

Sterling Investments Limited **2019**

Annual Report





Investment Mandate

Sterling Investments Limited (SIL) provides medium to long-term investors with growth, value and US dollar income. Since 2012, SIL has delivered attractive risk adjusted returns to its shareholders by strategically investing in the global capital markets.

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**“Never depend
on a single
income, make
an investment
to create a
second source.”**

Warren Buffet

Directors' Report

The Directors are pleased to present their report for the year ended December 31, 2019. The report represents the results for Sterling Investments Limited.

COMPANY RESULTS

- ⬆ Total assets were **J\$1,633,999,194** as at December 31, 2019
- ⬆ Operating revenue was **J\$108,596,870**
- ⬆ The profit after income tax was **J\$101,166,124**
- ⬆ Stockholder's equity was **J\$1,228,644,999**
- ⬆ Net gain on equities was **J\$1,869,517**

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	2019	2018	2017	2016	2015	2014
Price Earnings Ratio	11.92	5.64	14.61	11.17	8.52	8.88
Net Interest Margin	86.9%	86.6%	90.3%	93.9%	92.5%	92.8%
Dividends Paid & Proposed (in respect of the financial year)	24,016,508.15	28,678,674.17	39,443,858.95	22,842,106.12	18,541,154.12	12,663,751.68
Dividend Payout Ratio	23.7%	53.3%	76.3%	29.1%	26.1%	21.6%
Dividend Yield	2.0%	9.5%	3.5%	2.6%	3.1%	2.4%
Price to Book	1.02	0.36	1.30	1.08	0.87	0.97

NB: Calculations use price as at the end of the financial year.

By Order of the Board



Dated this February 18, 2020

“Close scrutiny will show that most ‘crisis situations’ are opportunities to either advance, or stay where you are.”

Maxwell Mattz

Corporate Profile

Sterling Investments Limited (SIL) is an investment holding company that was formed in 2012. The company exists to protect and grow the capital of its stockholders by investing in bonds and equities. Early investors in SIL avoided the National Debt Exchange and 42.6% devaluation since its inception. SIL listed its ordinary shares on the Main Market of the Jamaica Stock Exchange in October 2014.

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

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

- 😊 US dollar income
- 😊 Growth
- 😊 A hedge against devaluation and inflation
- 😊 Diversification
- 😊 Access to the global capital markets
- 😊 Access to experienced and successful investment managers

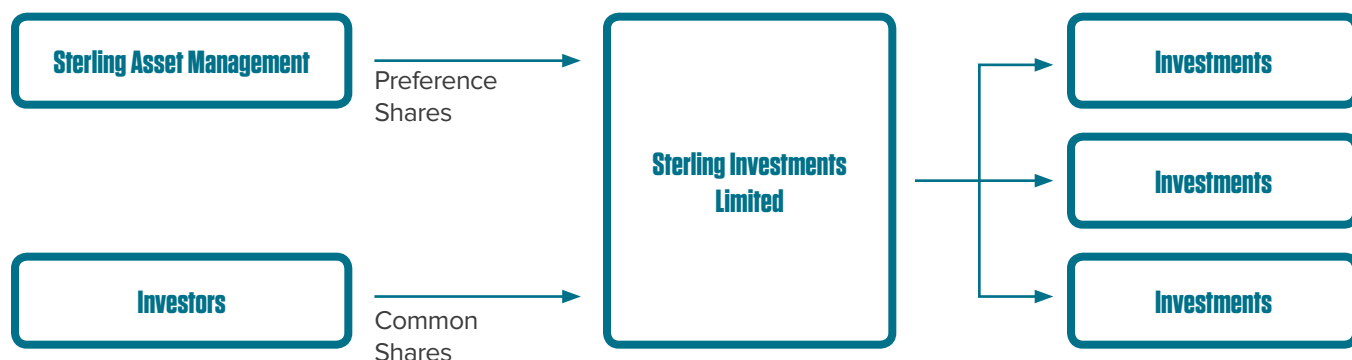
Sterling Investments Limited has no employees. The operations of Sterling Investments Limited are managed by "the Investment Manager" -Sterling Asset Management Limited (SAM). As a result, SIL has one of the highest net profit margins and lowest efficiency ratios of any company on the Jamaica Stock Exchange. 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.

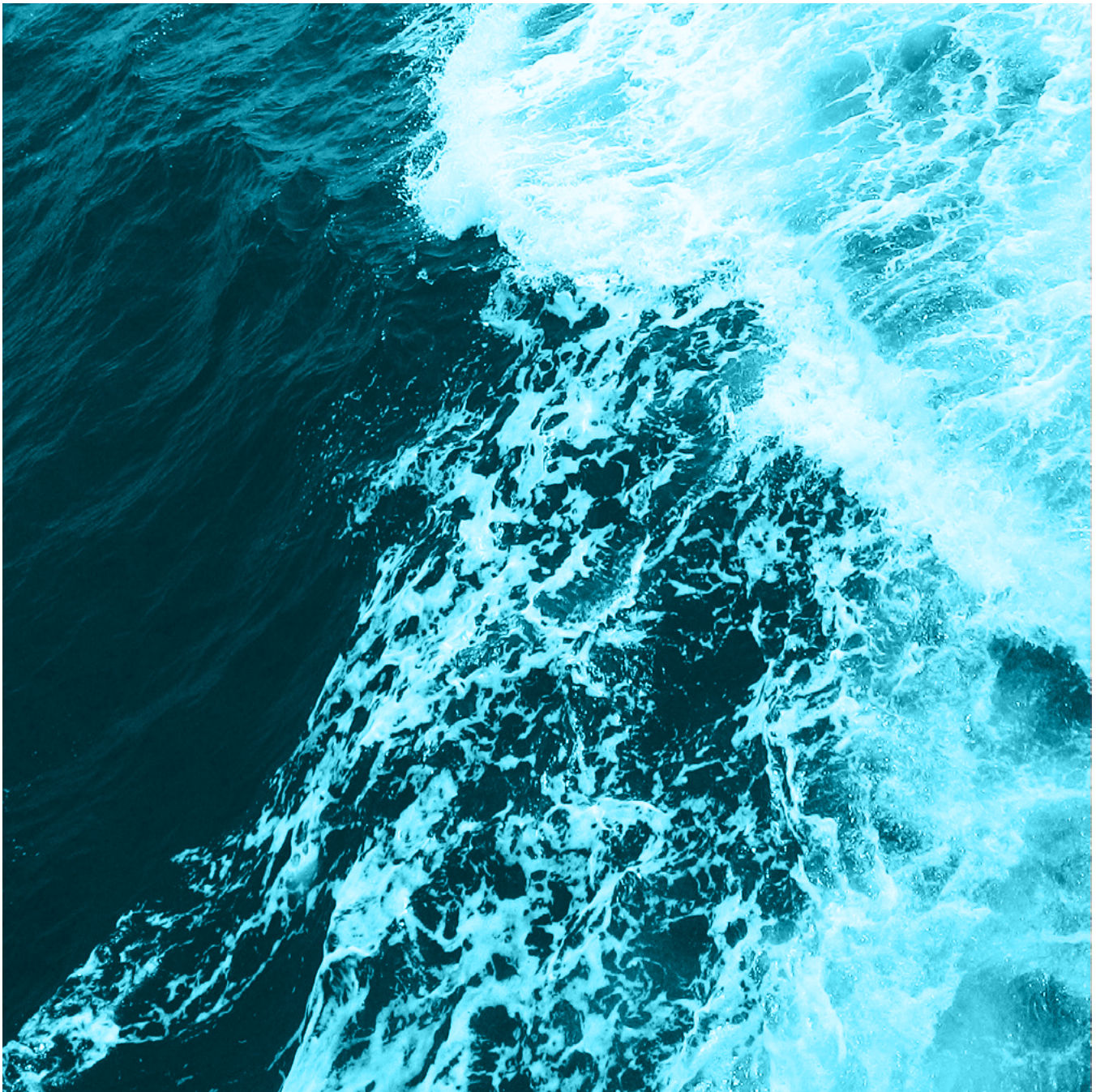
The relationship between SAM and SIL is governed by an investment management agreement. The agreement stipulates payment of a management fee and performance dividend as follows:

- 😊 **Management Fee:** During the life of the company the Manager receives a management fee of 0.5% of the value of the assets under management each quarter.
- 😊 **Performance Fee:** 25% of profits in excess of the hurdle rate are paid to preference shareholders. The hurdle rate is the 10 Year UST plus a margin of 300 basis points.

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. Sterling boasts one of the highest capital adequacy ratios in the industry and was one of the first local institutions to bring high quality, US dollar fixed income investments to Jamaican investors.





For 19 years, 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 12.07% per annum between 2003 and 2019. US\$100,000 invested in the fund in 2003 would have been worth over US\$663,228 at the end of 2019. 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)

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



Derek Jones
Chairman QBE



Charles Ross
BSc. (Hons), MSc.



Michael Bernard
BA, BSc., MBA, FJIM

Sterling Asset Management (SAM)

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.



Maxim Rochester
BSc. (Accounting) Hons. FCA, FCCA



Marian Ross
BA (Hons), MBA



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

Sterling Investments Limited (SIL)

Derek Jones, Chairman QBE

Derek 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, 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)
- ^ Jamaica National Building Society, Cayman (Director)

Charles Ross, BSc. (Hons), MSc.

Charles is a founding director of Sterling Asset Management Limited. In his role as President for the past 19 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
- ^ 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 Group 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 BSc. 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 Ltd.
- ^ Carreras Ltd.
- ^ Jamaica College (Chairman)
- ^ GK General Insurance Co. Ltd.
- ^ Hardware & Lumber Ltd.
- ^ Jamaica College Foundation
- ^ Spike Industries Limited (Chairman)
- ^ Peak Bottling Company Ltd. (Exec. Chairman)
- ^ New Transport Group Ltd.
- ^ One on One Educational Services limited (Chairman)
- ^ Pioneer Manufacturing and Distribution Limited (Chairman)
- ^ Catherine's Peak Bottling Company (Chairman)

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

Sterling Asset Management Limited (SAM)

Maxim Rochester, BBSc (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 BSc 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 Asset Management](#)
- ^ [Eppley Limited](#)
- ^ [Guardian Holdings Ltd.](#)
- ^ [Guardian Life Ltd.](#)
- ^ [Guardian Life of the Caribbean Ltd.](#)
- ^ [Guardian General Insurance Ltd.](#)

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 investment research in both the regional and international capital markets. Her work has covered fixed income, publicly traded equities and private equity. Her work experience has taken her through the Caribbean and to North America and South-East Asia. She is the Vice President, Trading & Business Development, and executive director of Sterling Asset Management. Ms. Ross 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 & MISSION

I am pleased to report that Sterling Investments Limited (SIL) recorded its highest profit after tax of J\$101.2 million since listing on the Jamaica Stock Exchange in 2014. For the year ended December 2019, total profit increased by 88.0% and total assets increased by 35.2%. In 2019, the company conducted a Rights Issue which funded an increase in assets. In a display of confidence in the company, the number of shareholders increased by 67% over the prior period.

SIL continues to deliver on its mission to provide higher risk adjusted returns to the country's savers, retirees and pension funds. With US dollar denominated dividends, our shareholders receive income that is protected from inflation (8.1% per annum over the last 15 years) and devaluation (5.2% per annum over the last 15 years).

During 2019, SIL continued to execute its value investing strategy. The company took advantage of the decline in global asset prices in early 2019 and purchased a variety of undervalued US dollar bonds. The price of these bonds rose substantially later in the year. Similarly, the purchase and sale of undervalued local equities enabled the company to enjoy attractive capital gains

SIL intends to continue its focus on value investing as the primary means of creating sustainable growth and attractive returns for its shareholders.



Performance Summary

Financial overview:

SIL's assets grew by 35.2%, increasing from J\$1.209 billion in the previous year to J\$1.634 billion as at December 31, 2019. The portfolio growth was financed by a combination of margin loans, the Rights Issue, investment income and the Dividend Reinvestment and Complementary Share Purchase programmes. Interest income grew by 19.6%, increasing from J\$82.2 million to J\$98.3 million. Net Profit increased by 88.0% to J\$101.2 million for the fiscal year as a result of higher interest income and equity gains.

Dividends are paid twice a year in USD, which affords investors a hedge against devaluation and inflation.

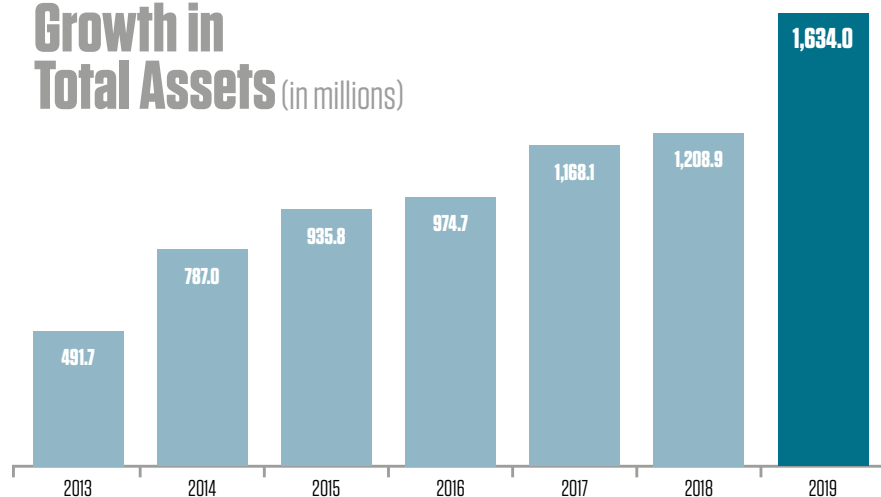
Earnings per share totaled J\$0.28 per share, this was due to the full impact of the 5:1 stock split which was effected in November 2018. Without the stock split, the EPS would have been J\$1.35 compared to J\$0.64 the prior year, reflecting an increase of 110.9%.

Outlook

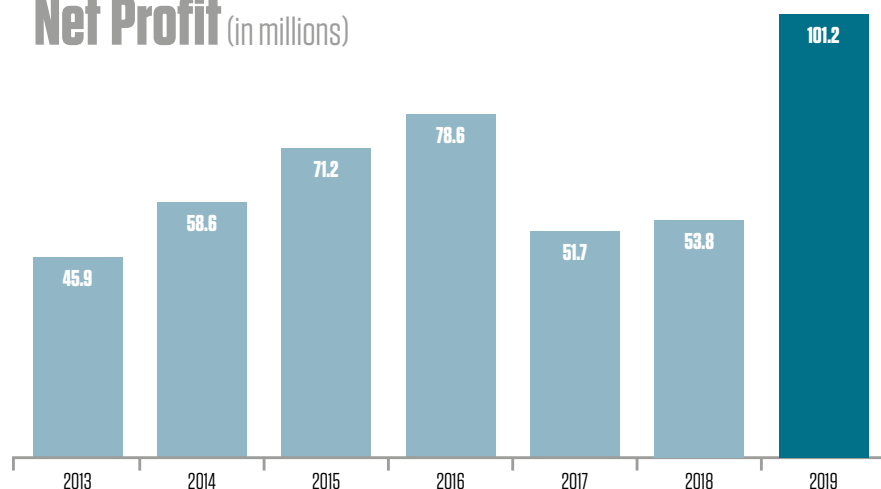
SIL continues to focus on delivering growth and value for stockholders. The company plans to take advantage of the expected volatility in the international market and continues to evaluate local opportunities in the public and private equity space.

On behalf of the board of directors, I would like to thank all the shareholders for their continued confidence in SIL and look forward to another outstanding year.

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 ethics 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

The Audit Committee plays a key oversight role on behalf of the Board. The Committee's principal activities focused on the oversight of operational risks, the systems of internal controls, the Company's financial reporting processes and

audit functions, as well as compliance with legal, governance and regulatory requirements. The Committee reviews adherence to accounting policies, oversees the work of the internal auditors and assists the Board in discharging its duties with regard to: maintaining proper records and controls and ensuring that financial transactions are consistent with the policies and directives of the Board.

PriceWaterhouseCoopers were appointed by the Board of the Investment Manager to perform the internal audit. SIL reviewed the internal audit plans and the internal audit reports presented throughout the year. The audit areas reviewed in 2019 included AML compliance, trading and securities, accounting reconciliations, and information technology. All issues identified were addressed satisfactorily.

Asset Liability Committee (ALCO)

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

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 capital gains over both the short and long term while managing within acceptable board approved risk tolerances for credit risk, liquidity risk, interest rate risk and capital. Other issues such as credit trends, credit concentrations and other credit-related metrics that may impact strategy development; especially as it relates to capacity for growth are 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 risk
- ⬆ Investment strategies employed to maximize risk adjusted return on equity
- ⬆ Quality and structure of funding and asset base
- ⬆ Adherence to liquidity, capital and trading policy limits
- ⬆ Achievement of budgeted profitability targets

Meetings and Attendance

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


Compensation and Nomination 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 to the approval of the Shareholders' 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 Compensation and Nomination 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.
- ⬆ They review 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

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 consists 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.

Board Annual Self Evaluation

SIL's Board conducts an annual self-evaluation of its performance and all its sub-committees during the year. 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.. 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.

Directors' Compensation

SIL compensates its Directors responsibly and aligns remuneration with the company's strategy. For the financial year ending December 31, 2019, a total of JS\$2,927,370 was paid to the four Directors. Each director gets the same amount in fees.

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: is free of any interest, position, association or relationship that might influence or reasonably be perceived to influence, in a material respect his or her capacity to bring an independent judgment to bear on issues before the board and to act in the best interest of the entity and its shareholders generally. 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 the 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 nonexecutive directors met the criteria for independence during the period under review:

- 😊 Derek Jones
- 😊 Michael Bernard
- 😊 Maxim Rochester

Cybersecurity

Cybersecurity is a key reporting area for internal and external auditors. The manager of SIL, Sterling Asset Management, retains one of the top IT consulting firms on the island to manage and protect its data and technology infrastructure. The IT consulting firm is in turn held accountable by internal auditors. The Directors receive regular reports from the manager confirming the security and robustness of the IT environment.



**"In the middle of difficulty
lies opportunity."**

Albert Einstein

Management Discussion & Analysis

Balance Sheet Analysis

SIL's asset base grew substantially in 2019. Total assets increased by 35.2% from J\$1.209 billion as at December 31, 2018 to J\$1.634 billion as at December 31, 2019. This was largely attributed to the 36.7% increase in investment securities over the same period. This was funded by the proceeds of the rights issue and driven by an increase in the prices of the securities in SIL's portfolio.

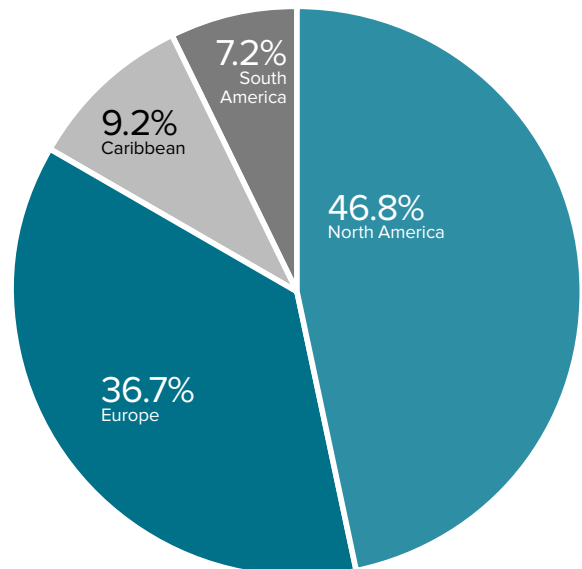
As at December 31, 2019, margin loans totalled J\$350.8 million, or 22.1% of the total portfolio of investment securities compared to 28.9% the previous year. The company's liabilities, excluding margin loans payable, increased by 101% from J\$27.1 million in 2018 to J\$54.5 million in 2019. This is mainly due to a carryover of unpaid management fees from the prior year.

The SIL portfolio benefitted from the increase in asset prices during 2019. The S&P 500 grew by 28.9% and the yield on the 10-year UST declined by 77bps during the 2019 fiscal year. This performance gave credence to the investment thesis of the team.

SIL's total equity increased from J\$845.5 million in December 2018 to J\$1,229 billion in December 2019, a result of an increase in asset prices and the increase in share capital from the rights issue. Retained earnings also increased by 32.8% from J\$203.6 million to J\$270.3 million, underscoring the year's profitable performance

Weighted average coupon rate = 7.92%
Weighted average book yield = 7.45%

Fixed Income Portfolio Analysis by Region.



Income Statement Analysis

Net profit for the fiscal year 2019 was J\$101.2 million compared to J\$53.8 million for the prior fiscal year, an increase of 88%. The Jamaican dollar depreciated against the U.S. dollar by 3.8%, starting the year at 127.72 and closing at 132.57. As a result, unrealized foreign exchange gains increased from J\$23.0 million as at December 2018 to a gain of J\$43.9 million as at December 2019.

The company's primary source of revenue is interest income generated by the securities in its portfolio. Total interest income amounted to J\$98.3 million for the period ended December 31, 2019; 19.6% higher than the interest income for the corresponding period in 2018 of J\$82.2 million. Interest income has increased despite an environment of record low interest rates globally and the associated decline in coupons on fixed income securities. The company's profitability also benefited from gains in its bond and equity trading portfolio.

Expenses

Total expenses declined by 25.5% from J\$53.4 million in 2018 to J\$39.8 million in 2019. This was primarily the result of increases in the unrealised gains on the equity portfolio and a write back of impairment charges on the bond portfolio. However, other operating expenses for the fiscal year ended December 2019 were J\$37.7 million or approximately 31.1% higher than the J\$28.8 million of operating expenses for the corresponding period in 2018. The major factor behind this increase was an increase in management fees.

Interest expense increased by less than the increase in interest income. Interest expense for the portfolio increased by 17.1% from J\$11.0 million for the fiscal year ended December 2018 to J\$12.9 million for the fiscal year ended December 2019.

Outlook

Low interest rates globally will continue to benefit many of the fixed income assets that SIL owns. The increase in market volatility associated with the Coronavirus has presented many attractive investment opportunities in both equities and bonds. SIL will stick to its strategy of purchasing undervalued assets and enjoying capital appreciation as well as income.

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 analysed 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 analysed 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.



Corporate Data

Investor Relations Contact:

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Registered Address:

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🌐 www.sterlinginvestmentsltd.com

✉ sil@sterlinginvestmentsltd.com

External Auditors

Sterling Investments Limited is audited by KPMG, Barbados.

Internal Auditors

PricewaterhouseCoopers Jamaica, serve as the internal auditor for Sterling Asset Management Limited (the Investment Manager for Sterling Investments Limited).

SIL Stockholder Events



From L-R Senior Deputy Governor John Robinson, Dr. Constant Lonkeng Nguana (IMF representative) and Charles Ross (President & CEO Sterling Asset Management) at the annual Sterling Asset Management Investor Briefing.



Charles Ross and Toni-Ann Neita-Elliott (L-R) from Sterling Asset Management take time to pose with participants of the Phoenix Lodge Annual Charity Golf Tournament Metry Seaga and Dave Cameron.



Here Charles Ross (President & CEO Sterling Asset Management) presents Sterling's Sponsorship cheque for the Phoenix Lodge Annual Charity Golf Tournament to Trevor Riley (Worshipful Master of the Lodge).



The winners are all smiles as they pose with Dave Cameron and Charles Ross.



The Directors of Sterling Investments from left to right. Charles Ross, Maxim Rochester, Michael Bernard and Derek Jones.



Charles Ross shares a light moment with Neville Graham from the Gleaner.

SIL Stockholder Events (continued)



Second from left Pamela Lewis (Vice President of Investments & Client Services at Sterling Asset Management) poses with members of the Lupus Foundation at the Lupus lapathon.



Marian Ross (Director Sterling Asset Management), presents Paulette Tai Chun with her prize from Sterling Asset Management at the Marlin Tournament.



Captain David McRae shares a happy moment with Captain Lisa Elliott and Charles Ross- President and CEO of Sterling Asset Management at a Sterling function.



Pamela Lewis (Vice President of Investments & Client Services at Sterling Asset Management) poses with Dr. Desiree Tulloch-Reid of the Lupus foundation.



From L-R Senior Deputy Governor at Bank of Jamaica John Robinson, Marian Ross- Director Sterling Asset Management, IMF representative Dr. Constant Lonkeng Ngouana and Charles Ross- President and CEO of Sterling Asset Management look intently at a document.

Directors & Connected Parties

TOP TEN SHAREHOLDERS as at December 31, 2019

Name	Number of shares	Percentage
ATL Group Pension Fund Trustees Nominee Limited	47,856,608	12.7%
GraceKennedy Pension Fund Custodian Ltd. for GraceKennedy Pension Scheme	34,848,550	9.3%
Lloyd Badal	27,123,691	7.2%
PAM - Pooled Equity Fund	22,025,175	5.9%
Cable and Wireless Jamaica Pension Fund	14,492,015	3.9%
Everton Lloyd McDonald	13,331,584	3.5%
Charles A. Ross	11,581,170	3.1%
Satyanarayana Parvataneni	10,839,506	2.9%
National Insurance Fund	10,080,645	2.7%
JN Fund Managers Limited for JN Pooled Pension Local Equity Fund	8,912,355	2.4%

Shareholdings of Directors & Connected Parties as at December 31, 2019

Directors	Shareholdings	Percentage
Derek Jones		
Maxim Rochester		
Michael Bernard		
Charles Ross	11,581,170	3.1%

	Number of shares	Percentage
Marian A. Ross	1,266,509	0.34%
Charles Andrew Ross	625,711	0.17%
Sterling Asset Management Limited	93,500	0.02%
Natalie A. Farrell-Ross	86,706	0.02%

Audited Financial Statements

December 31, 2019



**KPMG**

204 Johnsons Centre
No. 2 Bella Rosa Road
Gros-Islet
Saint Lucia
Telephone: (758)-453-2298
Email: ecinfo@kpmg.lc

INDEPENDENT AUDITORS' REPORT

To the Members of
STERLING INVESTMENTS LIMITED

Opinion

We have audited the financial statements of Sterling Investments Limited ("the Company") set out on pages 29 to 68, which comprise the statement of financial position as at December 31, 2019, 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, 2019, 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 Members 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.

Fair value of investment securities

Key audit matter

The Company's investment portfolio includes investment in an unquoted equity security, classified as *equity investment securities at fair value through other comprehensive income (FVOCI)* and measured at fair value.

Management has determined the fair value of this investment using the net asset approach which involves the valuation of the underlying assets of a business, in the absence of a quoted price for the instrument on a trading market.

The key areas requiring greater level of management's judgement and estimate is the expected cash flows to be generated by the underlying assets and the determination of the discount rate to be applied.

How the matter was addressed in our audit

- We assessed the reasonableness of the cash flow projection by:
 - (i) comparing the input data provided by management with independent data sources, supporting documents and information;
 - (ii) challenging management's assumptions such as, the timing, amounts and future growth of the cash flows by obtaining an understanding of the relevant activities of the business and determining whether there may be variations to the contractual cash flows expected.
- We engaged our internal valuation specialist to evaluate the application of valuation methodology and the reasonableness of the assumptions used in determining the discount rate, by comparing the discount rate with published market and industry data and other relevant information.
- We tested the mathematical accuracy of the cash flows projection and the adequacy and appropriateness of the Company's disclosures against the requirements of IFRS 13, *Fair Value Measurement*.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
STERLING INVESTMENTS LIMITED

Key Audit Matters (continued)

Valuation of investment securities	
Key audit matter	How the matter was addressed in our audit
<p>IFRS 9 <i>Financial Instruments</i>, requires the Company to measure expected credit losses on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is used in determining the economic scenarios and management overlay.</p> <p>We therefore determined that the impairment of investments has a high degree of estimation uncertainty.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> • Obtained an understanding of the model used by management for the calculation of expected credit losses. • Agreed the investment listing with the investments included in the model to determine whether all debt securities were included. • Agreed the inputs used to calculate the probability of default (PD) and Loss Given Default (LGD) to external sources such as external rating agencies. • Agreed inputs, including maturity date, credit rating and interest rate to source documents. • Recalculated the amortised cost for the investment securities, which is the Exposure at Default (EAD). • We involved our internal specialists to evaluate the appropriateness of the Company's methodology for incorporating Forward Looking Information (FLI) by comparing management's FLI with industry benchmark. • Assessed the adequacy of the disclosures of the key assumptions and judgements.



INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members 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 will not express any form of assurance conclusion thereon.

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

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

Responsibilities of Management and Board of Directors for the Financial Statements

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

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

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



INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members 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 Members 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 28, 2020

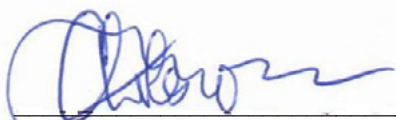
STERLING INVESTMENTS LIMITED

Statement of Financial Position

as at December 31, 2019 (Expressed in Jamaican Dollars)

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Assets			
Cash and cash equivalents	4	2,079,139	3,480,597
Accounts receivable	5	44,061,124	43,568,581
Income tax recoverable		201,332	92,707
Investment securities	6	<u>1,587,657,599</u>	<u>1,161,747,542</u>
Total assets		<u>1,633,999,194</u>	<u>1,208,889,427</u>
Liabilities			
Margin loans payable	7	350,839,368	336,229,212
Other payables	8	13,058,853	9,612,829
Due to related company	9(c)(i)	41,445,974	17,497,550
Manager's preference shares	10	<u>10,000</u>	<u>10,000</u>
Total liabilities		<u>405,354,195</u>	<u>363,349,591</u>
Equity			
Share capital	11(ii)	905,042,146	699,274,387
Prepaid share reserve	12	316,841	43,321
Fair value reserve	13	52,990,498	(57,387,192)
Retained earnings		<u>270,295,514</u>	<u>203,609,320</u>
Total equity		<u>1,228,644,999</u>	<u>845,539,836</u>
Total liabilities and equity		<u>1,633,999,194</u>	<u>1,208,889,427</u>

The financial statements on pages 29 to 68 were approved for issue by the Board of Directors on February 27, 2020 and signed on its behalf by:



Charles Ross

Director



Maxim Rochester

Director

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

STERLING INVESTMENTS LIMITED

Statement of Profit or Loss and Other Comprehensive Income

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Revenue			
Interest income calculated using the effective interest method	14	98,299,266	82,200,785
Foreign exchange gain		43,867,988	23,005,258
Net gain on sale of debt investment securities at FVOCI		4,336,249	2,602,419
Net gain on sale of equity investment securities at FVTPL	14	<u>1,869,517</u>	<u>2,637,457</u>
	14	<u>148,373,020</u>	<u>110,445,919</u>
Expenses			
Interest	19(a)(v)	(12,872,969)	(10,993,501)
Impairment gain/(loss) on financial instruments		1,184,399	(9,443,180)
Unrealised fair value gain/(loss) on equity investment securities at FVTPL		9,651,783	(4,142,723)
Other operating expenses	15	(<u>37,739,363</u>)	(<u>28,797,668</u>)
		(<u>39,776,150</u>)	(<u>53,377,072</u>)
Operating profit		108,596,870	57,068,847
Other income		423,958	252,709
Manager's preference share interest expense		(<u>7,225,475</u>)	(<u>3,049,900</u>)
Profit before taxation		101,795,353	54,271,656
Taxation	16	(<u>629,229</u>)	(<u>452,648</u>)
Profit for the year		<u>101,166,124</u>	<u>53,819,008</u>
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Movements in fair value reserve			
Realised (gain)/loss on sale of FVOCI debt investment securities reclassified to profit or loss		(5,799,592)	4,660,724
Change in fair value of FVOCI debt investment securities		<u>116,177,282</u>	(<u>80,192,905</u>)
Total other comprehensive income/(loss) for the year		<u>110,377,690</u>	(<u>75,532,181</u>)
Total comprehensive income/(loss) for the year		<u>211,543,814</u>	(<u>21,713,173</u>)
Earnings per stock unit			
Basic and diluted earnings per stock unit	17(a)	<u>0.28¢</u>	<u>0.64¢</u>

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

STERLING INVESTMENTS LIMITED

Statement of Changes in Equity

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

	Share capital [note 11(ii)]	Prepaid share reserve (note 12)	Fair value reserve (note 13)	Retained earnings	Total
Balances as at January 1, 2018	<u>669,453,676</u>	<u>2,195,194</u>	<u>18,144,989</u>	<u>176,725,435</u>	<u>866,519,294</u>
Comprehensive income:					
Profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,819,008</u>	<u>53,819,008</u>
Other comprehensive loss:					
Fair value reserve					
Realised loss on sale of FVOCI debt instrument securities reclassified to profit or loss	-	-	4,660,724	-	4,660,724
Change in fair value of FVOCI debt instrument securities net	<u>-</u>	<u>-</u>	<u>(80,192,905)</u>	<u>-</u>	<u>(80,192,905)</u>
Total other comprehensive loss	<u>-</u>	<u>-</u>	<u>(75,532,181)</u>	<u>-</u>	<u>(75,532,181)</u>
Total comprehensive loss	<u>-</u>	<u>-</u>	<u>(75,532,181)</u>	<u>53,819,008</u>	<u>(21,713,173)</u>
Transactions with owners:					
Shares issued during the year	29,820,711	-	-	-	29,820,711
Transfer of prepayment of shares	-	(2,195,194)	-	-	(2,195,194)
Prepayments for share	-	43,321	-	-	43,321
Dividends (note 18)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,935,123)</u>	<u>(26,935,123)</u>
Total transactions with owners	<u>29,820,711</u>	<u>(2,151,873)</u>	<u>-</u>	<u>(26,935,123)</u>	<u>733,715</u>
Balances at December 31, 2018	<u>699,274,387</u>	<u>43,321</u>	<u>(57,387,192)</u>	<u>203,609,320</u>	<u>845,539,836</u>
Comprehensive income:					
Profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>101,166,124</u>	<u>101,166,124</u>
Other comprehensive income:					
Fair value reserve					
Realised gains on sale of FVOCI debt instrument securities reclassified to profit or loss	-	-	(5,799,592)	-	(5,799,592)
Change in fair value of FVOCI debt instrument securities net	<u>-</u>	<u>-</u>	<u>116,177,282</u>	<u>-</u>	<u>116,177,282</u>
Total other comprehensive income	<u>-</u>	<u>-</u>	<u>110,377,690</u>	<u>-</u>	<u>110,377,690</u>
Total comprehensive income	<u>-</u>	<u>-</u>	<u>110,377,690</u>	<u>101,166,124</u>	<u>211,543,814</u>
Transactions with owners:					
Shares issued during the year	205,767,759	-	-	-	205,767,759
Transfer of prepayment of shares	-	(43,321)	-	-	(43,321)
Prepayments for share	-	316,841	-	-	316,841
Dividends (note 18)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(34,479,930)</u>	<u>(34,479,930)</u>
Total transactions with owners	<u>205,767,759</u>	<u>273,520</u>	<u>-</u>	<u>(34,479,930)</u>	<u>171,561,349</u>
Balances at December 31, 2019	<u>905,042,146</u>	<u>316,841</u>	<u>52,990,498</u>	<u>270,295,514</u>	<u>1,228,644,999</u>

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

STERLING INVESTMENTS LIMITED

Statement of Cash Flows

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities			
Profit for the year		101,166,124	53,819,008
Adjustments for:			
Interest income		(98,299,266)	(82,200,785)
Interest expense		12,872,969	10,993,501
Impairment (gain)/loss on investment securities	19(a)(v)	(1,184,399)	9,443,180
Unrealised fair value (gain)/loss on quoted equities at FVTPL		(9,651,783)	4,142,723
Taxation	16	629,229	452,648
Manager's preference share interest expense	9(c)(i)	<u>7,225,475</u>	<u>3,049,900</u>
		12,758,349	(299,825)
Changes in:			
Accounts receivable		1,832,568	(1,829,904)
Margin loans payable		14,610,156	61,414,479
Other payables		(731,551)	1,777,001
Due to related company		<u>23,948,424</u>	<u>(2,357,721)</u>
		52,417,946	58,704,030
Interest received		95,974,154	82,917,024
Interest paid		(12,872,969)	(10,993,501)
Tax paid		<u>(737,854)</u>	<u>(748,543)</u>
Net cash provided by operating activities		<u>134,781,277</u>	<u>129,879,010</u>
Cash flows from investing activity			
Investment securities, being net cash used by investing activity		<u>(304,696,184)</u>	<u>(139,929,077)</u>
Cash flows from financing activities			
Issue of ordinary shares, net		202,436,110	24,562,577
Complementary share purchase programme		273,520	(2,151,873)
Manager's preference shares interest paid		(3,047,900)	(1,899,545)
Dividends paid	18	<u>(31,148,281)</u>	<u>(21,676,989)</u>
Net cash provided/ (used) by financing activities		<u>168,513,449</u>	<u>(1,165,830)</u>
Decrease in cash and cash equivalents		<u>(1,401,458)</u>	<u>(11,215,897)</u>
Cash and cash equivalents at beginning of year		<u>3,480,597</u>	<u>14,696,494</u>
Cash and cash equivalents at end of year	4	<u><u>2,079,139</u></u>	<u><u>3,480,597</u></u>

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

Notes to the Financial Statements

Year ended December 31, 2019 (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”).

(b) Functional and presentation currency

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

(c) 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:

(i) Judgements

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.

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

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

(c) Use of estimates and judgements (continued)

(i) Judgements (continued)

(1) Classification of financial assets:

The assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding requires management to make certain judgements on its business operations.

(2) Impairment of financial assets:

Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit loss (ECL) and selection and approval of models used to measure ECL requires significant judgement.

(3) 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.

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

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

(c) Use of estimates and judgements (continued)

(i) Judgements (continued)

(3) Determination of fair values (continued)

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). The valuation techniques include the fair value of net asset and discounted cash flows model in addition to the weighted average cost of capital and marketability discount factors for which an observable market exist. The objective of the valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the assets in an ordinary transaction between market participants at the measurement date.

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. Although management believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements 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.

(ii) Key assumptions concerning the future and other sources of estimation uncertainty

(1) Allowance for impairment losses

In determining amounts recorded for impairment of debt investment securities, management makes assumptions in determining the inputs to be used in the ECL measurement model, including probability of default and the incorporation of forward-looking information. The use of assumptions make uncertainty inherent in such estimates.

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

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

(d) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the inclusion of investment securities at fair value.

3. Significant accounting policies

(a) Financial instruments – Classification, recognition and derecognition, measurement and impairment

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.

(i) Recognition and initial measurement

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

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

A financial asset (unless it is a receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL; transaction costs that are directly attributable to its acquisition or issue. A receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income; FVOCI – debt investment; FVOCI – equity investment; or fair value through profit or loss (FVTPL).

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

3. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and derecognition, measurement and impairment (continued)

(ii) Classification and subsequent measurement (continued)

Financial assets (continued)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- 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 on the principal amount outstanding (SPPI).

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- 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 give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets

Business model assessments:

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

3. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and derecognition, measurement and impairment (continued)

(ii) Classification and subsequent measurement (continued)

Financial assets (continued)

Business model assessments (continued):

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities that are funding these assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Company's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity. However, the information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest:

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

3. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and derecognition, measurement and impairment (continued)

(ii) Classification and subsequent measurement (continued)

Financial assets (continued)

The Company's objective is achieved by both collecting contractual cash flows and selling financial assets.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers the following:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- leverage features, that modify consideration of the time value of money such as periodic reset of interest rates;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par value, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

3. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and derecognition, measurement and impairment (continued)

(ii) Classification and subsequent measurement (continued)

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first reporting period following the change in business model.

(iii) Embedded derivatives

Derivative 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 an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- 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 risk of the embedded derivative are not closely related to the economic characteristics and risk of the host contract.

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. Separated embedded derivatives are presented in the statement of financial position together with host contract.

(iv) Identification and measurement of impairment

The Company recognises loss allowances for ECL on financial instruments that are not measured at FVTPL, in financial assets that are debt instruments. No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to 12-month ECL on the debt investment securities that are determined to have low credit risk at the reporting date and other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Company does not apply the low credit risk exemption to any other financial instruments.

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

3. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and derecognition, measurement and impairment (continued)

(iv) Identification and measurement of impairment (continued)

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1 financial instruments’.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as ‘Stage 2 financial instruments’.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the difference between the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive) and;
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as ‘Stage 3 financial assets’). A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

3. Significant accounting policies (continued)

- (a) Financial instruments – Classification, recognition and derecognition, measurement and impairment (continued)

- (iv) Identification and measurement of impairment (continued)

Credit-impaired financial assets (continued)

Evidence that a financial asset is credit-impaired includes the following observable data (continued):

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Company considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows: *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets

Debt instrument measured at FVOCI; no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is fair value. However, the loss allowances are disclosed and recognised in the fair value reserve.

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

3. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and derecognition, measurement and impairment (continued)

(iv) Identification and measurement of impairment (continued)

Write off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in ‘impairment losses on financial instruments’ in the statement of profit or loss and 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 and are subject to an insignificant risk of changes in their fair value.

(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) Interest

- (i) Interest income and expense are recognised in profit or loss by 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 instruments to its gross carrying amount.

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

3. Significant accounting policies (continued)

(e) Interest

(i) (Continued)

Effective interest rate

When calculating the effective interest rate for financial instruments other than purchased or originated credit impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition of a financial asset.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and interest expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

3. Significant accounting policies (continued)

(e) Interest (continued)

(i) (Continued)

Calculation of interest income and interest expense (continued)

For financial assets that have become credit-impaired on initial recognition, interest income is calculated by applying the credit adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to the gross basis even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income, includes interest on financial assets and financial liabilities measured at amortised cost, and interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss and other comprehensive income includes financial liabilities measured at amortised cost.

(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 remeasurement of those assets.

(f) 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.

(g) 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:

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

3. Significant accounting policies (continued)

(g) Share capital (continued)

(ii) Preference shares

- 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.

(h) 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.

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.

(i) 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

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

3. Significant accounting policies (continued)

(j) New and amended standards and interpretations issued but not yet effective:

At the date of approval of these financial statements, there were certain new and amended standards and interpretations, which were in issue but were not yet effective at the reporting date and had not been early-adopted by the Company.

The Company is assessing them and has determined that the following are relevant to its financial statements:

- Amendments to *References to Conceptual Framework in IFRS Standards* is effective retrospectively for annual reporting periods beginning on or after January 1, 2020. The revised framework covers all aspects of standard setting including the objective of financial reporting.

The main change relates to how and when assets and liabilities are recognised and derecognised in the financial statements.

- New 'bundle of rights' approach to assets will mean that an entity may recognise a right to use an asset rather than the asset itself;
- A liability will be recognised if a company has no practical ability to avoid it. This may bring liabilities on balance sheet earlier than at present.
- A new control-based approach to derecognition will allow an entity to derecognise an asset when it loses control over all or part of it; the focus will no longer be on the transfer of risks and rewards.

The Company is assessing the impact that the amendments will have on its 2020 financial statements.

- Amendment to IAS 1, *Presentation of Financial Statements*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, is effective for annual periods beginning on or after January 1, 2020, and provides a definition of 'material' to guide preparers of financial statements in making judgements about information to be included in financial statements.

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The Company does not expect the amendment to have a significant impact on its 2020 financial statements.

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

4. Cash and cash equivalents

	<u>2019</u>	<u>2018</u>
Cash	3000	3,000
Demand deposit accounts	<u>2,076,139</u>	<u>3,477,597</u>
	<u>2,079,139</u>	<u>3,480,597</u>

Demand deposit accounts includes \$10,245 (2018: \$241) [notes 11(iii)(a) and 12] received from stockholders as prepayments for the purchase of the Company's stock units.

5. Accounts receivable

	<u>2019</u>	<u>2018</u>
Interest receivable	43,798,536	41,473,425
Other	<u>262,588</u>	<u>2,095,156</u>
	<u>44,061,124</u>	<u>43,568,581</u>

Accounts receivable is stated net of impairment provision of \$Nil (2018: \$Nil) and is due as follows:

	<u>2019</u>	<u>2018</u>
Due within twelve (12) months	23,610,111	23,909,190
No specific maturity [note 9(c)(i)]	<u>20,451,013</u>	<u>19,659,391</u>
	<u>44,061,124</u>	<u>43,568,581</u>

6. Investment securities

	<u>2019</u>	<u>2018</u>
Debt investment securities measured at FVOCI		
(i) Corporate bonds US\$8,997,000 (2018: US\$6,703,665)	1,205,022,115	854,033,577
(ii) Municipal bonds US\$1,641,324 (2018: US\$1,869,632)	<u>232,064,366</u>	<u>238,191,164</u>
	1,437,086,481	1,092,224,741

Equity investment securities measured at FVOCI

(iii) Unquoted ordinary shares US\$500,000 (2018: US\$500,000)	66,265,000	63,700,000
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Investment securities designated as at fair value through profit or loss

(iv) Structured note US\$300,000 (2018: US\$ Nil)	39,760,000	-
Quoted ordinary equities	<u>44,546,118</u>	<u>5,822,801</u>
	<u>1,587,657,599</u>	<u>1,161,747,542</u>

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

6. Investment securities (continued)

- (i) Corporate bonds earn interest at rates ranging from 6.5% to 12.75% (2018: 6.5% to 12.75%) per annum and mature over the period 2021 to 2049.
- (ii) Municipal bonds earn interest at rates ranging from 6.05% to 7.625% (2018: 6.05% to 7.625%) per annum and mature over the period 2029 to 2035.
- (iii) Unquoted preference shares which earned interest at 8% per annum up to February 16, 2018 were converted to ordinary shares on a one for one basis. The Company now holds 5.88% of ordinary shares in Sterling Development (SKN) Limited ("SDL"), a related party [note 9(c)(i)].

The fair value of the investment in SDL's shares was determined using the net asset approach, which was based on the valuation of SDL's underlying assets using the discounted cash flows. The significant and unobservable inputs used in the valuation of the underlying assets include its expected net cash flows, the weighted average cost of capital ranging from 13% to 14% (2018: 11% to 12%) and marketability discount rate ranging from 25% to 30%. (2018: 25% to 30%) An increase in any of these variables will have a downward impact on the fair value on the unquoted ordinary shares, if all other factors are held constant.

- (iv) Structured note represents investment in BBVA Global Markets B.V. Medium term note which will mature on June 25, 2021. The fair value of the embedded derivative approximates to cost as the note was purchased on December 30, 2019.
- (v) Investment securities are used to collateralise margin loans with brokers (note 7).
- (vi) The maturity profile of investments, in relation to the reporting date are shown as follows:

	<u>2019</u>	<u>2018</u>
Due within twelve (12) months	-	57,117,242
Due after twelve (12) months	1,437,086,481	1,035,107,499
No specific maturity	<u>150,571,118</u>	<u>69,522,801</u>
	<u>1,587,657,599</u>	<u>1,161,747,542</u>

7. Margin loans payable

These are margin loans due to overseas brokers of US\$2,647,245 (2018: US\$2,639,162). The loans bear interest at rates ranging from 3.00% to 4.41% per annum (2018: 2.75% to 4.30%), have no set repayment date and are collateralised by securities purchased from the brokers with the loan proceeds [note 6(vi)].

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

8. Other payables

	<u>2019</u>	<u>2018</u>
Manager's preference shares interest payable [US\$54,520 (2018:US\$23,940)] [note 9(c)(i)]	7,225,475	3,049,900
Other payables and accruals	<u>5,833,378</u>	<u>6,562,929</u>
	<u>13,058,853</u>	<u>9,612,829</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).

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

9. Related party balances and transactions (continued)

(a) Definition of related party (continued)

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

- (7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (8) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or the parent of the Company.

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

(b) Identity of related parties

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

(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>2019</u> \$	<u>2018</u> \$
Entity with common stockholders and directors		
Unquoted ordinary shares [note 6 (iv)]	66,265,000	63,700,000
Interest receivable (note 5)	<u>20,451,013</u>	<u>19,659,391</u>
Total	<u>86,716,013</u>	<u>83,359,391</u>
Investment manager		
Interest payable on Manager's preference shares (note 8)	(7,225,475)	(3,049,900)
Due to related company	<u>(41,445,974)</u>	<u>(17,497,550)</u>
Directors		
Other payables	<u>(7,225,478)</u>	<u>(611,520)</u>

The amounts due to the Investment manager and related company are unsecured, interest-free and are repayable within twelve (12) months from reporting date.

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

9. Related party balances and transactions (continued)

(c) Related party amounts (continued)

- (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>2019</u>	<u>2018</u>
	\$	\$
Entity with common stockholders		
Investment manager		
Interest on Manager's preference shares		
(note 8)	(7,225,475)	(3,049,900)
Management fees (note 15)	(23,437,033)	(17,497,550)
Directors' fees (note 15)	<u>(2,937,370)</u>	<u>(3,118,848)</u>

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

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

10. Manager's preference shares (continued)

(a) (Continued)

(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 interest on manager's preference shares in the statement of profit or loss and other comprehensive income.

11. Share capital

	Number of units	
	2019	2018
(i) Authorised:		
Ordinary stock units of no par value	2,000,000,000	2,000,000,000
Manager's cumulative preference shares of no par value	10,000	10,000
	<u>2,000,010,000</u>	<u>2,000,010,000</u>

(ii) Issued and fully paid:

	Number of units		Total	
	2019	2018	2019	2018
Ordinary stock units				
Balance at beginning of year	<u>307,131,640</u>	<u>58,834,167</u>	<u>699,274,387</u>	<u>669,453,676</u>
Issued during the year:				
Dividend Reinvestment Programme [note 11(iii)(a)]	789,299	469,690	3,331,649	5,258,134
Complementary Share Purchase Programme [note 11(iii)(b)]	727,810	2,122,471	2,444,319	24,785,673
Stock split [note 11(iv)]	-	245,705,312	-	-
Rights issue [note 11(v)]	66,963,042	-	206,193,803	-
Less transaction costs	-	-	(6,202,012)	(223,096)
Net proceeds from issuance	<u>68,480,151</u>	<u>248,297,473</u>	<u>205,767,759</u>	<u>29,820,711</u>
Balance at end of year	375,611,791	307,131,640	905,042,146	699,274,387
Manager's cumulative preference shares	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
	375,621,791	307,141,640	905,052,146	699,284,387
Less: Manager's preference shares reclassified to liability (note 10)	(10,000)	(10,000)	(10,000)	(10,000)
	<u>375,611,791</u>	<u>307,131,640</u>	<u>905,042,146</u>	<u>699,274,387</u>

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

11. Share capital (continued)

(iii) Dividend Reinvestment and Complementary Share Purchase Programme

The Company operates two (2) share 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 unit at the closing price applicable on the record date and without incurring fees. Residual unallocated dividends as at December 31, 2019 amounted to \$10,245 (2018: \$241) (note 4) and are included in other payables and accruals.

During the year, 789,299 (2018: 469,690) stock units were issued to the stockholders, under this programme.

(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, 727,810 (2018: 2,122,471) stock units were issued to the stockholders, under this programme.

(iv) Stock split

A resolution was passed on October 8, 2018, at an Extraordinary General Meeting to conduct a 5:1 stock split for each issued stock unit. The stocks were issued on November 27, 2018. The issued stock resulted in an increase in units to 307,131,640, at the end of the prior year.

(v) Rights issue

On October 8, 2018 a Board resolution was passed for a renounceable rights issue of 2 additional stocks for every 3 stocks owned by existing stockholders of the Company at a subscription of \$3.08 per stock and record date of December 27, 2018. Ordinary stock units of 66,963,042, were issued on January 4, 2019.

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)]. Subsequent to the reporting date 91,692 stock units were issued on January 20, 2020 at a stock unit price of US\$0.03.

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

13. Fair value reserve

This represents the cumulative net change in the fair value of debt securities measured at FVOCI until assets are derecognised or reclassified, net of expected credit loss.

14. Revenue

This represents income earned from holding and trading investment securities.

15. Other operating expenses

	<u>2019</u>	<u>2018</u>
Management fees [note 9(c)(ii)]	23,437,033	17,497,550
Auditors' remuneration	4,259,054	3,500,842
Directors' fees [note 9(c)(ii)]	2,927,370	3,118,848
Travel	1,235,015	1,208,432
Public relations	102,059	415,449
Stock exchange listing	2,085,913	1,200,000
Professional fees	1,063,930	431,719
Other	<u>2,628,989</u>	<u>1,424,828</u>
	<u>37,739,363</u>	<u>28,797,668</u>

16. Taxation

The Company elected to be charged at the rate of 1% (2018: 1%) as allowed under the International Business Companies Act. However, the effective tax rate is 0.62% (2018: 0.83%).

	<u>2019</u>	<u>2018</u>
Profit before taxation	<u>101,795,353</u>	<u>54,271,656</u>
Computed "expected" tax charge at 1% (2018: 1%)	1,017,954	542,717
Tax effect of differences between profit for financial statements and tax reporting purposes:		
Unrealised foreign exchange loss	(438,680)	(230,053)
Unrealised (gain)/loss on revaluation of investment securities	(96,518)	41,427
Impairment loss on debt investment securities	74,218	94,432
Manager's preference share interest expense	72,255	30,499
Gains on trade equity investments securities designated at fair value	<u>-</u>	<u>(26,374)</u>
Current tax charge, being total taxation charge	<u>629,229</u>	<u>452,648</u>

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

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>2019</u>	<u>2018</u>
Profit attributable to ordinary stockholders	<u>101,166,124</u>	<u>53,819,008</u>
Weighted average number of ordinary stock units in issue	<u>367,080,940</u>	<u>83,759,951</u>
Basic earnings per stock unit	<u>0.28</u>	<u>0.64</u>

The 2019 basic earnings per share reflects the full effect of the 5:1 stock split issued on November 27, 2018.

(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 \$0.28 (2018: \$0.64).

18. Dividends

	<u>2019</u>	<u>2018</u>
Distribution to ordinary stockholders at \$0.0908 (2018: \$0.4474) per stock unit	<u>34,479,930</u>	<u>26,935,123</u>

During the year, certain stockholders elected to reinvest their dividends earned of \$3,331,649 (2018: \$5,258,134) [note 11(iii)(a)].

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.

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

19. Financial risk management (continued)

(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.

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) Investments in debt securities:

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.

Credit quality

The Company identifies changes in credit risk by tracking published external credit ratings. To determine whether published ratings remain up to date and to assess whether there has been a significant increase in credit risk at the reporting date that has not been reflected in published ratings, the Company supplements this by reviewing changes in bond yields together with available press and regulatory information on issuers.

Twelve (12)-month and lifetime probabilities of default are based on historical data supplied by each credit rating and are recalibrated based on current bond yields. Loss given default (LGD) parameters generally reflect an assumed recovery rate of percent except when the security is credit-impaired, in which case the estimate of loss based on the instrument's current market price and original effective interest rate.

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

19. Financial risk management (continued)

(a) Credit risk (continued)

(i) Investments in debt securities (continued):

The following table sets out the credit quality of debt investment securities based on Standard and Poor's and Moody's ratings as follows:

	2019				2018
	Stage 1	Stage 2	Stage 3	Total	
Debt investment securities at FVOCI					
AA	28,457,504	-	-	28,457,504	-
AA-	116,623,087	-	-	116,623,087	-
A+	66,720,903	-	-	66,720,903	-
A	126,253,379	-	-	126,253,379	-
A-	81,034,143	-	-	81,034,143	-
BBB+	359,732,806	-	-	359,732,806	283,665,910
BBB-	324,289,380	-	-	324,289,380	451,836,364
BB+	72,761,621	-	-	72,761,621	246,419,500
BB	66,136,048	-	-	66,136,048	-
BB-	63,386,448	-	-	63,386,448	-
B+	98,357,140	-	-	98,357,140	-
B	13,915,650	-	-	13,915,650	86,879,156
CC	-	14,609,047	-	14,609,047	12,383,327
D	-	-	4,809,326	4,809,326	11,040,484
Total gross carrying amount	<u>1,417,668,109</u>	<u>14,609,047</u>	<u>4,809,326</u>	<u>1,437,086,482</u>	<u>1,092,224,741</u>
Loss allowance	<u>(3,174,152)</u>	<u>(2,042,692)</u>	<u>(47,326,900)</u>	<u>(52,543,744)</u>	<u>(58,079,863)</u>

(ii) Cash resources

Cash resources are held with reputable banks and other financial institutions counterparties.

(iii) 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:

	2019	2018
Issuer:		
Corporate – unrelated parties	1,263,457,277	871,967,338
Corporate – related party [note 9(c)(i)]	20,451,013	19,659,391
Municipals	236,737,727	242,078,601
Banks	<u>2,079,139</u>	<u>3,480,597</u>
Total financial assets	<u>1,522,725,156</u>	<u>1,137,185,927</u>

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

19. Financial risk management (continued)

(a) Credit risk (continued)

(iii) Concentration of credit risk (continued)

	<u>2019</u>	<u>2018</u>
Location:		
Europe	613,529,310	359,513,693
North America	512,786,495	445,951,795
Caribbean	99,561,645	63,394,600
South America	296,847,706	242,969,685
Other	<u>-</u>	<u>25,356,154</u>
Total financial assets	<u>1,522,725,156</u>	<u>1,137,185,987</u>

(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.

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.

(v) Impairment

Inputs, assumptions and techniques used for estimating impairment.

See accounting policy at note 3(a)(iv).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and third party policies including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

19. Financial risk management (continued)

(a) Credit risk (continued)

(v) Impairment (continued)

Significant increase in credit risk

The Company uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- the 30 day past due backstop indicator.

Credit risk grades

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data:

- Data from credit reference agencies such as standards and Poor and Moody's, press articles, changes in external credit ratings.
- External data from credit reference agencies, including industry-standard credit scores.
- Existing and forecast changes in business, financial and economic conditions.

Definition of default

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Company;
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

19. Financial risk management (continued)

(a) Credit risk (continued)

(v) Impairment (continued)

Definition of default (continued)

In assessing whether a borrower is in default, the Company considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Company; and
- based on data obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Company incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

For 2019, forward-looking information was incorporated in the ECL computation by use of a management overlay. Based on the economic factors a proxy of 1.07 (2018: 1.1) times ECL was determined to be appropriate.

The economic scenarios used as at December 31, 2019 assumed no significant changes in key indicators within the next year.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying lifetime PD by LGD and EAD. They are calculated on a discounted cash flow basis using the effective interest rate.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD model consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are based on published reports of the major rating agencies: Standard & Poor's and Moody's.

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

19. Financial risk management (continued)

(a) Credit risk (continued)

(v) Impairment (continued)

Measurement of ECL (continued)

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Company considers a longer period.

Loss allowance

The loss allowance recognised is analysed as follow:

	2019				2018
	Stage 1	Stage 2	Stage 3	Total	
Debt investment securities:					
Balance at January 1, 2019	4,507,315	2,349,402	51,223,146	58,079,863	48,636,683
Exchange gains	(713,496)	(155,603)	(3,482,621)	(4,351,720)	-
Net re-measurement of loss allowance	(619,667)	(151,107)	(413,625)	(1,184,399)	9,443,180
Balance at December 31, 2019	<u>3,174,152</u>	<u>2,042,692</u>	<u>47,326,900</u>	<u>52,543,744</u>	<u>58,079,863</u>

(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.

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

19. Financial risk management (continued)

(b) Liquidity risk (continued)

Management of liquidity risk (continued)

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:

	2019				
	Within 3 months	3 to 12 months	No specific maturity	Gross outflow	Carrying value
Margin loans payable	351,667,431	-	-	351,667,431	350,839,368
Other payables	13,058,853	-	-	13,058,853	13,058,853
Due to related company	-	41,445,974	-	41,445,974	41,445,974
Manager's preference shares	-	-	10,000	10,000	10,000
	<u>364,726,284</u>	<u>41,445,974</u>	<u>10,000</u>	<u>406,182,258</u>	<u>405,354,195</u>
	2018				
	Within 3 months	3 to 12 months	No specific maturity	Gross outflow	Carrying value
Margin loans payable	337,235,086	-	-	337,235,086	336,229,212
Other payables	9,612,829	-	-	9,612,829	9,612,829
Due to related company	-	17,497,550	-	17,497,550	17,497,550
Manager's preference shares	-	-	10,000	10,000	10,000
	<u>346,847,915</u>	<u>17,497,550</u>	<u>10,000</u>	<u>364,355,465</u>	<u>363,349,591</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, 2019 (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:

	2019					Total
	Within 1 year	1 - 5 year	Over 5 year	No specific maturity	Non-rate sensitive	
Financial assets						
Cash and cash equivalents	2,079,139	-	-	-	-	2,079,139
Accounts receivable	-	-	-	-	44,061,124	44,061,124
Investment securities	-	156,987,749	1,319,858,731	-	110,811,119	1,587,657,599
	<u>2,079,139</u>	<u>156,987,749</u>	<u>1,319,858,731</u>	<u>-</u>	<u>154,872,243</u>	<u>1,633,797,862</u>
Financial liabilities						
Margin loans payable	350,839,368	-	-	-	-	350,839,368
Other payables	-	-	-	-	13,058,853	13,058,853
Due to related company	-	-	-	-	41,445,974	41,445,974
Manager's preference shares	-	-	-	10,000	-	10,000
	<u>350,839,368</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>54,504,827</u>	<u>405,354,195</u>
Total interest rate sensitivity gap	<u>(348,760,229)</u>	<u>156,987,749</u>	<u>1,319,858,731</u>	<u>10,000</u>	<u>100,367,416</u>	<u>1,228,443,667</u>
Cumulative gap	<u>(348,760,229)</u>	<u>(191,772,480)</u>	<u>1,128,086,251</u>	<u>1,128,076,251</u>	<u>1,228,443,667</u>	
	2018					Total
	Within 1 year	1 - 5 year	Over 5 year	No specific maturity	Non-rate sensitive	
Financial assets						
Cash and cash equivalents	3,480,597	-	-	-	-	3,480,597
Accounts receivable	-	-	-	-	43,568,581	43,568,581
Investment securities	57,117,242	80,410,803	954,696,696	-	69,522,801	1,161,747,542
	<u>60,597,839</u>	<u>80,410,803</u>	<u>954,696,696</u>	<u>-</u>	<u>113,091,382</u>	<u>1,208,796,720</u>
Financial liabilities						
Margin loans payable	336,229,212	-	-	-	-	336,229,212
Other payables	-	-	-	-	9,612,829	9,612,829
Due to related company	-	-	-	-	17,497,550	17,497,550
Manager's preference shares	-	-	-	10,000	-	10,000
	<u>336,229,212</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>27,110,379</u>	<u>363,349,591</u>
Total interest rate sensitivity gap	<u>(275,631,373)</u>	<u>80,410,803</u>	<u>954,696,696</u>	<u>10,000</u>	<u>85,981,003</u>	<u>845,447,129</u>
Cumulative gap	<u>(275,631,373)</u>	<u>(195,220,570)</u>	<u>759,476,126</u>	<u>759,466,126</u>	<u>845,447,129</u>	

Notes to the Financial Statements

Year ended December 31, 2019 (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>2019</u>	<u>2018</u>
Fixed interest rates		
Financial assets		
Corporate bonds	1,205,022,115	854,033,577
Municipal bonds	232,064,366	238,191,164
Structured note	<u>39,760,000</u>	<u>-</u>
	1,476,846,481	1,092,224,741
Financial liability		
Margin loans payable	<u>291,456,752</u>	<u>311,859,497</u>
	<u>1,185,389,729</u>	<u>780,365,244</u>
Variable interest rates		
Financial liability		
Margin loans payable	<u>59,382,616</u>	<u>24,369,715</u>

Sensitivity analysis

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>2019</u>		<u>2018</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 (2018: -100bps)	593,826	129,271,689	243,697	97,021,210
+100bps (2018: +100bps)	<u>(593,826)</u>	<u>(111,572,689)</u>	<u>(243,697)</u>	<u>(83,437,686)</u>

Notes to the Financial Statements

Year ended December 31, 2019 (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>2019</u>	<u>2018</u>
Assets:		
Cash and cash equivalents	13,792	26,558
Accounts receivable	330,480	348,280
Investment securities	<u>11,438,324</u>	<u>9,093,774</u>
	<u>11,782,596</u>	<u>9,468,612</u>
Liabilities:		
Margin loans payable	2,647,245	2,639,162
Other payables	<u>42,897</u>	<u>50,931</u>
	<u>2,690,142</u>	<u>2,690,093</u>
Net foreign currency assets	<u>9,092,454</u>	<u>6,778,519</u>

The foreign exchange rates as at the reporting date was as follows: US\$1: J\$132.53 (2018: US\$1: J\$127.40).

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>2019</u>	
	<u>% Change in</u>	<u>Effect on</u>	<u>Effect on</u>
	<u>Currency rate</u>	<u>profit</u>	<u>equity</u>
Currency:			
USD	4% Revaluation	(48,200)	(48,200)
USD	6% Devaluation	<u>72,301</u>	<u>72,301</u>

Notes to the Financial Statements

Year ended December 31, 2019 (Expressed in Jamaican Dollars)

19. Financial risk management (continued)

(c) Market risk (continued)

(ii) Foreign currency risk (continued)

Sensitivity to foreign exchange rate movements (continued)

		2018	
	<u>% Change in Currency rate</u>	Effect on <u>profit</u> \$'000	Effect on <u>equity</u> \$'000
Currency:			
USD	2% Revaluation	(17,272)	(17,272)
USD	4% Devaluation	34,544	34,544

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) Municipal and corporate bonds	Estimated using bid-prices published by major overseas brokers/dealers or reputable pricing services such as Bloomberg.
(ii) Unquoted ordinary shares	Discounted cash flows using an appropriate risk-adjusted discount rate.

Notes to the Financial Statements

Year ended December 31, 2019 (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:

	2019					Fair value			
	Carrying amount								
	Amortised cost \$	Fair value through other comprehensive income \$	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	-	1,205,022,115	-	-	1,205,022,115	-	1,205,022,115	-	1,205,022,115
Municipal bonds	-	232,064,366	-	-	232,064,366	-	232,064,366	-	232,064,366
Quoted ordinary shares	-	-	44,546,118	-	44,546,118	44,546,118	-	-	44,546,118
Structured note	-	-	39,760,000	-	39,760,000	-	39,760,000	-	39,760,000
Unquoted ordinary shares	-	66,265,000	-	-	66,265,000	-	-	66,265,000	66,265,000
	<u>-</u>	<u>1,503,351,481</u>	<u>84,306,118</u>	<u>-</u>	<u>1,587,657,599</u>	<u>44,546,118</u>	<u>1,476,846,481</u>	<u>66,265,000</u>	<u>1,587,657,599</u>
	2018					Fair value			
	Carrying amount								
	Amortised cost \$	Fair value through other comprehensive income \$	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	-	854,033,577	-	-	854,033,577	-	854,033,577	-	854,033,577
Municipal bonds	-	238,191,164	-	-	238,191,164	-	238,191,164	-	238,191,164
Quoted ordinary shares	-	-	5,822,801	-	5,822,801	5,822,801	-	-	5,822,801
Unquoted ordinary shares	-	63,700,000	-	-	63,700,000	-	-	63,700,000	63,700,000
	<u>-</u>	<u>1,155,924,741</u>	<u>5,822,801</u>	<u>-</u>	<u>1,161,747,542</u>	<u>5,822,801</u>	<u>1,092,224,741</u>	<u>63,700,000</u>	<u>1,161,747,542</u>


Unobservable inputs used in measuring fair value of unquoted ordinary shares are disclosed in note 6(iii).

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.

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