

Economic Overview

The quarter ended on a positive note with the revised NAFTA agreement, a year in the making, and duly renamed to U.S.M.C.A. (the United States-Mexico-Canada Agreement) being finalized. However, China did not fare as well and underperformed as the U.S. implemented tariffs on a total of \$250 billion of Chinese goods, and threatened tariffs on a further \$267 billion of goods. In addition, no real progress was made in negotiations and China responded with tariffs on \$110 billion of US goods. Italian 10-year government bond yields rose from 2.68% to 3.15% amid political concerns surrounding policies of the new populist government. Toward the end of the quarter, the Italian government announced a 2019 fiscal deficit target of 2.4%. This was larger than expected and not in keeping with the targets set by the European Commission.

The Eurozone revised GDP growth for the second quarter of 2018 up to 0.4% quarter-on-quarter, compared to the initial estimate of 0.3%. Eurozone inflation was estimated at 2.1% for September, up from 2.0% in August. There was no change in policy from the European Central Bank who reiterated that interest rates would remain on hold “at least through the summer of 2019”. Oil prices (Brent) reached a nearly four-year high at the end of the quarter of 82.72 in part due to U.S. sanctions on Iran and the economic crisis in Venezuela which reduced global supply growth. There was some divergence between Brent and the WTI as at the start of the third quarter, oil prices (WTI) were at \$74.15, and ended the quarter at \$73.25 (a decrease of 1.2%) while Brent prices increased by 4.13% over the same period.

The Federal Reserve (Fed) increased its benchmark rate to a range between 2% and 2.25% in September for the third time this year and the eighth since the Fed began to lift rates in late 2015. The Fed is expected to raise rates one more time this year. Treasury yields increased in the third quarter as positive economic news, the prospect of less accommodative central bank monetary policies, and more borrowing by the U.S. government weighed on investor demand for Treasury securities. The yield on the benchmark 10-year Treasury note increased from 2.85% to 3.05% but stayed below the year-to-date closing high of 3.11% it reached in May. The two-year Treasury note’s yield rose to its highest level in 10 years. The Barclay’s High Yield ETF US Index increased by 1.6% in the 3rd quarter. The US Equity (S&P 500) index grew by 7.20% over the same period.

During the quarter, SIL’s team continued to purchase assets it believed to be undervalued during the market sell off. 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.

Growth in Net Profit	53.20%
Total Assets	J\$1.27 billion
Efficiency ratio as at September 30, 2018	15.7%
Weighted average number of shares	59,808,494
Earnings per share	J\$1.51
Book value per share	J\$15.42

Financial Overview

Net interest income, SIL's primary source of income, totalled J\$54.8 million for the nine-month period ended September 2018. This was 3.6% higher than the amount of \$52.9 million recorded for the corresponding period in 2017. The net interest margin was 87.6%.

The Jamaican dollar depreciated against the US dollar by J\$9.65 or 7.7% for the nine-month period ended September 2018, relative to the same period in 2017 when it depreciated by J\$1.47 or 1.1%. This led to increased unrealized foreign exchange gains for the nine months ended September 2018 of J\$73.5 million compared to J\$11.5 million in September 2017.

Gross revenue was J\$133.9 million for the nine months ended September 2018 compared to J\$93.2 million in the prior 2017 period. This reflects an increase of 43.6% over the corresponding period in 2017. Profit after taxes for the nine months ended September 2018 was J\$90.4 million, an increase of 53.2% from J\$59.0 million for the period ended September 2017.

Operating expenses for the nine months ended September 2018 were J\$21.0 million or 3.0% lower than the J\$21.7 million of operating expenses recorded for the corresponding period in 2017. Total equity increased by 3.1% from J\$894.6 million as at September 2017 to J\$922.1 million as at September 2018.

Total assets increased by 3.6% from J\$1.2 billion as at September 2017 to J\$1.3 billion as at September 2018. This was largely attributed to the increase in investment securities which experienced a 3.4% increase over the same period. This was partly funded by a combination of the Dividend Reinvestment Programme (DRIP) and Complementary Share Purchase Programme (CSPP). As at September 2018, margin loans totalled J\$313.0 million, or 25.5% of the total portfolio of investment securities compared to 25.8% for September 2017.

Sterling Investments Limited recently announced their impending stock split and rights issue. The announcement was well received in the market and the resulting increase in the stock price placed it in the top 10 performing stocks on the Jamaica Stock Exchange calendar year to date.

Sterling Investments Ltd.

Balance Sheet
As at September 30, 2018

	Unaudited 9 months ended Sep-18	Unaudited 9 months ended Sep-17	Audited 12 months ended Dec-17
ASSETS			
Cash Resources			
Cash & Cash Equivalents	1,384,478	172,632	14,696,494
Accounts Receivable	42,127,887	38,816,099	42,462,081
Income Tax Recoverable	-	18,269	-
Investment Securities	1,226,757,925	1,186,746,218	1,110,936,549
TOTAL CURRENT ASSETS	1,270,270,291	1,225,753,218	1,168,095,124
TOTAL ASSETS	1,270,270,291	1,225,753,218	1,168,095,124
LIABILITIES			
Margin Loan Payables	313,041,747	306,483,288	274,814,733
Other Payables	21,863,811	11,747,924	6,687,475
Due to Related Company	13,236,002	12,958,685	19,855,271
Manager's Preference Shares	10,000	10,000	10,000
Income Tax Payable	-	-	208,351
TOTAL LIABILITIES	348,151,560	331,199,897	301,575,830
SHAREHOLDERS' NET EQUITY			
Share Capital	696,589,430	666,620,483	669,453,676
Prepaid Share Reserve	134,540	2,880,916	2,195,194
Fair Value Reserve	(25,228,738)	(7,626,699)	(30,491,694)
Retained Earnings	250,623,499	232,678,621	225,362,118
TOTAL EQUITY	922,118,731	894,553,321	866,519,294
TOTAL LIABILITIES & EQUITY	1,270,270,291	1,225,753,218	1,168,095,124

Sterling Investments Limited

Income Statement

For Period Ended September 30, 2018

	Unaudited 9 months ended Sep-18	Unaudited 9 months ended Sep-17	Unaudited 3 months ended Sep-18	Unaudited 3 months ended Sep-17	Audited 12 months ended Dec-17
Revenue:					
Interest Income	62,615,728	58,547,066	20,959,652	20,626,491	79,081,255
Foreign Exchange Gains	73,540,796	11,463,666	35,142,694	8,701,146	(26,241,648)
Gain on disposal of available-for-sale securities	(339,777)	23,233,509	(107,560)	1,815,838	37,818,293
Unrealised gain on quoted equities	(1,927,903)	-	59,787		1,318,999
	<u>133,888,845</u>	<u>93,244,241</u>	<u>56,054,573</u>	<u>31,143,475</u>	<u>91,976,899</u>
Expenses:					
Interest	(7,785,248)	(5,613,467)	(2,982,971)	(2,463,904)	(7,642,960)
Impairment gain/loss on available-for-sale-securities	4,022,737	2,298,250	956,771	(1,281,116)	(1,158,490)
Unrealised gain/(loss) on embedded derivative	-	(392,078)	-	-	(392,078)
Other operating	(21,005,524)	(21,655,152)	(6,749,484)	(6,871,798)	(28,399,108)
	<u>(24,768,035)</u>	<u>(25,362,447)</u>	<u>(8,775,684)</u>	<u>(10,616,818)</u>	<u>(37,592,636)</u>
Operating Profit	109,120,810	67,881,794	47,278,889	20,526,658	54,384,263
Other Income	103,490	(6,106)	44,109	225	1,087
Preference Dividend Expense	(18,278,002)	(8,300,000)	(8,672,642)	(4,300,000)	(1,899,545)
Profit before Income Tax	<u>90,946,298</u>	<u>59,575,688</u>	<u>38,650,356</u>	<u>16,226,882</u>	<u>52,485,805</u>
Income Tax Expense	(545,356)	(581,966)	-	(194,751)	(808,586)
Profit for Period	<u>90,400,941</u>	<u>58,993,722</u>	<u>38,650,356</u>	<u>16,032,131</u>	<u>51,677,219</u>
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 year	2,173,906	(21,840,739)	92,658	(1,465,964)	(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	3,089,050	51,107,324	5,366,580	19,936,363	42,634,271
	<u>95,663,898</u>	<u>88,260,307</u>	<u>44,109,594</u>	<u>34,502,530</u>	<u>58,078,810</u>
Shares outstanding	59,808,494	57,667,451	59,808,494	57,667,451	57,952,213
Earning Per Share	1.51	1.02	0.65	0.28	0.89

Sterling Investments Ltd.
Statement of Cash Flows
For period ended September 30, 2018

	Period ended September 2018	Audited Dec 2017	Period ended September 2017
Cash flows from operating activities			
Profit for the period	90,400,941	51,677,219	58,993,722
Adjustments for :			
Interest Income	(62,615,728)	(79,081,255)	(60,037,210)
Interest Expense	7,785,248	7,642,960	5,613,467
Impairment loss on FVOCI	(4,022,737)	1,158,490	(2,298,250)
Unrealised loss on embedded derivative	-	392,078	
Unrealised gain on quoted equities	1,927,903	(1,318,999)	392,078
Income Tax Expense	545,356	808,586	581,966
Managers Preference Share Interest	18,278,002	1,899,545	8,300,000
	<u>52,298,986</u>	<u>(16,821,376)</u>	<u>11,545,773</u>
Changes in operating assets:			
Accounts Receivable	7,172,086	(22,859)	(325,388)
Margins Payable	38,227,014	143,006,631	174,675,186
Other Payables	(3,101,666)	874,579	(13,741,567)
Due to Related Company	(6,619,269)	4,590,531	(2,306,055)
	<u>87,977,150</u>	<u>131,627,506</u>	<u>169,847,949</u>
Interest Received	55,777,836	71,566,440	56,470,905
Income Taxes Paid	(753,707)	(581,966)	(581,966)
Interest Paid	(7,785,248)	(7,642,960)	(5,613,467)
Net cash provided by operating activities	<u>135,216,031</u>	<u>194,969,020</u>	<u>220,123,421</u>
Cash flows from investing activity			
Investment securities, being net cash used by investing activity	(152,803,629)	(166,163,371)	(216,970,304)
Net cash provided by Investing activities	<u>(152,803,629)</u>	<u>(166,163,371)</u>	<u>(216,970,304)</u>
Cash flows from financing activities			
Issue of Preference shares			
Issue of ordinary shares	27,135,754	34,261,721	26,318,911
Prepaid Share Reserve	(2,060,654)	(10,070,994)	-
Manager's preference shares interest paid	-	(13,278,611)	-
Dividend payment	(20,799,518)	(26,176,847)	(30,454,973)
Net cash provided by financing activities	<u>4,275,583</u>	<u>(15,264,731)</u>	<u>(4,136,062)</u>
Increase/(decrease) in cash and cash equivalents during the period	(13,312,016)	13,540,918	(982,945)
Cash and cash equivalent at the beginning of period	14,696,494	1,155,576	1,155,576
Cash and cash equivalent at the end of period	1,384,478	14,696,494	172,632

Sterling Investments Limited					
Statement of Changes in Equity					
For period ended September 30, 2018					
	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			-	(44,340,043)	(44,340,043)
Adjusted balance as at December 31, 2017	<u>669,453,676</u>	<u>2,195,194</u>	<u>(30,491,694)</u>	<u>181,022,075</u>	<u>822,179,251</u>
Comprehensive income:					
Profit for period	-	-	-	90,400,941	90,400,941
Other comprehensive income:					
Realised gain/loss on disposal of available-for-sale securities reclassified to profit for the year			2,173,906		2,173,906
Impairment (gains)/loss on AFS securities reclassified to profit	-	-	(4,022,737)	-	(4,022,737)
Unrealised gains/(loss) in fair value of available-for-sale	-	-	7,111,787	-	7,111,787
Total comprehensive income	<u>669,453,676</u>	<u>2,195,194</u>	<u>(25,228,738)</u>	<u>271,423,016</u>	<u>917,843,148</u>
Transactions with owners:					
Share issued during the period	27,135,754	-	-	-	27,135,754
Prepaid share reserve		(2,060,654)			(2,060,654)
Dividends	-	-	-	(20,799,518)	(20,799,518)
	<u>27,135,754</u>	<u>(2,060,654)</u>	<u>-</u>	<u>(20,799,518)</u>	<u>4,275,582</u>
Balance at September 30, 2018	<u>696,589,430</u>	<u>134,540</u>	<u>(25,228,738)</u>	<u>250,623,498</u>	<u>922,118,731</u>
	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	-	-	-	58,993,722	58,993,722
Other comprehensive income:					
Realised gain/loss on disposal of available-for-sale securities reclassified to profit for the year			(21,840,739)		(21,840,739)
Impairment (gains)/loss on AFS securities reclassified to profit	-	-	-	-	-
Unrealised change 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>

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.

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.



Director



Director

Top Ten Shareholders as at September 30, 2018

Shareholders	Number of Shares	Percentage
ATL Group Pension Fund Trustees Nominee Limited	10,000,000	16.34%
Lloyd Badal	5,706,480	9.25%
GraceKennedy Limited Pension Scheme	5,227,270	8.54%
Pam - Pooled Equity Fund	4,405,035	7.20%
Pam-Cable & Wireless Pension Real Estate Fund	2,898,403	4.74%
Satyanarayana Parvataneni	2,102,333	3.44%
National Insurance Fund	2,016,129	3.29%
Charles A. Ross	1,992,478	3.26%
Winnifred M. Mullings	1,658,484	2.71%
Everton Lloyd Mcdonald	1,599,790	2.61%

Shareholdings of Directors as at September 30, 2018

	Number of shares	% of total
Derek Jones	0	0.00%
Maxim Rochester	0	0.00%
Michael Bernard	0	0.00%
Charles Ross	1,992,478	3.26%