

STERLING

INVESTMENTS LIMITED



2017 **ANNUAL
REPORT**



Investment Mandate

Sterling Investments Limited (SIL) was formed to provide long term investors with attractive returns in US dollars. SIL aims to deliver attractive risk adjusted returns to its shareholders by actively and prudently managing their funds. The company achieves this by strategically investing in the global capital markets and the real sector.

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Directors' Report

The Directors are pleased to present their report for the year ended **December 31, 2017**. The report represents the results for Sterling Investments Limited.

COMPANY RESULTS

- ▶ Total assets were **J\$1,168,095,124** as at December 31, 2017
- ▶ Dividend yield of **5.2%** for the year ended December 31, 2017
- ▶ The profit after income tax was **J\$51.68 million** for the year ended December 31, 2017
- ▶ Trading gains increased by **272%** to **J\$37.80 million** for the year ended December 31, 2017
- ▶ Stockholder's equity was **J\$866.52 million** as at December 31, 2017

KPMG, Barbados and Eastern Caribbean have indicated their willingness to continue in office as auditors of the company.

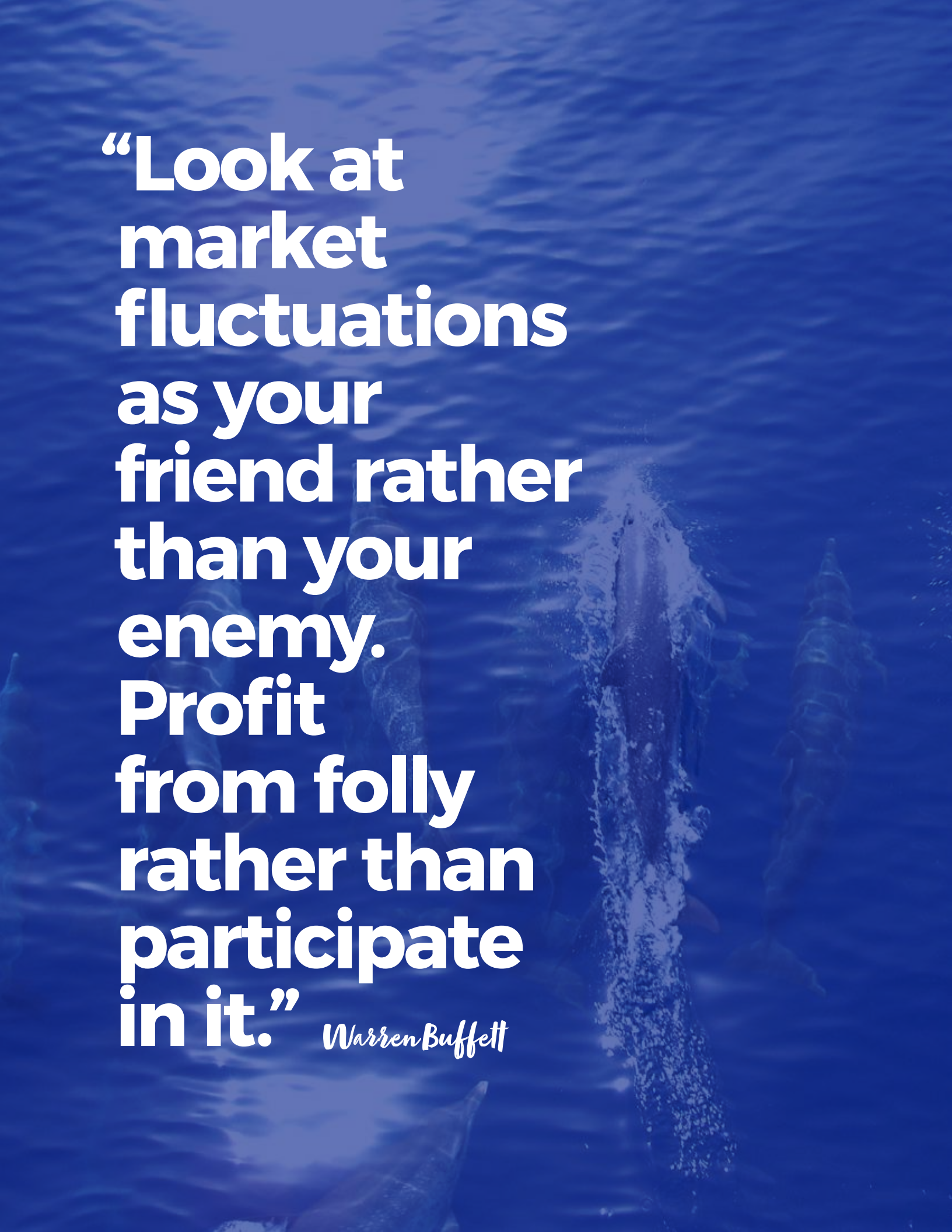
The Directors wish to thank the management and all team members for their performance during the year under review. As always, we express our deep and sincere appreciation to the stockholders for their continued support and partnership.

Financial Ratios	2017	2016	2015	2014
Price Earnings Ratio	14.61	11.17	8.52	8.88
Net Interest Margin	90.30%	93.90%	92.50%	92.80%
Dividends Paid and Proposed (in respect of the financial year)	39,443,858.95	22,842,106.12	18,541,154.12	12,663,751.68
Dividend Payout Ratio	76.33%	29.06%	26.05%	21.60%
Dividend Yield	5.24%	2.60%	3.06%	2.43%
Price to Book	0.87	1.08	0.87	0.97

By Order of the Board



Dated this February 15, 2018



**“Look at
market
fluctuations
as your
friend rather
than your
enemy.
Profit
from folly
rather than
participate
in it.”** *Warren Buffett*

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 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

Sterling Investments Limited has no employees. The operations of Sterling Investments Limited are managed by "the Investment Manager" – Sterling Asset Management Limited (SAM). As a result, SIL has one of the highest net profit margins and lowest efficiency ratios of any company on the Jamaica Stock Exchange. SAM's team ensures that SIL's portfolio is optimized and executes the directives of the Board. SAM also ensures SIL's compliance with the applicable regulatory regimes.



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, SAM's balance sheet greatly exceeds the regulatory capital requirement. Sterling was one of the first local institutions to bring high quality, US dollar fixed income investments to Jamaican investors.

For 16 years, SAM has focused on providing local investors with US dollar investments in the global markets. The company was started because local investors were not able to access safe and attractive medium to long term investments in a hard currency. SAM has 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 12.82% per annum between 2003 and 2017. US\$100,000 invested in the fund in 2003 would have been worth over US\$580,980 at the end of 2017. SIL's investment strategy has been modelled in a similar way. 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.

Board of **Directors**



Sterling Investments Limited (SIL)

Derek Jones
Chairman QBE

Charles Ross
BSc. (Hons), MSc.

Michael Bernard
BA, BSc., MBA, FJIM

SIL's Board consists of well-respected and experienced professionals who hold the investment manager accountable on behalf of the shareholders.

Charles Ross, BSc. (Hons), MSc. // **Derek Jones**, Chairman QBE
Maxim Rochester, BSc. (Accounting) Hons. FCA, FCCA // **Michael Bernard**, BA, BSc., MBA, FJIM



Sterling Asset Management (SAM)

Maxim Rochester

BSc. (Accounting) Hons. FCA, FCCA

Marian Ross

BA (Hons), MBA

Robert Taylor

BSc. MBA, LLB, L.E.C.

SAM's Board consists of well-respected and experienced professionals who hold the investment manager accountable on behalf of the shareholders.

Charles Ross, BSc. (Hons), MSc. // **Maxim Rochester**, BSc. (Accounting) Hons. FCA, FCCA // **Marian Ross**, BA (Hons), MBA // **Robert Taylor** BSc., MBA, LLB, L.E.C.

Board of **Directors** Biographies

Sterling Investments Limited (SIL)

Derek Jones, Chairman QBE

Derek is one of the founding partners of HSM Chambers in Grand Cayman 2012. He was admitted to practice in Jamaica in November, 1970 and spent some 40 years with the firm of Myers, Fletcher & Gordon in Jamaica. He is also admitted to several Bars in the Caribbean and as a Solicitor of the United Kingdom. He enjoys the rare distinction of having been ranked by the authoritative guide of Chambers and Partners in two jurisdictions namely Jamaica and Cayman, and in two different practice areas. From 2005 to 2007 he was seconded to the Cricket World Cup organization as Senior Legal Counsel leading up to the hosting of the ICC Cricket World Cup in the West Indies in 2007. He chairs the Cable and Wireless Jamaica Pension Fund, the Red Stripe Pension Fund and the Jamaica College Trust. He is a Director of the JN Cayman, formerly known as the National Building Society of the Cayman Islands. He was honoured by the Jamaican Bar Association in 2012 for his services to the Association and to the legal profession. He has done a considerable amount of public speaking, was for many years a member of the National Speakers Association of the United States and is known for his independent thought as well as his wit. He is also the Chairman of the Conduct Review Committee.

Other Appointments:

- LIME Pension Fund (Chairman)
- Red Stripe Pension Fund (Chairman)
- Jamaica College Trust (Chairman)

Charles Ross, BSc. (Hons), MSc.

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 30% 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. He holds a Postgraduate Diploma in Business

Administration from the University of Manchester, a BSc (Hons.) in Civil Engineering from the University of Edinburgh and an MSc. in Construction Engineering and Management from the University of the West Indies.

Other Appointments:

- Sterling Asset Management Limited
- The National Crime Prevention Fund (Crime Stop)

Michael Bernard, BA, BSc, MBA, FJIM

Michael has more than 25 years of executive management experience and is a retired Managing Director of Carreras Limited. During his tenure as the Chief Executive at Carreras, he successfully led the company to deliver commendable and continuous growth in shareholder returns, which earned the company awards for being the best performing company listed on the Jamaica Stock Exchange, including "Best Performing Company for 2010". 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. He is the Chairman of the Asset-Liability(ALCO) Committee,

Other Appointments:

- Salada Foods Jamaica Limited
- Carreras Limited
- Jamaica College (Chairman)
- GK General Insurance Co. Limited
- Hardware & Lumber Limited
- Jamaica College Foundation
- Spike Industries Limited (Chairman)
- Peak Bottling Company Limited (Exec. Chairman)
- New Transport Group Limited
- One on One Educational Services Limited (Chairman)
- Supreme Ventures Racing and Entertainment Limited (SVREL) (Exec. Chairman)

Maxim Rochester, B.Sc. (Accounting) Hons.
FCA, FCCA
(see bio under SAM Ltd.)

Sterling Asset Management Limited (SAM)

Maxim Rochester, B.Sc. (Accounting) Hons.
FCA, FCCA

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. He has invaluable expertise and experience in dealing with international and major domestic corporations and financial institutions. He has a B.Sc. in Accounting with honours from the University of the West Indies, in addition to being a Member of the Chartered Association of Certified Accountants (UK) and a Member of the Institute of Chartered Accountants of Jamaica. Maxim is an independent director on the Board of Sterling Asset Management Limited and is the Chairman of the company's Audit Committee.

Other Appointments:

- Sterling Investments Limited
- Eppley Limited
- Guardian Holdings Limited
- Guardian Life Limited
- Guardian Life of the Caribbean Limited
- Facey Commodity Group Limited
- Guardian General Insurance Limited

Charles Ross, BSc. (Hons), MSc.
(see bio under SIL Ltd.)

Marian Ross, BA (Hons), MBA

Marian has eight years' of experience in the financial sector and has worked in credit analysis and evaluation, investment analysis and research in both the regional and international capital markets. Her work has covered fixed income, publicly traded equities and private equity. She also has experience in portfolio management and the structuring of medium to long term investment vehicles. Her work experience has taken her through the Caribbean and to North America and South-East Asia. Marian has a BA (Hons) in Economics from the University of Western Ontario and an MBA from New York University's Stern School of Business.

Robert Taylor BSC, MBA, LLB, L.E.C.

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 where he helped to structure credit and capital market transactions and also managed the Bank's relationships with the Government of Jamaica and Financial Institutions. He subsequently launched Taylor Law - a full time law practice specializing in Real Estate and Commercial law. Robert has a Bachelor of Laws from the University of London, an MBA, and a certificate in Legal Education from Norman Manley Law School. Robert is an independent director on the Board of Sterling Asset Management Limited and is the Chairman of the company's Asset Liability Management Committee.

Chairman's Message

Strategic vision and mission

Sterling Investments achieved a number of milestones in 2017. Total assets surpassed J\$1 billion, trading gains tripled and dividends paid to shareholders increased by more than 70%. The company benefitted from profitable investments made during 2016 and 2017. Prices of assets in the portfolio rose significantly, allowing the team to realize some of the gains on its investments. The company started to make selective equity purchases towards the end of the year.

In addition, we engaged the stockholders by hosting several events throughout the year with the aim of showcasing the company's performance. We launched a campaign to educate investors on the company's innovative Dividend Reinvestment and Complementary Share Purchase Programmes. Both programmes are the first of their kind on the local stock market and have helped to boost liquidity and trading in the shares.

While there were unexpected developments with the appreciation of the Jamaican dollar in 2017, we anticipate a slowing or reversal of this trend during 2018. We remind investors that the annual average rate of devaluation for the past 45 years (including 2017) is approximately 11.56%. The Board and management team look forward to a renewed focus on the company's long term investment strategy of investing in high quality USD denominated stores of value.



Performance Summary

Financial overview:

Total assets grew by 19.8%, increasing from J\$974.7 million as at December 31, 2016 to J\$1.17 billion as at December 31, 2017. The portfolio grew organically from retained earnings and from funds raised through the Dividend Reinvestment and Complementary Share Purchase programmes. Total interest income grew by 1.3%, increasing from J\$78.1 million for the period ending December 31, 2016 to J\$79.1 million for the year ended December 31, 2017.

Profit after tax declined by 34.3% to J\$51.7 million for the 2017 fiscal year primarily on account of unrealised foreign exchange losses which totaled J\$26.2 million. This is due to the appreciation of the Jamaican dollar over the fiscal year. The company immediately took steps to reduce the effect of the 2017 JMD appreciation by increasing trading gains. Trading gains jumped by 271.7% from J\$10.2 million, the 2016 fiscal year to J\$37.8 million in the 2017 fiscal year. The company's strategy of using efficient funding sources has continued to reap rewards for stockholders. This is reflected in the company's robust net interest margin of 90.3%.

During the year ended December 31, 2017, SIL paid J\$39,443,858.95 to stockholders in dividends, representing a dividend yield of 5.2% as at December 31, 2017. Dividends are paid in USD, which provides investors with a hedge against devaluation and inflation. The dividend payout in fiscal year 2017 was 72.7% higher than the amount paid out in the prior year.

Outlook

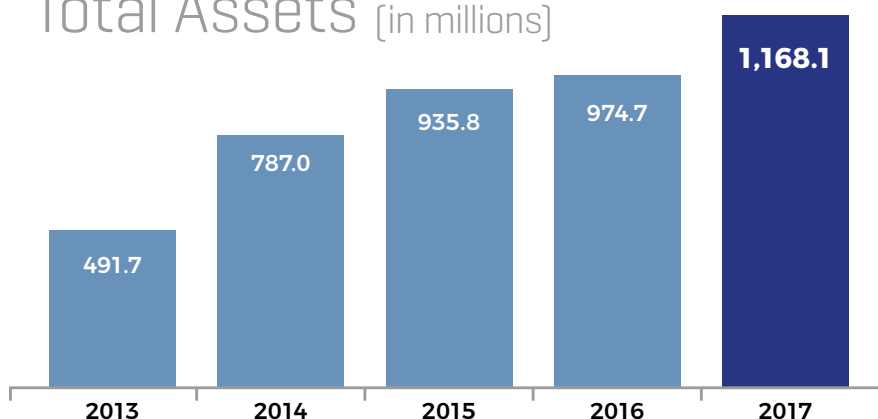
Sterling Investments Limited continues on a strong and innovative growth path. The proactive and nimble investment strategy has created value for shareholders. For this reason, SIL must maintain a long term investment strategy despite short term trends.

As of March 5, 2018, the Jamaican dollar has devalued by 2.8%

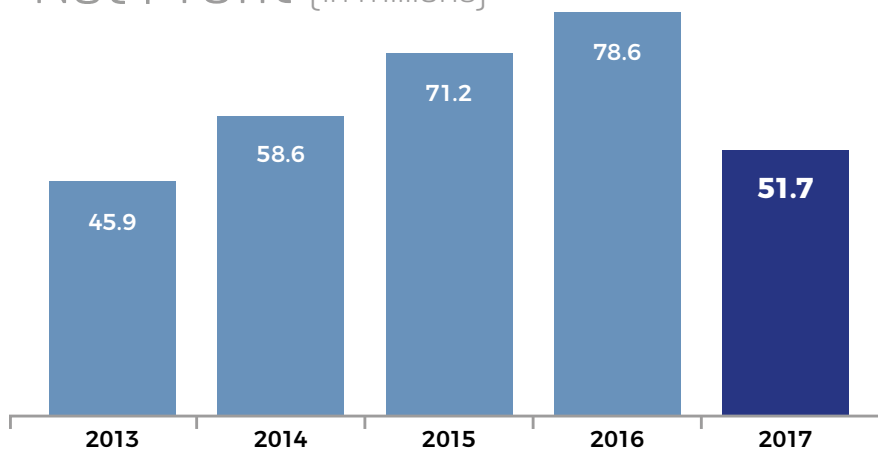
(J\$3.47) since the start of 2018. Should this trend continue during the year, SIL's profit position is likely to improve. The company has introduced equities to the portfolio to increase diversification.

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.

Growth in Total Assets (in millions)



Net Profit (in millions)



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
- Enforce the code of ethics

The company's corporate governance guidelines can be found at www.sterlinginvestmentsltd.com

The company's code of ethics can be found at the company's website www.sterlinginvestmentsltd.com

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. Maxim Rochester serves as the Chairman of the Audit Committee.

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

Meetings and Attendance

Committee Members	Meetings	% Attendance
Maxim Rochester (Chairman)	4	100%
Derek Jones	4	100%
Michael Bernard	4	100%
Charles Ross	4	100%

Audit Committee Report

The Audit Committee plays a key oversight role on behalf of the Board. The Committee's principal activities focus on the oversight of operational risks, compliance and governance of the company. We reviewed the internal audit plans and the internal audit reports presented throughout the year. The audit areas include AML compliance, investment securities, financial accounts, information technology, cyber security and adherence to the applicable regulations. The Committee monitored the quarterly and annual reporting to stockholders and regulators. The Committee ensured the provision of objective, comprehensive, factual and timely information to the Jamaica Stock Exchange. SIL successfully delivered results within the regulatory imposed time frame to stockholders and the Jamaica Stock Exchange during 2017. All issues identified by the Committee were addressed satisfactorily.

The Audit Committee assists the Board in the oversight of the systems of internal controls, the Company's financial reporting processes and audit functions, as well as compliance with legal and regulatory requirements. The Committee reviews adherence to accounting policies, oversees the work of the internal and external auditors and assists the Board in discharging its duties with regard to maintaining transparent records and strong controls and ensuring that financial transactions are consistent with the policies and directives of the Board. Based on the internal and external audit reports, the Audit Committee is satisfied that SIL's internal controls, business processes, and record keeping are sufficiently strong, transparent and robust.

Assets & Liabilities Committee (ALCO)

The Assets & Liabilities 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 rates 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.

This committee meets quarterly and consists of four members. It is chaired by Michael Bernard. Additional meetings may be scheduled as needed. The purpose of this committee is to maximize net interest income and trading gains over both the short and long term while managing the portfolio within acceptable board approved limits for credit risk, liquidity risk, interest rate risk and duration risk. Other issues such as credit trends, credit concentrations and other credit-related metrics that may impact strategy development are also discussed in this forum.

Principal Activities of Asset Liability Committee

Assess:

- Local and international macro-economic conditions and the implications for the company's investment strategy
- Management of market, liquidity and credit risks
- 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

Meetings and Attendance

ALCO Members		%
Michael Bernard (Chairman)	4	100%
Derek Jones	4	100%
Maxim Rochester	4	100%
Charles Ross	4	100%

Conduct Review Committee

This committee meets quarterly and consists of four members. It is chaired by Derek Jones. The Committee is governed by the Corporate Governance Guidelines. Specifically, the Committee: (i) submits for approval by the Board of Directors the remuneration report and the remuneration policy for Executive Directors which will be put forward for approval at the Annual General Meeting (ii) puts forward proposals for the remuneration


of the Chairman, (iii) puts forward proposals for the remuneration of non-executive Directors, who are members of Board Committees (iv) leads the process for Board appointments. In addition, this committee reviews on an annual basis the performance evaluation of all the non-executive directors in assessing whether they have effectively discharged their duties. They also review new appointments of board members for any potential conflict of interest. All of the directors are non-executive directors. No new appointments were made to the board this financial year.

Principal Activities of the Conduct

Review Committee

- It maintains a formal and transparent procedure for setting policy on directors' remuneration and to determine an appropriate remuneration packages for all directors including the Chairman.
- It is responsible for reviewing the structure and composition of the board at least annually and making recommendations to the board to complement its corporate strategy.
- It identifies individuals suitably qualified to become board members and selects or makes recommendations to the board on the selection of individuals nominated for directorships.
- It is responsible for assessing the independence of independent non-executive directors.
- It reviews new appointments of board members for any potential conflict of interest.
- It reviews the annual evaluation of the performance of board members.

Meetings and Attendance

Conduct Review Members		%
Maxim Rochester	4	100%
Derek Jones (Chairman)	4	100%
Michael Bernard	4	100%
Charles Ross	4	100%

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.

NB: Sterling Asset Management Limited (SAM) (the Investment Manager for Sterling Investments Limited) holds monthly board and board sub-committee meetings.

There was one Annual General Meeting held in 2017.

Board Annual Self Evaluation

SIL's Board conducts an annual self-evaluation of its performance and all its sub-committees. Directors are required to evaluate specific issues regarding the effectiveness of the Board governance. The issues include the quality of the information provided by management, the effectiveness of the operation of any Committee and a performance assessment of the Board and Chairman during the year. Additionally, smaller discussions are held with the various Directors to solicit feedback on the performance of the Board and Management. The process has been invaluable to the continuous improvement of the governance process. SIL remains committed to good corporate governance practices and continues to comply with the applicable laws and regulations, international best practices and guidance from the Jamaica Stock Exchange and the Financial Services Commission (FSC).

Directors' Compensation

SIL compensates its Directors fairly and responsibly and aligns remuneration with the company's strategy. For the financial year ending December 31, 2017, a total of J\$2,151,660 was paid to the four Directors. Each director gets the same amount in fees.

Directors' Training

All four directors attended Corporate Governance training which incorporated the relevant laws and regulations including the Companies Act,

the Securities Act, POCA and the Bank of Jamaica Act. They were fully briefed on the responsibilities of directors operating under the ambit of the JSE, the FSC and the Bank of Jamaica.

Independent Directors

SIL recognizes the important role that independent directors play in the company's governance. Of the four non-executive Directors serving during the year, 75% of them were deemed to be independent. The Board considers a director to have met the criteria for independence if he or she: ✓ does not hold cross-directorships or has significant

links with other directors through involvement in other companies or bodies; ✓ does not represent a substantial shareholding; ✓ is not a close relative of a significant shareholder; ✓ does not have an employment relationship with SIL or Sterling Asset Management. The independence of directors is kept under constant review and all independent directors are required to disclose whether they have any interests or relationships that could impact on their ability to act in the best interests of the company.

The Board, having undertaken an assessment in the period under

review, has determined that the following non-executive directors met the criteria for independence during the period under review:

- Derek Jones (Chairman)
- Michael Bernard
- Maxim Rochester



**“Anyone
can hold
the helm
when the
sea is calm.”**

Syrus Pubilius

Management Discussion & Analysis

Balance Sheet Analysis

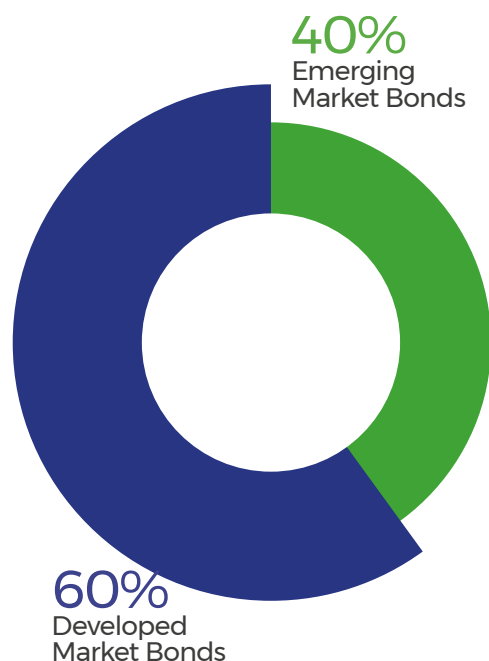
Total assets increased by 19.8% from J\$974.7 million as at December 31, 2016 to J\$1.2 billion as at December 31, 2017. This was largely attributed to the increase in investment securities which experienced an 18.4% increase over the same period. This was funded by a combination of retained earnings and the proceeds of the DRIP and CSPP programmes introduced in the second half of 2016. As at December 31, 2017, margin loans totalled J\$274.8 million, or 24.7% of the portfolio of investment securities, compared to 14.0% of investment securities in 2016. The company's use of margin has enhanced the income of the portfolio.

The company's liabilities, excluding margin loans payable, declined by 17.6% from J\$32.5 million in 2016 to J\$26.8 million in 2017. This is mainly due to a significant decrease in the line item "other payables" which declined by 61.1% from J\$17.2 million in 2016 to 6.7 million in 2017.

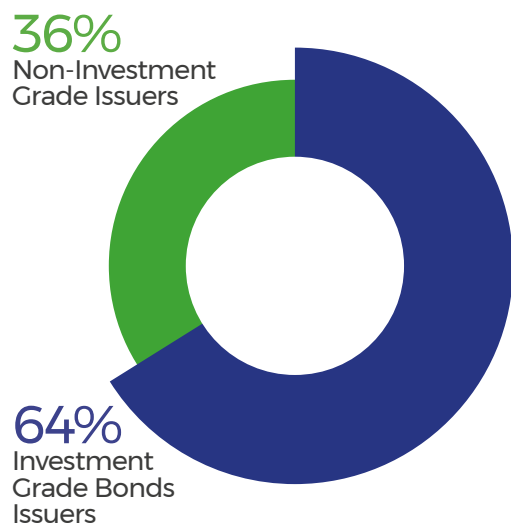
Total equity increased by 6.9% from J\$810.4 million as at December 31, 2016 to J\$866.5 million in December 31, 2017. This was due to an increase in retained earnings, an increase in the prices of investment securities and funds raised from the Dividend Reinvestment Programme (DRIP) and Complementary Share Purchase Programme (CSPP). Retained earnings increased by 10.4% from J\$204.1 million to J\$225.4 million highlighting the company's continued pledge to deliver growth and value creation for stockholders.

Weighted average coupon rate = 7.99%
Weighted average yield to call/maturity = 7.51%

Asset allocation characterized by developed market bonds vs. emerging market bonds



Investment Grade Issuers vs. Investment Grade Bond Issuers



Private Equity Update

SIL owns common shares in a hotel development project located in St. Kitts and Nevis. This investment accounts for 5.6% of total assets.

Income Statement Analysis

Profit for the fiscal year 2017 was J\$51.7 million compared to J\$78.6 million in 2016 primarily on account of unrealised FX losses which totalled J\$26.2 million. The Jamaican dollar appreciated by 2.8% during 2017, compared to a 6.7% devaluation in 2016. As a result, foreign exchange gains decreased from J\$53.2 million in 2016 to a loss of J\$26.2 million as at December 2017. This was partially offset by the increase in trading gains.

Gains on sale of investments more than tripled from J\$10.2 million in December 2016 to J\$37.8 million in December 2017 as the company capitalized on the rise in prices of assets within its investment portfolio. The company manages its portfolio with a view to profit taking when conditions are favourable.

SIL's primary source of revenue is the interest income generated by the securities in its portfolio. Total interest income amounted to J\$79.1 million for the 2017 fiscal year; 1.3% higher than total interest income for the corresponding period in 2016.

Expenses

Operating expenses for the fiscal year ended December 2017 were J\$28.4 million or approximately

14.8% higher than the previous year. This was attributed to higher management fees which increased due to the growth in assets.

Outlook

Improvements in the global economy led to an appreciation in bond and equity prices during 2017. A combination of headwinds and tailwinds will challenge markets in 2018: rising rates and fiscal stimulus in the USA, a potential shift in policy in Europe and Japan and ongoing geopolitical risks.

Euro Area: Modest growth but elusive inflation suggests that monetary policy will remain accommodative for some time to come. The Eurozone's GDP grew by 2.5% in 2017 which is the fastest expansion experienced in the last ten years. The ECB reduced their monthly asset purchases to EUR 30 billion (from EUR 60 billion). Euro area inflation was 1.5% as at December and is expected to remain at that level throughout 2018.

The Bank of England increased interest rates in November for the first time since 2007, noting that any further rate rises are likely to be very gradual and remain highly dependent on the outcome of the Brexit negotiations. We believe the Eurozone offers value in both fixed income and equity asset classes.

USA: Strong economic growth and labour market indicators suggest that the U.S. economy will continue to perform well. Downside risks to this view include rising interest rates and

potential trade wars. The Federal Reserve's benchmark interest rate is currently in a range of 1.25% to 1.5%. The Federal Reserve's Board hiked rates 3 times in 2017 and has communicated its intention to raise this by 3 times in 2018 (by 0.25% each time). Some analysts predict that the Fed could raise rates as many as 4 or 5 times, if fiscal stimulus measures cause the economy to overheat. U.S. fourth-quarter 2017 real GDP growth totalled 2.6% (slightly below expectations of 3%). However wage growth of 2.9% (above expectations of 2.6%) significantly moved markets and caused inflation expectations to rise. New U.S. tax legislation was passed in December delivering a large reduction in the corporate income tax rate from 35% to 21%.

Oil appreciated by 12.5% in 2017 and 45% in 2016. OPEC has agreed to extend its production cuts till the end of 2018. The increase in global growth in addition to the extreme cold weather experienced in the U.S. contributed to the upward pressure on prices in 2017. The output of the U.S. shale producers is likely to have a significant impact on the price of oil during 2018.

Employees and Option Scheme

SIL does not have any employees and there are therefore no option schemes or any other incentives in place for the company.

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 on-going, 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 Company'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 is 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.

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. However, the prices of financial assets are likely to remain volatile and stockholders 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.

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 Company'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 internal audit firm. This firm reports monthly directly

to SAM's Audit Committee on the findings of its internal audits. SAM 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.

Corporate Data

Investor Relations Contact:

Yanique Leiba-Ebanks

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Registered Address:

20 Micoud Street

P.O. Box 189

Castries, St. Lucia

🌐 www.sterlinginvestmentsltd.com

✉ sil@sterlinginvestmentsltd.com

External Auditors

Sterling Investments Limited is audited by KPMG, Barbados.

Internal Auditors

Mayo Holdings serve as the internal auditor for Sterling Asset Management Limited (the Investment Manager for Sterling Investments Limited).

Sterling Investments Stockholder Events



A playful moment is caught on camera with (from L-R) Ian Watson (VP Sales & Marketing-Sterling Asset Management), Yanique Leiba-Ebanks (AVP Pensions & Portfolio Investments-Sterling Asset Management) and Marie James (Scotia Investments).



Here Yanique Leiba-Ebanks addresses the audience at the Sterling Investments Press Conference. From L-R Ian Watson (VP Sales & Marketing-Sterling Asset Management), Charles Ross (Director- Sterling Investments), Michael Bernard (Director- Sterling Investments).



A light moment is shared at the Sterling Investments Luncheon. From L-R Oliver Holmes, Peter Goldson (MF&G), Michael Bernard (Director of Sterling Investments), Maxim Rochester (Director of Sterling Investments)



Michael Buckle from the Bank of Jamaica poses a question at the Sterling Investments Luncheon; to his right is Marian Ross (Director of Sterling Asset Management)

Directors & Connected Parties

TOP TEN STOCKHOLDERS

For Sterling Investments Limited, As at December 31, 2017

Name	Number of shares	Percentage
ATL Group Pension Trustees Nominee limited	10,000,000	16.95
GraceKennedy Limited Pension Scheme	5,227,270	8.86
Lloyd Badal	4,934,411	8.36
PAM-Cable & Wireless Pension Real Estate Fund	3,000,000	5.08
PAM-Pooled Equity Fund	2,665,905	4.52
Satyanarayana Parvataneni	2,038,461	3.45
National Insurance Fund	2,016,129	3.23
Charles A. Ross	1,906,863	2.81
Winnifred Mullings	1,658,484	2.71
Everton McDonald	1,599,790	1.80

Directors & Connected Parties Report

For Sterling Investments Limited as at December 31, 2017

Directors	Shareholdings	Connected Parties
Derek Jones		
Maxim Rochester		
Michael Bernard		
Charles Ross	1,906,863	330,796

	Number of shares	% of total
Charles Ross	1,906,863	2.81%
Marian Ross	197,141	0.33%
Natalie Farrell-Ross	9,783	0.02%
Sterling Asset Management	18,700	0.03%
Charles Andrew Ross	105,172	0.18%

Audited Financial Statements

December 31, 2017





KPMG
204 Johnsons Centre
#2 Bella Rosa Rd
Gros Islet
St. Lucia

Telephone: (758) 453 2298
Email: ecinfo@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 30 to 62, which comprise the statement of financial position as at December 31, 2017, 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, 2017, 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



INDEPENDENT AUDITORS' REPORT (CONTINUED)

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
<p>The Company's investment securities measured at fair value include corporate and municipal bonds, quoted and unquoted ordinary shares, classified as available-for-sale and held for trading. 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.</p> <p>The investment securities held by the Company were categorised as Levels 1 and 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.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • 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, <i>Fair Value Measurement</i>.



INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Shareholders of
STERLING INVESTMENTS LIMITED

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.

Our opinion on the financial statements does not cover the other information and we do 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.



INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Shareholders of
STERLING INVESTMENTS LIMITED

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.

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 auditor's 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.



INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Shareholders of
STERLING INVESTMENTS LIMITED

Auditors' Responsibilities for the Audit of the Financial Statements, continued

- 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.

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 Lisa Brathwaite.

Chartered Accountants
Castries, Saint Lucia
February 26, 2018


Statement of Financial Position

December 31, 2017

(Expressed in Jamaican Dollars)

	Notes	2017	2016
Assets			
Cash and cash equivalents	4	14,696,494	1,155,576
Accounts receivable	5	42,462,081	34,924,407
Income tax recoverable		-	18,269
Investment securities	6	1,110,936,549	938,603,156
Total assets		\$1,168,095,124	974,701,408
Liabilities			
Margin loans payable	7	274,814,733	131,808,102
Other payables	8	6,687,475	17,191,962
Due to related company	9(c)(i)	19,855,271	15,264,740
Manager's preference shares	10	10,000	10,000
Income tax payable		208,351	-
Total liabilities		301,575,830	164,274,804
Equity			
Share capital	11(ii)	669,453,676	630,913,829
Prepaid share reserve	12	2,195,194	12,266,188
Fair value reserve	13	(30,491,694)	(36,893,285)
Retained earnings		225,362,118	204,139,872
Total equity		866,519,294	810,426,604
Total liabilities and equity		\$1,168,095,124	974,701,408

The financial statements on pages 30 to 62 were approved for issue by the Board of Directors on February 26, 2018 and signed on its behalf by:


 Director
 Charles Ross


 Director
 Maxim Rochester

Statement of Profit or Loss and Other Comprehensive Income

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Revenue	14		
Interest income		79,081,255	78,099,467
Foreign exchange (loss)/gains		(26,241,648)	53,159,616
Gains on disposal of available-for-sale securities		37,818,293	10,174,691
Unrealised gain on quoted equities		<u>1,318,999</u>	<u>-</u>
		<u>91,976,899</u>	<u>141,433,774</u>
Expenses			
Interest		(7,642,960)	(4,759,702)
Impairment loss on available-for-sale-securities		(1,158,490)	(18,772,015)
Unrealised loss on embedded derivative	6(iii)	(392,078)	(1,113,392)
Other operating expenses	15	<u>(28,399,108)</u>	<u>(24,743,062)</u>
		<u>(37,592,636)</u>	<u>(49,388,171)</u>
Operating profit		54,384,263	92,045,603
Other income		1,087	422,338
Manager's preference share interest expense		<u>(1,899,545)</u>	<u>(13,278,611)</u>
Profit before taxation		52,485,805	79,189,330
Taxation	16	<u>(808,586)</u>	<u>(591,937)</u>
Profit for the year		<u>51,677,219</u>	<u>78,597,393</u>
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		(36,232,680)	(5,027,151)
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		<u>42,634,271</u>	<u>30,092,939</u>
		<u>6,401,591</u>	<u>41,880,761</u>
Total comprehensive income for the year		<u>\$58,078,810</u>	<u>120,478,154</u>
Basic and diluted earnings per stock unit	17(a), 17(b)	<u>0.89¢</u>	<u>1.41¢</u>

Statement of Changes in Equity

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

	Share capital [note 11(ii)]	Prepaid share reserve (note 12)	Fair value reserve (note 13)	Retained earnings	Total
Balances at December 31, 2015	<u>627,796,101</u>	<u>-</u>	<u>(78,774,046)</u>	<u>144,866,571</u>	<u>693,888,626</u>
Comprehensive income:					
Profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>78,597,393</u>	<u>78,597,393</u>
Other comprehensive income:					
Realised gains on disposal of available-for-sale securities reclassified to profit	<u>-</u>	<u>-</u>	<u>(5,027,151)</u>	<u>-</u>	<u>(5,027,151)</u>
Impairment loss on available-for- sale securities reclassified to profit	<u>-</u>	<u>-</u>	<u>16,814,973</u>	<u>-</u>	<u>16,814,973</u>
Unrealised change in fair value of available-for-sale securities	<u>-</u>	<u>-</u>	<u>30,092,939</u>	<u>-</u>	<u>30,092,939</u>
Total other comprehensive income	<u>-</u>	<u>-</u>	<u>41,880,761</u>	<u>-</u>	<u>41,880,761</u>
Total comprehensive income	<u>-</u>	<u>-</u>	<u>41,880,761</u>	<u>78,597,393</u>	<u>120,478,154</u>
Transactions with owners					
Shares issued during the year	<u>3,117,728</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,117,728</u>
Prepayments for share	<u>-</u>	<u>12,266,188</u>	<u>-</u>	<u>-</u>	<u>12,266,188</u>
Dividends (note 18)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(19,324,092)</u>	<u>(19,324,092)</u>
	<u>3,117,728</u>	<u>12,266,188</u>	<u>-</u>	<u>(19,324,092)</u>	<u>(3,940,176)</u>
Balances at December 31, 2016	<u>630,913,829</u>	<u>12,266,188</u>	<u>(36,893,285)</u>	<u>204,139,872</u>	<u>810,426,604</u>
Comprehensive income:					
Profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,677,219</u>	<u>51,677,219</u>
Other comprehensive income:					
Realised gains on disposal of available-for-sale securities reclassified to profit	<u>-</u>	<u>-</u>	<u>(36,232,680)</u>	<u>-</u>	<u>(36,232,680)</u>
Unrealised change in fair value of available-for-sale securities	<u>-</u>	<u>-</u>	<u>42,634,271</u>	<u>-</u>	<u>42,634,271</u>
Total other comprehensive income	<u>-</u>	<u>-</u>	<u>6,401,591</u>	<u>-</u>	<u>6,401,591</u>
Total comprehensive income	<u>-</u>	<u>-</u>	<u>6,401,591</u>	<u>51,677,219</u>	<u>58,078,810</u>
Transactions with owners:					
Shares issued during the year	<u>38,539,847</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,539,847</u>
Transfer of prepayment	<u>-</u>	<u>(12,266,188)</u>	<u>-</u>	<u>-</u>	<u>(12,266,188)</u>
Prepayments for share	<u>-</u>	<u>2,195,194</u>	<u>-</u>	<u>-</u>	<u>2,195,194</u>
Dividends (note 18)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,454,973)</u>	<u>(30,454,973)</u>
	<u>38,539,847</u>	<u>(10,070,994)</u>	<u>-</u>	<u>(30,454,973)</u>	<u>(1,986,120)</u>
Balances at December 31, 2017	<u>\$669,453,676</u>	<u>2,195,194</u>	<u>(30,491,694)</u>	<u>225,362,118</u>	<u>866,519,294</u>

Statement of Cash Flows

Year ended December 31, 2017
(Expressed in Jamaican Dollars)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Cash flows from operating activities			
Profit for the year		51,677,219	78,597,393
Adjustments for:			
Interest income		(79,081,255)	(78,099,467)
Interest expense		7,642,960	4,759,702
Impairment loss on available-for-sale securities		1,158,490	18,772,015
Unrealised loss on embedded derivative	6(iii)	392,078	1,113,392
Unrealised gain on quoted equities		(1,318,999)	-
Taxation	16	808,586	591,937
Manager's preference share interest expense		<u>1,899,545</u>	<u>13,278,611</u>
		(16,821,376)	39,013,583
Changes in:			
Accounts receivable		(22,859)	(249,560)
Margin loans payable		143,006,631	(82,533,539)
Other payables		874,579	447,559
Due to related company		<u>4,590,531</u>	<u>2,140,550</u>
		131,627,506	(41,181,407)
Interest received		71,566,440	71,156,296
Interest paid		(7,642,960)	(4,759,702)
Tax paid		(581,966)	(976,234)
Net cash provided by operating activities		<u>194,969,020</u>	<u>24,238,953</u>
Cash flows from investing activity			
Investment securities, being net cash used by investing activity		(166,163,371)	(8,782,545)
Cash flows from financing activities			
Issue of ordinary shares, net		34,261,721	2,147,802
Complementary share purchase programme		(10,070,994)	12,266,188
Manager's preference shares interest paid		(13,278,611)	(10,573,808)
Dividends paid	18	(26,176,847)	(18,354,166)
Net cash used by financing activities		(15,264,731)	(14,513,984)
Increase in cash and cash equivalents		13,540,918	942,424
Cash and cash equivalents at beginning of year		<u>1,155,576</u>	<u>213,152</u>
Cash and cash equivalents at end of year	4	<u>\$ 14,696,494</u>	<u>1,155,576</u>

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

1. Identification

Sterling Investments Limited (“the Company”) is incorporated in Saint Lucia under the International Business Companies Act. Its 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. The company has assessed and adopted those which are relevant to its financial statements.

- 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.
- Amendments to IAS 12, *Income Taxes* 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.

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

2. Statement of compliance and basis of preparation (continued)

(a) Statement of compliance (continued):

Amended standards that became effective during the year (continued)

The adoption of these amendments did not result in any change to the presentation and disclosures in the financial statement.

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:

- The company is required to adopt IFRS 9 *Financial Instruments* from January 1, 2018. The standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. It contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Based on its preliminary assessment, the company does not believe that the new classification requirements will have a material impact on its accounting for accounts receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis. However, the company is still in the process of its assessment and the final impact has not yet been determined.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments.

- Under IFRS 9, loss allowances will be measured on either of the following bases:
 - 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
 - Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

2. Statement of compliance and basis of preparation (continued)

(a) Statement of compliance (continued)

New standards and amendments to existing standards that are not yet effective (continued)

- Under IFRS 9, loss allowances will be measured on either of the following bases (continued):

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for short-term receivables without a significant financing component.

The company believes that impairment losses are likely to increase and become more volatile for assets in the scope of IFRS 9 impairment model. However, the company is still in the process of determining the likely financial impact on its financial statements.

IFRS 9 will require extensive disclosures, in particular for credit risk and ECLs. The company's assessment included an analysis to identify data gaps against current processes and the company is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as follows:

- The company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement as well as impairment changes. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 will generally be recognized in retained earnings and reserves as a January 1, 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application:
- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets as measured at FVTPL.
- The designation of certain investments in equity investments not held for trading as at FVOCI.

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

2. Statement of compliance and basis of preparation (continued)

(a) Statement of compliance (continued)

- The company is required to adopt IFRS 15, *Revenue from Contracts with Customers*, from January 1, 2018. The standard established a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

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.

Management has assessed that the main impact of this standard is in respect of fees and commission income. The company earns fees and commission income on provision of brokerage activities, corporate advisory and portfolio management services and unit trust management. Based on preliminary review, IFRS 15 is not expected to have a material impact on the timing and recognition of fees and commission income. However, management has not yet completed its assessment and the financial impact has not yet being determined.

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.

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

2. Statement of compliance and basis of preparation (continued)

(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.

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.

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

2. Statement of compliance and basis of preparation (continued)

(d) Use of estimates and judgements (continued)

Judgements (continued)

(ii) Uncertainties arising from the use of estimates (continued)

(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.

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

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.

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

3. Significant accounting policies (continued)

(a) Financial instruments (continued)

(ii) Embedded derivatives (continued)

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.

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

3. Significant accounting policies (continued)

(a) Financial instruments (continued)

(iv) Measurement and gains and losses (continued)

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.

Available-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.

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

3. Significant accounting policies (continued)

(a) Financial instruments (continued)

(v) Identification and measurement of impairment (continued)

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.

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

3. Significant accounting policies (continued)

(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.

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

3. Significant accounting policies (continued)

(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.

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

3. Significant accounting policies (continued)

(i) Income tax (continued)

(ii) Deferred income tax (continued)

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.

The Company's activities are limited to revenue earned from investment securities, operating in a single segment, therefore no additional segment information is provided.

4. Cash and cash equivalents

	<u>2017</u>	<u>2016</u>
Cash	3,000	3,000
Demand deposit accounts	<u>14,693,494</u>	<u>1,152,576</u>
	<u>\$14,696,494</u>	<u>1,155,576</u>

Demand deposit accounts includes \$218 (2016: \$2,471) [notes 11(iii)(a) and 12] received from stockholders as prepayments for the purchase of the Company's stock units.

5. Accounts receivable

	<u>2017</u>	<u>2016</u>
Interest receivable	42,189,662	34,674,847
Other	<u>272,419</u>	<u>249,560</u>
	<u>\$42,462,081</u>	<u>34,924,407</u>

Accounts receivable is stated net of impairment provision of \$Nil (2016: \$Nil) and is due as follows:

	<u>2017</u>	<u>2016</u>
Due within twelve (12) months	23,281,058	15,175,515
No specific maturity [note 9(c)(i)]	<u>19,181,023</u>	<u>19,748,892</u>
	<u>\$42,462,081</u>	<u>34,924,407</u>

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

6. Investment securities

	<u>2017</u>	<u>2016</u>
Available-for-sale:		
(i) Corporate bonds US\$6,521,676 (2016: US\$5,366,344)	810,644,331	686,784,653
(ii) Municipal bonds US\$1,884,981 (2016: US\$1,165,329)	234,303,200	149,138,869
(iii) Credit linked note US\$Nil (2016: US\$302,310)	-	38,689,634
(iv) Unquoted preference shares US\$500,000 (2016: US\$500,000)	62,150,000	63,990,000
Investment securities at fair value through profit or loss		
(v) Quoted equity	<u>3,839,018</u>	<u>-</u>
	<u>\$1,110,936,549</u>	<u>938,603,156</u>

- (i) Corporate bonds earn interest at rates ranging from 6.50% to 12.75% per annum and mature over the period 2019 to 2166.
- (ii) Municipal bonds earn interest at rates ranging from 6.05% to 7.625% per annum and mature over the period 2023 to 2035.
- (iii) Credit linked note represented investment in Credit Suisse Contingent Coupon Callable Yield notes which was sold during the year. The fair value change in embedded derivative of \$392,078 (2016: \$1,113,392) was recognised in profit or loss.
- (iv) Unquoted preference shares which earn interest at 8% interest per annum and are redeemable, represents 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\$2,210,899 (2016: US\$1,029,912). The loans bear interest at rates ranging from 2.50% to 3.30% per annum (2016: 2.35% to 2.54%), are collateralised by securities purchased from the brokers with the loan proceeds, and have no set repayment date.

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

8. Other payables

	<u>2017</u>	<u>2016</u>
Manager's preference shares interest payable [note 9(c)(i)]	1,899,545	13,278,611
Other payables and accruals [note 11(iii)(a)]	<u>4,787,930</u>	<u>3,913,351</u>
	<u>\$6,687,475</u>	<u>17,191,962</u>

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.

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

9. Related party balances and transactions (continued)

(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.

(c) Related party amounts

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

	<u>2017</u> \$	<u>2016</u> \$
Entity with common shareholders and directors		
Unquoted preference shares [note 6(iv)]	62,150,000	63,990,000
Interest receivable [note 5]	<u>19,181,023</u>	<u>19,748,892</u>
Total [note 19(a)(ii)]	<u>81,331,023</u>	<u>83,738,892</u>
Investment manager		
Manager's preference shares interest payable (note 8)	(1,899,545)	(13,278,611)
Due to related company*	<u>(19,855,271)</u>	<u>(15,264,740)</u>
Directors		
Other payables	<u>(596,640)</u>	<u>(614,304)</u>

* 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:

	<u>2017</u> \$	<u>2016</u> \$
Entity with common shareholders and directors		
Interest income on unquoted preference shares	-	5,027,443
Investment manager		
Manager's preference shares interest expense	(1,899,545)	(13,278,611)
Management fees (note 15)	<u>(17,334,952)</u>	<u>(15,264,740)</u>
Directors		
Directors' fees (note 15)	<u>(2,151,660)</u>	<u>(2,402,144)</u>

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

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;
 - (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	
	<u>2017</u>	<u>2016</u>
(i) Authorised:		
Ordinary stock units of no par value	150,000,000	150,000,000
Manager's cumulative preference shares of no par value	<u>10,000</u>	<u>10,000</u>
	<u>150,010,000</u>	<u>150,010,000</u>

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

11. Share capital (continued)

(ii) Issued and fully paid:

	Number of units		Total	
	2017	2016	2017	2016
Ordinary stock units				
Balance at beginning of year	<u>56,101,917</u>	<u>55,876,281</u>	<u>630,913,829</u>	<u>627,796,101</u>
Issued during the year:				
Dividend Reinvestment Programme [note 11(iii)(a)]	302,375	69,271	4,278,126	969,926
Complementary Share Purchase Programme [note 11(iii)(b)]	2,429,875	156,365	34,354,583	2,189,074
Less transaction costs	<u>-</u>	<u>-</u>	<u>(92,862)</u>	<u>(41,272)</u>
Net proceeds from issuance	<u>2,732,250</u>	<u>225,636</u>	<u>38,539,847</u>	<u>3,117,728</u>
Balance at end of year	58,834,167	56,101,917	669,453,676	630,913,829
Manager's cumulative preference shares	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
	58,844,167	56,111,917	669,463,676	630,923,829
Less: Manager's preference shares reclassified to liability (note 10)	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
	<u>58,834,167</u>	<u>56,101,917</u>	<u>\$669,453,676</u>	<u>630,913,829</u>

(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, 2017 amounted to \$218 (2016: \$2,471) (note 4) and are included in other payables and accruals (see note 8).

During the year, 302,375 (2016: 69,271) stock units were issued to the stockholders.

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

11. Share capital (continued)

(iii) Dividend Reinvestment and Complementary Share Purchase Programme (continued)

(b) Complementary Share Purchase Programme

Under the Complementary Share Purchase Programme (CSPP), the stockholders of the Company may purchase new ordinary stock units 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, 2,429,875 (2016: 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)]. 168,845 and 2,514 stock units were issued on January 12, 2018 subsequent to the reporting date at a stock unit price of J\$13.00 and US\$0.12, 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

	<u>2017</u>	<u>2016</u>
Management fees [note 9(c)(ii)]	17,334,952	15,264,740
Auditors' remuneration	3,422,717	2,965,048
Directors' fees [note 9(c)(ii)]	2,151,660	2,402,144
Travel	1,779,657	1,163,373
Public relations	1,361,531	1,087,197
Stock exchange listing	1,048,927	720,398
Professional fees	339,299	335,284
Other	<u>960,365</u>	<u>804,878</u>
	<u>\$28,399,108</u>	<u>24,743,062</u>

16. Taxation

The Company elected to be charged at the rate of 1% (2016: 1%) as allowed under the International Business Companies Act. However, the effective tax rate is 1.54% (2016: 0.75%).

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

16. Taxation (continued)

	<u>2017</u>	<u>2016</u>
Profit before taxation	<u>\$52,485,805</u>	<u>79,189,330</u>
Computed "expected" tax charge at 1% (2016: 1%)	524,858	791,893
Tax effect of differences between profit for financial statements and tax reporting purposes:		
Unrealised foreign exchange (loss)/gains	262,417	(531,596)
Unrealised loss on embedded derivative	3,921	11,134
Impairment loss on available-for-sale securities	11,585	187,720
Manager's preference share interest expense	18,995	132,786
Unrealised gains on equity investments	(13,190)	-
Current tax charge, being total taxation charge	<u>\$ 808,586</u>	<u>591,937</u>

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.

	<u>2017</u>	<u>2016</u>
Profit attributable to ordinary stockholders	<u>\$51,677,219</u>	<u>78,597,393</u>
Weighted average number of ordinary stock units in issue	<u>57,952,213</u>	<u>55,933,235</u>
Basic earnings per stock unit	<u>0.89¢</u>	<u>1.41¢</u>

(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 \$0.89 (2016: \$1.41).

18. Dividends

	<u>2017</u>	<u>2016</u>
Distribution to ordinary stockholders at \$0.5253 (2016: \$0.3455) per stock unit	<u>\$30,454,973</u>	<u>19,324,092</u>

During the year certain shareholders elected to reinvest their dividends earned of \$4,278,126 (2016: \$969,926) [note 11(ii)(a)].

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

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:

	<u>2017</u>	<u>2016</u>
Issuer:		
Corporate – unrelated parties	829,193,649	737,267,158
Corporate – related party [note 9(c)(i)]	19,181,023	83,738,892
Municipals	238,762,521	152,271,953
Banks	<u>14,696,494</u>	<u>1,155,576</u>
Total financial assets	<u>\$1,101,833,687</u>	<u>974,433,579</u>

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

19. Financial risk management (continued)

(a) Credit risk (continued)

(ii) Concentration of credit risk (continued)

	<u>2017</u>	<u>2016</u>
Location:		
Europe	160,541,294	376,156,967
North America	472,452,233	317,967,404
Caribbean	154,566,581	121,613,999
South America	288,259,995	158,695,209
Other	<u>26,013,584</u>	<u>-</u>
Total financial assets	<u>\$1,101,833,687</u>	<u>974,433,579</u>

(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.

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

19. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Settlement risk (continued)

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:

	2017				
	Within 3 months	3 to 12 months	No specific maturity	Gross outflow	Carrying value
Margin loans payable	275,517,663	-	-	275,517,663	274,814,733
Other payables	6,687,475	-	-	6,687,475	6,687,475
Due to related company	-	19,855,271	-	19,855,271	19,855,271
Manager's preference shares	-	-	10,000	10,000	10,000
	<u>\$282,205,138</u>	<u>19,855,271</u>	<u>10,000</u>	<u>302,070,409</u>	<u>301,367,479</u>

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

19. Financial risk management (continued)

(b) Liquidity risk (continued)

Management of liquidity risk (continued)

	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
	<u>\$149,314,339</u>	<u>15,264,740</u>	<u>10,000</u>	<u>164,589,079</u>	<u>164,274,004</u>

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.

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

19. Financial risk management (continued)

(c) Market risk (continued)

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:

	2017					
	Within 1 year	1 - 5 year	Over 5 year	No specific maturity	Non-rate sensitive	Total
Financial assets						
Cash and cash equivalents	14,696,494	-	-	-	-	14,696,494
Accounts receivable	-	-	-	-	42,462,081	42,462,081
Investment securities	-	287,686,819	757,260,712	65,989,018	-	1,110,936,549
	<u>14,696,494</u>	<u>287,686,819</u>	<u>757,260,712</u>	<u>65,989,018</u>	<u>42,462,081</u>	<u>1,168,095,124</u>
Financial liabilities						
Margin loans payable	274,814,733	-	-	-	-	274,814,733
Other payables	-	-	-	-	6,687,475	6,687,475
Due to related company	-	-	-	-	19,855,271	19,855,271
Manager's preference shares	-	-	-	10,000	-	10,000
	<u>274,814,733</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>26,542,746</u>	<u>301,367,479</u>
Total interest rate sensitivity gap	<u>\$(260,118,239)</u>	<u>287,686,819</u>	<u>757,260,712</u>	<u>65,979,018</u>	<u>15,919,335</u>	<u>866,727,645</u>
Cumulative gap	<u>\$(260,118,239)</u>	<u>27,568,580</u>	<u>784,829,292</u>	<u>850,808,310</u>	<u>866,727,645</u>	
	2016					
	Within 1 year	1 - 5 year	Over 5 year	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
	<u>1,155,576</u>	<u>131,725,335</u>	<u>742,887,821</u>	<u>63,990,000</u>	<u>34,924,407</u>	<u>974,683,139</u>
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
	<u>131,808,102</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>32,456,702</u>	<u>164,274,804</u>
Total interest rate sensitivity gap	<u>\$(130,652,526)</u>	<u>131,725,335</u>	<u>742,887,821</u>	<u>63,980,000</u>	<u>2,467,705</u>	<u>810,408,335</u>
Cumulative gap	<u>\$(130,652,526)</u>	<u>1,072,809</u>	<u>743,960,630</u>	<u>807,940,630</u>	<u>810,408,335</u>	

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

19. Financial risk management (continued)

(c) **Market risk (continued)**

(i) Interest rate risk (continued)

Profile

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

	<u>2017</u>	<u>2016</u>
<i>Fixed interest rates</i>		
Financial assets		
Corporate bonds	810,644,331	686,784,653
Municipal bonds	234,303,200	149,138,869
Credit linked note	-	38,689,634
Unquoted preference shares	<u>62,150,000</u>	<u>63,990,000</u>
	1,107,097,531	938,603,156
Financial liability		
Margin loans payable	<u>243,734,457</u>	<u>95,109,681</u>
	<u>\$ 863,363,074</u>	<u>843,493,475</u>
<i>Variable interest rates</i>		
Financial liability		
Margin loans payable	<u>\$ 31,080,276</u>	<u>36,698,421</u>

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.

	<u>2017</u>		<u>2016</u>	
	Effect on <u>profit</u> \$	Effect on <u>equity</u> \$	Effect on <u>profit</u> \$	Effect on <u>equity</u> \$
Change in basis points:				
-100bps (2016: -50bps)	310,803	73,667,055	183,492	38,048,955
+100bps (2016: +100bps)	<u>(310,803)</u>	<u>(84,741,881)</u>	<u>(366,984)</u>	<u>(67,488,969)</u>

Cash flow sensitivity analysis for variable rate instruments

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

19. Financial risk management (continued)

(c) **Market risk (continued)**

(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. 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:

	<u>2017</u>	<u>2016</u>
Assets:		
Cash and cash equivalents	100,917	4,781
Accounts receivable	339,418	270,940
Other receivable	2,192	2,092
Investment securities	<u>8,906,658</u>	<u>7,333,983</u>
	<u>9,349,185</u>	<u>7,611,796</u>
Liabilities:		
Margin loans payable	2,210,899	1,029,912
Other payables	<u>38,514</u>	<u>30,558</u>
	<u>2,249,413</u>	<u>1,060,470</u>
Net foreign currency assets	US\$ <u>7,099,772</u>	<u>6,551,326</u>

The foreign exchange rates as at the reporting date was as follows: US\$1: J\$124.30 (2016: US\$1:J\$127.98).

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.

		<u>2017</u>	
	<u>% Change in</u>	<u>Effect on</u>	<u>Effect on</u>
	<u>Currency rate</u>	<u>profit</u>	<u>equity</u>
		<u>\$'000</u>	<u>\$'000</u>
Currency:			
USD	2% Revaluation	(17,646)	(17,646)
USD	4% Devaluation	<u>35,292</u>	<u>35,292</u>

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

19. Financial risk management (continued)

(c) **Market risk (continued)**

(ii) Foreign currency risk (continued)

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

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

<u>Financial instrument</u>	<u>Method of estimating fair value</u>
(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	<ul style="list-style-type: none"> Obtain price based on the quoted price of the underlying credit default swap which was derived from Bloomberg on the valuation date, plus the valuation of the underlying note. Apply price to estimate fair value.
(iv) Unquoted ordinary and preference shares	Estimated on the basis of the price of a new issue of identical shares (at par) close to reporting date.
(v) Quoted shares	Prices quoted on the Jamaica Stock Exchange

Notes to the Financial Statements

Year ended December 31, 2017

(Expressed in Jamaican Dollars)

20. Fair value of financial instruments (continued)

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:

					2017				
Carrying amount					Fair value				
Loan and receivables	Available -for-sale	Fair value through profit or loss	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total	
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Financial assets measured at fair value									
Corporate bonds	-	810,644,331	-	-	810,644,331	-	810,644,331	-	810,644,331
Municipal bonds	-	234,303,200	-	-	234,303,200	-	234,303,200	-	234,303,200
Ordinary shares – quoted	-	-	3,839,018	-	3,839,018	3,839,018	-	-	3,839,018
	<u>-</u>	<u>1,044,947,531</u>	<u>3,839,018</u>	<u>-</u>	<u>1,048,786,549</u>	<u>3,839,018</u>	<u>1,044,947,531</u>	<u>-</u>	<u>1,048,786,549</u>
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	
	<u>-</u>	<u>874,613,156</u>	<u>-</u>	<u>874,613,156</u>	<u>-</u>	<u>874,613,156</u>	<u>-</u>	<u>874,613,156</u>	

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.


21. Subsequent event note:

On February 16, 2018, the cumulative redeemable preference shares issued by Sterling Developments (SKN) Limited, a related party were reclassified to common shares with one vote per share. A one for one conversion was done, the company now holds 5.88% of the ordinary shares issued by Sterling Development (SKN) Limited.

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