STERLING INVESTMENTS LTD. MANAGEMENT DISCUSSION & ANALYSIS Q2 2019

Economic Overview

International

Global markets continued their ascent in the second quarter of 2019, buoyed by expectations of a Federal Reserve (FED) rate cut and easier monetary policy from the European Central Bank (ECB). Accordingly, the S&P 500 achieved a record high in the second quarter, increasing by 3.8% and the Dow Jones increased by 2.6%. U.S. 10-year treasury yields fell by 40 basis points over the quarter. The risk on sentiment in the quarter led to attractive returns in the high yield and investment grade corporate bond markets.

The Fed did not cut interest rates at its June meeting, but the "dot plot" signals easier monetary policy ahead which led to a fall in government bond yields. U.S. Corporate bond markets also delivered positive returns as credit spreads narrowed in conjunction with falling U.S. treasury yields. U.S. GDP for Q1 2019 was 3.1%, revised downwards from 3.2%. Towards the end of the quarter, the Fed further lowered its projections for inflation and increased expectations for an "insurance" rate cut, in July to prolong the expansion of the US economy.

In European bond markets, 10-year bund (German government bond) yields declined by 26bps in the second quarter, closing at negative 0.33% as at June 28, 2019. The European Central Bank (ECB) President hinted that further monetary policy easing could be required if the inflation outlook fails to improve. The Eurozone grew by 0.4% in Q1 2019, allaying fears of a recession, but the ECB expressed concern about the very slow expansion of the Euro area economy.

Oil's weak performance in the second quarter was in sharp contrast to the first where it had its strongest performance since 2002. Accordingly, WTI decreased by 2.8% (closed at US\$58.47) and Brent decreased by 4.5% in the second quarter.

Local

During the first 6 months of 2019, the Bank of Jamaica sold US\$170 million into the local currency market. These interventions reduced the JMD liquidity but did not prevent a 2% depreciation in the JMD/USD (which moved from 128.50 to 131.07). The volatility in the foreign exchange market continued in the June quarter with the exchange rate hitting a peak weighted average sell rate of \$137.19 in early May before falling to \$131.07 at the end of June 2019. The JSE Index rose 23.2% in the first six months of 2019, significantly higher than the 6.02% recorded during the same period in 2018.

Outlook

SIL's portfolio has benefited from the rise in global asset prices (in USD terms). Prices of the assets in SIL's portfolio have risen considerably since the start of 2019. The manager has strategically positioned the portfolio to withstand potential changes in the economic cycle. The portfolio has generated attractive capital gains and income levels. The portfolio has also benefitted from a series of opportunistic equity investments on the Jamaica Stock Exchange. The team continues to look for profitable fixed income or equity opportunities in the global and local markets.

FINANCIAL OVERVIEW

Increase in net profit	<u>10.4%</u>
Increase in interest income for period	<u>7.2%</u>
<u>Total Assets</u>	\$1.49 billion
Book value per share	\$3.22 vs. \$2.96 in June 2018*

^{*}Adjusted for stock split

Income Statement

Net Interest income totalled J\$39.5 million for the six months ended June 2019; 7.2% higher than the \$36.9 million recorded for the corresponding period in 2018. The net interest margin was 85.7%.

The Jamaican dollar depreciated against the US dollar by J\$2.57 or 2% for the six-month period ended June 2019, relative to the same period in 2018 when it depreciated by J\$5.40 or 4.30%. This led to unrealized foreign exchange gains for the six months ended June 2019 of J\$28.8 million compared to J\$38.4 million in June 2018. Net profit for the six months ended June 2019 increased by 10.4% to J\$57.1 million compared to J\$51.8 million recorded during the corresponding period in June 2018.

Operating expenses for the six months ended June 2019 totalled J\$18.0 million or 26.5% higher than the J\$14.3 million of operating expenses recorded for the corresponding period in 2018. This was the result of higher audit, listing, and management fees. The company still maintains one of the highest net profit margins on the stock exchange due to its efficient corporate and organizational structure.

Balance Sheet

Total equity increased by 31.9% from J\$877.7 million as at June 2018 to J\$1.16 billion as at June 2019. This partly reflects the significant increase in the prices of the assets held in the portfolio as well as the proceeds of a rights issue completed in early 2019.

Total assets increased by 19.9% from J\$1.25 billion as at June 2018 to J\$1.49 billion as at June 2019. This reflects growth in investment securities which increased by 20.3% over the same period in 2018. This was mainly funded by the proceeds of the rights issue held in January 2019. As at June 2019, margin loans totalled J\$305.1 million and represented 21.1% of the total portfolio of investment securities compared to 28.8% for June 2018. The modest use of leverage enhances shareholder returns above the net weighted average yield of the underlying portfolio.

Sterling Investments Ltd.				
Balance Sheet				
	As at June 30, 20:	19		
	Unaudited 6	Unaudited 6	Audited 12	
	months ended	months ended	months ended	
	Jun-19	Jun-18	Dec-18	
ASSETS				
Cash Resources				
Cash & Cash Equivalents	1,341,550	2,214,662	3,480,597	
Accounts Receivable	44,288,243	40,457,525	43,568,581	
Income Tax Recoverable	18,269	-	92,707	
Investment Securities	1,448,932,284	1,204,334,456	1,161,747,542	
TOTAL CURRENT ASSETS	1,494,580,346	1,247,006,643	1,208,889,427	
TOTAL ASSETS	1,494,580,346	1,247,006,643	1,208,889,427	
LIABILITIES				
Margin Loan Payables	305,063,338	346,809,323	336,229,212	
Other Payables	3,592,127	13,854,962	9,612,829	
Due to Related Company	28,562,021	8,597,760	17,497,550	
Manager's Preference Shares	10,000	10,000	10,000	
Income Tax Payable				
	-	-	-	
TOTAL !!AD!!!T!FS	227 227 406	260 272 045	262 240 504	
TOTAL LIABILITIES	337,227,486	369,272,045	363,349,591	
SHAREHOLDERS' NET EQUITY				
Share Capital	902,201,457	675,533,432	699,274,387	
Prepaid Share Reserve	335,699	20,916,000	43,321	
Fair Value Reserve	16,619,811	(30,687,976)	(57,387,192)	
Retained Earnings	238,195,893	211,973,142	203,609,320	
TOTAL EQUITY	1,157,352,860	877,734,598	845,539,836	
TOTAL LIABILITIES & EQUITY	1,494,580,346	1,247,006,643	1,208,889,427	

Sterling Investments Limited
Income Statement

	For F	Period Ended June	30, 2019		
	Unaudited 6	audited 6 Unaudited 6 Unaudited 3		Unaudited 3	Audited 12
	months ended	months ended	months ended	months ended	months ended
	Jun-19	Jun-18	Jun-19	Jun-18	Dec-18
Revenue:					
Interest income calculated using the effective interest method	46,099,454	41,656,076	24,272,936	20,688,532	82,200,785
Foreign exchange gain/(loss)	28,835,516	38,398,102	49,375,782	28,845,347	23,005,258
Net gain/(loss) on sale of debt investment	, ,	, ,	, ,	, ,	
securities at FVOCI	1,842,027	(1,186,756)	1,460,684	(2,440,779)	2,602,419
Net gain/(loss) on sale of equity investment securities at FVTPL		954,540	<u>-</u>	954,540	2,637,457
	76,776,997	79,821,962	75,109,402	48,047,640	110,445,919
Expenses:					
Interest Impairment (loss)/gain on financial	(6,591,835)	(4,802,277)	(3,257,334)	(2,655,475)	(10,993,501)
instruments	(1,056,478)	3,065,966	(3,551,378)	871,435	(9,443,180)
Unrealised fair value (loss)/gain on equity investment securities at FVTPL	6,461,643	(1,987,689)	5,996,213	(1,652,845)	(4,142,723)
Other operating	(18,039,416)	(14,256,040)	(9,839,349)	(7,864,539)	(28,797,668)
	(19,226,086)	(17,980,040)	(10,651,848)	(11,301,424)	(53,377,072)
Operating Profit	57,550,911	61,841,922	64,457,554	36,746,216	57,068,847
Other Income	173,171	59,381	30,312	37,710	252,709
Preference Dividend Expense	-	(9,605,361)	-	(9,605,361)	(3,049,900)
Profit before Income Tax	57,724,082	52,295,942	64,487,866	27,178,565	54,271,656
Income Tax Expense	(594,441)	(545,356)	(146,497)	(272,603)	(452,648)
Profit for Period	57,129,641	51,750,586	64,341,369	26,905,962	53,819,008
Other Comprehensive Income: Items that may be reclassified to profit & loss:					
Realised loss/(gains) on disposal of FVOCI debt investment (2017: available-for-sale securities) reclassified to profit or loss	2,081,248	2,081,248	4,835,656	3,649,236	4,660,724
Impairment loss on available-for-sale securities reclassified to profit for the year	-		<u>-</u>		-
Changes in fair value (of FVOCI debt					
investment securities)	71,925,755	(2,277,530)	18,308,135	(26,808,868)	(80,192,905)
	131,136,644	51,554,304	87,485,160	3,746,330	(21,713,174)
Shares outstanding	359,195,690	59,146,503	359,195,690	59,146,503	83,759,951
Earnings Per Share	0.16	0.87	0.18	0.45	0.64

State	g Investments Limited ement of Cash Flows riod ended June 2019		
101 pc	Period ended	Period ended	Audited
	June 2019	Jun-18	Dec 2018
Cash flows from operating activities			
Profit for the period	57,129,641	51,750,585	53,819,008
Adjustments for:			
Interest Income	(46,099,453)	(41,656,076)	(82,200,785)
Interest Expense	6,591,835	4,802,277	10,993,501
Impairment loss on FVOCI	1,056,478	(3,065,966)	9,443,180
Unrealised loss on embedded derivative	-	-	-
Unrealised gain on quoted equities	(6,461,643)	1,987,689	4,142,723
Income Tax Expense	594,441	545,356	452,648
Managers Preference Share Interest	· -	9,605,361	3,049,900
•	12,811,299	23,969,226	(299,825)
Changes in operating assets:	, ,	, ,	, , ,
Accounts Receivable	1,017,882	6,811,197	(1,829,904)
Margins Payable	(31,165,874)	71,994,590	61,414,479
Other Payables	(6,054,470)	(2,437,874)	1,777,001
Due to Related Company	11,098,239	(11,257,511)	(2,357,721)
, , , , , , , , , , , , , , , , , , ,	(12,292,924)	89,079,628	58,704,029
Interest Received	44,361,909	36,849,434	82,917,024
Income Taxes Paid	(520,002)	(753,707)	(748,543)
Interest Paid	(6,591,835)	(4,802,277)	(10,993,501)
Net cash provided by operating activities	24,957,148	120,373,078	129,879,010
Cash flows from investing activity	2 1,557,1 10	120,373,070	123,073,010
Investment securities, being net cash			
used by investing activity	(207,772,574)	(136,855,955)	(139,929,077)
Net cash (used) by Investing activities	(207,772,574)	(136,855,955)	(139,929,077)
· · · · · · · · · · · · · · · · · · ·	(201,112,314)	(130,033,333)	(133,323,077)
Cash flows from financing activities Issue of Preference shares			
Issue of ordinary shares	200,653,823	2,058,643	24,562,577
Prepaid Share Reserve	292,378	18,720,806	(2,151,873)
Manager's preference shares interest paid		-	(1,899,545)
Dividend payment	(20,269,822)	(16,778,404)	(21,676,989)
Net cash (used)/ provided by financing activities	180,676,379	4,001,044	(1,165,830)
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(Decrease) in cash and cash equivalents			
during the period	(2,139,047)	(12,481,833)	(11,215,897)
Cash and cash equivalent at the			
beginning of period	3,480,597	14,696,494	14,696,494
Cash and cash equivalent at the			
end of period	1,341,550	2,214,662	3,480,597

Sterling Investments Limited
Statement of Changes in Equity
For period ended June 30, 2019

FO	r period ended June 30,				
	Share capital	Prepaid Share Reserve	Fair value	Retained earnings	Total
Balance at December 31, 2018	699,274,387	43,321	(57,387,192)	203,609,320	845,539,836
Adjustment on initial application of IFRS 9, net of tax	323,21 1,321	,	-		-
Adjusted balance as at December 31, 2018	699,274,387	43,321	(57,387,192)	203,609,320	845,539,836
Comprehensive income:					
Profit for period	-	-	-	57,129,641	57,129,641
Other comprehensive income:					
Realised gain on disposal of available-for-sale securities					
reclassified to profit for the year			(2,754,408))	(2,754,408)
Impairment loss on AFS securities reclassified to profit	-	-	1,056,478	-	1,056,478
Unrealised gains in fair value of available-for-sale securities			75,704,933	-	75,704,933
Total comprehensive income	699,274,387	43,321	16,619,811	260,738,961	976,676,480
Transactions with owners:					
Share issued during the period	202,927,070	-	-	-	202,927,070
Transfer of prepayment of shares		(43,321)		(43,321)
Prepayments for shares		335,699			335,699
Dividends		-	-	(22,543,068)	(22,543,068)
	202,927,070	292,378	-	(22,543,068)	180,676,380
Balance at June 30, 2019	902,201,457	335,699	16,619,811	238,195,893	1,157,352,860
	Share capital	Prepaid Share Reserve	Fair value	Retained earnings	Total
Balance at December 31, 2017	669,453,676	2,195,194	(30,491,694)		866,519,294
Adjustment on initial application of IFRS 9, net of tax			-	(44,340,043)	(44,340,043)
Adjusted balance as at December 31, 2017	669,453,676	2,195,194	(30,491,694)	181,022,075	822,179,251
Comprehensive income:					
Profit for period	-	-	-	51,750,585	51,750,585
Other comprehensive income:					
Realised gain on disposal of available-for-sale securities					
reclassified to profit for the year		-	2,081,248		2,081,248
Impairment loss on AFS securities reclassified to profit	-	-	(3,065,966)	-	(3,065,966)
Unrealised change in fair value of available-for-sale securities		-	788,436	-	788,436
Total comprehensive income	669,453,676	2,195,194	(30,687,976)	232,772,660	873,733,554
Transactions with owners:					
Share issued during the period	6,079,756		-	-	6,079,756
Transfer of prepayment of shares		(2,195,194)		(2,195,194)
Prepayments for shares		20,916,000			20,916,000
Dividends		<u> </u>		(20,799,518)	(20,799,518)
	6,079,756	18,720,806	-	(20,799,518)	
Balance at June 30, 2018	675,533,432	20,916,000	(30,687,976)	211,973,143	877,734,598
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NOTES TO FINANCIAL STATEMENTS

1. Identification

Sterling Investments Limited ("the Company") was incorporated on August 21, 2012 in St. Lucia under the International Business Companies Act and commenced operations on December 1, 2012. The Company's registered office is located at 20 Micoud Street, Castries, St. Lucia. The principal activities of the Company are holding and trading of tradable and other securities and other investments.

2. Basis of preparation

These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Company's last annual financial statements as at and for the year ended December 31, 2018 ('last annual financial statements'). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the company's financial position and performance since the last annual financial statements.

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

3. Use of judgements and estimates

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

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

4. Significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the Company's financial statements as at and for the year ended December 31, 2018 which was prepared in accordance with International Financial Reporting Standards (IFRS).

Director

Director

W Exchesto

Top Ten Shareholders as at June 30, 2019

Name	Number of shares	Percentage
ATL Group Pension Fund Trustees Nominee Limited	47,856,608	12.8%
GraceKennedy Pension Fund Custodian Ltd for GraceKennedy Pension Scheme	34,848,550	9.3%
Lloyd Badal	28,553,691	7.6%
Pam - Pooled Equity Fund	22,025,175	5.9%
Cable and Wireless Jamaica Pension Fund	14,492,015	3.9%
Everton Mcdonald	13,331,584	3.6%
Charles A. Ross	11,431,108	3.1%
Satyanarayana Parvataneni	10,726,843	2.9%
National Insurance Fund	10,080,645	2.7%
JNBS Pension Trustees Nominee Ltd.	8,912,355	2.4%

Shareholdings of Directors as at June 30, 2019

Directors	Number of shares	Percentage of Total
Derek Jones		
Maxim Rochester		
Michael Bernard		
Charles Ross	11,431,108	3.1%

Shareholdings of Connected Parties as at June 30, 2019

Name	Number of Shares	Percentage
Charles Ross	11,431,108	3.05%
Charles Andrew Ross	619,207	0.17%
Marian Ross	1,253,345	0.33%
Natalie Farrell-Ross	85,804	0.02%
Sterling Asset Management Limited	93,500	0.02%