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"An investment in knowledge pays the best interest." - Benjamin Franklin

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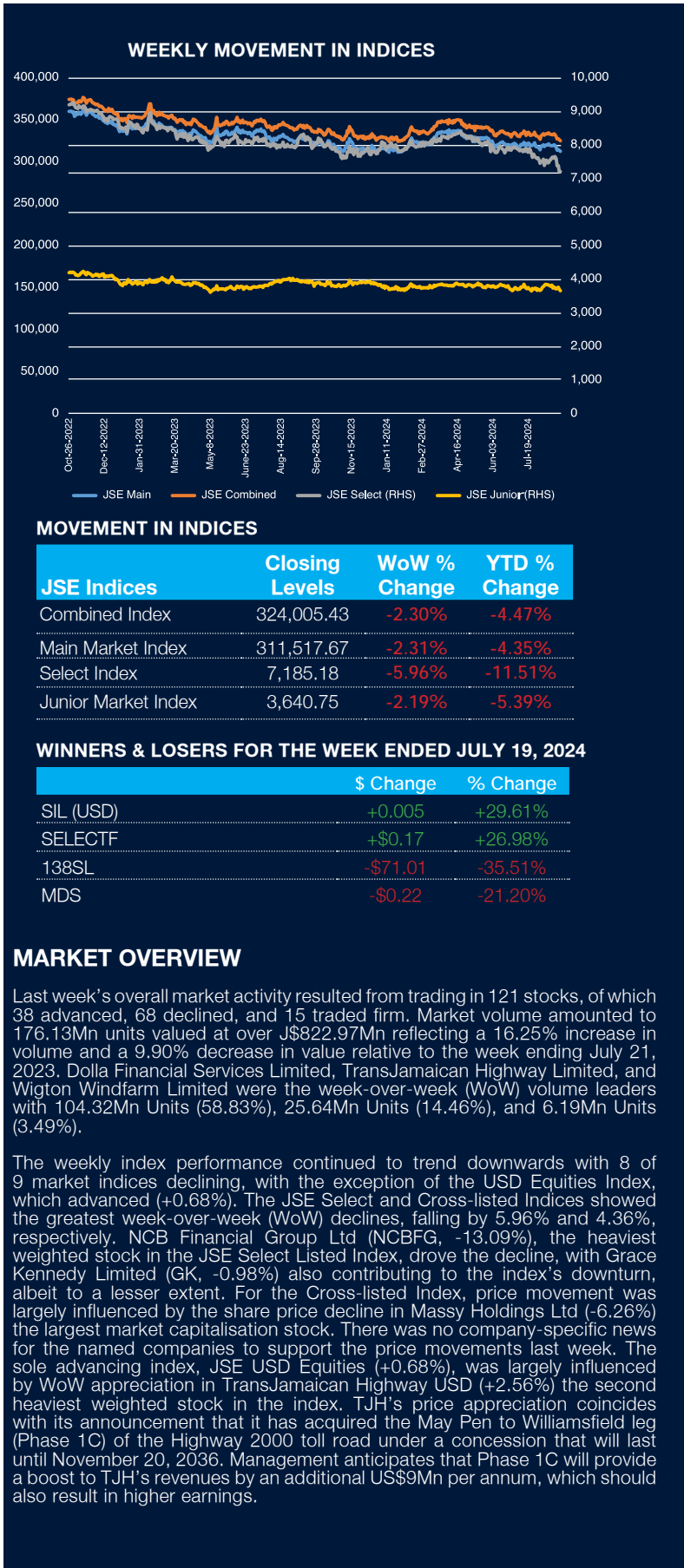
Jamaica's Disinflation Destination: Potential Bumps and Ruts Ahead!

Over the last three years, the Bank of Jamaica (BOJ) has worked assiduously to steer the economy towards a path of disinflation, but the road has been fraught with challenges as inflation in the post-COVID era has been very sticky downwards. However, the latest inflation data from the Statistical Institute of Jamaica (STATIN) suggests that the proverbial light at the end of the tunnel is getting brighter, though there's potential turbulence ahead. Last Thursday, STATIN released June's inflation data, showing a 5.4% increase year-over-year, marking the fourth consecutive monthly inflation outturn within the BOJ's target range. While this outturn suggests the central bank's monetary policy actions are having the desired effects, the passage of Hurricane Beryl brought on new challenges that could upend the trajectory, at least over the near term. Beryl's devastating impact is fueling inflation expectations and it has caused disruptions in supplies of key produce that could spark short-term price spikes, particularly in the Food & Non-alcoholic Beverages Index. Damages to the island's electricity system, housing, and infrastructure could translate into higher inflation given a surge in demand for construction materials and labour driving up cost. While bumps and ruts could delay Jamaica's inflation victory lap and financial market recovery, inflation trends in the US signal potential opportunities for the patient global bond investor.

Although there was a moderate increase in inflation in June, it remained within the Bank of Jamaica's (BOJ's) 4% to 6% target range for the fourth consecutive month. Point-to-

point inflation rose to 5.4% in June 2024 from 5.2% in May, driven by an increase in the index of Food and Non-Alcoholic Beverages, with prices of agricultural produce like vegetables, tubers, plantains, cooking bananas and pulses being key contributors. There was also an increase in electricity and rent prices albeit tempered by lower water and sewage rates. The cost of Transport grew 11.1% buoyed by the lingering impact of a fare increase by the Government on October 13, 2023¹. Additionally, the 15.4% increase in the National Minimum Wage, effective June 1, 2024, exerted upward pressure on inflation. These factors, together, resulted in a 1.1% month-over-month (MoM) increase in inflation for June 2024².

The four consecutive months of local inflation data have been a promising signal that major inflation drivers that have pushed up prices over the past 3 years are fading. However, the threat of extreme weather events on the island, like hurricane Beryl and prior droughts remains a significant inflation risk, given their impact on the price of agricultural produce and spin-off effects on other sections of the economy. As a result, the fallout from Hurricane Beryl could be a significant rut in Jamaica's near-term inflation and economic outlook. Hurricanes, droughts, and other weather-related disasters typically damage crops, infrastructure, businesses and homes which can lead to spikes in food and repair costs. While hurricane damage assessments are ongoing, the preliminary estimate of road infrastructure damage is north of J\$10.25Bn, according



1 This movement was tempered by lower petrol prices.

2 June's inflation outcome is significantly down from its peak of 11.9% reported in April 2022. While all the indices are down relative to their pandemic peak, they remain above their respective levels pre-pandemic.

to Prime Minister Hon. Andrew Holness. Critical infrastructure such as hospitals and schools also sustained damages during the passage of Beryl, with 38.0% of public hospitals being affected. Likewise, at least 100 schools in 6 of 7 regions face damages estimated at J\$1.42Bn³. Ultimately, Beryl's impact on the South West and other farmlands like in St. Mary, is likely to affect agricultural supplies and rebuilding efforts. As a result, a spike in inflation outside of the BOJ's target range in the coming months is likely to occur, led by the cost of agricultural produce. Such an inflation spike may delay BOJ's rate cuts, given its mandate of inflation targeting. Therefore, while the BOJ wants the economy to slow as part of its efforts to bring inflation back within target, the challenge for the Bank will be to tame inflation, without slowing the economy too much such that it goes into a recession.

Several factors could help mitigate Beryl's inflationary impact. These include government intervention and international aid to expedite recovery efforts and stabilise prices more quickly. The government remains confident that Jamaica will recover from Hurricane Beryl as the country has access to resources such as the contingency and natural disaster funds totalling \$4.5Bn. This should help to mitigate the fiscal impact on the national budget, which bodes well for economic stability. In addition, the Government has taken prompt and decisive actions to prevent price gouging or the charging of high prices on critical commodity items in the wake of Hurricane Beryl, which should help to mitigate against excessive increases in agricultural inflation⁴.

Bumps and ruts aside, Jamaica's broad inflation downtrend echoes moderating inflationary pressures globally. In the United States, inflation is showing signs of easing, providing investment opportunities for bond investors. In June, inflation in the US, measured by point-to-point CPI dipped from 3.3% in May to 3.0% aided by MoM reductions

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in gas and car prices. This marked the lowest level in more than three years. The slowing inflation rates are fueling expectations of a Federal Reserve rate cut later in September. After the inflation figures were released, the probability of a rate cut had jumped to 84.6%, shooting up from below 50%. Furthermore, the US economy and the labour market are also showing signs of softening. GDP growth has fallen from 4.9% in Q3 2023 to 1.4% in Q1 2024. The US labour market is also showing signs of weakening with the unemployment rate rising to 4.1% in June, the highest level since November 2021, marking the second consecutive monthly increase. During a session at the Economic Club of Washington DC, the Fed Chair signalled a planned pivot to rate cuts. He noted that inflation is headed back to its 2.0% target and the Fed would cut rates before inflation reached the target. Following Powell's comments, the probability of a rate cut of 25 basis points at the Fed's Sept. 18 meeting spiked to 94.0%, according to the CME FedWatch Tool. Taken together, this sets the stage for a compelling year for bonds, and if rate cuts commence at the end of the year, we believe high-quality bonds with intermediate duration have the potential to generate total returns that are substantially greater than current yields. Emerging Market (EM) bond prices have risen in recent months, resulting in lower yields as the markets react to increasing signs of disinflation. However, the

fact remains that yields are still high relative to historic levels. As such, we believe there are opportunities for investors in the bond market. Bond investors who lock in at these high yields can benefit from capital appreciation when bond prices begin to rise as interest rates decline. Against that background, we continue to recommend bonds from issuers with solid fundamentals and short-to-intermediate tenors. These high-quality bonds can potentially provide investors with attractive returns from coupons and capital appreciation.

³ According to post-disaster assessments.

⁴ As costs for agricultural goods rise, perhaps because of crop shortages due to bad weather affecting the harvest, food prices increase.

Foreign Exchange Market

The Jamaican dollar strengthened by 0.4% in trading last week, with the USD selling rate moving from J\$157.62 on July 12, 2024, to J\$156.99 on July 19, 2024. The strengthening of the Jamaican dollar was due to increased inter-dealer activity aimed at generating trading gains.

| Selling | Close: 12/07/24 | Close: 19/07/24 | Change |
|------------|--------------------|--------------------|----------|
| J\$/US\$1 | \$157.62 | \$156.99 | (\$0.63) |
| J\$/CDN\$1 | \$115.66 | \$123.49 | +\$7.83 |
| J\$/GBP£1 | \$203.58 | \$201.66 | (\$1.92) |

Global Bond Prices

Last week, emerging market bond prices fell as investors reacted to new economic data, including signs of cooling labour market conditions, a slowdown in the economy, and ebbing inflation, which puts the Federal Reserve in a stronger position to cut its benchmark interest rates in September. Data released last week showed that the number of Americans filing new claims for unemployment benefits rose again and appears to be settling consistently at a slightly higher though still healthy level for which the Federal Reserve has been aiming. After years of tight employment conditions, signs of softness continue with the latest initial jobless claims rising more than expected (229,000) to 243,000 for the week, up 9% from last week and 4% above the four-week average. With the latest employment data suggesting that the job market could slow down in the coming weeks, if inflation improves, this would give the Fed more support to cut rates. Consumer price index (CPI) data published the week before showed that prices fell 0.1% in June on a monthly basis. However, investors are now looking ahead to next week's core PCE inflation, the Fed's preferred inflation metric, in order to gauge the current standing of inflation. Expectations are for headline PCE inflation to dip from 2.7% year over year (YOY) to 2.6%, and core PCE (which excludes food and energy prices) to slide from 2.8% to 2.5% year-over-year for June, potentially the lowest since March 2021. Against that background, according to the CME Fed Watch tool, 94.0% of traders now expect the US Federal Reserve to cut rates to 5.00–5.25 per cent in their next meeting (September 18, 2024), up from the 57.5% recorded last month.

As the markets continue to process the economic data, the U.S. 10-year Treasury yield closed higher last week moving from 4.184% to 4.242% as traders increasingly bet on a September interest rate cut with a reduction in July now seen as highly unlikely. Similarly, in the Emerging Market, the J.P. Morgan Emerging Market Bond Index (EMBI) prices fell by 1.1% to 89.26 on July 19th as markets assessed US election-related uncertainties. Overall, investors will continue to listen intently for any clues on interest rate movements.

| Bonds | Currency Rating | Indicative Price | Yield | Recommendation |
|----------------------|------------------|------------------|-------|----------------|
| ALSEA (7.75%) 2026 | Ba3/Stable | 105.50 | 5.25% | BUY |
| BACR (5.75%) 2026 | BBB+/ Stable | 104.25 | 3.63% | BUY |
| BERMUDA (3.72%) 2027 | A2/Stable | 100.00 | 3.72% | BUY |
| BERMUDA (4.75%) 2029 | A2/Stable | 101.50 | 4.38% | BUY |
| CHTR (4.20%) 2028 | Ba1/Stable | 88.50 | 5.36% | BUY |
| CWCLN (6.875%) 2027 | BB-/Stable | 92.50 | 9.42% | BUY |
| DOMREP (5.50%) 2029 | BB/STABLE | 101.75 | 5.07% | BUY |
| DOMREP (5.95%) 2027 | BB/STABLE | 104.00 | 4.24% | BUY |
| DOMREP (6.00%) 2033 | BB/STABLE | 102.00 | 5.70% | BUY |
| DOMREP (6.00%) 2028 | BB/STABLE | 104.00 | 4.88% | BUY |
| DOMREP (6.88%) 2026 | BB/STABLE | 105.00 | 3.45% | BUY |
| DOMREP (8.63%) 2027 | BB/STABLE | 107.75 | 5.53% | BUY |
| GM (5.4%) 2029 | Baa2/Stable | 97.75 | 5.38% | BUY |
| GS (5.798%) 2026 | A/Stable | 103.50 | 3.99% | BUY |
| GS (3.85%) 2027 | A/Stable | 101.00 | 3.43% | BUY |
| JAMAN (7.63%) 2025N | BB-/Stable | 105.50 | 1.79% | BUY |
| NFLX (5.88%) 2028 | BBB/Stable | 107.25 | 4.02% | BUY |
| OPY (5.50%) 2025 | Ba3/Stable | 103.00 | 2.88% | BUY |
| PRIOBZ (6.13%) 2026 | BB-/Stable | 103.25 | 4.30% | BUY |
| PRMRPA (10.75%) 2028 | B+/Positive | 112.00 | 7.28% | BUY |
| PYPL (2.85%) 2029 | A-/Stable | 94.75 | 3.98% | BUY |
| SFC (5.30%) 2028 | BB-/ POSITIVE | 99.50 | 5.45% | BUY |
| TPHLTT (9.00%) 2029 | BB/STABLE | 108.75 | 6.91% | BUY |
| TRAJAM (5.75%) 2036 | BB-/Stable | 93.00 | 6.59% | BUY |
| TRITOB (4.50%) 2026 | Ba2/Stable | 105.00 | 3.97% | BUY |
| WBD (4.054%) 2029 | BBB-/Stable | 95.75 | 5.13% | BUY |

| Bonds | Currency Rating | Indicative Price | Yield | Recommendation |
|---------------------|-----------------|------------------|---------|----------------|
| FRICON (7.70%) 2028 | B+/Stable | 67.50 | 19.91% | HOLD |
| BANORT (5.75%) 2031 | BB-/Stable | 95.25 | 1.87% | SELL |
| CSOLNO (6.00%) 2027 | B+/Stable | 13.50 | 228.41% | SELL |
| PEMEX (5.35%) 2028 | B+/Stable | 104.00 | -1.38% | SELL |
| NFE (6.5%) 2026 | BB-/Stable | 103.50 | -27.73% | SELL |
| NFE (6.75%) 2025 | BB-/Stable | 99.00 | 7.00% | SELL |

the BOJ's 30-day competitive price auction saw an increase to 9.47% relative to 9.40% in the prior week. The next auction date for the 30-day CD is July 24th. We continue to anticipate that the Government of Jamaica will enter the market in late August based on its schedule for this fiscal year. We await the announcement regarding the instrument and offer volume.

GOJ Globals

| Ticker | Maturity | Bid | Offer Yield* |
|--------|----------|--------|--------------|
| JAMAN | 2028 | 103.25 | 5.46% |
| | 2039 | 117.95 | 6.05% |
| | 2045 | 117.45 | 6.36% |

*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 | Coupon | Price | Yield |
|------|----------|--------|--------|-------|
| BDHR | 2027 | 6.50% | 100.35 | 8.02% |
| SJPC | 2032 | 8.15% | 104.95 | 7.99% |
| PBS | 2025 | 8.85% | 100.85 | 6.03% |

Money Market

Last week, the JMD money market remained liquid. As of July 19, 2024, a total of J\$28.60Bn was in the market, as represented by the aggregated current balances held by Deposit-Taking Institutions (DTIs). This was J\$10.838Bn more than on July 12th.

Demand for money market instruments remains high, evidenced by the oversubscriptions on the recent BOJ auction on July 16, 2024. Despite the Bank of Jamaica's (BOJ) announcement to gradually decrease its absorption of liquidity from DTIs, there was a week-over-week increase in the 30-day CD offer size, moving from J\$9.0Bn to J\$36.0Bn. The BOJ's Fixed rate 30-day CD competitive price auction was oversubscribed; bids received totalled J\$52.6Bn relative to the offer size of J\$36.0Bn. This implied a bid-to-cover ratio of 1.46, a reduction of 2.76 last week, largely due to the larger offer size. The average yield from

Dates to watch this week

■ International ■ Local

| July 2024 | | | | |
|-----------|-----|--|--------------------------------------|--|
| MON | TUE | WED | THUR | FRI |
| 22 | 23 | 24 | 25 | 26 |
| | | LASD - Dividend Payment Date (J\$0.11 per share) | Producer Price Index (June) (STATIN) | ASBH - Dividend Payment Date (TT\$0.01323 per share) |
| | | LASM - Dividend Payment Date (J\$0.15 per share) | | |
| | | CABROKERS - Annual General Meeting (AGM) | | |
| | | CAD Interest Rate Decision | US GDP (QoQ) (Q2) | US Core PCE Price Index (MoM, YoY) (June) |
| | | | US Initial Jobless Claims | |

Recommendations

| Ticker | Closing Price (July 23, 2024) | P/E | Avg. Sector P/E | Current Recommendation |
|-----------|-------------------------------|-------|-----------------|------------------------|
| CAR JA | \$9.63 | 14.4x | 13.2x | BUY |
| CPJ JA | \$9.91 | 10.1x | 13.2x | BUY |
| GK JA | \$74.00 | 9.5x | 15.4x | BUY |
| INDIES JA | \$2.41 | 12.6x | 12.5x | BUY |
| KEX JA | \$10.90 | 14.9x | 16.6x | BUY |
| KW JA | \$26.99 | 12.1x | 10.4x | BUY |
| LASM JA | \$5.81 | 10.1x | 13.2x | BUY |
| SOS JA | \$1.65 | 13.8x | 15.7x | BUY |
| SVL JA | \$22.95 | 23.5x | 13.2x | BUY |
| SALF JA | \$3.74 | 19.4x | 13.2x | SELL |

Regional News

Brazil Raises Primary Deficit Forecast, Confirms Spending Freeze

Brazil's government widened its primary deficit forecast for this year to 32.6Bn reais (\$5.9Bn) on Monday, prompting a spending freeze to meet the fiscal target. The shortfall, released in the Planning and Finance ministries' bi-monthly revenue and expenditure report, corresponds to a primary deficit of 0.3% of gross domestic product. In May, when the last report was released, the forecast was for a primary deficit of 14.5Bn reais, or 0.1% of GDP. The fiscal target for this year is to eliminate the primary deficit, which excludes interest payments, with a tolerance margin of 0.25 percentage points of GDP in either direction. The government announced it will freeze 3.8Bn reais in expenditures to achieve this lower limit. As the new fiscal framework approved by President Luiz Inacio Lula da Silva also caps spending growth, another 11.2Bn reais will be blocked to ensure full compliance. This brings the total containment to the 15 billion reais announced by Finance Minister Fernando Haddad last week. "We will achieve the best possible result, but if we stay within the tolerance band, the target will have been met," said Treasury Secretary Rogerio Ceron. Speaking at a news conference, he said spending limits would be strictly observed throughout the year, emphasizing that the fiscal target is viable, and that there is no need to change it. Members of the leftist government have consistently emphasized their commitment to staying within the fiscal goal this year, while private economists surveyed weekly by the central bank foresee a 0.7% primary deficit. Earlier on Monday, Lula said the government would freeze expenditures whenever necessary to meet the fiscal target. The worsening fiscal outlook for the year mainly stemmed from a 20.7Bn reais increase in projected expenses, particularly for pension and social benefits. At the same time, the government lowered its expected net revenue by 13.2Bn reais. The projected deficit excludes the 28.8Bn reais the government plans to spend addressing unprecedented flooding in the southernmost state of Rio Grande do Sul, which, by law, are not counted toward the fiscal target compliance.

Source ~ Reuters

Guyanese Gov't Not 'Rushing' Passage of Oil Spill Legislation

Asserting that the government has 'enough time' to table its draft oil spill legislation in the National Assembly, General Secretary of the People's Progressive Party, Dr Bharrat Jagdeo has made it clear that there is no

rush to present the legislation, but rather focus will be on ensuring that it is robust and comprehensive. Earlier this year, the government announced its plan to table the landmark oil spill legislation, which is expected to strengthen the government's capacity to ensure full liability coverage and for oil spill preparation, planning, and response. Commenting on whether the bill will be presented before the parliamentary recess in August, Dr Jagdeo said, "It may be tough to pass it because we may not have the requisite period for notice, but I think we have enough time to table it. We don't want to also rush it through the Parliament." He was at the time updating reporters at a press conference at Freedom House on Thursday. He added that the government is considering restricting comments on the draft legislation to include only locals. "We may we may solicit. I'm not sure that we will open this one up for comments, especially from the oil and gas companies, because they don't want legislation of this nature. Maybe...open it only for comments from the locals," he explained. The legislation will detail the state's responsibilities and those accountable in the event of an oil spill, whether it be companies operating in the sector or a shipping company. The government has been adamant that while there are already several measures in place to address any potential oil spill, it is necessary to implement more comprehensive legislation that provides greater scope in liability. Currently, ExxonMobil and its coventurers operating in the Stabroek Block have agreed to a US\$2 billion parent company guarantee for oil spills. They have also agreed to a US\$600 million insurance package. Added to this, the tenets of the Environmental Protection Act emphasise 'strict liability', which means that the permit holder is fully responsible and fully liable for any pollution that their activities and this does not have to be proven.

Source ~ News Room Guyana

International News

Global Tech Outage Eases after Widespread Disruption, New Focus Seen On Risks

Services from airlines to healthcare, shipping and finance were coming back online on Friday after a mistake in a security software update sparked hours-long global computer systems outages, another incident highlighting the vulnerability of the world's interconnected technologies. After the outage was resolved, companies were dealing with backlogs of delayed and cancelled flights and medical appointments, missed orders and other issues that could take days to resolve. Businesses also face questions about how to avoid future blackouts

triggered by technology meant to safeguard their systems. A software update by global cybersecurity firm CrowdStrike, one of the largest operators in the industry, triggered systems problems that grounded flights, forced broadcasters off air and left customers without access to services such as healthcare or banking. CrowdStrike is not a household name but it is an \$83Bn company with more than 20,000 subscribers around the world including Amazon.com and Microsoft. CrowdStrike CEO George Kurtz said on social media platform X that a defect was found “in a single content update for Windows hosts” that affected Microsoft customers. CrowdStrike has one of the largest shares of the highly competitive cybersecurity market, leading some industry analysts to question whether control over such operationally critical software should remain with just a handful of companies. The outage also raised concerns that many organizations are not well prepared to implement contingency plans when a single point of failure such as an IT system, or a piece of software within it, goes down. But these outages will happen again, experts say, until more contingencies are built into networks and organizations introduce better back-ups.

Source ~ Reuters

Bank of Canada to Cut Rates on July 24, then Twice More in 2024

The Bank of Canada will cut its overnight interest rate on Wednesday, July 24, by 25 basis points to 4.50% amid expectations that inflation will continue to fall, according to a large majority of economists polled by Reuters. With the economy slowing and unemployment edging higher, the central bank is then expected to cut rates twice more in 2024, although only a slim majority of economists are forecasting a policy rate of 4.00% by the end of this year, with risks tilted toward fewer rate cuts rather than more. While forecasters have consistently predicted at least three Bank of Canada rate cuts in 2024 since early this year, the chance of a fourth reduction in borrowing costs now rests on a knife’s edge, in part because the U.S. Federal Reserve has yet to begin reducing rates. Although Canadian inflation has eased further to within the BoC’s 1%-3% target range amid a weakening of the job market and softening corporate outlook, sticky core inflation and wage growth could warrant caution. However, nearly three-quarters of the economists surveyed in the July 16-19 poll, or 22 of 30, expect the BoC will cut its policy rate again to 4.50% on July 24. That is in line with interest rate futures pricing The Canadian central bank trimmed borrowing costs last month, marking its first rate cut in four years. The BoC is expected to pause its

easing cycle at its September meeting before resuming the rate cuts in October and December. That would suggest the BoC will cut rates twice before the Fed begins its easing cycle, now widely expected to happen in September. Andrew Kelvin, head of Canadian and global rates strategy at TD Securities, said second-quarter CPI inflation “is tracking below what the Bank (of Canada) had forecast in April and the business outlook survey was extremely dovish ... the pieces are in place for the BoC to cut rates again at its meeting next week.”

Source ~ Reuters

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