELECTF), Mayberry Investment Limited (MIL), PanJam, and QWI Investment (QWI) all reported contractions of 49.7%, 52.0%, 56.1%, 80.4%, 157.4%, 33.9% and 90.8%, respectively in net profit for their most recent quarter. All companies (except for NCBFG and GHL) that reported lower net income saw declines in their top-line, influenced by lower net

interest income², lower gains on investments due to volatility in global and local markets³, foreign exchange loss due to appreciation in JMD⁴, net unrealised gain on financial instruments and investments in associates⁵ and unrealised net losses on financial assets⁶. NCBFG benefitted from higher net interest income (7.7%) and higher fee and commission income (9.9%) from increased demand for banking products. However, this was offset by higher net insurance benefits and claims, increasing reinsurance costs, higher staff and finance cost, and growth of finance expenses partially due to interest rate movements on its liabilities.

Against this background, investor demand and stock price movements have remained depressed for financial stocks. Only SIL (5.15%) and Sygnus (0.93%) have seen year-to-date (YTD) stock price appreciation among the companies with improved profitability. All other stock prices, including those reporting lower net income performance, have plunged YTD⁷. The higher interest rate environment also caused investors to demand a higher required return for stocks, which means that companies' future cash flows were significantly discounted, lowering the valuation for most stocks. While the ongoing economic recovery augurs well for the sector, these gains have been weakened by headwinds impacting the operating and financial environment. Year to date, the JSE financial index is down 12.38%, reflecting the impact of inflation, interest rates, and recession risks on financial markets and hence the profitability

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of financial companies. However, as lower inflation continues to drive expectations around market interest rates, this bodes well for valuations, stock prices and the sector in the near to medium term.

Going forward, the performance of companies in the sector will continue to diverge as the overall impact on individual companies will vary based on the composition of their investment portfolios and strategic plans. However, those that have witnessed a decline in profitability because of fair value and trading losses should benefit from a shift in the inflation and interest rate environment. Securities dealers (primarily fixed income investors) are likely to face less risks to their net interest

2 SIL, SELECTF and MIL

3 PanJam, and QWI

4 QWI, SIL and SELECTF

5 MIL

6 SELECTF

7 Barita (-25.63%), PJam (-10.03%), Sagicor Group (-12.59%), WMIL (-10.70%), SELECTF (-5.00%), QWI (-10.00%), MIL (-3.08%), GHL (-16.45%), and NCBFG (-13.08)

margins going forward as interest rate pressures abate and market liquidity improves, this should improve the value of bonds and other fixed income assets. Furthermore, a lower rate could fuel an equity market rally as returns on investments increase in line with the rise in stock prices. However, we also have to consider that recovery in the market might not materialize as quickly as anticipated if companies' earnings do not begin to improve. Moreover, there is risk of a global recession, the Fed maintaining its current rate hikes and instability in the U.S. banking sector. Nevertheless, void of any risk, lower rates are expected to positively affect companies' cash flow; additionally, companies will begin to face lower costs for borrowing and payments on current debt as rates taper off.

With rates cooling, the dynamic within the market is expected to shift as investors investing over the medium to long-term will likely start to lock in at the current higher yields and hence switch from short to medium/long-term instruments. This will eventually improve the relative attractiveness of the financial sector stocks and increase overall market activity, particularly for those that are undervalued. Still, this remains conditional on improvement in companies' earnings. However, while lower interest rates have tailwinds for the sector, there are some risks to be considered. While low rates are appropriate to support economic activity, during times of weak growth they can also facilitate a build-up of risk in the financial system by weighing on bank profits (net interest income), thereby lowering their resilience; however, the converse is also a reality. That is, banks typically fare better in a high interest rate environment through higher spreads from loans. This has not materialized because of the COVID-19 pandemic which reduced loan demand and borrowers' credit quality. However, in a low interest rate environment, if demand for loans is sufficiently strong, it can negate the lower rates as seen in the years prior to the pandemic when rates were low, and banks remained profitable.

Foreign Exchange Market

The Jamaican dollar depreciated by 0.35% relative to the USD, week over week, with the USD selling rate moving from J\$155.33 on May 26, 2023, to J\$155.88 on June 2, 2023. This depreciation stemmed primarily from increased demand for US dollars, and currency dealers demanding higher prices. Moreover, there was no intervention from the Bank of Jamaica in the foreign exchange market last week to augment supplies.

Selling	Close: 26/05/23	Close: 2/06/23	Change
J\$/US\$1	\$155.33	\$155.88	+\$0.55
J\$/CDN\$1	\$115.52	\$116.09	+\$0.57
J\$/GBP£1	\$192.57	\$194.43	+\$1.86

Global Bond Prices

Bond markets rallied week-over-week, reversing some of the previous week's losses, due to subsiding concerns about the debt ceiling. President Joe Biden signed legislation on Saturday June 3 that lifts the nation's debt ceiling, averting an unprecedented default on the federal government's debt. According to reports, the deal lifts the current \$31.4T debt ceiling into 2025, capping non-defense spending at current levels for the next fiscal year, and allowing only a 1% rise in 2025. Additionally, the agreement limits some federal food stamp programs, claws back billions in unspent COVID funds, and includes provisions to speed up large energy projects by "boosting coordination, predictability, and permitting." The positive news about the debt ceiling resulted in the 10Y Treasury Note closing at 3.69% from 3.79% in the prior week.

There are greater expectations for the Fed to pause rate hikes at its June meeting, given higher unemployment rates and the slowing of earnings growth. The market received the Employment Situation report for May, which showed that employment numbers beat headline expectations (actual 339,000 vs consensus of 190,000). However, average hourly earnings growth slowed to 4.3% year-over-year from 4.4% in April, and the unemployment rate increased by 30 basis points to 3.7%. The report led to renewed hope that a hard landing will be avoided, while the slowdown in earnings growth and the uptick in the unemployment rate were seen as clues that the Fed might be more inclined to pause its rate hike campaign. The fed funds futures market expects the fed funds rate range to remain at 5.00-5.25% after the June meeting, but the implied likelihood of a rate hike in July rose to 69.4% from 54.0% earlier in the week. A pause in the rate hike agenda would lead to further recovery in bonds.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
Sagicor Fin 2028 (5.30%)	BB-/Positive	97	6.01%	BUY
TPHLLT 2029 (9.00%)	BB/Stable	106.85	7.64%	BUY
BERMUD 2027 (3.72%)	A2/Stable	98.75	4.09%	BUY

Bonds	Current Rating	Indicative Price	Yield	Recommendation
PRIO 2026 (6.13%)	BB-/Stable	97.9	6.85%	BUY
ALSEA 2026 (7.75%)	Ba3/Stable	102.45	6.95%	BUY
DomRep (6.6%) 2024	BB/Stable	102	3.39%	BUY
DomRep (5.88%) 2024	BB/Stable	101.5	4.07%	BUY
DomRep (5.50%) 2025	BB/Stable	101.25	4.69%	BUY
DomRep (6.88%) 2026	BB/Stable	103.5	5.43%	BUY
DomRep (8.63%) 2027	BB/Stable	107	6.54%	BUY
DomRep (5.95%) 2027	BB/Stable	100.15	5.90%	BUY
DomRep (5.50%) 2029	BB/Stable	95.75	6.40%	BUY
DomRep (6.00%) 2033	BB/Stable	94.0	6.86%	BUY
PYPL (2.85% 2029)	A-/Stable	91.00	4.70%	BUY
Jaman (7.63%) 2025N	B+/Positive	105.00	5.23%	BUY
NFE 2025 (6.75%)	BB-/Stable	94.75	9.36%	HOLD
NFE 2026 (6.50%)	BB-/Stable	91.00	9.74%	HOLD
FRICON (7.7%) 2028	B+/Stable	78.75	13.59%	BUY
PROMERICA 2024 (9.70%)	B/Positive	104.25	4.96%	BUY
BARCLAYS 2026 (5.75%)	A1/Stable	101	5.40%	BUY

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	105.25	5.51%
	2039	119.50	6.06%
	2045	115.50	6.54%

*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.

Local Corporate Bonds

Name	Maturity	Coupn	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%

Money Market

As of June 1st, a total of J\$19.35B was in the market, as represented by the BOJ's aggregated current balances, down by J\$9.8B from J\$29.1B week over week.

The average yield from the BOJ's competitive price auction increased again last week to 8.41% versus 8.24% in the prior week. The auction was oversubscribed; bids received totaled J\$38.9B relative to the offer size of J\$34B indicating a bid-cover ratio of 1.1441. The highest bid rate for full allocation was 9.99%, which is a decrease from 10.50% in the prior week. The next auction date for the Bank of Jamaica 30 days CD will be held on the 7th of June.

This week, the GOJ will come to market with a tender offer for a total of \$1.4Bn in T-bills. The tenors for the offers are 91 and 182 days, both having an offer size of JMD\$700Mn. The subscription date for the auction is June 7 and will settle on the 9th.

The USD money market remains stable and reasonably liquid. Broker market demand for USD has increased for longer-tenured funds, with some brokers offering as high as 5.75% for 180 days to clients. Rates in the retail area ranged from 3 - 4.25% for short-term placements to over 5% for long-term placements. There were no BOJ interventions in the foreign exchange market via B-FXITT last week.

Dates to watch this week

■ International ■ Local

May 2023				
MON	TUE	WED	THUR	FRI
5	6	7	8	9
		US Trade Balance (Apr) CA Trade Balance (Apr) CA BoC Interest Rate Decision	PJAM Annual/Extra-Ordinary General Meeting	PJAM Annual/Extra-Ordinary General Meeting
		MAILPAC Dividend Payment Date \$0.07		VMIL Annual/Extra-Ordinary General Meeting

Recommendations

Ticker	Closing Price (June 2)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	\$18.15	14.3x	14.6x	BUY
GK	\$78.91	10.6x	10.4x	BUY
IPCL	\$2.07	9.0x	23.1x	BUY
ECL	\$4.90	19.5x	23.3x	BUY
CAR	\$8.66	11.6x	14.6x	BUY
CPJ	\$10.00	16.1x	14.6x	BUY
KW	\$30.16	15.9x	14.8x	HOLD
FESCO	\$4.04	17.8x	20.8x	BUY
FONTANA	\$9.61	15.8x	20.8x	BUY
TJHUSD	\$0.01	21.7x	20.7x	BUY
TJH	\$2.03	19.9x	14.8x	BUY
SOS	\$15.29	15.4x	20.8x	BUY
KEX	\$11.78	24.0x	23.3x	BUY
SALADA	\$3.34	20.9x	14.6x	SELL

Local News

Growth Anticipated to be 2.7% for the March Quarter (JIS News)

Jamaica's economy grew by an estimated 2.7 per cent during the January to March 2023 quarter. This represents the eighth consecutive quarter of growth recorded, according to the Director General of the Planning Institute of Jamaica (PIOJ), Dr. Wayne Henry. He highlighted that the preliminary outturn for the quarter resulted in a growth of 4.3 per cent for Fiscal Year 2022/23 and represents full recovery in overall output levels from the impact of COVID-19, one year before the projected recovery date of Fiscal Year 2023/24," he added.

Dr. Henry was speaking during the PIOJ's semi-virtual quarterly media briefing, on Tuesday (May 30). He highlighted that the March 2023 outturn largely reflected the impact of increased external demand, especially for Jamaica's Tourism product. He further indicated that the March 2023 quarter outturn reflected the resumption of operations at the Jamalco Alumina plant in Clarendon during the July to September 2022 quarter, following the facility's closure in August 2021, due to fire.

A breakdown of the outturn shows that the Services Industry grew by an estimated 3.8 per cent; however, the Goods Producing Industry contracted by an estimated 0.7 per cent. Dr. Henry pointed out that the Services Industry results reflected growth in all subsectors, buoyed by those associated with travel and tourism. Conversely, only two of the four Goods Producing Industry subsectors, 'Mining and Quarrying' and 'Manufacturing', recorded growth. The 'Mining and Quarrying' grew by an estimated 95.9 per cent, due to higher alumina output, which outweighed a contraction in crude bauxite production. The PIOJ's projection is for the economy to grow in the range of two to three per cent YoY during the April to June Quarter. This, the Director General noted, is based on the continuation of the growth momentum in most industries.

Regional News

Trinidad and Tobago Trade Surplus Will Fall On Lower Energy Prices, Though External Risks Are Minimal (Fitch Solutions)

Fitch forecasts a fall in Trinidad and Tobago (T&T)'s

2023 and 2024 current account surpluses to 11.2% of GDP and 10.8% respectively, from its 2022 estimate of 18.3%. While this marks a fairly sizable fall in the size of the surplus compared to its 2022 estimate, Fitch notes that its forecasts are largely consistent with the 10-year (2012-2021) average historical surplus of 7.8%. This will be the result of a narrower surplus in the goods trade, as global energy prices fall from a multi-year high recorded in 2022. Energy products typically account for four-fifths of T&T's goods exports, making the trade balance highly susceptible to changes in global energy prices. The services trade deficit, meanwhile, will decline as tourist arrivals continue to approach pre-pandemic levels.

International tourist arrivals have yet to reach the pre-pandemic (2017-19) average of 32,186 monthly visitors, having averaged only 18,874 in 2022 according to the UN World Tourism Organization (UNWTO). This indicates that tourist arrivals still have room to continue growing in 2023 and 2024, though Fitch notes that the pace of such recovery will face headwinds stemming from slow growth in tourist-origin markets like the US. Despite the lower current account surplus, Fitch asserts that risks to T&T's external position are small given its position as a net creditor to the rest of the world and adequate foreign reserves.

Rising Oil Production To Underpin Large Current Account Surplus In Guyana (Fitch Solutions)

After decades of consistent deficits, Fitch expects Guyana's current account balance will maintain a wide surplus over the coming years, underpinned by strong growth in oil exports. The current account surplus is expected to reach 30.6% of GDP in 2022 (from a deficit of 28.9% of GDP in 2021) as the start of production at ExxonMobil's second offshore operation in the Stabroek block in February 2022 drove a 159.4% increase in goods exports.

The current account surplus will narrow to 24.9% of GDP in 2023 as oil-related capital investment, rising government spending and stronger household purchasing power fuel robust import growth. Nonetheless, with several new offshore projects due to come online, fueling greater oil exports, Fitch expects Guyana will post a wide current account surplus averaging 26.7% of GDP over 2023-2027. Additionally, the country's capital account will remain in deficit over the coming years (the capital account flipped from a surplus of US\$2.1Bn in 2021 to a deficit of US\$3.7Bn in 2022) as oil companies recover costs, but healthy foreign direct investment (FDI) inflows and growing

international reserves should minimise risk to Guyana's external account stability over the coming years.

International News

US Labour Market Remains Resilient As Job Openings Climb, Layoffs Drop (Reuters)

U.S. job openings unexpectedly rose in April and data for the prior month was revised higher, pointing to persistent strength in the labour market that could compel the Federal Reserve to raise interest rates again in June. The Job Openings and Labor Turnover Survey, or JOLTS report, from the Labor Department on Wednesday also showed that the number of layoffs declined significantly last month. There were 1.8 job openings for every unemployed person in April, up from 1.7 in March, and well above the 1.0-1.2 range which is considered consistent with a jobs market that is not generating too much inflation.

Demand has remained resilient despite 500 basis points worth of interest rate increases from the Fed since March 2022, when the U.S. central bank embarked on its fastest monetary policy tightening campaign since the 1980s to tame inflation. The flow of strong data has diminished expectations that the Fed could pause further rate increases next month. Despite the strong demand for labour, workers are growing less confident, leading to fewer resignations. The quits rate, viewed as a measure of labour market confidence, fell to 2.4% from 2.5% in March. That aligns with a Conference Board survey on Tuesday that showed the share of people viewing jobs as "plentiful" dropped in May to the lowest level since April 2021.

Lawmakers Reach Tentative Debt Ceiling Deal (CNBC)

The S&P 500 rose Tuesday after the Biden administration and Republican lawmakers reached a tentative deal on raising the U.S. debt ceiling. President Joe Biden and House Majority Leader Kevin McCarthy reached an agreement to raise the debt ceiling and avoid a default over the weekend, with Congress set to vote on the legislation as early as Wednesday. Lawmakers have not signaled that they intended to return to Capitol Hill early to work on the deal. Both Republican and Democratic support is needed for the bill agreement to pass.

"Although the upcoming votes in Congress still pose a small risk, the main risk had been that political

pressures would prevent a deal from coming together," wrote Goldman Sachs economists in a note. "Now that a deal has been reached, it seems very likely to pass both chambers of Congress in the coming week." The agreement comes just days before the so-called "X date" on June 5, which is the earliest date the Treasury Department has signalled the U.S. could default on debt obligations. The initial compromise was first announced on Saturday evening.

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