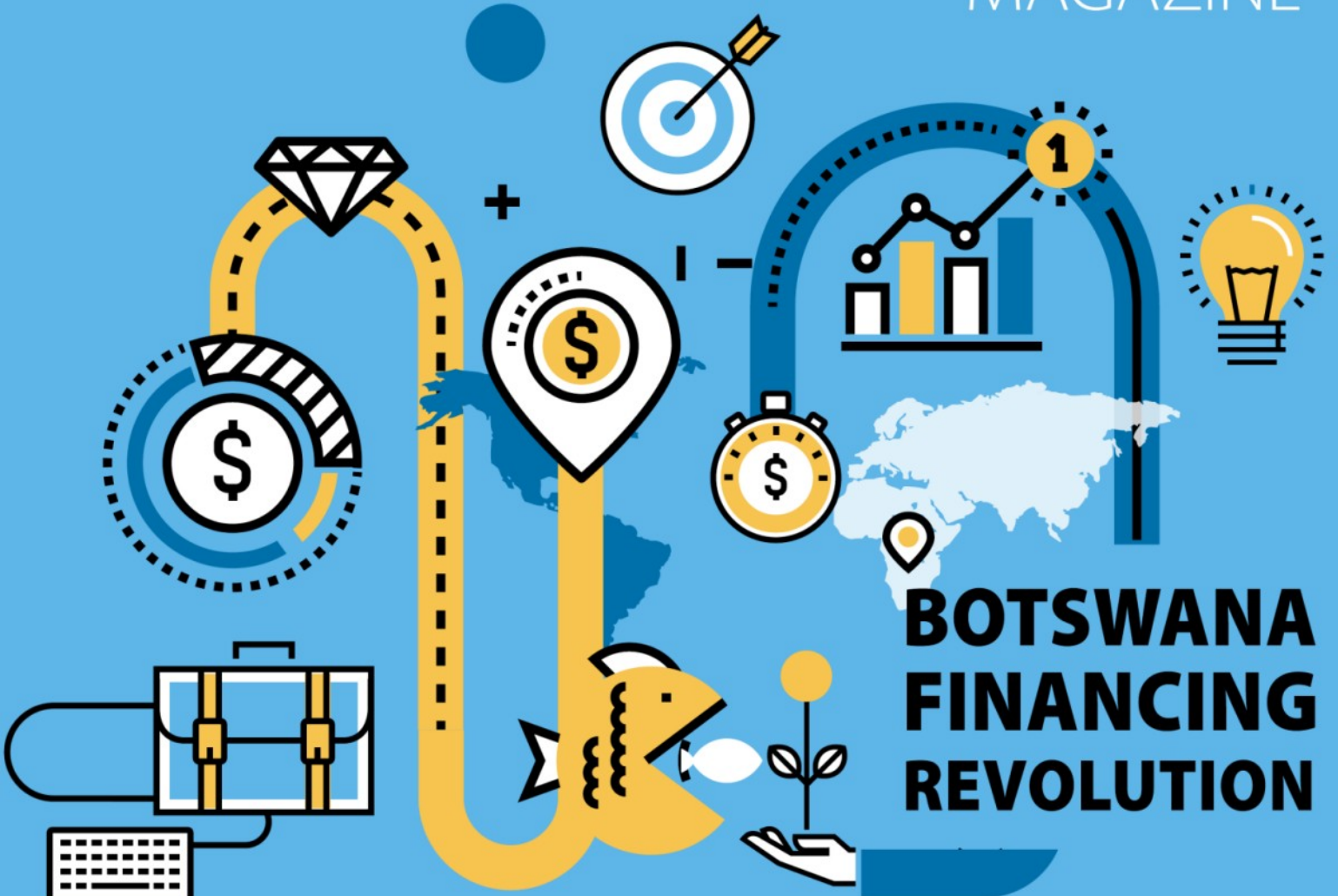


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BY ALBERT ROBINSON

EDITOR'S NOTE

Trade Shows Will Show State of Market as Summer Haze Lifts

After a long and quiet summer in the Northern hemisphere, the diamond and jewelry industry is gearing up for important tradeshows in September and beyond.

Following robust sales in the first months of this year, which saw several billion dollars of rough stones being bought by manufacturers, the seasonal slowdown set in at mid-year. Manufacturers were buying goods at a somewhat frantic pace in the first four months or so of this year as they restocked after inventories had run down in the second-half of 2015.

Despite the restocking argument, the size of sales led many eyebrows to be raised – after all, there was no sudden huge rise in consumer demand that would justify such enthusiastic buying. The only justifiable reason for buying goods, especially in these days

of financial prudence, is that there are buyers at the other end waiting for the polished gems to come through.

Speculative buying pushed rough prices to absurdly high levels during 2015 which, in turn, led to manufacturers leaving substantial amounts of goods on the table at both De Beers and ALROSA sights and cutting back production. It appeared that the lesson had been learned – without buyer demand there is no justification for full steam-ahead manufacturing. Unfortunately, the industry appears to have short-term memory problems.

So what of the last quarter of 2016? September starts with the fall edition of the VicenzaOro show and, soon afterwards, the mammoth September Hong Kong Gems and Jewellery Fair. The Hong Kong show is regarded as an industry bellwether. What is the state of polished diamond demand? Where are prices headed? Is China recovering? Those are among the questions for which answers will be sought.

It seems fair to assume that most exhibitors will be attending the show with low expectations. Hong Kong is the gateway to the Chinese market, but China, as we are all too aware, is slowing down. The country appears to be on a long-term downward growth trend. The government is determined to turn the country from being export oriented to one based on higher domestic demand. It has realized that being so dependent on exports holds it hostage to fortune when foreign markets cut back.

Nonetheless, it remains a critical market, and exhibitors know they have to be at the show. With the holiday season soon to be upon us, let us hope the Hong Kong show and others taking place in the final quarter will provide a springboard to strong and healthy sales.

TALK TO US

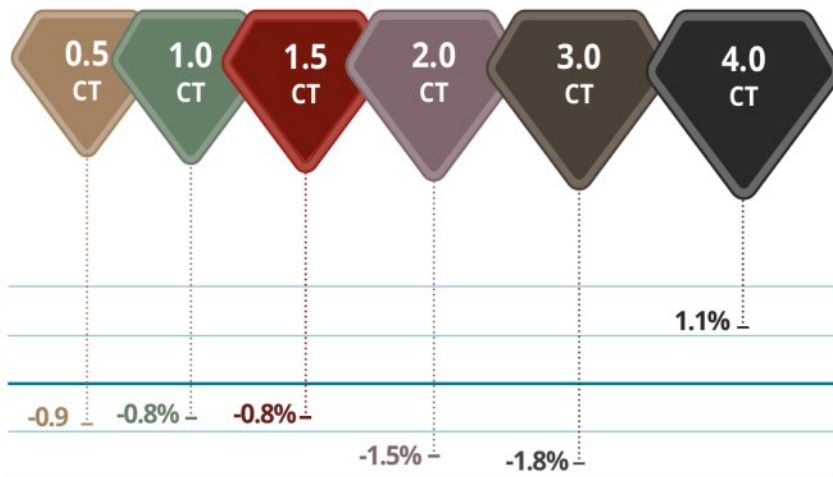


MARKET SNAPSHOT

POLISHED DIAMONDS

AUGUST AGAIN REFLECTED THE TREND OF RELATIVE STABILITY THAT HAS BEEN SEEN SINCE THE START OF THIS YEAR. PRICES SHOWED **A 0.8-PERCENT DECREASE COMPARED TO JULY.**

ON A MONTH-OVER-MONTH BASIS, PRICES FOR DIFFERENT SIZED DIAMONDS SHOWED DOWNWARD MOVEMENT.

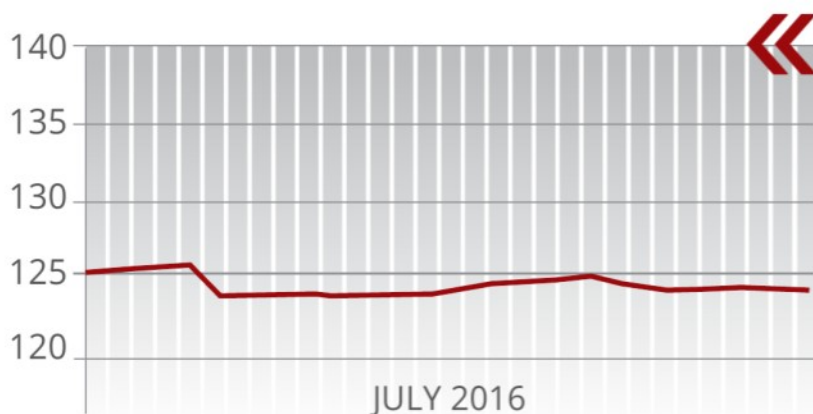


ON A MONTH-OVER-MONTH BASIS, PRICES FOR DIFFERENT SIZED DIAMONDS **WERE LARGELY DOWNWARD.**

AVERAGE POLISHED AUGUST PRICES **TRENDED LOWER.**

POLISHED DIAMONDS DAILY INDEX

THE INDEX BEGAN THE MONTH AT **124.8** AND ENDED AT **123.5**.



METAL PRICES IN APRIL US\$ PER OUNCE

*Prices as of 31.8.16
Source: Amark.com



Palladium 674.5 (22.5%)
Platinum 1053.4 (-4.6%)
Gold 1309.7 (-2.7%)
Silver 18.70 (7.5%)

ROUGH DIAMONDS

IN GENERAL, THERE IS STILL **WEAK DEMAND FOR POLISHED GOODS**, PARTICULARLY IN VIEW OF THE HIGH PREMIUMS BEING ASKED FOR ROUGH. THERE WAS REPORTEDLY **GOOD DEMAND FOR ROUGH GOODS** AT THE ALROSA SIGHT IN AUGUST. SOME MANUFACTURERS COMPLAINED THAT ASSORTMENTS WERE DOWNGRADED AND THAT THERE WERE MANY FLUORESCENTS IN HIGH-END PARCELS. CONSEQUENTLY, THEY HAD TO SELL.

US JEWELRY SALES

FINE JEWELRY SALES **ROSE BY AN ESTIMATED 3.5 PERCENT IN JUNE**, AS DID FINE WATCH SALES. TOTAL SALES OF FINE JEWELRY AND FINE WATCHES IN JUNE WERE AN ESTIMATED **\$5.7 BILLION**. SPECIALTY JEWELERS HAD A SALES **INCREASE OF 2.2 PERCENT**.

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The Top 3 Strategies Diamond Retailers Can't Live Without

Fundamental change is sweeping the retail industry. In the 19th century, a tailor fit a garment to a customer. In the 20th century era of mass production, customers scoured store racks to find the right outfit. In the 21st century, buyers purchase clothes online, try them at home, and send back the ones that don't fit – with free shipping.

Technology has given us mass marketing and worldwide reach. Over time, the buying experience has been depersonalized. For retailers today, it may seem harder to connect with customers, to give them as perfect a fit as the 19th century tailor was able to do.

Ironically, it is technology – specifically digital, Internet-based technology – that is restoring the retailer's ability to get closer to the customer. Here are three technology trends that retailers of diamonds and jewelry must embrace to maximize their customer reach.

SEO INTERNET SEARCH STRATEGY – MAKE IT VISIBLE

It's 2016, and every jewelry retailer has a website. In this crowded and competitive market, 60 percent of website traffic comes from Internet searches, and only 20 percent of consumers go directly to the brand's website. According to the L2 "Watches




& Jewelry 2016: Search Insights” report, independent jewelers tend to get swallowed up by prominent brands in online searches. Unbranded keyword searches, such as “diamond engagement ring,” return poor search results for smaller and medium-sized jewelry brands. It’s not enough just to have an Internet presence. By optimizing your retail website in an online search, you can achieve better exposure in

search results, which in turn, leads to more website traffic. Jewelry retailers are wise to invest in effective search engine optimization to increase visibility in Internet searches.

PERSONALIZATION – MAKE IT MEANINGFUL

In an age of big data and instant global communication, consumers are ironically searching for a more personalized shopping experience.





There are numerous retail technologies designed to create a seamless customer-brand connection. For example, customer behavior analysis can be coupled with mobile beacons that indicate when the customer has entered the store, enabling the retailer to provide personalized offers based on past behavior and purchase history. Other popular techniques include personalized emails and live customer service chat. Upcoming trends point to digital wallets, augmented reality and artificial intelligence. The key to effective personalization is not via a motley combination of technologies and strategies. It's about creating a coherent, continuous story that makes sense to the individual customer. This can only be achieved with comprehensive tech-based solutions, covering inventory management, store operations, advanced digital display and customer data management.

GAMIFICATION – MAKE IT FUN

From the drugstore to the department store to the jewelry store, the point of retail technology is to make the buyer's experience easier and exciting. Gamification is the use of game mechanics to drive engagement. Games can be used to create feelings

of achievement, competence, success, control and belonging. For example, a "ring finder" app on a jewelry retail website enables the customer to play with various diamond shapes, ring settings, metal colors, hand size, finger size and length, skin color and other variables, to create a visual image of the worn jewelry. Combined with a budgeting element, the game can direct customers to specific jewelry pieces on the website, based on their personal preferences. Gamification, or "fun-tech," may sound frivolous. However, when play is used to provide information or to support a purchase decision, it can have a powerful impact on customer satisfaction.

Much has been said about the online shopping habits of Millennials. Yet, according to Walter Loeb, writing in *Forbes* about the future of retailing, 58 percent of the upcoming Generation Z want to shop in-store. Change is happening all the time, and it must be embraced. During times of flux, turn to smart retail technologies to keep your customer experience up to date.



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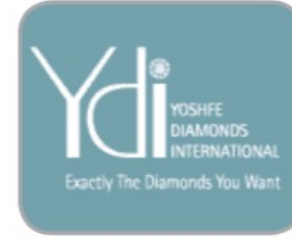
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ROUNDS | SEPTEMBER 2016

PRICEREPORT

Price movements were mixed in round goods in August, with items of less than 1-carat showing the most fluctuation. There were a number of rises in prices of items in the range of 0.23 to 0.29 and 0.30 to 0.39 carats. Meanwhile, in 3-carat and 5-carat items, changes were much more moderate.

ROUNDS 0.40-0.44 01-SEP-16

	IF	VVS1	VVS2	VS1	VS2	SI1	SI2	SI3	I1	I2	I3
D	42.5	35.0	31.5	31.0	28.0	25.0	23.0	21.0	17.5	13.5	9.5
E	34.5	29.5	27.5	27.0	26.0	23.0	21.0	19.5	16.5	11.0	9.0
F	30.5	28.0	25.5	25.0	24.0	22.5	20.5	18.0	16.0	10.5	8.0
G	27.5	25.5	25.0	24.0	23.0	22.0	20.0	17.0	15.0	10.5	7.5
H	24.5	24.0	23.5	22.5	21.0	19.5	17.0	15.0	14.0	10.0	7.5
I	21.5	21.0	20.5	19.0	18.5	17.0	15.5	14.5	13.5	8.0	7.5
J	20.0	19.5	18.0	17.0	16.5	16.0	14.5	13.5	11.5	7.5	6.0
K	19.0	18.0	17.0	16.5	15.5	15.0	13.5	11.5	9.5	7.0	5.5
L	17.5	16.0	15.5	14.5	14.0	13.0	12.5	9.5	8.0	6.0	5.0
M	16.0	15.5	14.5	13.5	12.5	11.5	10.0	7.5	6.5	5.0	4.0
N	14.5	13.5	13.0	12.5	12.0	10.5	9.0	7.0	6.5	5.0	4.0

ROUNDS 0.40-0.44 CARATS

- I-J / SI2 DOWN 3%
- E-F / VS2 UP 2%

ROUNDS 1.00-1.24 01-SEP-16

	IF	VVS1	VVS2	VS1	VS2	SI1	SI2	SI3	I1	I2	I3
D	210	172	147	118	107	82	70	60	49	32	18
E	163	140	116	105	93	79	65	56	45	28	16
F	127	118	108	101	87	76	64	55	43	27	16
G	104	99	92	85	80	73	61	52	40	27	16
H	84	83	80	76	73	66	56	50	37	24	15
I	69	68	65	64	61	58	50	45	36	21	15
J	60	57	56	53	52	49	45	40	31	16	14
K	50	48	46	45	43	40	38	33	28	16	14
L	45	44	42	40	38	35	33	30	26	16	13
M	41	39	37	34	31	29	28	26	24	16	12
N	39	38	36	33	26	24	23	19	16	15	12

ROUNDS 1.00-1.24 CARATS

- L / VS1-VS2 DOWN 2%
- J-IF UP 3.5%

ROUNDS 4.00-4.99 01-SEP-16

	IF	VVS1	VVS2	VS1	VS2	SI1	SI2	SI3	I1	I2	I3
D	1312	1078	777	528	393	270	188	105	88	50	25
E	1138	812	585	492	385	224	178	99	81	45	20
F	866	556	478	460	347	215	161	97	78	40	20
G	649	420	391	369	304	207	158	96	78	38	19
H	510	320	310	282	231	187	146	89	70	37	19
I	388	235	232	221	191	157	130	83	65	37	19
J	295	199	185	173	160	137	117	72	57	34	18
K	186	168	158	146	134	115	94	69	54	27	18
L	156	137	119	116	107	86	73	60	49	27	18
M	124	104	92	89	83	73	63	52	42	27	17
N	92	84	75	67	55	52	49	47	38	26	16

ROUNDS 4.00-4.99 CARATS

- H / SI2 DOWN 2.7%
- F / VS1 UP 3%





ROUNDS | SEPTEMBER 2016

PRICE REPORT

Price movements were mixed in round goods in August, with items of less than 1-carat showing the most fluctuation. There were a number of rises in prices of items in the range of 0.23 to 0.29 and 0.30 to 0.39 carats. Meanwhile, in 3-carat and 5-carat items, changes were much more moderate.

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F	30.5	28.0	25.5	25.0	24.0	22.5	20.5	18.0	16.0	10.5	8.0
G	27.5	25.5	25.0	24.0	23.0	22.0	20.0	17.0	15.0	10.5	7.5
H	24.5	24.0	23.5	22.5	21.0	19.5	17.0	15.0	14.0	10.0	7.5
I	21.5	21.0	20.5	19.0	18.5	17.0	15.5	14.5	13.5	8.0	7.5
J	20.0	19.5	18.0	17.0	16.5	16.0	14.5	13.5	11.5	7.5	6.0
K	19.0	18.0	17.0	16.5	15.5	15.0	13.5	11.5	9.5	7.0	5.5
L	17.5	16.0	15.5	14.5	14.0	13.0	12.5	9.5	8.0	6.0	5.0
M	16.0	15.5	14.5	13.5	12.5	11.5	10.0	7.5	6.5	5.0	4.0
N	14.5	13.5	13.0	12.5	12.0	10.5	9.0	7.0	6.5	5.0	4.0

ROUNDS 0.40-0.44 CARATS

- I-J / SI2 **DOWN 3%**
- E-F / VS2 **UP 2%**

ROUNDS 1.00-1.24 01-SEP-16

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I	69	68	65	64	61	58	50	45	36	21	15
J	60	57	56	53	52	49	45	40	31	16	14
K	50	48	46	45	43	40	38	33	28	16	14
L	45	44	42	40	38	35	33	30	26	16	13
M	41	39	37	34	31	29	28	26	24	16	12
N	39	38	36	33	26	24	23	19	16	15	12

ROUNDS 1.00-1.24 CARATS

- L / VS1-VS2 **DOWN 2%**
- J-IF **UP 3.5%**

ROUNDS 4.00-4.99 01-SEP-16

	IF	VVS1	VVS2	VS1	VS2	SI1	SI2	SI3	I1	I2	I3
D	1312	1078	777	528	393	270	188	105	88	50	25
E	1138	812	585	492	385	224	178	99	81	45	20
F	866	556	478	460	347	215	161	97	78	40	20
G	649	420	391	369	304	207	158	96	78	38	19
H	510	320	310	282	231	187	146	89	70	37	19
I	388	235	232	221	191	157	130	83	65	37	19
J	295	199	185	173	160	137	117	72	57	34	18
K	186	168	158	146	134	115	94	69	54	27	18
L	156	137	119	116	107	86	73	60	49	27	18
M	124	104	92	89	83	73	63	52	42	27	17
N	92	84	75	67	55	52	49	47	38	26	16

ROUNDS 4.00-4.99 CARATS

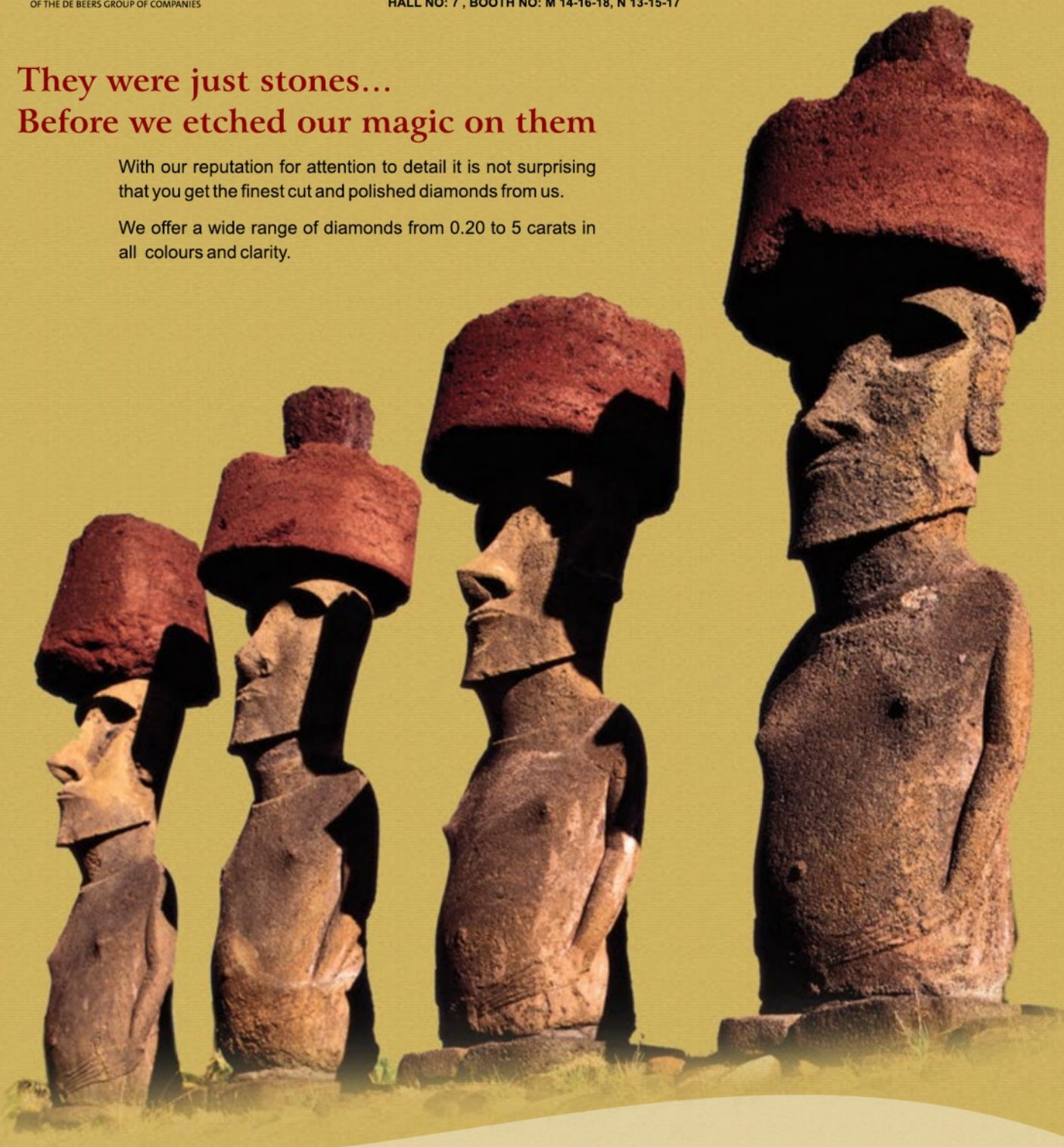
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
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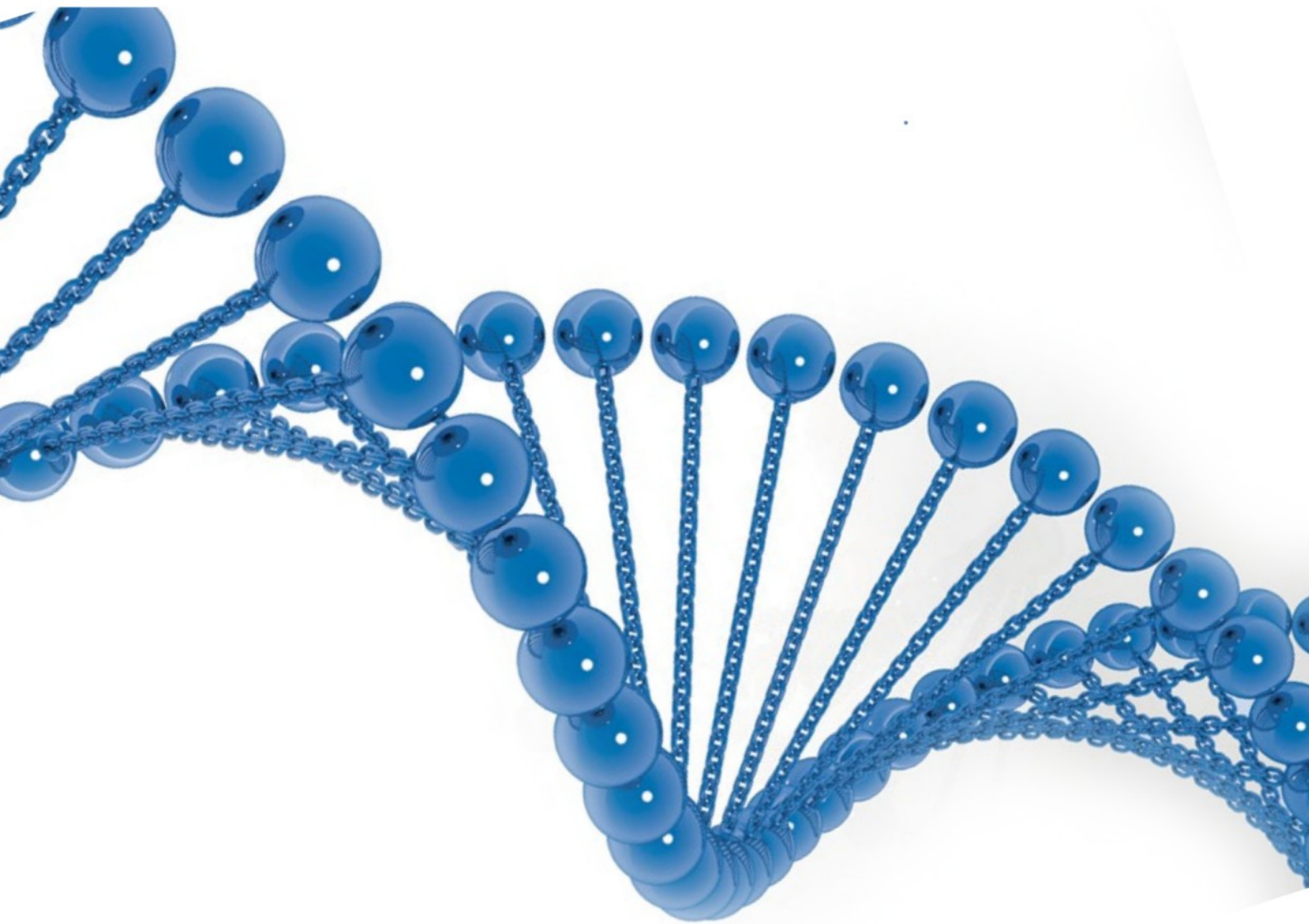
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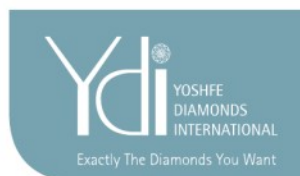
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BOTSWANA FINANCING REVOLUTION



BY CHAIM EVEN-ZOHAR



US GOV'T GUARANTEES LOANS TO DIAMOND MANUFACTURERS



NEW OPIC APPROVED LENDING CRITERIA

History was recently made at a breakfast signing ceremony in Botswana. Barclays Bank Botswana signed a \$125-million credit guaranty agreement with the Overseas Private Investment Corporation (OPIC), through which the United States government will share 75 percent of the credit risk in financing diamond beneficiation in Botswana. Barclays is taking a first tranche out of a total available guarantee of \$250 million.

Together with the \$83 million matching banking partner share, this guarantees an availability of \$333 million of credit for Botswana's manufacturers – only for manufacturing – which is well above the industry's foreseeable requirements. Eventually, it is expected that other banks in Botswana will join the program, providing a new rationale to diamond manufacturing in that country. Botswana's main attraction will be credit – not just rough diamonds.

At a time when several banks are exiting the diamond manufacturing and trading sector (the midstream in the diamond value chain), or reconsidering their exposure to it, the US government's commitment to both Botswana and its diamond

sector could hardly come at a more critical moment. In some ways, this agreement may be far more important psychologically than financially. In the current market recession, with diamond prices falling and demand slackening, many diamond companies will have to rethink their business models and their way of operating.

A FRESH DIRECTION: FINANCING CERTAINTY

The Botswana manufacturing option now has an added factor, a new dimension, in any diamond company's long-term planning. Lazare Kaplan International's (LKI) chairman, Maurice Tempelman, whose company acts as the statutory required US private party in the OPIC Guaranty Framework Agreement, clearly hinted at this when he said at the signing: "This facility will not on its own resolve the many challenges the diamond industry faces, but it does point in a fresh direction."

"It is fitting that this new direction should be signaled here, in Botswana. For it is Botswana that has set the global standard for responsible stewardship of mineral resources. It is Botswana that has championed the principles of accountability and



transparency that our industry needs. And it is Botswana that has faced up to the test of sustainability, through development of secondary and tertiary economic sectors that can remain even after the primary diamond deposits begin to wind down," said Tempelsman at the official ceremony.

These are inspiring words. However, we are not deluding ourselves. Possibly

Botswana's diamond beneficiation? On the broadest level, OPIC supports US foreign policy objectives. The United States considers Botswana a model for stability in Africa. The bilateral relationship is strong and grounded in a shared commitment to democracy, good governance and human rights.

The United States views Botswana's deepening economic diversification

"At a time when several banks are exiting the diamond manufacturing and trading sector (the midstream in the diamond value chain), or reconsidering their exposure to it, the US government's commitment to both Botswana and its diamond sector could hardly come at a more critical moment."

with a few exceptions, most southern African beneficiation partners have yet to find a long-term formula for sustainable manufacturing. While guaranteed access to rough remains a cornerstone of the beneficiation rationale in Botswana, the risks of protracted periods of raw-material mispricing and a virtual absence of margins are not mitigated by the implementation of the OPIC agreement.

OPIC ADVANCES US PRIVATE INTERESTS

What motivates a remote US government agency to put hard money behind

and its promotion of regional economic growth and development as a distinct and vital US strategic foreign policy interest. In many ways, Botswana represents a rare exception on its continent. The bilateral relationship covers many spheres, including the military arena. Admittedly, these are political objectives.

Because OPIC works with the US private sector, it helps US businesses gain footholds in emerging markets, catalyzing revenues, jobs and growth opportunities both at home and abroad. OPIC achieves its mission by providing investors with financing, political risk insurance, and support for private equity funds.

OPIC officials point out that decades ago private capital flowing into developing countries was a small fraction of US aid dollars. But in recent years, that ratio of aid to investment has flipped, and the amount of investment flowing to the developing world far exceeds aid dollars. As a development finance institution, OPIC was created on the premise that the resources needed to address major world challenges far exceed the resources of the public sector, and that private businesses and investors have an essential role to play. A few months ago, for example, it provided a \$45-million loan guarantee to the African Banking Corporation of Botswana for the purpose of expanding its small and medium enterprise (SME) and financial inclusion loan portfolio in Botswana. However, De Beers' Sightholders are not considered SMEs; the diamond needs are quite different.

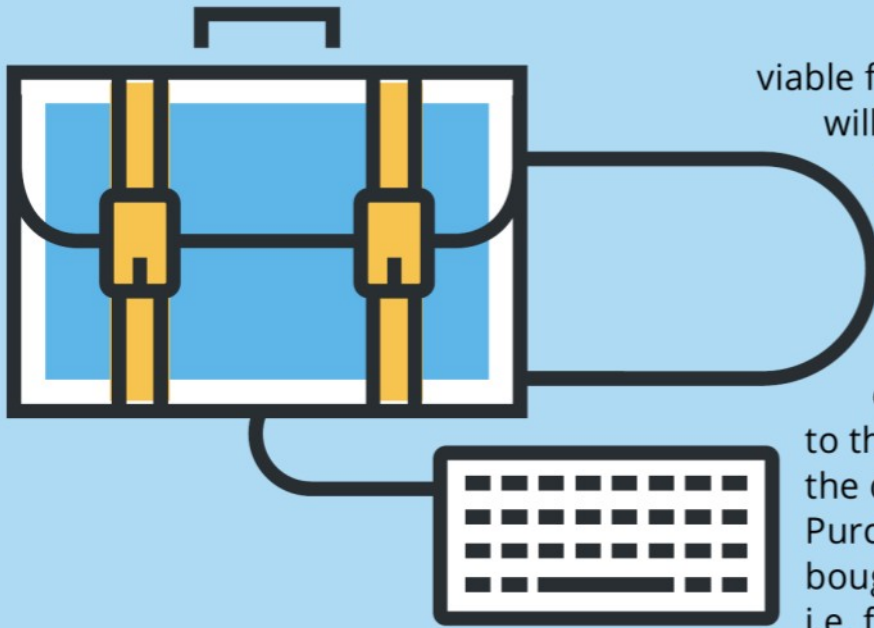
NEW CHANCE FOR DE BEERS TO FULFILL ITS BENEFICIATION PROMISE

If the US government is willing to put up a quarter of a billion dollars to assist

the beneficiation in Botswana, it is not unreasonable to expect that De Beers will do its share. The company knows what to do – though there are concerns that “when it has clients with money, it tends to adjust prices upwards rather than downwards...” The OPIC guaranty would miss its purpose if it allows De Beers' clients to take all that's offered – while the industry continues to falter nevertheless because the goods it received cannot be economically cut and polished.

“Sightholder attitudes are as volatile as the prices of the rough they buy (or ‘leave on the table’), and a few Sights can easily turn a manufacturer’s despair into exuberance.”

Some observers are skeptical about the timing of the agreement. One government official called the timing unfortunate. “For reasons well known, the mood and appetite to manufacture in Botswana is at an all-time low. The attitude of the Sightholders here is completely different from five years ago. So for me, I am not sure whether the facility will make any difference.” That might be so – but he may miss the point. Sightholder attitudes are as volatile as the prices of the rough they buy (or “leave on the table”), and a few Sights can easily turn a manufacturer's despair into exuberance.



viable for cutting in Botswana and will be supplied in boxes in a non-discriminatory fashion as between the customers who qualify for supply for beneficiation in Botswana, other than as to volume, and include a proportion of 'special stones' corresponding to the proportion of 'special stones' in the diamonds comprising the De Beers Purchase Entitlement [rough it has bought from the Debswana company – i.e. from rough produced in Botswana].

It is no secret that, historically, De Beers opposed beneficiation in producer countries, especially in Botswana. In the end it decided to support the government's aspiration, and "cajoled" Sightholders to open factories in Botswana. That was a decade ago. Today, there are barely 1,000 workers – and many of these get paid without having much or any rough to polish.

It may be useful for all concerned to remind ourselves of the specific contractually obligations De Beers has entered into with the Botswana government in respect to local rough supplies to Sightholders – purchases which from now on may be covered by the OPIC guaranty.

De Beers has warranted that all such diamonds supplied to DTC Botswana will be of sufficient size to be economically

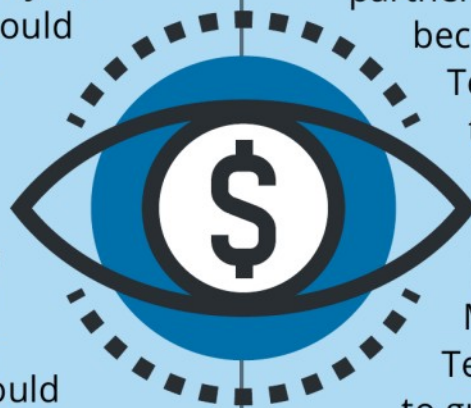
OPIC loans will not apply to rough trading or manufacturing of rough outside Botswana. Thus, the success of the US government assistance depends to a large degree on De Beers keeping its promises as well. With economically viable rough supplies, this OPIC guaranty framework injects an unprecedented stability factor into the calculation: it guarantees credit availability for at least 10 to 13 years. There is nowhere in the diamond world where such certainty exists. That's the difference this facility makes.



IT ALL BEGAN WITH THE PRESIDENT'S BENEFICIATION ASPIRATIONS

We asked OPIC vice president James C. Polan, the main “architect” of this unique diamond-financing program, how it all started. He recalls that it began with the friendship between LKI’s Maurice Tempelsman and the former president of Botswana, Festus Mogae.

When President Mogae considered embarking on the course of diamond beneficiation, and actually leveraged mining-license renewals to extract beneficiation concessions from De Beers, he repeatedly expressed fears of what would happen if, suddenly, for whatever reason, financing would no longer be available. If that were to happen, he argued, then the entire beneficiation effort, including all of the human contributions and the resource investments, would be in vain. The president was looking for a structure that could withstand times of crisis. He wanted a local industry that generated such confidence that, no matter what were to happen, there would always be money for the entire manufacturing sector – his emphasis was on a beneficiation sector in its totality.



It was these concerns that led President Mogae to request OPIC to provide help. “OPIC has assisted Botswana for well over 50 years in various programs, so we were no strangers to each other,” remembers

With economically viable rough supply injects an unprecedented stability factor credit availability for at least 10 to 13.

Polan, who himself had served in Botswana earlier in his career.

By law, in order to invest, OPIC needs a US “sponsor.” This is the reason that President Mogae turned to one of Botswana’s earliest beneficiation partners, Maurice Tempelsman, to become the US private partner. Tempelsman’s commitment to African development is well known – and goes well beyond just diamond interests. At President Mogae’s request, Polan and Tempelsman explored ways to guarantee credit availability in Botswana irrespective of economic cycles. This resulted in the conclusion of the Lazare Kaplan International Framework Agreement of 2008. Today, finally, it is finally starting operations. However, it should not be lost on any

stakeholder that the agreement was negotiated and approved by the US government at the very depth of the 2008 financial crisis. That demonstrated a degree of trust in the future of

*es, this OPIC guaranty framework
or into the calculation: it guarantees
years.*

beneficiation. If the OPIC guaranty is fully implemented, Botswana's diamond industry will have become immune to the calamities of any future credit and liquidity crunch or banking crisis.

FINANCING AVAILABILITY GUARANTEED FOR 10 YEARS

It's fresh in our minds how, only a few weeks ago, representatives of Standard Chartered Bank made discrete "house calls" with clients in Antwerp to discuss the timetable for returning debts and/or for them to seek another bank. Walking in the footsteps of Antwerp Diamond Bank, Bank Leumi, and some other banks, financing uncertainty has catapulted to become the single largest threat to stability and continuity in the diamond sector. It is axiomatic that no diamond business can function without being able to plan cash flow, to commit to investments in training,

marketing and infrastructure, and to enter into long-term supply agreements, without predictable and reliable financing sources.

DIB asked James Polan how the agreement actually works – and to explain the meaning of the "ten years." Polan explained that, in fact, the \$250 million is for 13 years from now. Specific loan agreements with Sightholders will initially be for one year. However, they can be renewed for up to three years. Basically, the promise is this: Loans made in the tenth year of the program can thus be extended for three years – and then the guaranty agreement expires.

We asked what happens after 13 years. Polan explains that the basic objective of OPIC's work with banks is to allow them time to gain the experience and "comfort" to finance in certain developing countries or lending sectors. If the experience of the banks is positive and they have confidence, then after 13 years, they may be ready to assume the entire risk themselves – and they won't need OPIC anymore.

There is no way we can predict what the situation in Botswana's diamond industry will be like in 13 years. According to Polan, if the program works satisfactorily but there is still a need for a new guaranty framework agreement, "we certainly may decide to consider that." Stresses Polan: "Don't forget, the consortium of banks in



the agreement also pays us. There are also commercial considerations for the banks to consider.”

Polan made it clear that \$250 million guarantees are the absolute maximum amounts, the upper ceiling, of any guarantee limit OPIC is allowed to extend

A perusal of the documents shows that 100 percent of Sightholder activity is not intended to be financed. Says the agreement: “The [diamond beneficiation financing] project will augment private capital in the financial sector to supply credit to diamond manufacturers.” They are matching a bank’s own exposure. The individual banks’ lending conditions, in terms of collateral requirements, or in terms of a borrower’s own equity to credit ratios, continue to apply.

KEY TO SUCCESS OR FAILURE: QUALITY OF CREDIT RISK MANAGEMENT

The history of credit defaults and banking impairments in the diamond sector shows that more often than not the losses were caused either explicitly or indirectly by weaknesses in credit risk management.

Walking in the footsteps of Antwerp Diamond Bank, Bank Leumi, and some other banks, financing uncertainty has catapulted to become the single largest threat to stability and continuity in the diamond sector.

to any single project in the world. When the agreement was signed in 2008, it was then one of the few commitments ever made on that scale. The Botswana agreement is the only diamond industry guarantee OPIC has ever entered into.

Usually, there are key problems that simultaneously take place in several management areas, some of which, such as concentration, failures of due diligence, and inadequate monitoring, tend to recur with uncomfortable frequency.

The first area, concentration, represents probably the single most significant cause of credit problems. Credit concentration is defined as any exposure where the potential losses are large relative to the bank's capital, its total assets, or the bank's overall risk level. Concentration risks include a concentration of credit to single borrowers or counterparties, to a group of connected counterparties, or to economic sectors or industries.

The OPIC guaranty reduces Barclays Bank's concentration risk, thus enabling the bank to expand and deepen its exposure to the diamond sector. However, apart from setting strict terms and conditions, OPIC has little influence over other measures such as success or failures of due diligence and adequate or inadequate monitoring, which are wholly functions of the credit-granting and monitoring process.

There are excellent customers – and, unfortunately, also a few rotten apples waiting for an opportunity to take the bank “for a ride.” Likewise, there are excellent bankers, and some who are also influenced or incentivized to put personal

Credit concentration is defined as any exposure where the potential losses are large relative to the bank's capital, its total assets, or the bank's overall risk level.

interests over those of the institution they work for. The problem is – by the time you find out who belongs to a certain category, it is already too late.

The question of whether their partner banks really know precisely how their borrowers use the OPIC guaranteed loans was raised with Polan. The word “trust” was used frequently. OPIC trusts its

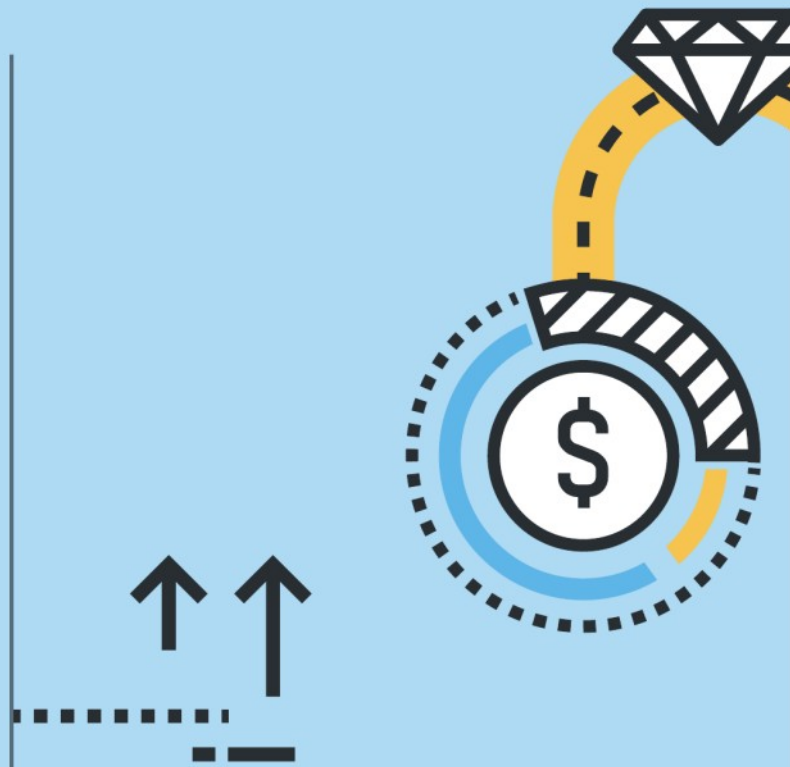
banking partners – and they know that the participating banks want to enjoy the advantages of an OPIC guaranty for the long-term. Moreover, OPIC has its own continuing and very professional monitoring process.



AMPLE ROOM FOR MORE BANKS TO GROW IN DIAMONDS

According to our sources, Barclays Bank presently holds some 30 percent of the local diamond-financing market. Its facilities are estimated at around \$70 million, of which some \$50-60 million is utilized. Polan fully expects that the bank will attract new diamond clients – i.e. that its existing portfolio will grow.

Other sources echo the view that growth should not just come from clients shifting from the exiting Standard Chartered



Credit concentration is defined as any exposure where the potential losses are large relative to the bank's capital, its total assets, or the bank's overall risk level.

Bank (SCB) – that currently has about 50 percent to 55 percent of the market with some \$110 million facility and most probably only \$90-100 million utilization. In any scenario, SCB is expected to stay in Botswana with a handful of diamond clients that are viewed as “regular clients” – just like those from any other sector. Stanbic Bank holds some 10 percent to 15 percent of the diamond-financing market, with the remaining 5 percent in the hands of other banks.

The OPIC agreement puts obligations on the banks that go beyond just financing. “The lending facility must have a positive developmental impact by contributing to the Government of Botswana’s diamond beneficiation efforts. Diamond beneficiation is expected to have multiplier effects in associated sectors such as construction, insurance, and jewelry, and is also expected to increase local job opportunities,” reads the Framework Agreement.



“Any bank in Botswana that finances the manufacturing activity of a duly registered and licensed local diamond factory is invited to apply for participation in the \$333 million revolving finance facility,” concludes Polan. “Any local manufacturing company should have access to financing. That, in a nutshell, is what this is all about.”

There is nothing else like this agreement anywhere in the diamond world. It truly

Diamond beneficiation is expected to have multiplier effects in associated sectors such as construction, insurance, and jewelry, and is also expected to increase local job opportunities

provides a new lease on life for the struggling Botswana beneficiation sector. It's coming not a day too early.

AN EYE FOR COLOR



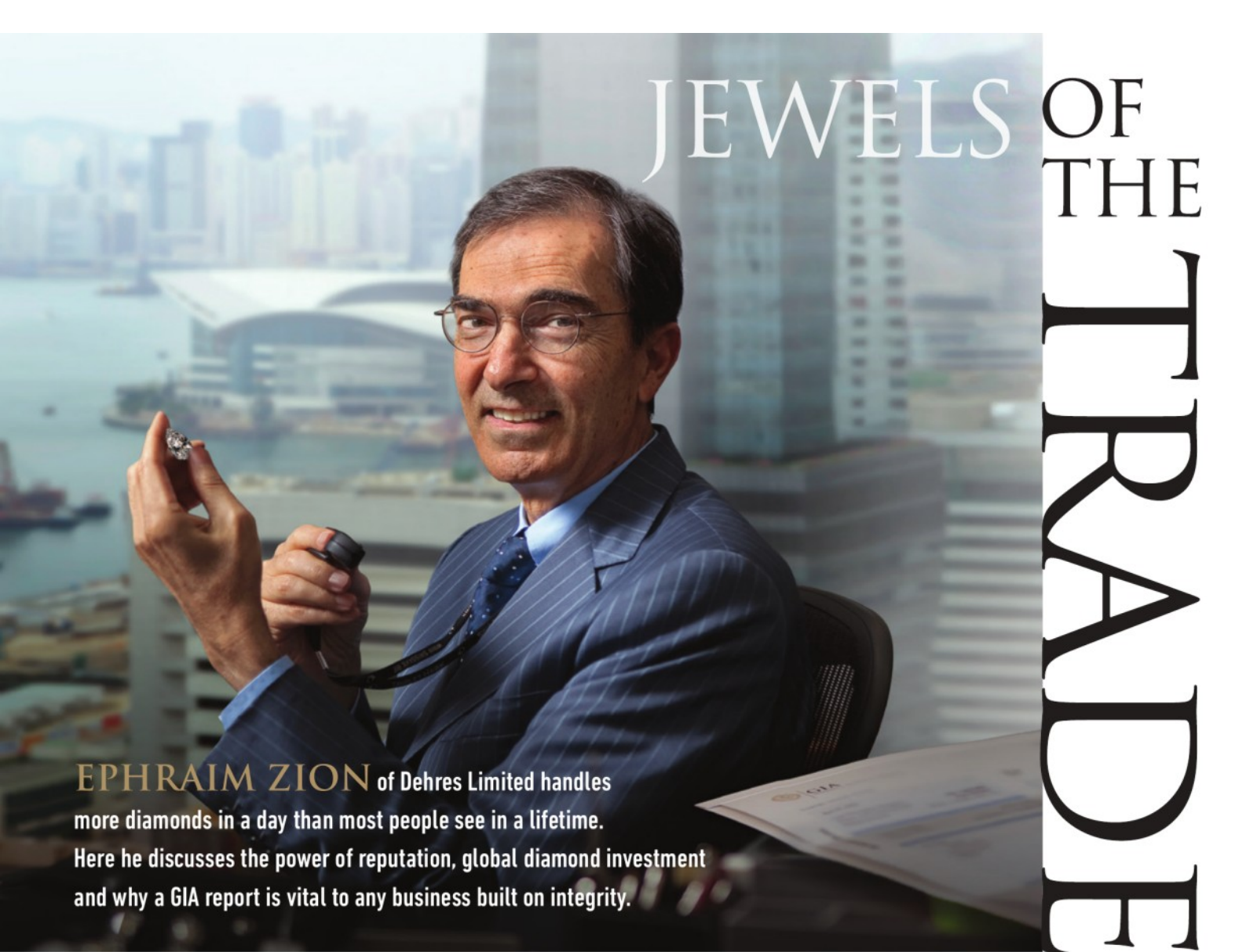
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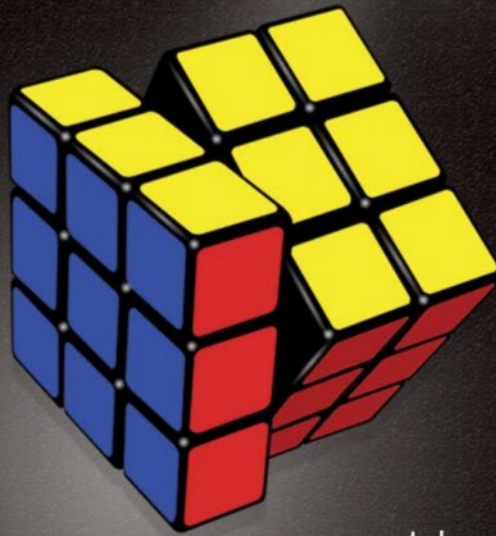
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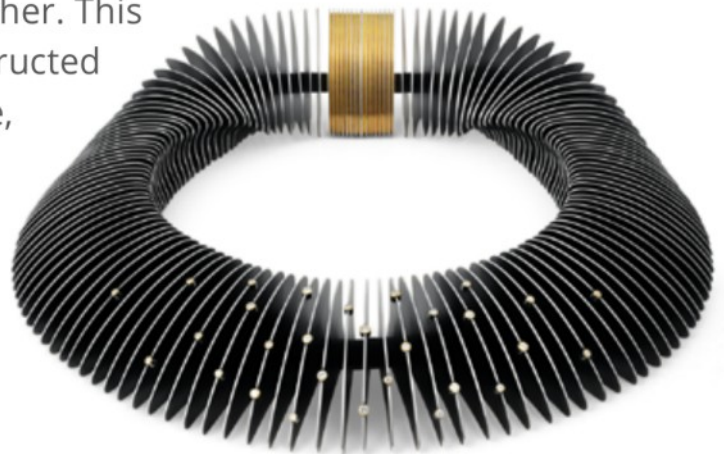
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IDEX Online Research



US
JEWELRY
SALES

Total US Jewelry Sales Up in June, But Specialty Jewelers' Sales Decline

TOTAL SALES OF FINE JEWELRY AND FINE WATCHES IN THE US MARKET ROSE BY 3.5 PERCENT IN JUNE 2016 WHEN COMPARED TO JUNE 2015. SPECIALTY JEWELERS, WHO GENERATE A MAJORITY OF THEIR BUSINESS FROM JEWELRY SALES, POSTED A DECLINE IN SALES OF 2.2 PERCENT, THE FIRST DROP SINCE JANUARY.

OTHER RETAILERS WHO SELL JEWELRY – MOSTLY MULTI-LINE MERCHANTS SUCH AS WAL-MART, J.C. PENNEY, AND OTHERS – POSTED A VERY STRONG 7.4 PERCENT GAIN IN SALES DURING JUNE.

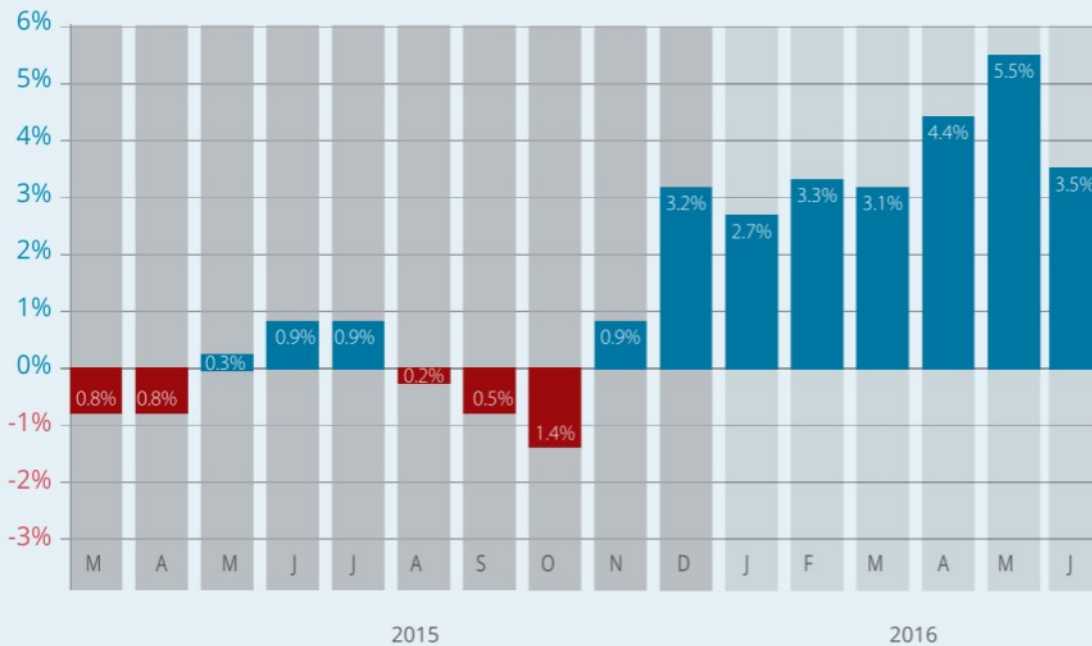
TOTAL JEWELRY SALES UP 3.5 PERCENT IN JUNE. TOTAL SALES OF FINE JEWELRY AND FINE WATCHES IN THE US MARKET IN JUNE 2016 WERE AN ESTIMATED \$5.7 BILLION.



FINE JEWELRY SALES

FINE JEWELRY SALES (APPROXIMATELY 88 PERCENT OF THE MARKET) **ROSE BY AN ESTIMATED 3.5 PERCENT IN JUNE**, WHILE FINE WATCH SALES WERE ALSO **UP BY 3.5 PERCENT**.

WE NOTE THAT THE LGI/NPD NETWORK SHOWED THAT BRANDED JEWELRY SALES **WERE DOWN 8 PERCENT IN JUNE** AND BRANDED WATCH SALES WERE **DOWN 2 PERCENT**. DEMAND FOR BRANDED GOODS APPARENTLY WAS SOFT IN JUNE.



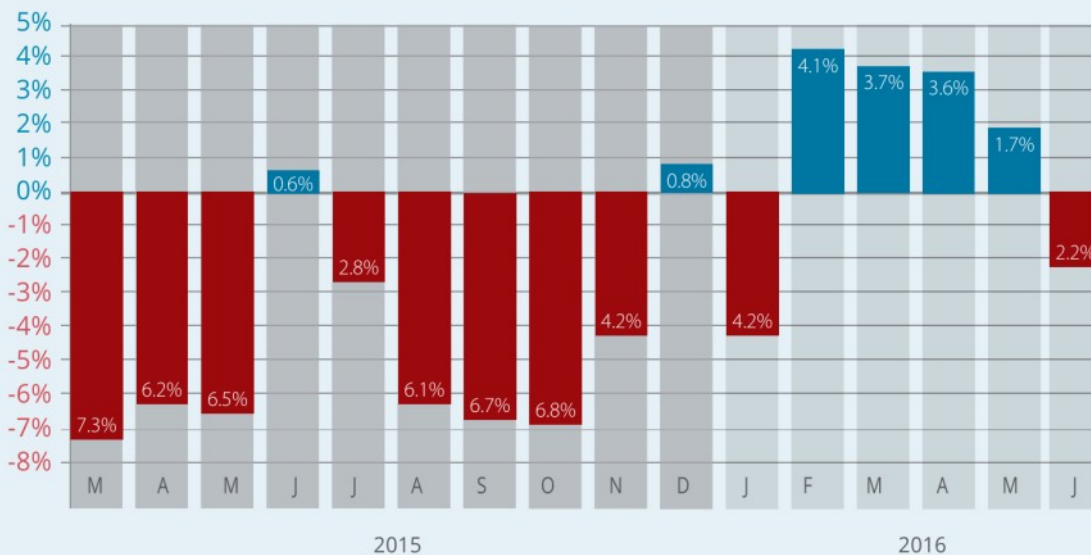
US TOTAL JEWELRY & WATCH SALES TRENDS 2015 - 2016
% Change Y/Y

Source: US Dept. of Commerce



SPECIALTY JEWELERS' SALES DECLINE IN JUNE

SPECIALTY JEWELERS' SALES DURING JUNE WERE AN ESTIMATED \$2.2 BILLION, A 2.2 PERCENT DECLINE FROM JUNE 2015. THIS MONTHLY SALES DECLINE WAS WELL BELOW THE OVERALL JEWELRY INDUSTRY AVERAGE (ALL US RETAILERS WHO SELL JEWELRY) SALES GAIN OF 3.5 PERCENT FOR JUNE. SPECIALTY JEWELERS' SALES TRENDS ARE DISAPPOINTING.



US SPECIALTY JEWELERS SALES TRENDS 2015-2016 % Change Y/Y

Source: US Dept. of Commerce

JEWELRY'S SHARE OF WALLET WAS FLAT IN JUNE

TOTAL US JEWELRY SALES ROSE BY 3.5 PERCENT IN JUNE. THIS WAS IN LINE WITH THE AVERAGE RETAIL SALES GAIN (ALL RETAIL CATEGORIES) OF 3.5 PERCENT POSTED BY ALL US RETAIL MERCHANTS. AS A RESULT, THE US JEWELRY INDUSTRY NEITHER GAINED NOR LOST SHARE OF WALLET FROM OTHER RETAIL MERCHANTS.

OUTLOOK - WE REMAIN OPTIMISTIC

OUR PRELIMINARY SALES FORECAST FOR THE US JEWELRY INDUSTRY FOR 2016 CALLS FOR A GAIN OF 3 PERCENT FOR THE FULL YEAR, UNCHANGED FROM LAST MONTH.

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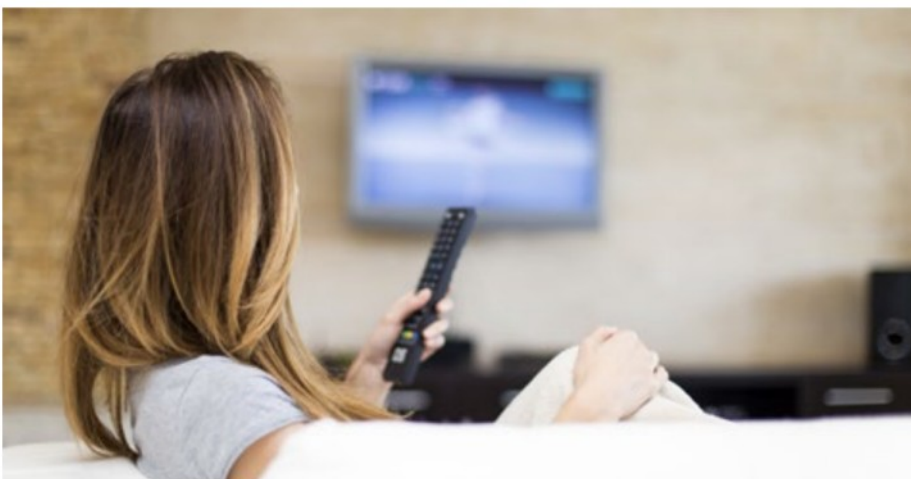
▶ RETAIL NEWS

JEWELRY TELEVISION ENDS 2016 FISCAL YEAR WITH 15.7% SALES GROWTH

Jewelry Television (JTV) has reported its results for its 2016 fiscal year, ended June 30, which showed a 15.7-percent increase in sales.

For the April to June period, JTV reported quarterly sales growth of 15.2 percent, which was driven by a 13.7-percent increase in customers. The company announced that, across the fiscal year, customers increased by 11.8 percent. JTV also reported a two-year sales growth of 37 percent.

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UK JEWELRY AND RETAIL SALES SURGE IN JULY DESPITE BREXIT VOTE

Figures from the Office for National Statistics showed that jewelry and watch retailers recorded a 17% jump in sales in July.

The UK vote in June to leave the European Union led to fears that the economy would suffer severe damage, with consumer spending and investment expected to drop sharply.

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| RETAIL > NEWS |

JFC LAUNCHES SUPER STORE MAKEOVER CONTEST

Jewelers for Children (JFC) has launched its Super Store Makeover Contest, in which the winning retail jeweler will win a store makeover valued at more than \$100,000.

Participating jewelers need to raise funds between August 15 and December 31. Interested jewelers are required to make their own fundraising progress page where they can record the donations they receive as their customers make donations – with the winner determined by a point system.

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Jewelers for Children SUPER STORE MAKEOVER

One lucky retail jeweler is going to win a Super Store Makeover, valued at more than \$100,000!



IDEX MAGAZINE • No. 317 | 51

CHOW TAI FOOK TO LAUNCH "FOUR T'S" CAMPAIGN

Chinese diamond jewelry company Chow Tai Fook will launch a "To Tell the Truth" campaign alongside a tech-heavy retail experience that encourages consumers to learn about the sourcing of diamonds, according to [campaighnasia.com](#).

In a bid to differentiate its diamonds, the company claims to have developed patented technology that allows it to stamp each diamond with a "T-mark" – a serial number unique to each stone. The diamond brand has hailed its new technology and highlights that its four T's stands for traceable, transparent, truthful and thoughtful.

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CHOW TAI FOOK STORE

BLUE NILE Q2 2016 SALES FALL FLAT

Online diamonds and fine jewelry retailer Blue Nile, Inc. reported flat second quarter results for the period ended July 3, including a 4.4-percent decrease in US engagement net sales.

Sales of those rings declined to \$62.6 million during the quarter compared to \$65.5 million over the same quarter in the previous year. US non-engagement net sales for the second quarter showed a 5.9-percent increase to \$30.4 million compared to \$28.7 million over the second quarter of 2015.

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JSA H1 2016 CRIME STATISTICS AND TRENDS SHOW CONTINUED DECLINE

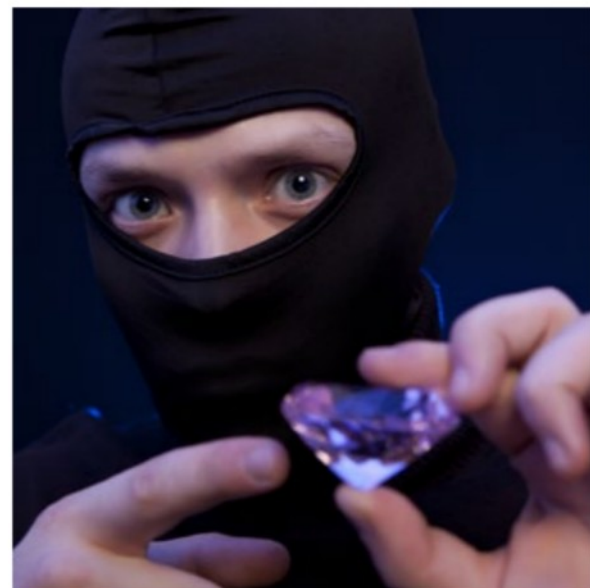
The Jewelers Security Alliance has released its crime statistics and trends for the first half of 2016, which indicate a continued decrease in crime against the diamond, jewelry and watch industry. In US dollar terms, losses decreased from \$33.2 million to \$30.8 million.

[READ MORE >>](#)

SPANISH POLICE ARREST 5 ALLEGED MEMBERS OF PINK PANTHER GANG

Spanish police announced that it had arrested five alleged members of the "Pink Panther" gang of jewel thieves in Barcelona. A special operations unit from the Catalan police apprehended the gang during an attempted robbery on Barcelona's famous Passeig de Gracia Avenue, in which one of the thieves was armed with a pistol.

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POLISHED NEWS

LARGE ISRAEL PAVILION EXPECTED FOR SEPTEMBER HONG KONG FAIR

The Israel Diamond Pavilion, organized by the Israel Diamond Institute Group of Companies (IDI), will likely be one of the largest national exhibitors at the September Hong Kong Jewelry & Gem Fair. The IDI estimates that the pavilion will feature 84 companies and extend over more than 1,150 square feet, with an additional 15 Israeli companies exhibiting at different locations throughout the show. As with previous Hong Kong shows, the IDI lounge will feature “Find Your Diamond” terminals, including a Chinese version in addition the English one.



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GARETH PENNY

GARETH PENNY ELECTED AS PANGOLIN CHAIRMAN OF THE BOARD

Pangolin Diamonds Corp announced that Gareth Penny has been elected to the board of directors as non-executive chairman of the board. Penny is an industry veteran, having worked for three decades in various parts of the mining sector of the diamond pipeline. His last role for De Beers was a five-year stint as group CEO. Penny is currently non-executive chairman of MMC Norilsk Nickel, a leading producer of nickel, palladium, platinum and copper.

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ALROSA BECOMES NEWEST RJC MEMBER

ALROSA has announced that it recently became a member of the Responsible Jewelry Council (RJC), further strengthening the international not-for-profit organization. ALROSA has joined more than 800 other companies, including well-known large diamond mining companies such as De Beers, Dominion Diamond Corporation, Rio Tinto and Lucara Diamond, as RJC members.



[READ MORE >>](#)



WHITE PINE LAUNCHES GIA LISTING SERVICE FOR SMALLER DIAMOND DEALERS

Diamond trader and fine jewelry and luxury watch purchaser White Pine Trading LLC has announced that it will launch a listing service that provides smaller diamond dealers a distribution channel for GIA-graded diamonds. The platform will provide access to premier trading networks, regardless of a member's size, funding or supply.

[READ MORE >>](#)

IIDGR TO SPONSOR UK JEWELRY CONFERENCE

De Beers' diamond grading report service, the International Institute of Diamond Grading & Research (IIDGR), has announced it is to sponsor the Company of Master Jewellers' (CMJ) UK jewelry conference. The conference is one of the highlights of the UK jewelry trade's year, and the IIDGR has agreed to a three-year sponsorship package to help promote its work in the UK.

"The CMJ conference is an important part of the UK trade year, and we are delighted to be a part of it," said IIDGR president Jonathan Kendall.



JONATHAN KENDALL

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BLUE AND PINK FANCY COLOR DIAMOND PRICES RISE IN Q2 2016

The latest data from the Fancy Color Research Foundation (FCRF) shows that fancy colored diamond prices nudged higher in the second quarter, after a relatively soft first quarter.

Blue and pink fancy diamonds drove the price growth showing a 1.1-percent and 0.7-percent increase respectively, and offset continued price declines for lower-cost (a 0.5-percent decrease), commercial yellow fancy diamonds. Overall, prices in the fancy color diamond category rose by 0.4 percent for the period.

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HIGH PRICE OF GOLD HITS GLOBAL JEWELRY DEMAND

The high and volatile price of gold – in a wide range of currencies – has caused jewelry demand across many markets to remain subdued, according to a report from the World Gold Council. India and China had the most influential impact on demand, and only a handful of countries have witnessed an improvement so far this year.

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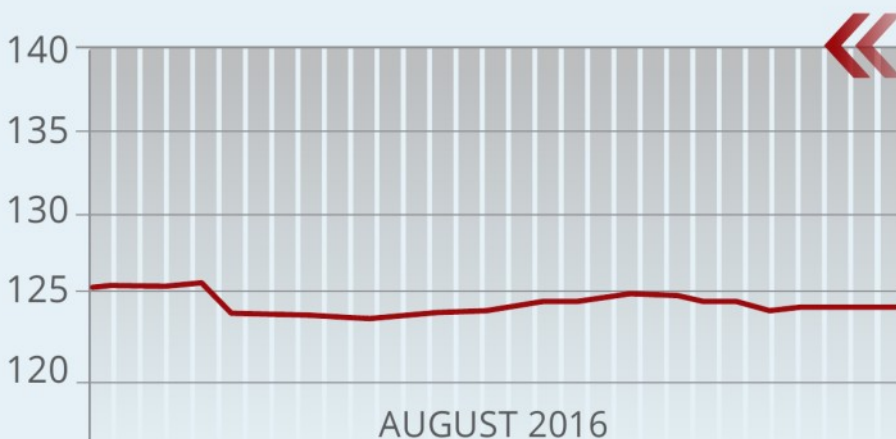
BY ALBERT ROBINSON

POLISHED PRICES



Polished Diamond Prices Remain Stable in August

IN AUGUST, THE POLISHED DIAMOND PRICE INDEX WAS **LARGELY UNCHANGED**. THE INDEX **BEGAN THE MONTH AT 124.8 AND ENDED AT 123.5**.



DAILY IDEX POLISHED DIAMOND PRICE INDEX

AVERAGE POLISHED PRICES IN AUGUST WERE STABLE



| POLISHED PRICES |

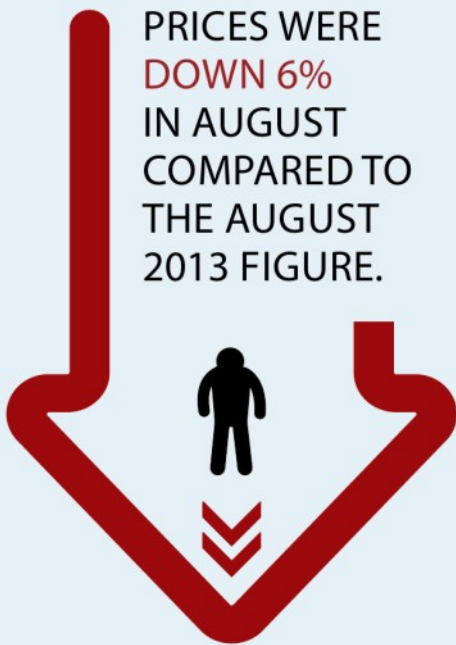
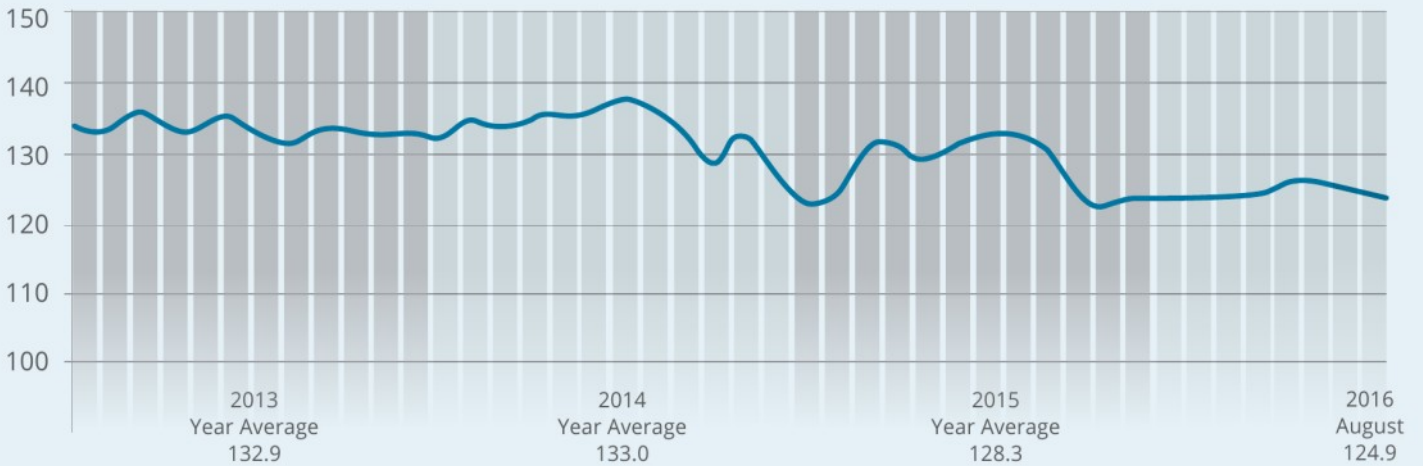
THE DECLINE LAST MONTH FOLLOWED TWO STRAIGHT MONTHS WHEN DIAMOND PRICES WERE **LARGELY UNCHANGED**, WITH FEW FLUCTUATIONS. THIS IS USUALLY THE CASE DUE TO THE **SUMMER SLOWDOWN**.

ON A YEAR-OVER-YEAR BASIS, AUGUST'S AVERAGE PRICE SHOWED A **6.3-PERCENT DECREASE**.

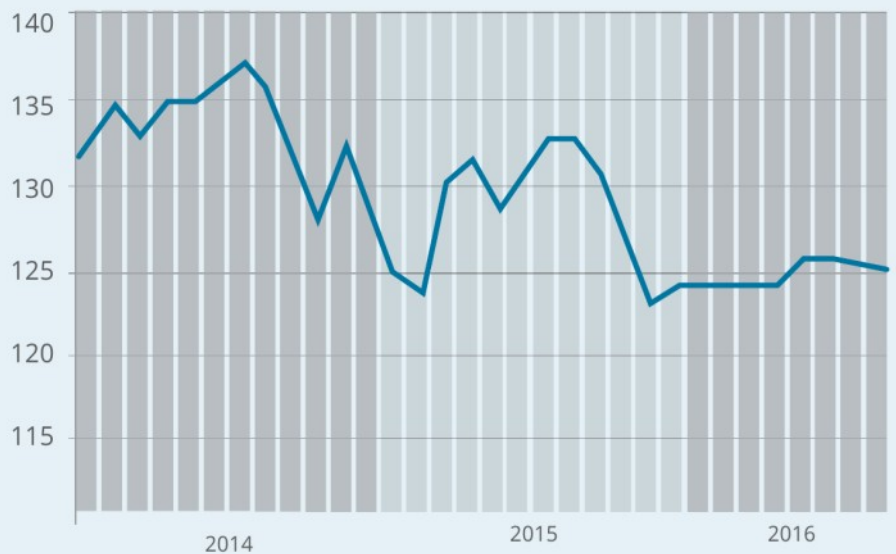
ON A MONTH-TO-MONTH BASIS, AUGUST'S GLOBAL POLISHED DIAMOND PRICES **SAW A DECLINE**, REGISTERING A **0.8-PERCENT DECREASE OVER JULY**.

IDEX ONLINE POLISHED DIAMOND PRICE INDEX:

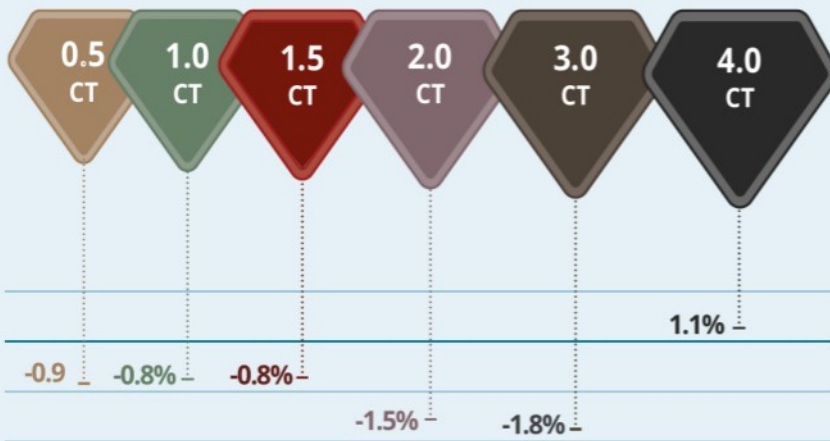
POLISHED DIAMOND PRICES HAVE SHOWN A **STRONG DEGREE OF STABILITY** SINCE NOVEMBER 2015 WITH ONLY FEW FLUCTUATIONS. THERE WAS A **SLIGHT RISE IN MAY AND JUNE** BUT THE TREND SHOWS THAT **AUGUST RETURNED TO THE MAY LEVEL.**



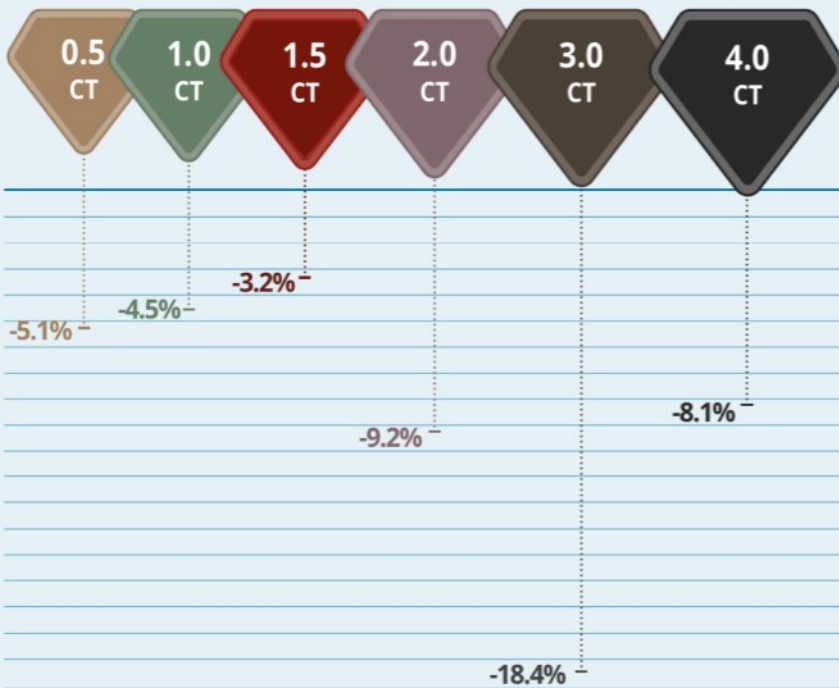
IDEX DIAMOND POLISHED PRICE INDEX



ON A MONTH-TO-MONTH BASIS, AUGUST'S GLOBAL POLISHED DIAMOND PRICES SAW A **0.8-PERCENT DECREASE OVER JULY.**



ON A YEAR-OVER-YEAR BASIS, ALMOST ALL MAJOR SIZES OF STONES DECLINED, WITH **1.0 CARAT DIAMONDS DOWN BY 4.5%, WHILE THE LARGER STONES SAW LARGER DECLINES.**



OUTLOOK

The polished market is still in a rather fragile state, and dependent on the all-important US jewelry market which remains stable. Typically, the summer months are seasonally weak in the Northern Hemisphere, as the world's major trading centers take their summer vacations.

Evidence provided by diamantaires points to a continuing softness in the Chinese market. The important September Gems and Jewellery Fair in Hong Kong will provide a stronger indication of the state of the market.

We maintain our assessment that it is unlikely that goods of 2-carats and smaller will show significant price improvements until at least the end of the third quarter of this year.



BY THE GEMEWIZARD TEAM

GEMEWIZARD

When Gem Colors Blend



Aquamarine, sapphire and diamond brooch - by Catherine Sauvage

The whole is greater than the sum of its parts, they say. Sometimes it is the way that different colored gems are blended and arranged in a piece of jewelry that inspires awe, with added elements of beauty revealed through the design.

Indeed, often when one focuses solely on a jewel's physical attributes, those cosmic components of its beauty are lost in the mix. Aesthetic excellence is frequently a metaphysical phenomenon, which cannot easily be explained using gemological terminology. However we will attempt to bridge the gap between the two.

We selected such an awe-inspiring item, which was offered for auction at the Luxeford Hong Kong Ltd auction house in May 2013. After browsing its marvelous array of gems, we found the masterpiece we were looking for.

The item we chose to analyze is an aquamarine, sapphire and diamond brooch, by the artist Catherine Sauvage (see photo). The brooch, made of 18-karat white gold in a floral design, is set with a large pear-shaped aquamarine, accented by pave'-set blue sapphires and brilliant-cut colorless and brown diamonds.



diamonds. It was the combination of those three colors blended together in pleasant harmony that was the reason that led to the selection of the item.

For the analysis, we received the raw images of the brooch which most closely resemble its actual colors from the Luxeford auction house. We then set the GemePro™ Sampler to scan the image selectively, in three different areas - the aquamarine, the sapphire and colorless diamond pave and the brown diamonds. The resulting colors derived from the analysis were then placed on the GemeSquare™ 'square of colors to find connections between the colors that may explain the overall harmony achieved.

The aquamarine analysis provided a Light, Very Slightly Grayish, Blue (22_3_3) color, while the blue sapphires gave us a range of violet-ish blue (23_3_2) hues, gradually fading from Light, Slightly Grayish (saturation level 2) to colorless (the diamond area), as seen in **Figure 1**. The two colors are very close to each other, with their tones and saturation virtually identical and only one hue separating them, thereby adding a gentle violet-ish tint. The analysis of the brown diamonds

results showed a medium, brownish, orange (5_5_1) color.

The overall appearance is of an orchid-like flower in a calm shade of blue. The fading effect seen in the petals of the flower is achieved by accurate selection of the darker violet-ish blue sapphires at the center of the petal, and the gradually lighter-color sapphires surrounding it, down to the colorless diamonds. The brownish orange softness and its location along the flower's stem are associated with a flowerpot soil, completing the floral appearance.

Eliciting emotions and feelings through a jewel's visual appearance required a designer with special talent, and that is something that Sauvage definitely achieves.

About Gemewizard®: Gemewizard® is a pioneer in the development of digital color-based systems, which provide solutions for professionals involved in the fancy color diamond, colored gemstone and jewelry industries, enabling the analysis, description, communication, pricing and trading of color in gems. The suite of products developed by Gemewizard® is based on the company's groundbreaking color communication technology called GemeSquare™, which has been endorsed by GIA, and since 2006, has been incorporated into the GIA® curriculum.

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DEBMAR ATLANTIC

NAMIBIA'S DEBMARINE NEW SHIP IN CAPE TOWN FOR EQUIPMENT FITTING

A new diamond exploration and sampling vessel commissioned by Namibian diamond mining firm Debmarmine arrived in Cape Town where technological equipment is being fitted. The final phase of the building of the SS Nujoma followed a three-week journey from Norway where the ship was constructed by shipbuilder Kleven Verft. Construction of the vessel took 15 months.

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ANGOLA'S SODIAM DIAMOND MARKETER SECOND-BIGGEST EXPORTER

Angola's state-owned diamond marketing company Sodiam is the country's second-biggest exporter. It is the only non-oil firm on Angola's list of the top 10 exporters for the first quarter of 2016. The country's largest exporter is state oil company Sonangol, Angola's Finance Ministry said.

Sodiam exported diamonds worth around \$190 million in the first quarter of this year. Angola's rough diamond exports in 2015 were \$1.3 billion, according to the Kimberley Process.

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GREEN ISSUES FORCE RIO TINTO OUT OF INDIAN MINE PROJECT

Rio Tinto has pulled out of a diamond mining project in the Indian state of Madhya Pradesh due to environment-linked issues, according to a report in the Indian press.

The diversified miner was requested to explore the possibility of significantly more expensive underground mining and to await the completion of a river linking project.

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DEBMAR ATLANTIC





AHMED BIN-SULAYEM

UAE'S KP CHAIR PUBLISHES FIRST MID-TERM REPORT ON WORK AND INITIATIVES

The UAE Kimberley Process (KP) Chair Ahmed Bin Sulayem has published a mid-term report, a first for the Kimberley Process, highlighting key initiatives such as on-site visits to the major diamond producing nations of Africa, the initiation of a series of Valuation Seminars and a proposal which explores the use of blockchain technology to help enhance security measures.

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STELLAR DIAMONDS ANNOUNCES POSSIBLE REVERSE TAKEOVER

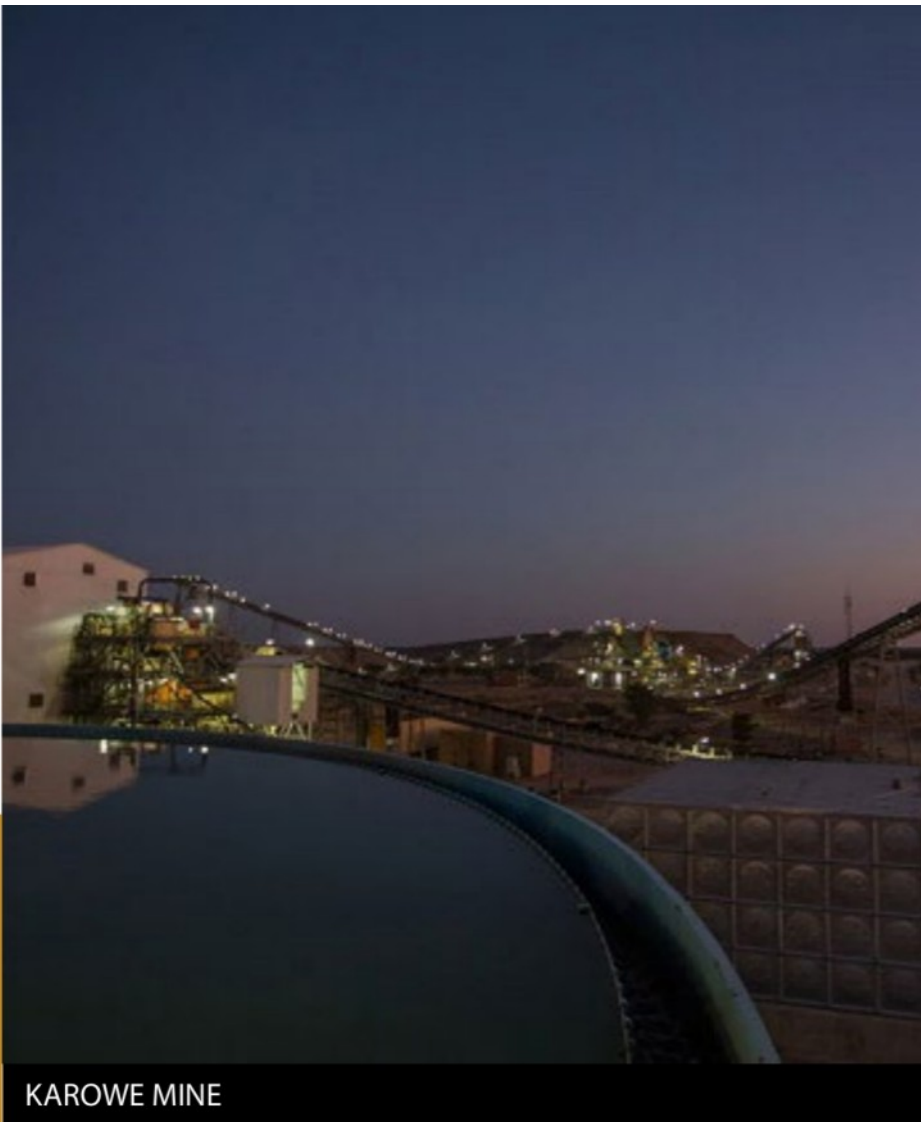
Stellar Diamonds plc, the London listed diamond development company focused on West Africa, announced that the company's ordinary shares were suspended from trading on the AIM exchange with effect from early on August 26 pending announcement of a potential transaction.

If completed, it would be classified as a Reverse Takeover under the AIM rules for companies and would require the publication of an admission document and also be subject to shareholder approval. There is no guarantee that the potential transaction will be completed, the firm noted.

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SIERRA LEONE





KAROWE MINE

LUCARA DIAMOND TO INSTALL MORE XRT TECHNOLOGY AT KAROWE IN BOTSWANA

Lucara Diamond Corp. says it will install more of XRT technology to process finer size fractions at its Karowe mine in Botswana, which it says has been successful. The installation of four new XRT diamond recovery units and the associated conveying and screening infrastructure, will target the recovery of diamonds in the size range between 4mm and 8mm.

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ALROSA RECOVERS 136-CARAT NUBRINSKAYA DIAMOND

ALROSA, has announced the recovery of a 136.24-carat diamond from its Nyubrinskaya pipe. The crystal measures 29.32 mm by 23.88 mm by 21.9 mm, and is a gem-quality rough diamond, which is 3 Black Makeable 1 Color. The stone is a combination-form translucent colorless part of a crystal with columnar interlocking structure. The stone contains graphite and sulphide composition.

The diamond, which has yet to be named, is one of the largest rough diamonds yet recovered at the Nyurba Mining and Processing Division.

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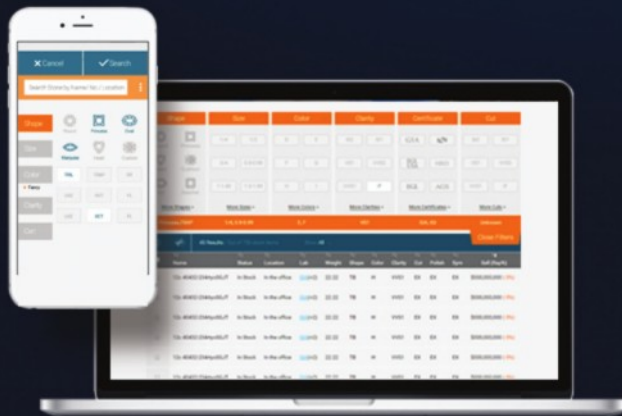


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