

Economic Overview

The third quarter of 2017 was eventful. Rising tensions between the U.S. and North Korea drove investors to safe haven assets and helped to drive bond prices higher. Angela Merkel's party won a fourth term in the German elections, however, it was with diminished power as the alt-right party (AfD) won seats in parliament for the first time in over 50 years. The sentiment turned positive on the Chinese economy which generated annual GDP growth of 6.8% (3rd quarter) year on year. The U.S. economy expanded at 3.0% (seasonally adjusted rate quarter on quarter) in the 3rd quarter, a bit faster than previously estimated. This reflected a slightly faster pace of inventory and business investment as well as the hurricanes which temporarily curbed activity. According to the Federal Open Market Committee (FOMC), on a 12-month basis, overall inflation and the measure excluding energy and food prices have declined this year and are running below 2%. As a consequence, their monetary policy stance remains accommodative. The FOMC's long term projection for the Fed Funds rate is 2.3% to 3.5%. We conclude that interest rate hikes will be gradual and modest. The bond market has continued to rally despite 4 rate hikes by the Federal Reserve over the past 2 years.

Mario Draghi confirmed in September that the European Central Bank (ECB) had discussed winding down its quantitative easing programme and further details are expected shortly. The Eurozone economy grew at 0.6% in the third quarter, and at 2.5% on an annual basis. European financial markets continued to rally, with the EURO Stoxx 600 rallying 7.4% YTD as at September 30, 2017. Unemployment in the Eurozone fell to 9.0% in the third quarter (from 9.5% in the first) - the lowest rate since February 2009. Energy was the top performing sector in the third quarter, as crude led the rally with Brent advancing 20.1% and WTI advancing 12.2% in the third quarter to end at 57.54 (Brent) and 51.67 (WTI). The increase in price was attributed to the dip in US crude inventories and an agreement to cut production among OPEC and non-OPEC members including Russia.

The Federal Reserve (Fed) announced that it will begin the "great unwind" of its balance sheet in October at a rate of US\$10 billion per month. There were no increases in the benchmark Fed funds rate for the quarter, however, the market is expecting a rate hike in December. The yield on the 10-year Treasury note increased 2 bps to 2.33% and the 30-year Treasury bond yield increased 2 bps to 2.86% over the third quarter. Emerging markets continue to do well, assisted by U.S. dollar weakness, continued momentum in the Chinese economy and the pickup in commodity prices.

In the quarter, there was a significant appreciation of the Jamaican dollar against the U.S. dollar which resulted in reduced unrealized gains on foreign exchange. This was partially mitigated by realizing some of the trading gains in the portfolio. Going forward, SIL will continue to execute its strategy of increasing trading gains to diminish the effects of a potentially stronger Jamaican dollar, as the short term direction of the exchange rate is unclear. In addition, the company is actively increasing interest income and is poised to take advantage of anticipated future trading opportunities in the market.

Financial Overview

Net interest income, SIL's primary source of income, totalled J\$52.9 million for the nine-month period ended September 2017. This was 2.3% higher than the J\$51.7 million recorded for the corresponding period in 2016. For the 3 months ended September 30, 2017, net interest income was 7.3% higher than that of the same period in 2016- moving from J\$16.9 million in 2016 to J\$18.2 million in 2017. The increase in net interest income was driven by the increased acquisition of securities, augmented by the use of margin.

As a result of the strategy employed to increase trading activity in the portfolio, gains on the sale of investments for the 9 month period ended September 30, 2017 totalled J\$23.2 million, an increase of 386.5% from J\$4.8 million recorded in the corresponding period of 2016. The improvement was even more stark on a quarter over quarter basis. Third quarter gains on the sale of investments increased substantially, moving from a loss of J\$122,795 in 2016 to a gain of J\$1.82 million in 2017. This is due to the sale of securities which had appreciated in price. The rally in the bond markets continues to create attractive exit opportunities for assets in SIL's portfolio.

During the first 9 months of 2017, the Jamaican dollar depreciated against the US dollar by J\$1.47 or 1.15% relative to the same period in 2016 when it depreciated by J\$7.86 or 6.52%. The lower rate of depreciation of the Jamaican dollar led to a 78.1% reduction in unrealized foreign exchange gains or \$41.0 million, from J\$52.4 million in September 2016 to J\$11.5 million for the nine months ended September 2017. While unrealized income has declined, realized income (i.e. the sum of net interest income and gains on sale) has increased by over 36% year to date. Dividends continue to be paid from the realized income of the company. The increase in realized income has increased dividends paid in September 2017 by 69.1% from J\$11.0 million in the prior period to J\$18.6 million in 2017.

On a quarter over quarter basis, unrealized foreign exchange gains declined by 21.6%- moving from J\$11.1 million to J\$8.7 million. The reduction in foreign exchange gains arose from the relative stability of the Jamaican dollar which enjoyed a significantly slower rate of depreciation. However, the increase in trading gains (i.e. gain on sale of investments) for the period helped to reduce the impact of the lower unrealized foreign exchange gains.

Operating expenses for the nine months ended September 2017 were J\$21.7 million or 14.3% higher than the J\$18.9 million of operating expenses recorded for the corresponding period in 2016. Operating expenses for the 3rd quarter increased by 11.2% moving from J\$6.2 million to J\$6.9 million.

Total equity increased by 13.1% from J\$790.6 million as at September 2016 to J\$894.5 million as at September 2017. The unrealized loss recorded in the revaluation reserve of J\$7.6 million as at September 2017 was an improvement of \$38.7 million over the \$46.3 million unrealized loss recorded for the same period in 2016. Retained earnings increased by 11.7%, highlighting the company's continued commitment to growth and value creation for stockholders.

Total assets increased by approximately 24.2% from J\$986.8 million as at September 2016 to J\$1.2 billion as at September 2017. This was largely attributed to the increase in investment securities which experienced a 24.9% increase over the same period. This was funded primarily by a combination of greater use of margin, retained earnings, the Dividend Reinvestment Programme (DRIP) and the Complementary Share Purchase Programme (CSPP). As at September 2017, margin loans totalled J\$306.5 million, or 25.8% of the total portfolio of investment securities compared to 18.0% for September 2016. The company's prudent use of margin has boosted the return on the portfolio.

STERLING INVESTMENTS LTD.

Balance Sheet

As at September 30, 2017

	Unaudited 6 months ended Sep-17	Unaudited 6 months ended Sep-16	Audited 12 months ended Dec-16
ASSETS			
Cash Resources			
Cash & Cash Equivalents	172,632	2,904,681	1,155,576
Accounts Receivable	38,816,099	33,515,545	34,924,407
Income Tax Recoverable	18,269	-	18,269
Investment Securities	1,186,746,218	950,343,725	938,603,156
TOTAL CURRENT ASSETS	1,225,753,218	986,763,951	974,701,408
TOTAL ASSETS	1,225,753,218	986,763,951	974,701,408
LIABILITIES			
Margin Loan Payables	306,483,288	170,755,977	131,808,102
Other Payables	11,747,924	14,065,068	17,191,962
Due to Related Company	12,958,685	11,296,334	15,264,740
Manager's Preference Shares	10,000	10,000	10,000
Income Tax Payable	0	-	-
TOTAL LIABILITIES	331,199,897	196,127,379	164,274,804
SHAREHOLDERS' NET EQUITY			
Share Capital	666,620,483	628,696,624	630,913,829
Prepaid Share Reserve	2,880,916	-	12,266,188
Fair Value Reserve	(7,626,699)	(46,289,700)	(36,893,285)
Retained Earnings	232,678,621	208,229,648	204,139,872
TOTAL EQUITY	894,553,321	790,636,572	810,426,604
TOTAL LIABILITIES & EQUITY	1,225,753,218	986,763,951	974,701,408

Sterling Investments Limited

Income Statement

For Period Ended September 30, 2017

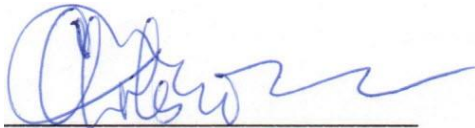
	Unaudited 9 months ended Sep-17	Unaudited 9 months ended Sep-16	Unaudited 3 months ended Sep-17	Unaudited 3 months ended Sep-16	Audited 12 months ended Dec-16
Revenue:					
Interest Income	58,547,066	55,292,394	20,626,491	18,009,545	78,099,467
Foreign Exchange Gains	11,463,666	52,429,882	8,701,146	11,099,248	53,159,616
Gain on disposal of available-for-sale securities	23,233,509	4,775,968	1,815,838	(122,795)	10,174,691
	<u>93,244,241</u>	<u>112,498,244</u>	<u>31,143,475</u>	<u>28,985,998</u>	<u>141,433,774</u>
Expenses:					
Interest	(5,613,467)	(3,553,173)	(2,463,904)	(1,088,064)	(4,759,702)
Impairment loss on available-for-sale-securities	2,298,250	(2,137,607)	(1,281,116)	(109,313)	(18,772,015)
Unrealised gain/(loss) on embedded derivative	(392,078)	34,589	0	304,352	(1,113,392)
Other operating	(21,655,152)	(18,948,148)	(6,871,798)	(6,178,919)	(24,743,062)
	<u>(25,362,447)</u>	<u>(24,604,339)</u>	<u>(10,616,818)</u>	<u>(7,071,944)</u>	<u>(49,388,171)</u>
Operating Profit	67,881,794	87,893,905	20,526,658	21,914,054	92,045,603
Other Income	(6,106)	4,153,471	225	1,280,077	422,338
Preference Dividend Expense	(8,300,000)	(8,750,000)	(4,300,000)	(3,500,000)	(13,278,611)
Profit before Income Tax	59,575,688	83,297,376	16,226,882	19,694,131	79,189,330
Income Tax Expense	(581,966)	(610,206)	(194,751)	(207,511)	(591,937)
Profit for Period	58,993,722	82,687,170	16,032,131	19,486,620	78,597,393
Other Comprehensive Income:					
Items that may be reclassified to profit & loss:					
Realised (gains)/losses on disposal of available-for-sale securities reclassified to profit for the	(21,840,739)	1,750,597	(1,465,964)	1,856,967	(5,027,151)
Impairment loss on available-for-sale securities reclassified to profit for the year	0		0		16,814,973
Unrealised change in fair value of available-for-sale securities	51,107,324	30,733,749	19,936,363	16,537,682	30,092,939
	<u>88,260,309</u>	<u>115,171,516</u>	<u>34,502,532</u>	<u>37,881,269</u>	<u>120,478,154</u>
Shares outstanding	57,667,451	55,893,599	57,667,451	55,893,599	55,933,235
Earning Per Share	1.02	1.48	0.28	0.35	1.41

Sterling Investments Limited			
Statement of Cash Flows			
For period ended September 30, 2017			
	Period ended September 2017	Audited Dec 2016	Period ended September 2016
Cash flows from operating activities			
Profit for the period	58,993,722	78,597,393	82,687,170
Adjustments for :			
Interest Income	(60,037,210)	(78,099,467)	(55,093,905)
Interest Expense	5,613,467	4,759,702	3,553,173
Impairment loss on available-for-sale securities	(2,298,250)	18,772,015	2,137,607
Unrealised loss on embedded derivative	392,078	1,113,392	(34,589)
Income Tax Expense	581,966	591,937	610,206
Managers Preference Share Interest	8,300,000	13,278,611	8,750,000
	<u>11,545,773</u>	<u>39,013,583</u>	<u>42,609,662</u>
Changes in operating assets:			
Accounts Receivable	(325,388)	(249,560)	8,536,127
Margins Payable	174,675,186	(82,533,539)	(43,585,664)
Other Payables	(13,741,567)	445,089	(8,724,531)
Due to Related Company	(2,306,055)	2,140,550	(1,827,856)
	<u>169,847,950</u>	<u>(41,183,877)</u>	<u>(2,992,263)</u>
Interest Received	56,470,905	71,156,295	40,773,909
Income Taxes Paid	(581,966)	(4,759,702)	(976,234)
Interest Paid	(5,613,467)	(976,234)	(3,553,173)
Net cash provided by operating activities	<u>220,123,422</u>	<u>24,236,482</u>	<u>33,252,239</u>
Cash flows from investing activity			
Investment securities, being net cash used by investing activity	(216,970,304)	(8,782,545)	(12,137,140)
Cash flows from financing activities			
Issue of Preference shares			
Issue of ordinary shares	26,318,911	2,147,802	900,523
Prepaid Share Reserve	0	12,268,659	-
Manager's preference shares interest paid	0	(10,573,808)	-
Dividend payment	(30,454,973)	(18,354,166)	(19,324,092)
Net cash provided by financing activities	<u>(4,136,062)</u>	<u>(14,511,513)</u>	<u>(18,423,570)</u>
Increase/(decrease) in cash and cash equivalents during the period	(982,944)	942,424	2,691,529
Cash and cash equivalent at the beginning of period	1,155,576	213,152.00	213,152
Cash and cash equivalent at the end of period	172,632	1,155,576	2,904,681

Sterling Investments Limited
Statement of Changes in Equity
For period ended September 30, 2017

	Share capital	Prepaid Share Reserve	Fair value	Retained earnings	Total
Balance at January 1, 2017	630,913,829	12,266,188	(36,893,285)	204,139,872	810,426,604
Comprehensive income:					
Profit for period	-	-	-	58,993,722	58,993,722
Other comprehensive income:					
Realised gain on disposal of available-for-sale securities					
reclassified to profit for the year			(21,840,739)		(21,840,739)
Unrealised gains in fair value of available-for-sale securities	-		51,107,324	-	51,107,324
Total comprehensive income	<u>630,913,829</u>	<u>12,266,188</u>	<u>(7,626,699)</u>	<u>263,133,594</u>	<u>898,686,912</u>
Transactions with owners:					
Share issued during the period	35,706,654	-	-	-	35,706,654
Prepaid share reserve		(9,385,272)			(9,385,272)
Dividends	-	-	-	(30,454,973)	(30,454,973)
	<u>35,706,654</u>	<u>(9,385,272)</u>	<u>-</u>	<u>(30,454,973)</u>	<u>(4,133,591)</u>
Balance at September 30, 2017	<u>666,620,483</u>	<u>2,880,916</u>	<u>(7,626,699)</u>	<u>232,678,621</u>	<u>894,553,321</u>
	Share capital	Prepaid Share Reserve	Fair value	Retained earnings	Total
Balance at January 1, 2016	627,796,101	-	(78,774,046)	144,866,571	693,888,626
Comprehensive income:					
Profit for period	-	-	-	82,687,170	82,687,170
Other comprehensive income:					
Realised gain on disposal of available-for-sale securities					
reclassified to profit for the year			1,750,597		1,750,597
Unrealised gains in fair value of available-for-sale securities	-		30,733,749	-	30,733,749
Total comprehensive income	<u>627,796,101</u>	<u>-</u>	<u>(46,289,700)</u>	<u>227,553,741</u>	<u>809,060,142</u>
Transactions with owners:					
Share issued during the period	900,523	-	-	-	900,523
Prepaid share reserve					
Dividends	-	-	-	(19,324,092)	(19,324,092)
	<u>900,523</u>	<u>-</u>	<u>-</u>	<u>(19,324,092)</u>	<u>(18,423,569)</u>
Balance at September 30, 2016	628,696,624	-	(46,289,700)	208,229,649	790,636,573

1. Identification: Sterling Investments Limited (the Company) was incorporated on August 21, 2012 in St. Lucia under the International Business Companies Act, and commenced operations on December 1, 2012. The Company's registered office is located at 20 Micoud Street, Castries, St. Lucia. The principal activities of the Company are holding and trading of tradable and other securities and other investments.
2. Statement of compliance and basis of preparation
 - a. Statement of compliance: The unaudited financial statements as at September 30, 2017 are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The accounting policies and method of computation are consistent with the audited financial statements for year ended December 31, 2016.
 - b. **Basis of measurement:** The financial statements are prepared on the historical cost basis, except for the inclusion at fair value of available-for-sale securities and financial assets at fair value through profit or loss.
 - c. **Functional and presentation currency:** The financial statements are presented in Jamaican dollars (J\$), which is the functional currency of the Company.



Director



Director

Top Ten Shareholders as at September 30, 2017

Name	Number of shares	Percentage
ATL Group Pension Trustees Nominee limited	10,000,000	17.06
Grace Kennedy Limited Pension Scheme	5,227,270	8.92
Lloyd Badal	4,906,283	8.37
PAM – Cable and Wireless Pension Real Estate Fund	3,000,000	5.12
Pam-Pooled Equity Fund	2,665,905	4.55
National Insurance Fund	2,016,129	3.44
Satyanarayana Parvataneni	1,993,888	3.40
Charles A. Ross	1,968,048	3.36
Winnifred Mullings	1,842,760	3.14
Everton McDonald	1,599,790	2.73

Shareholdings of Directors as at September 30, 2017

	Number of shares	% of total
Derek Jones	0	0%
Maxim Rochester	0	0%
Michael Bernard	0	0%
Charles Ross	1,968,048	3.36