

## Economic Overview

Global markets have been characterized by tremendous volatility for the first quarter of 2018. The prices of Bonds and Equities have moved erratically since the start of the year. A rise in geopolitical tensions, the threat of trade wars, and a shift in U.S. monetary and fiscal policy have created a new dimension of uncertainty and risk for investors.

In February 2018, the U.S. economy recorded a robust 4Q17 GDP reading of 2.9%, well above market estimates. The robust economic outturn combined with the approval of a reduction in corporate taxes and a USD1 trillion spending package led to a rapid rise in inflation expectations. Market participants predicted that the Federal Reserve would raise rates more aggressively – potentially reducing gains in bonds and equities and even prompting a recession. During February, the S&P 500 and the Dow Jones Industrial Average Indices fell by 10.16% and 10.67% respectively from their January 2018 highs. Stocks in Europe and Japan also suffered. The market rebounded by early March but remained volatile as the U.S. introduced tariffs on steel and aluminum imports. After hitting a four year high of 2.95% on February 21<sup>st</sup>, Treasury yields declined slightly in March as a result of rising trade tensions between the US and China. During March, the Fed increased rates by 25 basis points, their sixth increase since the Great Recession. Despite investor fears of 4 potential rate hikes, the Fed has stated their intention to stick with the three rates hikes previously forecasted.

Stocks and bonds had a mixed quarter. YTD, the S&P500 declined -0.1%, the Dow Jones fell by 1% and the Stoxx 600 has declined by 1.9%. The yield on the 10 year US Treasury (a benchmark for many asset prices) rose by 55 basis points, while the yield on the 10 year German bund rose by 16 basis points.

During 1Q18 the European Central Bank reduced its monthly stimulus from 60 billion euros per month to 30 billion and is likely to exit the quantitative easing program this year. The Eurozone grew by 0.7% in 4Q17 (or 2.4% during 2017) but the market forecasts growth to soften slightly in 1Q18 and inflation expectations remain muted. USD debt issued by European Corporates continues to offer good risk adjusted returns to SIL's portfolio.

OPEC's April 2018 report stated that the growth forecast for the demand for oil in 2018 was revised higher by 30,000 barrels per day. This reflects the positive momentum supported by growth in consumption, a colder than-anticipated winter and the success of production cuts. At the start of the quarter, oil prices (WTI) were at \$60.42, and ended the quarter at \$64.94 (an increase of 7.5%).

During the quarter, SIL's team purchased assets it believed to be undervalued during the market sell off and took advantage of attractive one off equity investments on the local and US stock markets. The team sought to minimize the duration of securities in the SIL portfolio and believes it is well positioned for a rise in interest rates and volatility. The robust growth in interest income provides another source of income and liquidity for investors.

## FINANCIAL OVERVIEW

<b>Increase in dividend paid 1Q18 over 1Q17</b>	<b>76%</b>
<b>Increase in Profit for period</b>	<b>35.26%</b>
<b>Total Assets</b>	<b>\$1.2 billion</b>
<b>Earnings per Share</b>	<b>\$0.42</b>
<b>Book value per share</b>	<b>14.47</b>

Net interest income, SIL's primary source of income, totalled J\$18.8 million for the quarter ended March 2018; 11.5% higher than the amount of \$16.9 million recorded for the corresponding period in 2017. Net interest margin was 89.8%.

During the volatility of the first quarter, SIL sought to opportunistically purchase undervalued assets instead of selling assets. As a result, gains on sale of investments for the quarter ended March 2018 totalled \$1.3 million, a decrease from the gain of \$13.4 million recorded for the corresponding period in 2017.

The Jamaican dollar depreciated against the US dollar by J\$0.98 or 0.78% for the quarter ended March 2018, relative to the same period in 2017 when it depreciated by J\$0.23 or 0.18%. Unrealized foreign exchange gains for the three months ended March 2018 totalled \$9.6 million compared to \$ 1.1 million in March 2017, a significant increase relative to the same period last year.

Profit after taxes for the quarter ended March 2018 totalled J\$24.8 million, an increase of 35.3% from J\$18.4 million achieved during the corresponding period in March 2017.

Operating expenses for the quarter ended March 2018 totalled J\$6.4 million or 3.7% higher than the J\$6.2 million of operating expenses recorded for the corresponding period in 2017.

Total equity increased by 3.5% from J\$824.5 million as at March 2017 to J\$853.3 million as at March 2018. Total assets increased by 12.9% from J\$1.1 billion as at March 2017 to J\$1.2 billion as at March 2018. This reflects growth in investment securities which increased by 14.1% over the same period in 2017. This was funded by a combination of margin, the DRIP and CSPP programmes. As at March 2018, margin loans totalled J\$339.7 million, and represented 28.8% of the total portfolio of investment securities compared to 21.1% for March 2017.

During the quarter, a dividend payment of J\$20.8m was made to ordinary shareholders on record as at March 2, 2018 and paid on March 26, 2018. This is a 76% increase quarter over quarter, notwithstanding an increase in the number of shares.

# Sterling Investments Limited

## Balance Sheet

As at March 31, 2018

	Unaudited 3 months ended <b>Mar-18</b>	Unaudited 3 months ended <b>Mar-17</b>	Audited 12 months ended <b>Dec-17</b>
<b>ASSETS</b>			
Cash Resources			
Cash & Cash Equivalents	354,922	6,734,539	14,696,494
Accounts Receivable	40,516,132	40,603,611	42,462,081
Income Tax Recoverable	-	18,269	-
Investment Securities	1,179,136,490	1,033,702,714	1,110,936,549
<b>TOTAL CURRENT ASSETS</b>	<b>1,220,007,545</b>	<b>1,081,059,133</b>	<b>1,168,095,124</b>
<b>TOTAL ASSETS</b>	<b>1,220,007,545</b>	<b>1,081,059,133</b>	<b>1,168,095,124</b>
<b>LIABILITIES</b>			
Margin Loan Payables	339,720,599	218,477,293	274,814,733
Other Payables	5,447,654	18,734,012	6,687,475
Due to Related Company	21,523,956	19,303,594	19,855,271
Manager's Preference Shares	10,000	10,000	10,000
Income Tax Payable	-	-	208,351
<b>TOTAL LIABILITIES</b>	<b>366,702,209</b>	<b>256,524,899</b>	<b>301,575,830</b>
<b>SHAREHOLDERS' NET EQUITY</b>			
Share Capital	671,562,652	643,184,919	669,453,676
Prepaid Share Reserve	4,203,846	9,750,295	2,195,194
Fair Value Reserve	(7,528,344)	(39,098,862)	(30,491,694)
Retained Earnings	185,067,181	210,697,882	225,362,118
<b>TOTAL EQUITY</b>	<b>853,305,336</b>	<b>824,534,234</b>	<b>866,519,294</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>1,220,007,545</b>	<b>1,081,059,133</b>	<b>1,168,095,124</b>

# Sterling Investments Limited

## Income Statement

For Period Ended March 31, 2018

	Unaudited 3 months ended Mar-18	Unaudited 3 months ended Mar-17	Audited 12 months ended Dec-17
<b>Revenue:</b>			
Interest Income	20,967,543	18,023,776	79,081,255
Foreign Exchange Gains	9,552,755	1,070,577	(26,241,648)
Gain on disposal of available-for-sale securities	1,254,023	13,360,949	37,818,293
Unrealised gain on quoted equities	(334,844)	-	1,318,999
	31,439,478	32,455,302	91,976,899
<b>Expenses:</b>			
Interest	(2,146,802)	(1,145,305)	(7,642,960)
Impairment loss on available-for-sale-securities	2,194,530	(2,693,941)	(1,158,490)
Unrealised gain/(loss) on embedded derivative		(392,078)	(392,078)
Other operating	(6,391,501)	(6,162,915)	(28,399,108)
	(6,343,773)	(10,394,239)	(37,592,636)
Operating Profit	<b>25,095,705</b>	<b>22,061,064</b>	<b>54,384,263</b>
Other Income	21,672	463	1,087
Preference Dividend Expense	-	(3,500,000)	(1,899,545)
Profit before Income Tax	25,117,377	18,561,527	52,485,805
Income Tax Expense	(272,753)	(192,886)	(808,586)
Profit for Period	<b>24,844,624</b>	<b>18,368,641</b>	<b>51,677,219</b>
<b>Other Comprehensive Income:</b>			
Items that may be reclassified to profit & loss:			
Realised (gains)/losses on disposal of available-for-sale securities reclassified to profit for the	(1,567,988)	(11,829,541)	(36,232,680)
Impairment loss on available-for-sale securities reclassified to profit for the year	-		-
Unrealised change in fair value of available-for-sale securities	24,531,338	9,623,964	42,634,271
	<b>47,807,975</b>	<b>16,163,064</b>	<b>58,078,810</b>
Shares outstanding	<b>58,984,582</b>	<b>56,882,661</b>	<b>57,952,213</b>
Earning Per Share	0.42	0.32	0.89

**Sterling Investments Limited**  
**Statement of Cash Flows**  
**For period ended March 31, 2018**

	Period ended March 2018	Audited Dec 2017	Period ended March 2017
<b>Cash flows from operating activities</b>			
Profit for the period	24,844,624	51,677,219	18,368,641
Adjustments for :			
Interest Income	(20,967,543)	(79,081,255)	(18,023,776)
Interest Expense	2,146,802	7,642,960	1,145,305
Impairment loss on FVOCI	(2,194,530)	1,158,490	2,693,941
Unrealised loss on embedded derivative	-	392,078	392,078
Unrealised gain on quoted equities	334,844	(1,318,999)	-
Income Tax Expense	272,753	808,586	192,886
Managers Preference Share Interest	-	1,899,545	3,500,000
	4,436,950	(16,821,376)	8,269,075
<b>Changes in operating assets:</b>			
Accounts Receivable	6,453,940	(22,859)	(1,934,146)
Margins Payable	64,905,866	143,006,631	86,669,191
Other Payables	(1,239,821)	874,579	(2,294,637)
Due to Related Company	1,668,685	4,590,531	4,378,012
	76,225,620	131,627,506	95,087,495
Interest Received	16,459,551	71,566,440	14,278,718
Income Taxes Paid	(481,104)	(581,966)	(192,886)
Interest Paid	(2,146,802)	(7,642,960)	(1,145,305)
Net cash provided by operating activities	90,057,265	194,969,020	108,028,023
<b>Cash flows from investing activity</b>			
Investment securities, being net cash used by investing activity	(87,716,947)	(166,163,371)	(100,391,155)
Net cash provided by Investing activities	(87,716,948)	(166,163,371)	(100,391,155)
<b>Cash flows from financing activities</b>			
Issue of Preference shares			
Issue of ordinary shares	2,108,976	34,261,721	12,271,090
Prepaid Share Reserve	2,008,652	(10,070,994)	(2,518,364)
Manager's preference shares interest paid	-	(13,278,611)	-
Dividend payment	(20,799,518)	(26,176,847)	(11,810,632)
Net cash provided by financing activities	(16,681,889)	(15,264,731)	(2,057,906)
<b>Increase/(decrease) in cash and cash equivalents during the period</b>	(14,341,572)	13,540,918	5,578,963
<b>Cash and cash equivalent at the beginning of period</b>	14,696,494	1,155,576	1,155,576
<b>Cash and cash equivalent at the end of period</b>	354,922	14,696,494	6,734,539

**Sterling Investments Limited**  
**Statement of Changes in Equity**  
**For period ended March 31, 2018**

	Share capital	Prepaid Share Reserve	Fair value	Retained earnings	Total
Balance at December 31, 2016	630,913,829	12,266,188	(36,893,285)	204,139,872	810,426,604
Comprehensive income:					
Profit for period	-	-	-	18,368,641	18,368,641
Other comprehensive income:					
Realised gain on disposal of available-for-sale securities reclassified to profit for the year	-	-	(11,829,541)	-	(11,829,541)
Impairment loss on AFS securities reclassified to profit	-	-	-	-	-
Unrealised change in fair value of available-for-sale securities	-	-	9,623,964	-	9,623,964
Total comprehensive income	630,913,829	12,266,188	(39,098,862)	222,508,513	826,589,668
Transactions with owners:					
Share issued during the period	12,271,090	-	-	-	12,271,090
Prepaid share reserve	-	(2,515,893)	-	-	(2,515,893)
Dividends	-	-	-	(11,810,632)	(11,810,632)
	12,271,090	(2,515,893)	-	(11,810,632)	(2,055,435)
Balance at March 2017	643,184,919	9,750,295	(39,098,862)	210,697,882	824,534,234
	Share capital	Prepaid Share Reserve	Fair value	Retained earnings	Total
Balance at December 31, 2017	669,453,676	2,195,194	(30,491,694)	225,362,118	866,519,294
Adjustment on initial application of IFRS 9, net of tax [see note 4(ii)]	-	-	-	(44,340,043)	(44,340,043)
Adjusted balance as at December 31, 2017	669,453,676	2,195,194	(30,491,694)	181,022,075	822,179,251
Comprehensive income:					
Profit for period	-	-	-	24,844,624	24,844,624
Other comprehensive income:					
Realised gain on disposal of available-for-sale securities reclassified to profit for the year	-	-	(1,567,988)	-	(1,567,988)
Impairment loss on AFS securities reclassified to profit	-	-	(2,194,530)	-	(2,194,530)
Unrealised gains in fair value of available-for-sale securities	-	-	26,725,869	-	26,725,869
Total comprehensive income	669,453,676	2,195,194	(7,528,344)	205,866,698	869,987,225
Transactions with owners:					
Share issued during the period	2,108,976	-	-	-	2,108,976
Prepaid share reserve	-	2,008,652	-	-	2,008,652
Dividends	-	-	-	(20,799,518)	(20,799,518)
	2,108,976	2,008,652	-	(20,799,518)	(16,681,889)
Balance at March 31, 2018	671,562,652	4,203,846	(7,528,344)	185,067,181	853,305,336

## NOTES

### 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. Basis of preparation

These interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Company’s last annual financial statements as at and for the year ended December 31, 2017 (‘last annual financial statements’). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the company’s financial position and performance since the last annual financial statements.

This is the first set of the Company’s financial statements where IFRS 9 has been applied. Changes to significant accounting policies are described in note 4.

These interim financial statements are presented in Jamaican dollars, which is the Company’s functional currency.

### 3. Use of judgements and estimates

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 9 which are described in note 4.

### 4. Changes in significant accounting policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Company’s financial statements as at and for the year ended December 31, 2017 which was prepared in accordance with International Financial Reporting Standards (IFRS). The changes in accounting policies are also expected to be reflected in the Company’s financial statements as at and for the year ending December 31, 2018.

Certain other new and amended standards are effective from January 1, 2018 but they do not have any material impact on the Company’s financial statements.

The Company has initially adopted IFRS 9 *Financial Instruments* from January 1, 2018. The effect of initially applying this standard is mainly attributed to an increase in impairment losses recognised on financial assets.

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 largely retains the existing requirement in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held-to-maturity, loans and receivables and available for sale.

(i) Classification and measurement

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt instruments; FVOCI – equity; or fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortised cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest.

A debt investment is measured at FVOCI if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms gives rise on specified dates to cash flows that are solely payments of principal and interest.

On initial recognition of an equity investment that is not held for trading, the company irrevocably elects; on an investment-by-investment basis; to present subsequent changes in the investment's fair value in OCI. All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL.

(ii) Impairment of financial assets

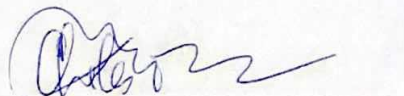
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL model). The new impairment model applies to financial assets measured at amortised cost and debt instruments at FVOCI, but not to investments in equity instruments.

Under IFRS 9, loss allowances are measured on either of the following bases:


- a. 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- b. Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

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.

The Company has determined that the application of IFRS 9 impairment requirements at January 1, 2018 results in impairment allowance of \$44,340,043 on investment securities.



Director



Director



## Top Ten Shareholders as at March 31, 2018

Name	Number of shares	Percentage
ATL Group Pension Trustees Nominee limited	10,000,000	16.95
Lloyd Badal	5,390,190	9.14
GraceKennedy Limited Pension Scheme	5,227,270	8.86
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	3.42
Charles A. Ross	1,922,247	3.26
Winnifred Mullings	1,842,760	3.12
Everton McDonald	1,599,790	2.71

## Shareholdings of Directors as at March 31, 2018

Directors	Number of shares	Percentage of Total
Derek Jones		
Maxim Rochester		
Michael Bernard		
Charles Ross	1,922,247	3.26