2016

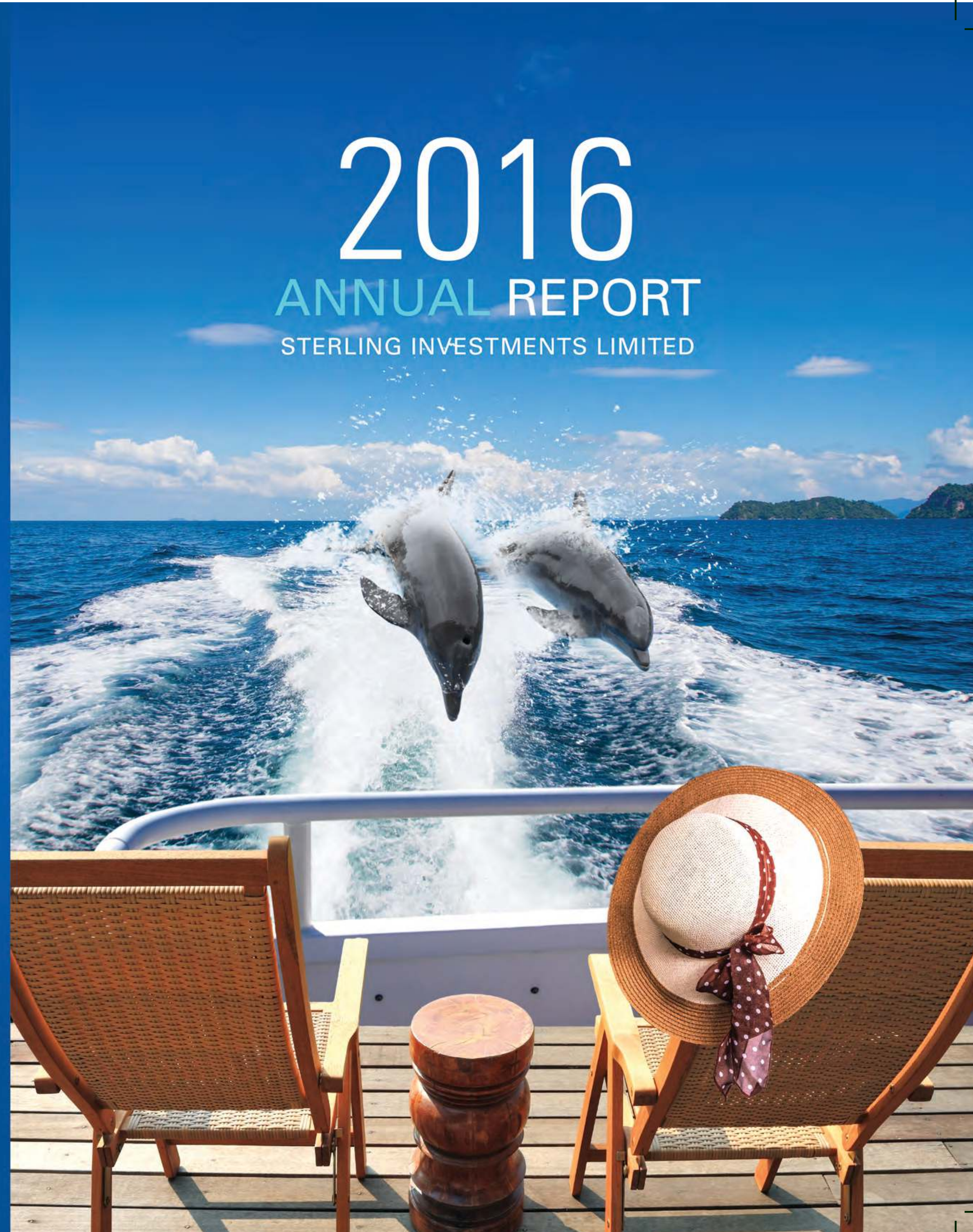
INTELLIGENT INVESTING

STERLING INVESTMENTS LIMITED

2016

ANNUAL REPORT

STERLING INVESTMENTS LIMITED



Contents

INVESTMENT MANDATE

SIL aims to deliver attractive risk adjusted returns to its shareholders by actively and prudently managing their funds across a variety of portfolios. The company achieves this through the successful execution of opportunities in the global capital markets and the real sector.

DIRECTORS' REPORT

The Directors are pleased to present their report for the year ended December 31, 2016. The report represents the results for Sterling Investments Limited.

COMPANY RESULTS

- Operating revenue was J$92.05 million (2015: J$82.33 million)
- The profit after income tax was J$78.60 million (2015:J$71.70 million).
- Stockholder's equity was J$810.43 million (2015: J$693.89 million)
- The directors appoint KPMG, Christ Church, Barbados to act as external auditors until the next Annual General Meeting.

The Directors wish to thank the management and all team members for their performance during the year under review. As always, we express our deep and sincere appreciation to the stockholders for their continued support and partnership.

By Order of the Board

Dated this February 25, 2017

CORPORATE PROFILE

Sterling Investments Limited (SIL) is registered as an international business company in St. Lucia. SIL is an investment holding company that was formed in 2012 and exists to protect and grow the capital of its stockholders. Early investors in SIL avoided the National Debt Exchange, 14% devaluation in 2013 and 8% devaluation in 2014. SIL listed its ordinary shares on the Main Market of the Jamaica Stock Exchange in October 2014.

The company invests primarily in an array of high quality fixed income securities denominated in United States dollars. A small part of the company's portfolio is also dedicated to private equity investments that serve to boost the company's return on equity.

The company generates income in two ways: (a) through interest income earned on the securities in the portfolio; (b) through capital gains as a result of increases in the price of the securities. It offers investors the opportunity to enjoy:

- A hedge against devaluation and inflation
- Higher risk adjusted returns
- Diversification
- Access to the global capital markets
- Access to experienced and successful investment managers

SIL has one of the highest net profit margins and lowest efficiency ratios of any company on the Jamaica Stock Exchange. This is a direct result of the company's unique and competitive business model. Sterling Asset Management is the investment manager for SIL and owns preference shares in the company.

INVESTMENT MANAGER OVERVIEW

Sterling Asset Management Limited (SAM) is a licensed securities dealer registered with the Financial Services Commission in Jamaica. SAM is a full service financial planner, fund manager and global securities trader specializing in, but not limited to, US Dollar investments. With one of the highest capital adequacy ratios on the island, the company greatly exceeds the regulatory capital requirement.

Sterling was one of the first local institutions to bring high quality, USD fixed income investments to Jamaican investors. The company was started in response to the gap in how the market was being served in the medium to long term as far as the investment spectrum was concerned. These investments have provided a source of consistent growth and a safe haven to sophisticated investors locally and internationally.

Sterling's hallmark product is an offshore US dollar mutual fund which has delivered returns of over 12.60% per annum between 2003 and 2016. US$100,000 invested in the fund in 2003 would have been worth over US$499,442 at the end of 2016. SIL's investment strategy has been modelled in a similar way, but incorporates a private equity component to boost long term returns. SAM is involved with several charitable projects which include the Franciscan Ministries, the Mico University College Math Project, the Maxfield Park Children's Home and the Phoenix Lodge charities through their annual golf tournament.

Charles Ross
Charles is a founding director of Sterling Asset Management Limited. In his role as President for the past 16 years, the company has generated a return on equity in excess of 35% per annum. Charles is a qualified engineer with over 15 years' experience in the field. Charles left the field of engineering, to act as the Executive Director of the PSOJ. Since its inception, Charles has guided Sterling's investment and portfolio management functions and maintained the company's focus on delivering higher risk adjusted returns for the medium to long term.

Michael Bernard
Former Managing Director of Carreras Group Limited, Michael possesses over 20 years of experience in leading and growing some of Jamaica's largest corporations. In addition to his extensive local and international business experience, Michael holds a B.A. and B.SC. in Business Administration and Forest Management respectively, and an MBA from the Harvard Graduate School of Business Administration.

Derek Jones – Chairman
Derek is a seasoned lawyer with over 40 years of experience across a wide variety of civil, criminal and commercial matters. Derek enjoys the rare distinction of being ranked by Chambers and Partners in two jurisdictions, Jamaica and Cayman. After retiring from Myers, Fletcher & Gordon in 2010, Derek became the Regional Managing Partner with Higgs & Johnson, Cayman.

Maxim Rochester
Max, a former Territory Senior Partner of PriceWaterhouseCoopers, has over thirty (30) years' experience in the auditing of Jamaica's largest banking and insurance corporations. As such, Max is intimately familiar with the operations, financial systems, regulatory environment and reporting requirements of the local financial sector. His expertise is an invaluable asset to Sterling's operations.

Marian Ross
For 6 years, Marian helped to develop and execute Sterling's business strategy. She is currently pursuing a Master's in Business Administration at the Stern School of Business. Previously, she worked as a Credit Analyst in Corporate Banking at First Citizens Bank, Trinidad where she worked with some of the region's largest conglomerates. She holds an honour's degree in Economics.

Robert Taylor
Robert possesses extensive experience in risk management, corporate banking, real estate development and commercial and real estate law. Robert spent 11 years at Citibank and left as the Resident Vice President, Financial Institutions & Public Sector Unit. He subsequently launched Taylor Law -a full time law practice specializing in Real Estate and Commercial law.

BOARD OF DIRECTORS

STERLING INVESTMENTS LIMITED (SIL)
SIL's board is comprised of:
Charles Ross, Michael Bernard, Derek Jones, Maxim Rochester

STERLING ASSET MANAGEMENT (SAM)
SAM's Board consists of well-respected and experienced professionals
Charles Ross, Maxim Rochester, Marian Ross, Robert Taylor

CHAIRMAN'S MESSAGE & PERFORMANCE SUMMARY

STRATEGIC VISION AND MISSION

I am pleased to report that 2016 was an outstanding year for Sterling Investments marked with several innovations for the company. The financial performance topped that of 2015 even amidst the political uncertainty which started with Brexit and concluded with the surprise result of the U.S. presidential election. SIL's second year saw an increase in the stock price from J$13.00 at the start of the year to J$16.00 at the end of the year with a marked increase in trading activity. The company maintains its concentration on prudent management with a focus on quality securities. The company's continued pledge to deliver growth and value creation for stockholders is manifested in its continued success. This is in addition to the continued protection from devaluation and inflation that investors have come to expect.

FINANCIAL OVERVIEW:

Net profit grew by 10.4% to J$78.6 million over J$71.2 million for the prior fiscal year. The growth in net profit exceeded the rate of devaluation of 6.7% of the Jamaican dollar in the year. The company's strategy of using efficient funding sources such as margin, to finance additional bond purchases has continued to pay dividends to stockholders. This is reflected in the company's robust net interest margin which increased to 93.9% from 92.5%. SIL remains one of the most profitable companies listed on the local stock exchange.

SIL has grown assets by 4.2%, increasing them from J$935.7million to J$974.7million in the previous year. The portfolio profited from funds raised through the Dividend Reinvestment and Complementary Share Purchase programmes launched in the second half of the year. Revenue posted strong growth of 18.6%, increasing from J$119.3 million to J$141.4 million. Despite the Brexit vote shock and surprise Trump victory in 2016, the portfolio posted strong growth in hard currency income to stockholders.

During 2016, SIL paid $19,324,092 to stockholders in dividends, representing a dividend yield of 2.2%. Dividends are paid in USD, which affords investors a hedge against devaluation. The dividend payout in 2016 was 10.3% higher than the amount paid out in the prior year.

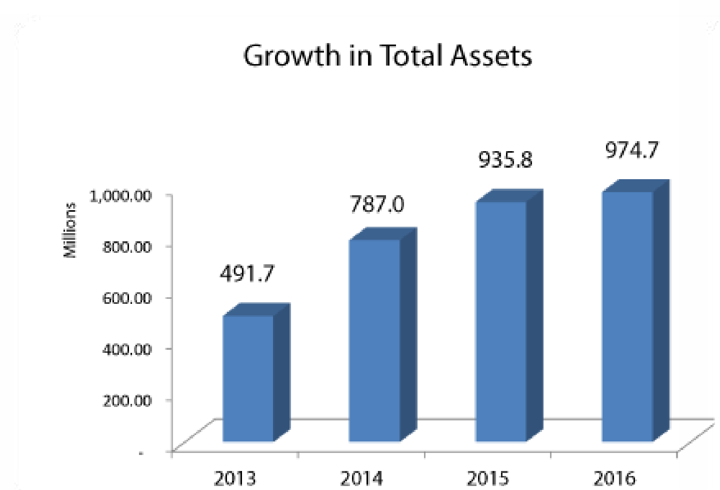
PERFORMANCE SUMMARY CONT'D

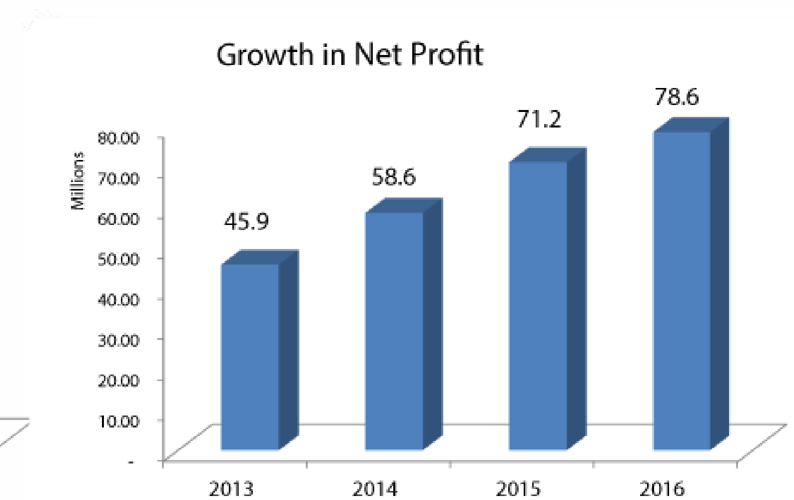
MAJOR MILESTONES

SIL listed on the US board of the Jamaica Stock Exchange (JSE) in February 2016, making it only the second company to list on both boards of the JSE. In addition, in July 2016, SIL introduced two new programmes to the market. These were the Dividend Reinvestment Programme (DRIP) which allows investors to reinvest their dividends automatically as well as the Complementary Share Purchase Programme (CSPP) which allows existing shareholders to purchase shares once every calendar quarter. These programmes are in line with the strategic direction of the company and have contributed nicely to growth in the company's assets by contributing to the funding of the investment portfolio.

OUTLOOK

Sterling Investments Limited has increased all of the major metrics even with the tremendous political uncertainty which we faced in 2016. It is well positioned to meet the challenges of the new year when general elections are expected in Germany, France, the Netherlands and possibly Italy. The CSPP has created an opportunity for stockholders to increase their holdings through an inexpensive avenue both for the company and the stockholders. The additional capital will increase the assets in the portfolio which will be shrewdly managed to maximize return and strategic profit taking. On behalf of the board of directors, I would like to thank all the stockholders for their continued confidence in SIL and look forward to the year ahead.





CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

The Board of Directors of SIL has the following responsibilities:

- Oversee and monitor the performance of the investment manager
- Periodically review the investment strategy and risk criteria to ensure that return on equity is being optimized
- Enforce good corporate and risk governance and ethical codes of conduct

The company's corporate governance guidelines can be found at: www.sterling.com.jm.

BOARD SUB COMMITTEES

Audit Committee

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities by monitoring and assessing critical areas of the Company's operations and regularly reporting to the Board of Directors on same. The key focus areas consist of but are not limited to: the integrity of financial record keeping and reporting, the risk and control environment, the Internal Audit, the External Audit, Regulatory Compliance internationally and locally and the Company's Codes of ethical and business conduct.

INVESTMENT MANAGEMENT COMMITTEE (IMC)

The Investment Management Committee aims to ensure that the assets and liabilities of Sterling Investments Limited are effectively managed to maximize return on equity, bolster the capital base and to safeguard the company against adverse consequences of changes in interest rate and liquidity risk. These objectives are pursued in the context of a framework of strong risk management, investment and liquidity policy guidelines, which are outlined in the investment policy. The committee's mandate is to oversee the management of the company's assets and liabilities in the context of these objectives and budgeted targets.

PRINCIPAL ACTIVITIES OF AUDIT COMMITTEE
Assess and Approve:
The integrity of financial record keeping and reporting
Monthly in-house management accounts and explanations for divergence from budget
The system of internal controls and procedures
Stability and security of IT Infrastructure
Internal audit report & findings and implementation of recommendations
Internal audit focus & budget for the financial year
Appointment of internal auditors
Annual audited financial statements with a view to ensuring they are complete, utilizing the appropriate accounting principles and consistent with information known to committee members.
Appointment of external auditors
Local and international regulatory submissions
Codes of ethical and business conduct
Meet privately with:
Internal auditors as deemed necessary
External auditors as deemed necessary

PRINCIPAL ACTIVITIES OF INVESTMENT MANAGEMENT COMMITTEE
Assess:
Local and international macro-economic conditions and the implications for the company's investment strategy
Management of market , liquidity and credit risk
Investment strategies employed to maximize risk adjusted return on equity
Quality and structure of funding and asset base
Adherence to liquidity , capital and trading policy limits
Achievement of budgeted profitability targets

COMPOSITION & FREQUENCY OF MEETINGS

The Audit and all other Committees of the board meet at least quarterly and consist of four (4) members. The Committee members are Mr. Maxim Rochester (Chairman), Mr. Michael Bernard (Director), Mr. Derek Jones (Director) and Mr. Charles Ross (Director). All committee members are non- executive directors.

MANAGEMENT DISCUSSION & ANALYSIS

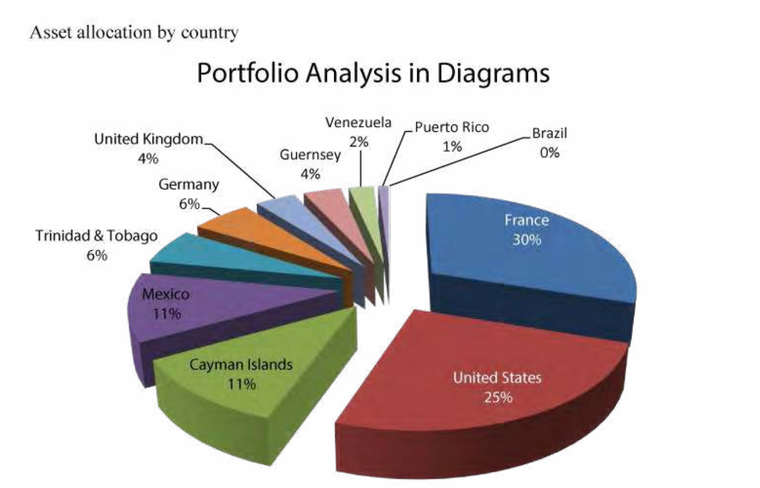
BALANCE SHEET ANALYSIS

Total assets increased by 4.2% from J$935.8 million as at December 31, 2015 to J$974.7 million as at December 31, 2016. This was largely attributed to the increase in investment securities which experienced a 3.4% increase over the same period. This was funded by retained earnings and the DRIP and CSPP programmes introduced in the second half of the year. As at December 2016, margin loans totalled J$131.8 million, or 14.0% of the total portfolio of investment securities compared to 23.6% the previous year. The company's use of margin has enhanced the income of the portfolio.

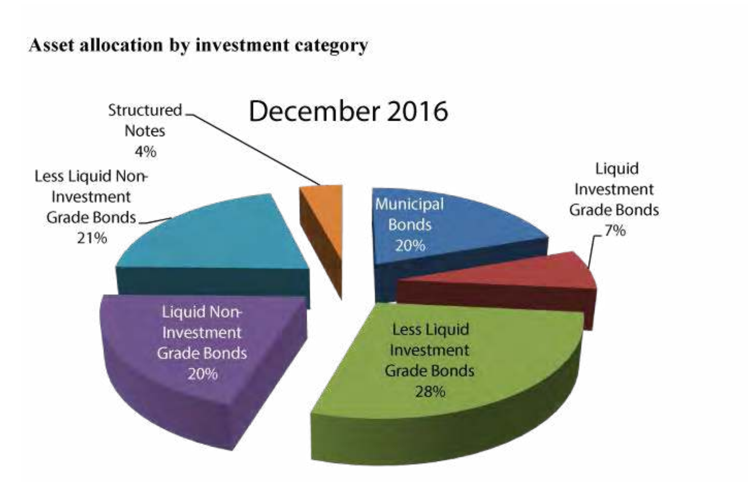
The company's liabilities dropped by 32.1% from J$241.9 million in 2015 to J$164.3 million in 2016. This is due to the reduction in "margin loans payable" which totalled J$131.8 million, or 14.0% of the total portfolio of investment securities compared to 23.6% the previous year. The company utilizes leverage to enhance returns to stockholders.

Total equity increased by 16.8% from J$693.9 million in December 2015 to J$810.4 million in December 2016. This increase was due to a number of reasons including the increase in retained earnings, the reduction in the loss in the fair value reserve and the introduction of the Dividend Reinvestment Programme (DRIP) and Complementary Share Purchase Programme (CSPP) during the year. Retained earnings increased by 40.9% from J$144.9m to J$204.1million highlighting the company's continued pledge to deliver growth and value creation for stockholders.

PORTFOLIO ANALYSIS IN DIAGRAMS ASSET ALLOCATION BY COUNTRY



ASSET ALLOCATION BY INVESTMENT CATEGORY



Weighted average coupon rate = 7.79%
Weighted average yield to call/maturity = 7.81%

MANAGEMENT DISCUSSION & ANALYSIS CONT'D

PRIVATE EQUITY UPDATE

Private Equity Update
Approximately 6.8% of SIL's investment portfolio is comprised of a preference share investment in a St. Kitts & Nevis real estate development project. The project involves the construction and sale of a 226 unit condominium hotel on land located at Frigate Bay, St. Kitts. The condominiums are being sold under the island's "Citizenship by Investment" program and are being purchased by applicants who wish to apply for St. Kitts and Nevis citizenship. Upon completion the hotel will be operated under the Embassy Suites by Hilton brand.

INCOME STATEMENT ANALYSIS

Net profit for the fiscal year 2016 was J$78.6 million compared to J$71.2 million for the prior fiscal year. The results were impacted by an impairment charge of J$16.8 million as a result of the default by the issuer of a municipal bond which is a one-off unrealized loss. The re-structuring of the debt has not yet been completed and this charge may increase or decrease when that process has finished. Without this impairment, net profit would have increased by 36.8% from J$71.2m in 2015 to J$97.4 million in 2016.

SIL generates income through a number of different activities. The company's primary source of revenue is interest income generated by the securities in its portfolio. Total interest income amounted to J$78.1 million as at December 2016; 7.3% higher than net interest income for the corresponding period in 2015 of J$72.8 million. This is due to the company's judicious management which has profited from the composition of its investment portfolio.

Gains on sale of investments decreased marginally from J$12.4 million in December 2015 to J$10.2 million in December 2016 as the company realized some of the trading gains in its portfolio. The company manages its portfolio with a view to profit taking when conditions are favourable.

There was a significant increase in foreign exchange gains due to a higher rate of devaluation in 2016 compared to the same period in 2015. The devaluation in 2016 was 6.7% compared to 5.0% in 2015. As a result, foreign exchange gains increased by 56.0% from J$34.1 million as at December 2015 to J$53.2 million as at December 2016.

Expenses:
Operating expenses for the fiscal year ending December 2016 were J$24.7 million or approximately 13.9% higher than the J$21.7 million of operating expenses for the corresponding period in 2015. Most of this increase was due to higher management fees. Sterling Asset Management (SAM) receives a management fee of 2% of the value of assets under management. As a result of the increase in the size of the portfolio, management fees increased from J$13.1 million in 2015 to J$15.3 million in 2016.

OUTLOOK

The Eurozone's GDP grew by 1.7% in 2016 rounding out four years of recovery and growth. This, despite challenges faced by the region with Brexit and terrorist attacks. Inflation reached a three year high in December (1.1%) as a result of higher energy prices and a weaker euro. The region is projected to grow at a rate of 1.5% in 2017, however, there remains major political uncertainty as elections are slated for France, Germany and the Netherlands with the possibility of snap elections in Italy. Mario Draghi (president of the ECB) stressed that a high degree of accommodation as regards monetary policy is still warranted.

In December, there was a 100% probability of the U.S. Federal Reserve Bank (FED) increasing rates, and they did exactly as predicted. This was identical to the increase in the benchmark interest rate made one year earlier. The FED increased rates by a quarter of a percentage point to a range of 0.5% - 0.75%. This was a total of one increase in 2016 after the FED had predicted four rate increases for the year. This took place alongside a decrease in the US GDP growth which was 1.9% for 2016 compared to 2.6% in the previous year. The FED has forecast 3 rate hikes for 2017 and has already executed one of them in March 2017.

MANAGEMENT DISCUSSION & ANALYSIS

Oil performed very well in 2016, despite a rocky start. It began the year at $37.04 (WTI) and ended the year at $53.72, a 45% increase following the 37.4% decline of 2015. The oil rally was partially buoyed by the OPEC agreement made on November 30th 2016 to curtail production. The movement of commodity prices was mixed following the outcome of the U.S. election as most increased with the planned infrastructure spending announced by President Trump. However, his intent to ease restrictions on drilling has fuelled concerns that U.S. shale producers will add to the oil supply, and oil prices have softened somewhat in the first quarter of 2017.

The political uncertainty which started with Brexit in 2016 will continue into 2017 as the outcomes of the elections in the Eurozone unfold. President's Trump's actions and the subsequent consequences will also be scrutinized by the market. Bond and equity markets are likely to experience some volatility in 2017 as political events unfold.

RISK MANAGEMENT

Effective risk management and optimization is essential to sustaining and furthering the success of our business. Risk is continuously analyzed with the objective of maximizing profits from upside risks (the risk of upward movement in the value of an asset) while also avoiding and minimizing potential losses arising from downside risks (the risk of losses arising from adverse movements in the market).

Risk Management is incorporated as part of the company's culture and is an ongoing, consultative, forward-looking and dynamic process. Risk is analyzed within a well-defined framework shaped by the Company's risk appetite, strategic objectives, competitive advantages and the prevailing regulatory and macroeconomic environment.

The Investment Management Committee oversees the formation of and adherence to the Company's general risk guidelines. Sterling measures risk using an array of quantitative and qualitative measures. General explanations of the key risk mitigation strategies are described below.

KEY RISKS

SIL assumes market risks in the conduct of its business. Market Risk is a generic term for price risk and liquidity risk.

Price Risk: Price Risk measures the sensitivity of the Group's earnings to changes in: interest rates, commodity prices (including foreign exchange rates), and derivative prices. The company assumes price risk commensurate with its budgeted targets, capacity to manage risk, and the sophistication of the markets it opts to invest in. SIL monitors and manages price risk by establishing a series of limits and observing the performance of the assets in the portfolio relative to these limits. A combination of the following limits are used to manage price risk:

- Limits on the size of the positions in various asset classes or structures that can be held in the portfolio
- Limits on the length of time the asset can be held for
- Factor Sensitivity Limits
- Potential Loss Amount

Liquidity Risk: Liquidity risk measures the capacity of an institution to adequately and promptly satisfy all scheduled and unscheduled contractual funding obligations. Effective liquidity management is essential to maintaining market confidence, meeting regulatory requirements, maintaining the flexibility necessary to capitalize on attractive asset purchases and business expansion opportunities, and protecting the company's capital base. SIL pursues effective liquidity management to achieve these objectives through:

- The placement of limits on maximum amounts of funding that will become due during different time periods under business-as-usual conditions
- Active liability management focused on the diversification of funding sources, instruments, and the synchronization of the maturities of its assets and liabilities.
- A contingency funding plan, which is a formal plan for maintaining liquidity under adverse conditions
- Active analysis and monitoring of the macroeconomic and interest rate environments in its operating jurisdictions

SIL also mitigates market risk by conducting regular sensitivity analysis and stress tests on the company's portfolio and capital base and through the continuous validation of the adequacy and integrity of policies, assumptions, practices, and procedures that form part of the risk management strategy.

RISK MANAGEMENT

With the anticipated change in U.S. monetary policy, price risk is one of the most important considerations that currently inform SIL's dynamic investment strategy. The investment manager has sought to minimize price risk by shortening the duration of the fixed income portfolio. The investment manager has also positioned the portfolio to take advantage of the upside price risk presented by the low interest regime in Europe. However, the prices of financial assets are likely to remain volatile and shareholders can expect to see continued fluctuations in the "fair value reserve" and market value of the underlying securities. The profit that has been retained in the company will act as a strong buffer for the capital base of the company.

The company's strong liquidity position has been bolstered by the modest use of leverage and strong flow of interest income. The rise in interest rates is expected to be gradual and slow. This is unlikely to immediately affect the cost of funding (in the form of margin loans) for the company in the short term.

Credit Risk

SIL assumes the credit risk inherent in the financial instruments it holds in its portfolio. Credit risk describes the likelihood that the issuer or guarantor of the instrument will fail to repay the principal or interest due on the security. SIL refers to the credit rating assigned to an issuer or instrument as a guide when making investment decisions. However, the company generally performs independent technical or credit review analysis in line with the objective of the purchase.

To mitigate credit risk, the company seeks to ensure that the majority of its investment portfolio is concentrated in instruments issued by institutions or Governments of a high credit quality. Concentration limits and maximum piece sizes guide the purchasing decisions for the Group's investment portfolio.

Operational risk

The standard industry definition of operational risk describes the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. SIL mitigates operational risk by having its operational functions managed by Sterling Asset Management Ltd. (SAM). SAM manages the operational risk through the existence of an independent audit function. SAM's operational procedures, business and accounting practices are audited annually by an independent audit firm. This firm reports monthly directly to SAM's Audit Committee on the findings of its internal audits. The company has proactively implemented international best practices that govern the execution of its daily activities.

Private Equity Risk Management

SIL explores private equity opportunities through formal partnerships with experienced and reputable firms of professionals in the relevant industries. These partnerships provide one off viable projects as well as the relevant expertise to execute them. However, all projects will be rigorously assessed and approved by SIL's team of analysts and the Board of Directors respectively. To mitigate risks associated with Private equity projects, the investment manager rigorously analyses and evaluates the feasibility of each investment. The Board of Directors must approve all private equity investments. On an on-going basis, the investment manager actively monitors the execution and business strategies of these projects.

DIRECTORS & CONNECTED PARTIES REPORT

TOP TEN STOCKHOLDERS For Sterling Investments Limited

Name	Volume	Percentage
ATL GROUP PENSION FUND TRUSTEES NOMINEE LIMITED	10,000,000	17.82
GRACEKENNEDY LIMITED PENSION SCHEME	5,227,270	9.32
STEPHEN GAGER	3,455,170	6.16
PAM-CABLE & WIRELESS PENSION REAL ESTATE FUND	3,000,000	5.34
PAM-POOLED EQUITY FUND	2,665,905	4.75
NATIONAL INSURANCE FUND	2,016,129	3.59
SATYANARAYANA PARVATANENI	1,964,950	3.50
WINNIFRED M MULLINGS	1,842,760	3.28
CHARLES A. ROSS	1,838,098	3.28
EVERTON LLOYD MCDONALD	1,599,790	2.85

DIRECTORS' & CONNECTED PARTIES REPORT for Sterling Investments Limited as at December 31, 2016

Directors	Shareholdings	Connected Parties
Charles Ross	1,838,098	319,542
Derek Jones		
Michael Bernard		
Maxim Rochester		

	Number of shares	% of total
Charles Ross	1,838,098	3.28%
Marian Ross	190,032	0.33%
Natalie Farrell-Ross	9,431	0.02%
Sterling Asset Management	18,700	0.03%
Charles Andrew Ross	101,379	0.18%

AUDITED FINANCIAL STATEMENTS

STERLING INVESTMENTS LIMITED

Financial Statements

December 31, 2016

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Morgan Building
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(758) 453-0625
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e-Mail: kpmg@kpmg.lc

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
STERLING INVESTMENTS LIMITED

Opinion

We have audited the financial statements of Sterling Investments Limited ("the Company") set out on pages 23 to 56, which comprise the statement of financial position as at December 31, 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Saint Lucia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Shareholders of
STERLING INVESTMENTS LIMITED

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investment securities

The key audit matter	**How the matter was addressed in our audit**
The Company's investment securities measured at fair value include corporate and municipal bonds, derivatives and preference shares, classified as available-for sale. Valuation of these instruments often involves the exercise of judgement and the use of assumptions and estimates. The risk is that these valuations may be misstated. The investment securities held by the Company were categorised as Level 2 in the fair value hierarchy. Judgement is involved in determining whether certain markets are liquid enough to conclude that Level 1 or 2 categorisation is appropriate.	Our audit procedures included: • Evaluation of management's fair value estimates against independent pricing data obtained by our internal valuation specialists. • Assessing the adequacy and appropriateness of the Company's disclosures of its investment securities including the Company's fair value hierarchy policy against the requirements of IFRS 13, *Fair Value Measurement*.

Other information

Management is responsible for the other information. The other information comprises the information included in the Company's annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

KPMG

To the Shareholders of
STERLING INVESTMENTS LIMITED

Other information (cont'd)

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Company's annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Board of Directors.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Shareholders of
STERLING INVESTMENTS LIMITED

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Shareholders of
STERLING INVESTMENTS LIMITED

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Frank Myers.

KPMG

KPMG Eastern Caribbean

February 25, 2017

STERLING INVESTMENTS LIMITED

Statement of Financial Position
December 31, 2016
(Expressed in Jamaican Dollars)

	Notes	2016	2015
Assets			
Cash and cash equivalents	4	1,155,576	213,152
Accounts receivable	5	34,924,407	27,731,676
Income tax recoverable		18,269	-
Investment securities	6	938,603,156	907,825,257
Total assets		$974,701,408	935,770,085
Liabilities			
Margin loans payable	7	131,808,102	214,341,641
Other payables	8	17,191,962	14,039,600
Due to related company	9(c)(i)	15,264,740	13,124,190
Manager's preference shares	10	10,000	10,000
Income tax payable		-	366,028
Total liabilities		164,274,804	241,881,459
Equity			
Share capital	11	630,913,829	627,796,101
Prepaid share reserve	12	12,266,188	-
Fair value reserve	13	(36,893,285)	(78,774,046)
Retained earnings		204,139,872	144,866,571
Total equity		810,426,604	693,888,626
Total liabilities and equity		$974,701,408	935,770,085

The financial statements on pages 23 to 56 were approved for issue by the Board of Directors on February 25, 2017 and signed on its behalf by:

_____________ Director
Charles Ross

_____________ Director
Maxim Rochester

The accompanying notes form an integral part of the financial statements.

STERLING INVESTMENTS LIMITED

Statement of Profit or Loss and Other Comprehensive Income
Year ended December 31, 2016
(Expressed in Jamaican Dollars)

	Notes	2016	2015
Revenue	14		
Interest income		78,099,467	72,778,939
Foreign exchange gains		53,159,616	34,073,892
Gains on disposal of available-for-sale securities		10,174,691	12,437,526
		141,433,774	119,290,357
Expenses			
Interest		(4,759,702)	(5,442,115)
Impairment loss on available-for-sale-securities		(18,772,015)	(9,651,021)
Unrealised loss on embedded derivative	6(iii)	(1,113,392)	(147,575)
Other operating	15	(24,743,062)	(21,719,906)
		(49,388,171)	(36,960,617)
Operating profit		92,045,603	82,329,740
Other income		422,338	8,875
Manager's preference share interest expense		(13,278,611)	(10,573,808)
Profit before taxation		79,189,330	71,764,807
Taxation	16	(591,937)	(596,800)
Profit for the year		78,597,393	71,168,007
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Realised gains on disposal of available-for-sale securities reclassified to profit for the year		(5,027,151)	(8,482,202)
Impairment loss on available-for-sale securities reclassified to profit for the year		16,814,973	-
Unrealised change in fair value of available-for-sale securities		30,092,939	(81,268,337)
		41,880,761	(89,750,539)
Total comprehensive income/(loss) for the year		$120,478,154	(18,582,532)
Basic and diluted earnings per stock unit	17(a), 17(b)	$ 1.41	1.53

The accompanying notes form an integral part of the financial statements.

STERLING INVESTMENTS LIMITED

Statement of Changes in Equity
Year ended December 31, 2016
(Expressed in Jamaican Dollars)

	Share capital (note 11)	Prepaid share reserve (note 12)	Fair value reserve (note 13)	Retained earnings	Total
Balances at December 31, 2014	437,296,904	-	10,976,493	91,219,714	539,493,111
Comprehensive income:					
Profit for the year	-	-	-	71,168,007	71,168,007
Other comprehensive income:					
Realised gains on disposal of available-for-sale securities reclassified to profit	-	-	(8,482,202)	-	(8,482,202)
Unrealised change in fair value of available-for-sale securities	-	-	(81,268,337)	-	(81,268,337)
Total other comprehensive loss	-	-	(89,750,539)	-	(89,750,539)
Total comprehensive (loss)/income	-	-	(89,750,539)	71,168,007	(18,582,532)
Transactions with owners:					
Shares issued during the year	190,499,197	-	-	-	190,499,197
Dividends (note 18)	-	-	-	(17,521,150)	(17,521,150)
	190,499,197	-	-	(17,521,150)	172,978,047
Balances at December 31, 2015	627,796,101	-	(78,774,046)	144,866,571	693,888,626
Comprehensive income:					
Profit for the year	-	-	-	78,597,393	78,597,393
Other comprehensive income:					
Realised gains on disposal of available-for-sale securities reclassified to profit	-	-	(5,027,151)	-	(5,027,151)
Impairment loss on available-for-sale securities reclassified to profit	-	-	16,814,973	-	16,814,973
Unrealised change in fair value of available-for-sale securities	-	-	30,092,939	-	30,092,939
Total other comprehensive income	-	-	41,880,761	-	41,880,761
Total comprehensive income	-	-	41,880,761	78,597,393	120,478,154
Transactions with owners					
Shares issued during the year	3,117,728	-	-	-	3,117,728
Prepayments for share	-	12,266,188	-	-	12,266,188
Dividends (note 18)	-	-	-	(19,324,092)	(19,324,092)
	3,117,728	12,266,188	-	(19,324,092)	(3,940,176)
Balances at December 31, 2016	$630,913,829	12,266,188	(36,893,285)	204,139,872	810,426,604

The accompanying notes form an integral part of the financial statements.

STERLING INVESTMENTS LIMITED

Statement of Cash Flows
Year ended December 31, 2016
(Expressed in Jamaican Dollars)

	2016	2015
Cash flows from operating activities		
Profit for the year	78,597,393	71,168,007
Adjustments for:		
Interest income	(78,099,467)	(72,778,939)
Interest expense	4,759,702	5,442,115
Impairment loss on available-for-sale securities	18,772,015	9,651,021
Unrealised loss on embedded derivative	1,113,392	147,575
Taxation	591,937	596,800
Manager's preference share interest expense	13,278,611	10,573,808
	39,013,583	24,800,387
Changes in:		
Accounts receivable	(249,560)	3,878
Margin loans payable	(82,533,539)	(9,544,746)
Other payables	447,559	228,824
Due to related company	2,140,550	2,473,301
	(41,181,407)	17,961,644
Interest received	71,156,296	64,007,260
Interest paid	(4,759,702)	(5,442,115)
Tax paid	(976,234)	(726,282)
Net cash provided by operating activities	24,238,953	75,800,507
Cash flows from investing activity		
Investment securities, being net cash used by investing activity	(8,782,545)	(240,637,257)
Cash flows from financing activities		
Issue of ordinary shares, net	2,147,802	190,499,197
Complementary share purchase programme	12,266,188	-
Manager's preference shares interest paid	(10,573,808)	(9,271,165)
Dividends paid	(18,354,166)	(17,521,150)
Net cash (used)/provided by financing activities	(14,513,984)	163,706,882
Increase/(decrease) in cash and cash equivalents	942,424	(1,129,868)
Cash and cash equivalents at beginning of year	213,152	1,343,020
Cash and cash equivalents at end of year	$ 1,155,576	213,152

The accompanying notes form an integral part of the financial statements.

1. Identification

Sterling Investments Limited ("the Company") was incorporated on August 21, 2012 in Saint Lucia under the International Business Companies Act, and commenced operations on December 1, 2012. The Company's registered office is located at 20 Micoud Street, Castries, Saint Lucia.

The principal activities of the Company are holding and trading of securities and other investments.

The Company's activities are administered by Sterling Asset Management Limited to which management fees are paid [note 9(c)(ii)].

2. Statement of compliance and basis of preparation

(a) Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

Amended standards that became effective during the year

Certain amended standards which were in issue, came into effect for the current financial year. Their adoption did not result in any change in accounting policies and did not have any effect on the amounts and disclosures in the financial statements.

New standards and amendments to existing standards that are not yet effective

At the date of approval of the financial statements, certain new and amended standards were in issue but were not yet in effect and had not been early-adopted by the Company. The Company has assessed their relevance and has determined that the following may be relevant to its operations:

- Amendments to IAS 7, *Statement of Cash Flows*, effective for accounting periods beginning on or after January 1, 2017, requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

  The Company is assessing the impact that this amendment will have on its 2017 financial statements.

2. Statement of compliance and basis of preparation (cont'd)

(a) Statement of compliance (cont'd)

New standards and amendments to existing standards that are not yet effective (cont'd)

- Amendments to IAS 12, *Income Taxes*, effective for accounting periods beginning on or after January 1, 2017, clarifies the following:

  - The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

  - A deferred tax asset can be recognised if the future bottom line of the tax return is expected to be a loss, if certain conditions are met.

  - Future taxable profits used to establish whether a deferred tax can be recognised should be the amount calculated before the effect of reversing temporary differences.

  - An entity can assume that it will recover an asset for more than its carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

  - Deductible temporary differences related to unrealised losses should be assessed on a combined basis for recognition unless a tax law restricts the use of losses to deductions against income of a specific type.

  The Company is assessing the impact that this amendment will have on its 2017 financial statements.

- IFRS 9*, Financial Instruments,* which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39, *Financial Instruments: Recognition and Measurement.* IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value though profit or loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

  The Company is assessing the impact that this standard will have on its 2018 financial statements.

2. Statement of compliance and basis of preparation (cont'd)

(a) Statement of compliance (cont'd)

New standards and amendments to existing standards that are not yet effective (cont'd)

- IFRS 15, *Revenue from Contracts with Customers*, is effective for annual reporting periods beginning on or after January 1, 2018. It replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers*, and SIC 31, *Revenue - Barter Transactions Involving Advertising Services.* It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties.

  The Company will apply a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised at a point in time, when control of goods or services is transferred to the customer; or over time, in a manner that best reflects the entity's performance.

  There will be new qualitative and quantitative disclosure requirements to describe the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

  The Company is assessing the impact that the standard will have on its 2018 financial statements.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the inclusion of available-for-sale investments at fair value.

(c) Functional and presentation currency

The financial statements are presented in Jamaican dollars, which is the functional currency of the Company, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make estimates, based on assumptions, and judgements. The estimates and judgements affect the reported amounts of, and disclosures relating to, assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income and expenses for the year then ended. Actual amounts could differ from those estimates.

2. Statement of compliance and basis of preparation (cont'd)

(d) Use of estimates and judgements (cont'd)

The estimates, and the assumptions underlying them, are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements and estimates made by management in the application of IFRS that have a significant effect on these financial statements and/or have a significant risk of material adjustment in the next financial year are set out below:

Judgements

(i) For the purpose of these financial statements, which are prepared in accordance with IFRS, judgement refers to the informed identification and analysis of reasonable alternatives, considering all relevant facts and circumstances, and the well-reasoned, objective and unbiased choice of the alternative that is most consistent with the agreed principles set out in IFRS.

(ii) Uncertainties arising from the use of estimates

(1) Allowance for impairment losses

In determining amounts recorded for impairment of debt securities and other financial assets in the financial statements, management makes assumptions in assessing whether certain facts and circumstances, such as significant financial difficulty of the issuer or obligor, repayment default, and adverse economic conditions, are indicators that there may be a measurable decrease in the estimated future cash flows from outstanding financial asset balances – i.e. they are impaired. Management also makes estimates of the likely estimated future cash flows from financial assets that it determines are impaired, as well as the timing of cash flows. If the financial assets are individually significant, the amount and timing of cash flows are estimated for each asset individually. Where indicators of impairment are not observable on individually significant assets, or on a group or portfolio of assets that are not individually significant, management estimates the impairment by classifying each financial asset or group or portfolio of financial assets according to their characteristics, such as credit risks, and applying appropriate factors, such as historical loss experience, to each class with similar characteristics.

The use of assumptions makes uncertainty inherent in such estimates.

2. Statement of compliance and basis of preparation (cont'd)

(d) Use of estimates and judgements (cont'd)

Judgements (cont'd)

(ii) Uncertainties arising from the use of estimates (cont'd)

(2) Determination of fair values

The Company's accounting policies and disclosures require the measurement of fair values for financial assets. The determination of whether a security's fair value may be classified as 'Level 1' in the fair value hierarchy (note 20) requires judgement as to whether a market is active.

When one is available, the Company measures the fair value of an instrument using the quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques, as follows:

Level 1: quoted market prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In the absence of quoted market prices, the fair value of a significant proportion of the Company's assets was determined using Bloomberg. Considerable judgement is required in interpreting market data to arrive at estimates of fair values. Consequently, the estimates arrived at may be significantly different from the actual price of the instrument in an arm's length transaction.

3. Significant accounting policies

(a) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. In these financial statements, financial assets comprise cash and cash equivalents, accounts receivable, and investment securities. Financial liabilities comprise margin loans payable, other payables, due to related company and manager's preference shares.

Financial instruments are classified, recognised and measured in accordance with the substance of the terms of the contracts, as set out herein.

(i) Classification of financial instruments

The Company classifies non-derivative financial assets into the following categories: Financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale financial assets. Management determines the appropriate classification of investments at the time of purchase, taking account of the purpose for which the investments were purchased.

Fair value through profit or loss: Securities that are held for trading (i.e. acquired to generate short-term profits or are part of a portfolio of financial assets managed together for that purpose) or are designated as 'at fair value through profit or loss' upon initial recognition.

Loans and receivables: Securities acquired and loans granted with fixed or determinable payments and which are not quoted in an active market, are classified as loans and receivables.

Held-to-maturity: Securities with fixed or determinable payments and fixed maturities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity.

Available-for-sale: Securities are classified as available-for-sale, because they are designated as such or are not classified in any of the other categories.

The Company classifies non-derivative financial liabilities into the other financial liabilities category.

(ii) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Company accounts for an embedded derivative separately from the host contract when:

- the host contract is not itself carried at fair value through profit or loss;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

3. Significant accounting policies (cont'd)

(a) Financial instruments (cont'd)

(ii) Embedded derivatives (cont'd)

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss, unless they form part of a qualifying cash flow or net investment hedging relationship.

(iii) Recognition and derecognition

The Company recognises a financial instrument when it becomes a party to the contractual terms of the instrument. The Company initially recognises loans and receivables and debt securities on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or if it neither transfers nor retains all or substantially all the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that are created or retained by the Company, is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations expire or are discharged or cancelled.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has the legal right to offset the amounts and intends either to settle them on a net basis, or to realise the assets and settle the liabilities simultaneously.

(iv) Measurement and gains and losses

Fair value through profit or loss: Financial assets which are held for trading or are designated as at fair value through profit or loss are measured at fair value. Changes in fair value are recognised in profit or loss.

Loans and receivables: On initial recognition they are measured at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest method, less impairment losses. Premiums and discounts are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Where securities classified as loans and receivables become quoted in an active market, such securities will not be reclassified as available-for-sale securities. An active market is one where quoted prices are readily and regularly available from an exchange dealer, broker or other agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

3. Significant accounting policies (cont'd)

(a) Financial instruments (cont'd)

(iv) Measurement and gains and losses (cont'd)

Held-to-maturity: On initial recognition they are measured at fair value, plus any directly attributable transaction costs. Premiums and discounts are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest method, less impairment losses.

Any sale or reclassification of a significant amount of held-to-maturity investments that is not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Company from classifying investment securities as held-to-maturity for the financial year in which sale or reclassification occurs and the following two financial years.

A*vailable-for-sale:* On initial recognition, they are measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value, with unrealised gains and losses arising from changes in fair value treated as follows:

- Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income.

- When securities classified as available-for-sale are sold or impaired, and therefore derecognised, the accumulated fair value adjustments accumulated in other comprehensive income are reclassified to profit or loss.

(v) Identification and measurement of impairment

At each reporting date, the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

3. Significant accounting policies (cont'd)

(a) Financial instruments (cont'd)

(v) Identification and measurement of impairment (cont'd)

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised directly in other comprehensive income to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If in a subsequent period the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(b) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term commitments (these investments include short-term deposits where the maturities do not exceed three months from the acquisition date). Cash and cash equivalents are measured at amortised cost.

3. Significant accounting policies (cont'd)

(c) Accounts receivable

Accounts receivable is measured at amortised cost, less impairment losses.

(d) Margin loans payable and other payables

Margin loans payable and other payables are measured at amortised cost.

(e) Revenue recognition

Revenue is income that arises in the course of the ordinary activities of the Company. Accordingly, revenue comprises interest income and income and gains from holding and trading securities.

(i) Interest income

Interest income is recognised in profit or loss for all interest-earning instruments on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Interest income includes coupons earned on fixed income investments, accretion of discount on discounted instruments, and amortisation of premium on instruments bought at a premium.

(ii) Gain or loss on holding and trading securities

Gain or loss on securities trading is recognised when the Company becomes a party to a contract to dispose of the securities, or, in the case of financial assets measured at fair value, upon re-measurement of those assets.

(f) Interest expense

Interest expense is recognised in profit or loss on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability to the carrying amount of the financial liability.

(g) Foreign currencies

Foreign currency balances at the reporting date are translated at the foreign exchange rates ruling at that date. Transactions in foreign currencies are converted at the foreign exchange rates ruling at the dates of the transactions. Gains and losses arising from fluctuations in exchange rates are recognised in profit or loss.

3. Significant accounting policies (cont'd)

(h) Share capital

(i) Ordinary stock units

Incremental costs directly attributable to the issue of ordinary stock units are recognised as deduction from equity.

(ii) Preference shares

The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. In the case of its preference share capital, it is classified as:

- Equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary; in such a case, dividends thereon are recognised as equity distributions on approval by the Company's stockholders.

- Liability if it is redeemable on a specific date or at the option of the stockholders, or if dividends are not discretionary; in such a case, dividends thereon are recognised as interest in profit or loss as accrued.

The Company's preference shares bear contractual entitlements to dividends that are cumulative, and not at the discretion of the directors. Accordingly, they are presented as a financial liability.

(i) Income tax

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

(i) Current income tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted at the reporting date, and any adjustment to income tax payable in respect of previous years.

(ii) Deferred income tax

Deferred income tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on laws that have been enacted by the reporting date.

3. Significant accounting policies (cont'd)

(i) Income tax (cont'd)

(ii) Deferred income tax (cont'd)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(j) Segment reporting:

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses; whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assesses its performance; and for which discrete financial information is available.

Based on the information presented to and reviewed by the CODM, the entire operations of the Company are considered as one operating segment.

4. Cash and cash equivalents

	2016	2015
Cash	3,000	3,000
Demand deposit accounts	1,152,576	210,152
	$1,155,576	213,152

Demand deposit accounts includes $2,471 (2015: $Nil) [notes 11(iii)(a) and 12] received from stockholders as prepayments for the purchase of the Company's stock units.

5. Accounts receivable

	2016	2015
Interest receivable	34,674,847	27,731,676
Other	249,560	-
	$34,924,407	27,731,676

Accounts receivable is stated net of impairment provision of $Nil (2015: $Nil) and is due as follows:

	2016	2015
Due within twelve (12) months	15,175,515	14,029,631
No specific maturity [note 9(c)(i)]	19,748,892	13,702,045
	$34,924,407	27,731,676

6. Investment securities

	2016	2015
Available-for-sale		
(i) Corporate bonds US$5,366,344 (2015: US$5,006,813)	686,784,653	600,717,370
(ii) Municipal bonds US$1,165,329 (2015: US$1,748,589)	149,138,869	209,795,708
(iii) Credit linked note US$302,310 (2015: US$311,070)	38,689,634	37,322,179
(iv) Unquoted preference shares US$500,000 (2015: US$500,000)	63,990,000	59,990,000
	$938,603,156	907,825,257

(i) Corporate bonds earn interest at rates ranging from 5.125% to 12.75% per annum and mature over the period 2019 to 2049.

(ii) Municipal bonds earn interest at rates ranging from 5.00% to 10.00% per annum and mature over the period 2023 to 2040.

(iii) Credit linked note represents investment in Credit Suisse Contingent Coupon Callable Yield notes which will mature on June 19, 2018. The fair value change in embedded derivative of $1,113,392 (2015: $147,575) was recognised in profit or loss.

(iv) Unquoted preference shares, which earn interest at 8% interest per annum and are redeemable, represent investments in cumulative redeemable preference shares issued by Sterling Developments (SKN) Limited, a related party [note 9(c)(i)].

(v) The maturity profile of investments, in relation to the reporting date is shown at note 19(c)(i).

7. Margin loans payable

These are margin loans due to overseas brokers of US$1,029,912 (2015: US$1,786,478). The loans bear interest at rates ranging from 2.35% to 2.54% per annum (2015: 2.09% to 2.36%), are collateralised by securities purchased from the brokers with the loan proceeds, and have no set repayment date.

8. Other payables

	2016	2015
Manager's preference shares interest payable [note 9(c)(i)]	13,278,611	10,573,808
Other payables and accruals [note 11(iii)(a)]	3,913,351	3,465,792
	$17,191,962	14,039,600

Other payables are due to be settled within twelve (12) months of the reporting date.

9. Related party balances and transactions

(a) Definition of related party

A related party is a person or entity that is related to the Company.

(i) A person or a close member of that person's family is related to the Company if that person:

(1) has control or joint control over the Company;

(2) has significant influence over the Company; or

(3) is a member of the key management personnel of the Company or of a parent of the Company.

(ii) An entity is related to the Company if any of the following conditions applies:

(1) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.

(6) The entity is controlled, or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(8) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or the parent of the Company.

A related party transaction is a transfer of resources, services or obligations between the Company and a related party, regardless of whether a price is charged.

(b) Identity of related parties

The Company has related party relationships with its directors, investment manager and other entities under the common control of its investment manager.

9. Related party balances and transactions (cont'd)

(c) Related party amounts

(i) The statement of financial position includes balances with related parties, arising in the ordinary course of business, as follows:

	2016 $	2015 $
Entity with common shareholders and directors		
Unquoted preference shares [note 6(iv)]	63,990,000	59,990,000
Interest receivable	19,748,892	13,702,045
Total [note 19(a)(ii)]	83,738,892	73,692,045
Investment manager		
Manager's preference shares interest payable (note 8)	(13,278,611)	(10,573,808)
Due to related company*	(15,264,740)	(13,124,190)
Directors		
Other payables	(614,304)	(575,904)

*The amount due to the Investment manager is unsecured, interest-free and is repayable within twelve (12) months from reporting date.

(ii) The statement of profit or loss and other comprehensive income includes income earned from, and expenses incurred in, transactions with related parties, in the ordinary course of business, as follows:

	2016 $	2015 $
Entity with common shareholders and directors		
Interest income on unquoted preference shares	5,027,443	4,687,077
Investment manager		
Manager's preference shares interest expense	(13,278,611)	(10,573,808)
Management fees (note 15)	(15,264,740)	(13,124,190)
Directors		
Directors' fees (note 15)	(2,402,144)	(2,247,456)

10. Manager's preference shares

(a) This represents 10,000 manager's cumulative preference shares (see note 11). The terms and conditions of these shares include the following:

(i) The block of manager's cumulative preference shares, at all times, regardless of the number of ordinary stock units issued and held, enjoy voting control to the extent of 51% of such votes as may be cast by stockholders of the Company with respect to any and all decisions by such stockholders;

10. Manager's preference shares (cont'd)

(a) (Cont'd)

(ii) The manager's cumulative preference shares rank *pari passu* as between and among themselves;

(iii) The manager's cumulative preference shares are entitled to a cumulative annual preference dividend of twenty five per cent (25%) of the Company's return on equity earned in excess of the hurdle rate (computed in accordance with the formula set out in the terms and conditions of issue) applied to the United States dollar value of the Company's profit and equity. The return on equity is calculated as the profit for the year of the Company divided by the value of the Company's average equity as at the end of the financial year, expressed in United States dollars and substantiated by the audited financial statements;

(iv) Apart from the right to the cumulative annual preference dividend, the manager's cumulative preference shares have no economic rights or entitlements save for the right in a winding up to the repayment of the capital paid thereon on a *pari passu* basis with the capital paid on the ordinary stock units; and

(v) In the event that an entity which is (or becomes) the investment manager subsequently ceases to be the investment manager in accordance with the relevant provisions of the Company's Articles of Association, each of the manager's cumulative preference shares held by that entity shall thereupon automatically be converted into a fully paid ordinary stock units in the Company.

(b) The dividend payment is recorded as manager's preference shares interest expense in the statement of profit or loss and other comprehensive income.

11. Share capital

	Number of units 2016	Number of units 2015
(i) Authorised:		
Ordinary stock units of no par value	150,000,000	150,000,000
Manager's cumulative preference shares of no par value	10,000	10,000
	150,010,000	150,010,000

11. Share capital (cont'd)

(ii) Issued and fully paid:

	Number of units		Total	
	2016	2015	2016	2015
Ordinary stock units				
Balance at beginning of year	55,876,281	4,014,547	627,796,101	437,296,904
Issued during the year:				
Regular issuance	-	51,861,734	-	195,062,057
Dividend Reinvestment Programme [note 11(iii)(a)]	69,271	-	969,926	-
Complementary Share Purchase Programme [note 11(iii)(b)]	156,365	-	2,189,074	-
Less transaction costs	-	-	(41,272)	(4,562,860)
Net proceeds from issuance	225,636	51,861,734	3,117,728	190,499,197
Balance at end of year	56,101,917	55,876,281	630,913,829	627,796,101
Manager's cumulative preference shares	10,000	10,000	10,000	10,000
	56,111,917	55,886,281	630,923,829	627,806,101
Less: Manager's preference shares reclassified to liability (note 10)	10,000	10,000	10,000	10,000
	56,101,917	55,876,281	$630,913,829	627,796,101

(iii) Dividend Reinvestment and Complementary Share Purchase Programme

On August 26, 2016, the Company launched two (2) incentive programmes as follows:

(a) Dividend Reinvestment Programme

Under the Dividend Reinvestment Programme (DRIP), the stockholders of the Company may elect to reinvest their dividend in new ordinary stock units, rounded down to the nearest stock at the closing price applicable on the record date and without incurring fees. Residual unallocated dividends as at December 31, 2016 amounted to $2,471 (2015: $Nil) (note 4) and are included in other payables and accruals (see note 8).

During the year, 69,271 stock units were issued to the stockholders.

11. Share capital (cont'd)

(iii) Dividend Reinvestment and Complementary Share Purchase Programme (cont'd)

(b) Complementary Share Purchase Programme

Under the Complementary Share Purchase Programme (CSPP), the stockholders of the Company may purchase new ordinary stock units, with a minimum purchase of 100 stock units per participating stockholder, at the closing price applicable for the last day of the relevant quarter and without incurring fees. Funds received are recorded as prepaid share reserve (note 12) and transferred to share capital when the stocks are issued.

During the year, 156,365 stock units were issued to the stockholders.

12. Prepaid share reserve

This represents funds received from stockholders during the last quarter of the financial year to purchase Company's stock units under the CSPP [note 11(iii)(b)]. 39,489 and 827,271 stock units were issued on January 10, 2017 subsequent to the reporting date at a stock unit price of J$15.70 and US$0.11, respectively.

13. Fair value reserve

This represents the unrealised gains, net of losses, on the restatement of available-for-sale investment securities at fair value.

14. Revenue

This represents income earned from holding and trading investment securities.

15. Other operating expenses

	2016	2015
Management fees [note 9(c)(ii)]	15,264,740	13,124,190
Auditors' remuneration	2,965,048	2,637,104
Directors' fees [note 9(c)(ii)]	2,402,144	2,247,456
Travel	1,163,373	1,077,926
Public relations	1,087,197	511,131
Stock exchange listing	720,398	656,606
Professional fees	335,284	397,650
Other	804,878	1,067,843
	$24,743,062	21,719,906

16. Taxation

The Company elected to be charged at the rate of 1% (2015: 1%) as allowed under the International Business Companies Act. However, the effective tax rate is 0.75% (2015: 0.83%).

16. Taxation (cont'd)

	2016	2015
Profit before taxation	$79,189,330	71,764,807
Computed "expected" tax charge at 1% (2015: 1%)	791,893	717,648
Tax effect of differences between profit for financial statements and tax reporting purposes:		
Unrealised foreign exchange gains	(531,596)	(340,739)
Unrealised loss on embedded derivative	11,134	1,476
Impairment loss on available-for-sale securities	187,720	96,510
Manager's preference share interest expense	132,786	105,738
Under-provision in respective of prior year	-	16,167
Current tax charge, being total taxation charge	$ 591,937	596,800

17. Earnings per stock unit

(a) Basic earnings per stock unit

Basic earnings per stock unit is calculated by dividing the profit attributable to stockholders by the weighted average number of ordinary stock units in issue during the year.

	2016	2015
Profit attributable to ordinary stockholders	$78,597,393	71,168,007
Weighted average number of ordinary stock units in issue	55,933,235	46,640,630
Basic earnings per stock unit	1.41	1.53

(b) Diluted earnings per stock unit

Diluted earnings per stock unit is calculated by dividing the profit attributable to ordinary stockholders by the weighted average number of ordinary stock units outstanding after adjustment for the effects of all dilutive potential ordinary stock units. The effect of conversion of convertible preference shares, the only potential ordinary stock units, is excluded from the computation as it is antidilutive; thus, the diluted earnings per stock unit is equal to the basic earnings per stock unit of $1.41 (2015: $1.53).

18. Dividends

	2016	2015
Distribution to ordinary stockholders at $0.3455 (2015: $0.3373) per stock unit	$19,324,092	17,521,150

During the year certain shareholders elected to reinvested their dividends earned of $969,926 (2015: $Nil) [note 11(ii)(a)].

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

19. Financial risk management

The Company has exposure to credit, liquidity and market risks from its use of financial instruments. The Company's affairs are administered by the Investment Manager, a related company, which, together with the Board of Directors, has overall responsibility for the establishment and oversight of the Company's risk management framework. The risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered.

(a) Credit risk

Credit risk is the risk of financial loss to the Company that one party to a financial instrument will fail to discharge its contractual obligations, and arises principally from the Company's investment securities. The Board of Directors is responsible for oversight of the Company's credit risk, including formulating policies, establishing the authorisation structure for the approval of credit facilities, reviewing and assessing credit risk, and limiting concentration of exposure to counterparties. Additionally, the Investment Manager reports to the Board of Directors on a regular basis about credit quality, and the appropriate action is taken.

(i) The Company manages the exposure to credit risk in the following way:

It maintains cash and cash equivalents with major financial institutions which management regards as strong. These financial institutions are continually reviewed by the Investment Manager. Investments are held substantially in United States of America Government Agency and corporate securities.

Total credit exposure is the total of receivables and investment securities recognised in the statement of financial position, as there are no other credit exposures.

(ii) Concentration of credit risk

The Company monitors concentration of credit risk by issuer and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

	2016	2015
Issuer:		
Corporate – unrelated parties	737,267,158	648,529,130
Corporate – related party [note 9(c)(i)]	83,738,892	73,692,045
Municipals	152,271,953	213,335,758
Banks	1,155,576	213,152
Total financial assets	$974,433,579	935,770,085

19. Financial risk management (cont'd)

(a) Credit risk (cont'd)

(ii) Concentration of credit risk (cont'd)

	2016	2015
Location:		
Europe	376,156,967	359,348,944
North America	317,967,404	352,639,276
Caribbean	121,613,999	108,625,620
South America	158,695,209	87,306,513
Other	-	27,849,732
Total financial assets	$974,433,579	935,770,085

(iii) Credit quality

Credit quality is measured primarily by the extent of breaches of contractual terms of debt securities.

- Impaired securities

  Impaired securities are securities for which the Company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the securities.

- Past due but not impaired securities

  These are securities where contractual interest or principal payments are past due but the Company believes that impairment is not appropriate on the basis of the level of security or collateral available or the stage of collection of amounts owed to the Company.

- Write-off policy

  The Company writes off loan or security balances (and any related allowances for impairment losses) when the Company determines that the loans or securities are uncollectible. This determination is usually made after considering information such as changes in the borrower's financial position, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

(iv) Settlement risk

The Company's activities may give rise to settlement risk at the time of settlement of trades and other transactions. Settlement risk is the risk of loss due to the failure of a party to honour its obligation to deliver cash, securities or other assets as contractually agreed.

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

19. Financial risk management (cont'd)

(a) Credit risk (cont'd)

(iv) Settlement risk (cont'd)

For certain types of transactions, the Company mitigates this risk by conducting settlements through its broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

There has been no change in the Company's exposure to credit risk or the manner in which it measures and manages risk.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and ensuring the availability of funding through an adequate amount of committed facilities.

Management of liquidity risk

Due to the dynamic nature of the underlying business, the Company manages this risk by monitoring its cash needs and obtaining liquidity support from custodian brokers and related companies. The Company's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and abnormal conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The daily liquidity position is monitored and regular liquidity testing is conducted under a variety of scenarios covering both normal and more severe market conditions. The Company maintains the daily balances from the bank and broker accounts in order to ensure that sufficient funds are available to meet the liability demands.

The following table presents the undiscounted cash flows payable (both interest and principal cash flows) based on contractual repayment obligations:

	2016				
	Within 3 months	3 to 12 months	No specific maturity	Gross outflow	Carrying value
Margin loans payable	132,122,377	-	-	132,122,377	131,808,102
Other payables	17,191,962	-	-	17,191,962	17,191,162
Due to related company	-	15,264,740	-	15,264,740	15,264,740
Manager's preference shares	-	-	10,000	10,000	10,000
	$149,314,339	15,264,740	10,000	164,589,079	164,274,004

19. Financial risk management (cont'd)

(b) Liquidity risk (cont'd)

Management of liquidity risk (cont'd)

	2015				
	Within 3 months	3 to 12 months	No specific maturity	Gross outflow	Carrying value
Margin loans payable	214,740,257	-	-	214,740,257	214,341,641
Other payables	14,039,600	-	-	14,039,600	14,039,600
Due to related company	-	13,124,190	-	13,124,190	13,124,190
Manager's preference shares	-	-	10,000	10,000	10,000
	$228,779,857	13,124,190	10,000	241,914,047	241,515,431

There has been no change in the Company's exposure to liquidity risk or the manner in which it measures and manages risk.

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the returns for the given level of risk accepted.

19. Financial risk management (cont'd)

(c) Market risk (cont'd)

The market risks relevant to the Company and the manner in which it measures and manages them are as follows:

(i) Interest rate risk

The following table summarises the carrying amounts of financial assets and financial liabilities to arrive at the Company's interest rate sensitivity gap, based on the earlier of contractual repricing and maturity dates:

	2016					
	Within 1 year	1 - 5 year	Over 5 years	No specific maturity	Non-rate sensitive	Total
Financial assets						
Cash and cash equivalents	1,155,576	-	-	-	-	1,155,576
Accounts receivable	-	-	-	-	34,924,407	34,924,407
Investment securities	-	131,725,335	742,887,821	63,990,000	-	938,603,156
	1,155,576	131,725,335	742,887,821	63,990,000	34,924,407	974,683,139
Financial liabilities						
Margin loans payable	131,808,102	-	-	-	-	131,808,102
Other payables	-	-	-	-	17,191,962	17,191,962
Due to related company	-	-	-	-	15,264,740	15,264,740
Manager's preference shares	-	-	-	10,000	-	10,000
	131,808,102	-	-	10,000	32,456,702	164,274,804
Total interest rate sensitivity gap	$(130,652,526)	131,725,335	742,887,821	63,980,000	2,467,705	810,408,335
Cumulative gap	$(130,652,526)	1,072,809	743,960,630	807,940,630	810,408,335	

19. Financial risk management (cont'd)

(c) **Market risk (cont'd)**

(i) Interest rate risk (cont'd)

	2015					
	Within 3 year	1 - 5 years	Over 5 years	No specific maturity	Non-rate sensitive	Total
Financial assets						
Cash and cash equivalents	213,152	-	-	-	-	213,152
Accounts receivable	-	-	-	-	27,731,676	27,731,676
Investment securities	-	10,168,305	138,070,891	699,596,061	59,990,000	907,825,257
	213,152	10,168,305	138,070,891	699,596,061	87,721,676	935,770,085
Financial liabilities						
Margin loans payable	214,341,641	-	-	-	-	214,341,641
Other payables	-	-	-	-	14,039,600	14,039,600
Due to related company	-	-	-	-	13,124,190	13,124,190
Manager's preference shares	-	-	-	10,000	-	10,000
	214,341,641	-	-	10,000	27,163,790	241,515,431
Total interest rate sensitivity gap	$(214,128,489)	10,168,305	138,070,891	699,586,061	60,557,886	694,254,654
Cumulative gap	$(214,128,489)	(203,960,184)	(65,889,293)	633,696,768	694,254,654	

19. Financial risk management (cont'd)

(c) **Market risk (cont'd)**

(i) Interest rate risk (cont'd)

Profile

At year-end, the interest rate profile of the Company's interest-earning financial instruments, which are contracted as follows:

	2016	2015
Fixed interest rates		
Financial assets		
Corporate bonds	686,784,653	600,717,370
Municipal bonds	149,138,869	209,795,708
Credit linked note	38,689,634	37,322,179
Unquoted preference shares	63,990,000	59,990,000
	938,603,156	907,825,257
Financial liability		
Margin loans payable	95,109,681	214,341,641
	$843,493,475	693,483,616
Variable interest rates		
Financial liability		
Margin loans payable	$ 36,698,421	-

Fair value sensitivity analysis for fixed-rate instruments

The following table indicates the sensitivity to interest rate movements at the reporting date, in terms of the effect on the Company's profit and stockholders' equity of a reasonably probable change in interest rates at the reporting date. The analysis assumes that all other variables, in particular, foreign currency rates, remain constant.

	2016		2015	
	Effect on profit $	Effect on equity $	Effect on profit $	Effect on equity $
Change in basis points:				
-100bps (2015: -50bps)	475,548	38,048,955	1,071,708	34,214,803
+100bps (2015: +50bps)	(951,097)	62,488,969	(1,071,708)	(31,728,322)

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 (2015: 50) basis points in interest rates at the reporting date would have increased equity and the profit for the year by $366,984 (2015: $Nil). A decrease of 50 (2015: 50) basis points in interest rates at the reporting date would have increased equity and profit for the year by $183,492 (2015: $Nil).

(ii) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

19. Financial risk management (cont'd)

(c) Market risk (cont'd)

(ii) Foreign currency risk (cont'd)

The Company is exposed to foreign currency risk on transactions that it undertakes, or balances denominated, in foreign currencies. The main foreign currencies giving rise to this risk is the United States dollar (US$). The Company ensures that the risk is kept to an acceptable level by monitoring its foreign currency exposure and, when necessary, adjusting its foreign currency positions in response to fluctuations in exchange rates.

At the reporting date, exposure to foreign currency risk was as follows:

	2016	2015
Assets:		
Cash and cash equivalents	4,781	1,674
Accounts receivable	270,940	231,136
Other receivable	2,092	-
Investment securities	7,333,983	7,566,472
	7,611,796	7,799,282
Liabilities:		
Margin loans payable	1,029,912	1,786,478
Other payables	30,558	28,814
	1,060,470	1,815,292
Net foreign currency assets	US$6,551,326	5,983,990

The foreign exchange rates as at the reporting date was as follows: US$1:J$127.98 (2015: US$1:J$119.98).

Sensitivity to foreign exchange rate movements

This sensitivity is computed by simulating the effect on profit and equity of a different but reasonably probable rate at the reporting date.

A weakening or strengthening of the Jamaica dollar against the United States dollar at the reporting date would, respectively, increase or decrease profit by the amounts shown in the table below. The analysis assumes that all other variables, in particular, interest rates, remain constant.

	2016		
	% Change in Currency rate	Effect on profit $'000	Effect on equity $'000
Currency:			
USD	1% Revaluation	(8,384)	(8,384)
USD	6% Devaluation	50,306	50,306

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

19. Financial risk management (cont'd)

(c) Market risk (cont'd)

(ii) Foreign currency risk (cont'd)

	2015		
	% Change in Currency rate	Effect on profit $'000	Effect on equity $'000
Currency:			
USD	1% Revaluation	(7,179)	(7,179)
USD	15% Devaluation	107,693	107,693

There has been no change in the Company's exposure to market risk or the manner in which it measures and manages risk.

20. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date.

The Company's accounting policies and disclosures require the measurement of fair values for financial assets and liabilities.

The techniques used to estimate fair values, together with the input used, are described below. The use of assumptions and estimates means that the estimates arrived at may vary significantly from the actual price of the instrument in an arm's length transaction.

Basis of valuation

	Financial instrument	Method of estimating fair value
(i)	Cash and cash equivalents, accounts receivable, other payables and due to related company	Considered to approximate their carrying values due to their short-term maturity.
(ii)	Municipal and corporate bonds	Estimated using bid-prices published by major overseas brokers/dealers or reputable pricing services such as Bloomberg.
(iii)	Credit linked note	• Obtain price based on the quoted price of the underlying credit default swap which is derived from Bloomberg on the valuation date, plus the valuation of the underlying note. • Apply price to estimate fair value.
(iv)	Unquoted preference shares	Estimated on the basis of the price of a new issue of identical shares (at par) close to reporting date.

20. Fair value of financial instruments (cont'd)

The fair values of financial assets and financial liabilities, together with the carrying amounts and their classifications shown in the statement of financial position, are as follows:

	2016							
	Carrying amount				Fair value			
	Loan and receivables $	Available -for-sale $	Other financial liabilities $	Total $	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets measured at fair value								
Corporate bonds	-	686,784,653	-	686,784,653	-	686,784,653	-	686,784,653
Municipal bonds	-	149,138,869	-	149,138,869	-	149,138,869	-	149,138,869
Credit linked note	-	38,689,634	-	38,689,634	-	38,689,634	-	38,689,634
	-	874,613,156	-	874,613,156	-	874,613,156	-	874,613,156
Financial assets not measured at fair value								
Cash and cash equivalents	1,155,576	-	-	1,155,576				
Accounts receivable	34,924,407	-	-	34,924,407				
Unquoted preference shares	-	63,990,000	-	63,990,000	-	63,990,000	-	63,990,000
	36,079,983	63,990,000	-	100,069,983				
Financial liabilities not measured at fair value								
Margin loans payable	-	-	131,808,102	131,808,102				
Other payables	-	-	17,191,162	17,191,162				
Due to related company	-	-	15,264,740	15,264,740				
Manager's preference shares	-	-	10,000	10,000				
	-	-	164,274,004	164,274,004				

20. Fair value of financial instruments (cont'd)

	2015							
	Carrying amount				Fair value			
	Loan and receivables $	Available -for-sale $	Other financial liabilities $	Total $	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets measured at fair value								
Corporate bonds	-	600,717,370	-	600,717,370	-	600,717,370	-	600,717,370
Municipal bonds	-	209,795,708	-	209,795,708	-	209,795,708	-	209,795,708
Credit linked note	-	37,322,179	-	37,322,179	-	37,322,179	-	37,322,179
	-	847,835,257	-	847,835,257	-	847,835,257	-	847,835,257
Financial assets not measured at fair value								
Cash and cash equivalents	213,152	-	-	213,152				
Accounts receivable	27,731,676	-	-	27,731,676				
Unquoted preference shares	-	59,990,000	-	59,990,000	-	59,990,000	-	59,990,000
	27,944,828	59,990,000	-	87,934,828				
Financial liabilities not measured at fair value								
Margin loans payable	-	-	214,342,641	214,342,641				
Other payables	-	-	14,039,600	14,039,600				
Due to related company	-	-	13,124,190	13,124,190				
Manager's preference shares	-	-	10,000	10,000				
	-	-	241,516,431	241,516,431				

The Company has not disclosed the fair values of financial instruments such as cash and cash equivalents, accounts receivable, margin loans payable, other payables, due to related company and manager's preference shares, because their carrying amounts are a reasonable approximation of fair values.

No items were transferred from one level to another.