

## Economic Overview

The majority of the second quarter ending June 2016, was fairly positive for financial markets as the recovery in asset prices from the early first quarter slump continued into the second quarter aided by ongoing global central banks' monetary accommodation. The improvement in financial market conditions along with positive U.S. economic data caused a surge in expectations for the U.S. Federal Reserve Bank (Fed) to conduct its first rate hike in 2016 as early as June (after increasing the benchmark rate in December 2015). This, however, was abruptly thwarted by weak job numbers in the U.S. as the economy added just 11,000 jobs in May, compared to expectations of 162,000, with further downward revisions of the numbers for March and April. In addition, uncertainty surrounding a U.K. referendum to exit the EU scheduled for June 23, 2016 was also cause for concern for the Fed. The market expected that the vote would be in favour of the "Bremain" camp and asset prices were priced accordingly. However, it was clear by the evening of June 23, 2016 that England had voted (52%) for a Brexit. This development shocked the markets and caused assets around the world to tank. There was some recovery in asset prices shortly after, however, there are major concerns due to the uncertainty this has created and the expected economic fallout across the globe. Brexit has markedly reduced the odds of the Fed increasing rates this year and as a result, plain vanilla bond prices have been very buoyant. Concerns about China have faded and the outlook there is stable.

The Bank of England, as well as the European Central Bank, reassured the markets that they will be using the tools at their disposal to support the English and European economies respectively. In the case of the Bank of England, the governor Mark Carney said that they may cut interest rates, while Mario Draghi stated that the ECB is "ready for all contingencies". Japan's GDP was revised upwards to 1.9% but the strengthening yen continues to be a challenge for its exports. In the wake of Brexit, Japanese Prime Minister Abe urged his central bank to monitor currencies and take steps as required.

Oil prices enjoyed a positive second quarter, on the heels of a 7.2% increase in March as the upward trajectory continued. Oil prices at the start of April were \$41.9 per barrel (WTI) and ended the quarter at \$49.01 per barrel. This translates to an increase of 17% for the quarter. It would have been a little higher, but prices decreased after the Brexit vote. Oil supply was subject to sporadic shortages in the 2<sup>nd</sup> quarter which spurred prices higher but supply is expected to increase in the 2<sup>nd</sup> half of 2016 amid announcements from U.S. oil companies about renewed activity in drilling and capital investment.

The bond market increased in the second quarter as conditions had improved until Brexit when there was a sharp fall, followed by a recovery. The Barclay's High Yield ETF US Index increased by 4.2% from the start of the second quarter to June 30, 2016. The US Equity (S&P) market increased over the second quarter, gaining 1.9% in spite of continuing volatility. Prior to the Brexit vote, the index went as high as 2,113.32, but it plummeted to 2000.54 after the vote. Fortunately, by the end of June, it had recovered to 2098.86. So far in 2016 the S&P 500 has increased by 5.98% (year to date) and the Barclays high yield bond index has risen by 7% as at July 21<sup>st</sup> 2016. Bond and equity markets are expected to experience significant volatility in the future as Brexit plays out. SIL's portfolio is poised to take advantage of all the trading opportunities presented, and continues to be well balanced with a stable source of revenue to shareholders.

<b>Growth in revenue (yoy)</b>	56.9%
<b>Growth in net profit (yoy)</b>	93.3%
<b>Growth in equity (yoy)</b>	7.1%
<b>Efficiency ratio as at June, 2016</b>	15.1%
<b>Shares outstanding</b>	55,876,281
<b>Earnings per share</b>	J\$1.13

## Financial Overview

Net interest income, SIL's primary source of income, totalled J\$34.6 million for the six month period ended June 2016; 22.6% higher than the net interest income of J\$28.2 million for the corresponding period in 2015. The net interest margin increased marginally to 93.4% from 92.5%. This is as a result of solid execution of the company's strategy to profit from its United States Dollar exposure.

Gain on sale of investments for the six month period ended June 2016 was \$4.9 million, a 52% reduction when compared to gains of \$10.3 million for the corresponding period in 2015. The reduced gain was reflective of current market conditions.

There was a significant increase in foreign exchange gains stemming from an increase in the rate of devaluation in the first half of 2016 compared to the corresponding period in 2015. The Jamaican dollar depreciated against the US dollar by \$5.96 or 5.0% for the six months ending June 2016, relative to the same period in 2015 when it depreciated by \$2.32 or 2.0%. This resulted in unrealized foreign exchange gains of \$41.3 million for the six months ended June 2016, a \$29 million or 237% increase, relative to the same period last year.

Gross revenue was J\$83.3 million for the six month period ending June 2016 compared to J\$53.1 million in the matching 2015 period. This is an increase of 56.9% over the corresponding period in 2015. Bond trading in the second quarter of the year was done amidst improved bond prices and expectations of continued Central Bank accommodation in Europe.

Operating expenses for the six month period ended June 2016 were J\$12.6 million or 18.8% lower than the J\$15.5 million of operating expenses recorded for the corresponding period in 2015. This was as a result of tight fiscal management.

Total equity increased by 7.1% from J\$712.5 million as at June 2015 to J\$762.9 million as at June 2016, notwithstanding the negative impact of the widespread decline in the prices of bonds and equities. Retained earnings increased by 71.3% highlighting the company's continued commitment to growth and value creation for stockholders.

Total assets remained flat, with a marginal increase of 0.52% from J\$910.5 million as at June 2015 to J\$915.1 million as at June 2016. As at June 2016, margin loans totalled J\$137.2 million, or 15.5% of the total portfolio of investment securities compared to J\$184.8 million or 21.0% for June 2015. The company's use of margin has augmented the income of the portfolio.

The profit after tax for the first six months of 2016 was J\$63.2 million an increase of 93.3% over the J\$32.7 million realised in the corresponding period of 2015. Earnings per share for the first six months of 2016 were \$1.13 per share versus J\$0.74 per share for the corresponding period of 2015, an increase of 52.7% year over year.

# Sterling Investments Limited

## Income Statement

For Period Ended June 30, 2016

	Unaudited 6 months ended Jun-16	Unaudited 6 months ended Jun-15	Unaudited 3 months ended Jun-16	Unaudited 3 months ended Jun-15	Audited 12 months ended Dec-15
<b>Revenue:</b>					
Interest Income	37,084,361	30,535,700	18,549,736	16,176,131	72,778,939
Foreign Exchange Gains	41,330,634	12,262,778	30,285,709	9,958,015	34,073,892
Gain on disposal of available-for-sale securities	4,898,763	10,288,166	6,033,242	7,453,294	12,437,526
	<u>83,313,758</u>	<u>53,086,643</u>	<u>54,868,686</u>	<u>33,587,440</u>	<u>119,290,357</u>
<b>Expenses:</b>					
Interest	(2,465,110)	(2,305,604)	(1,194,261)	(1,132,510)	(5,442,115)
Impairment loss on available-for-sale securities	(2,028,294)		(243,660)		(9,651,021)
Unrealised gain/(loss) on embedded derivatives	(269,764)		(295,308)		(147,575)
Other operating	(12,570,740)	(15,472,514)	(7,477,240)	(8,635,913)	(21,719,906)
	<u>(17,333,907)</u>	<u>(17,778,118)</u>	<u>(9,210,470)</u>	<u>(9,768,423)</u>	<u>(36,960,617)</u>
Operating Profit	<b>65,979,851</b>	<b>35,308,525</b>	<b>45,658,217</b>	<b>23,819,017</b>	<b>82,329,740</b>
Other Income	2,873,394	2,294,019	1,244,267	1,157,275	8,875
Preference Dividend Expense	(5,250,000)	(4,635,582)	(2,625,000)	(2,317,791)	(10,573,808)
Profit before Income Tax	63,603,245	32,966,961	44,277,483	22,658,501	71,764,807
Income Tax Expense	(402,695)	(269,565)	(206,417)	(269,565)	(596,800)
Profit for Period	<u>63,200,550</u>	<u>32,697,396</u>	<u>44,071,066</u>	<u>22,388,936</u>	<u>71,168,007</u>
<b>Other Comprehensive Income:</b>					
Items that may be reclassified to profit & loss:					
Realised gains/(losses) on disposal of available-for-sale securities	(106,370)	(6,556,952)	(3,801,427)	(9,392,946)	(8,482,202)
Unrealised change in fair value of available-for-sale securities	14,196,067	(40,916,987)	21,147,828	(30,461,340)	(81,268,337)
	<u>77,290,247</u>	<u>(14,776,543)</u>	<u>61,417,467</u>	<u>(17,465,350)</u>	<u>(18,582,532)</u>
Shares outstanding	55,876,281	44,078,172	55,876,281	44,078,172	46,640,630
Earning Per Share	1.13	0.74	0.79	0.51	1.53

# Sterling Investment Ltd.

## Balance Sheet As Of June 30, 2016

	Unaudited 6 months ended <b>Jun-16</b>	Unaudited 6 months ended <b>Jun-15</b>	Audited 12 months ended <b>Dec-15</b>
<b>ASSETS</b>			
Cash Resources			
Cash & Cash Equivalents	245,235	592,238	213,152
Accounts Receivable	30,699,344	22,583,367	27,731,676
Investment Securities	884,253,551	887,283,503	907,825,257
<b>TOTAL CURRENT ASSETS</b>	915,198,130	910,459,109	935,770,085
<b>TOTAL ASSETS</b>	<b>915,198,130</b>	<b>910,459,109</b>	<b>935,770,085</b>
<b>LIABILITIES</b>			
Margin Loan Payables	137,267,677	184,774,840	214,341,641
Other Payables	15,034,199	12,914,859	14,039,600
Due to Related Company			13,124,190
Preference Shares	10,000	10,000	10,000
Income Tax Payable		253,398	366,028
<b>TOTAL LIABILITIES</b>	152,311,876	197,953,097	241,881,459
<b>SHAREHOLDERS' NET EQUITY</b>			
Share Capital	627,796,101	632,358,961	627,796,101
Fair Value Reserve	(64,684,349)	(36,497,446)	(78,774,046)
Retained Earnings	199,774,503	116,644,497	144,866,571
<b>TOTAL EQUITY</b>	762,886,254	712,506,012	693,888,626
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>915,198,130</b>	<b>910,459,109</b>	<b>935,770,085</b>

# Sterling Investments Limited

## Statement of Cash Flows For period ended June 30, 2016

	Period ended June 2016	Audited Dec 2015	Period ended June 2015
<b>Cash flows from operating activities</b>			
Profit for the period	63,200,550	71,168,007	32,697,396
Adjustments for :			
Interest Income	(37,084,361)	(72,778,939)	(30,535,700)
Interest Expense	2,465,110	5,442,115	2,305,604
Impairment loss on available-for-sale securities	2,028,294	9,651,021	
Unrealised loss on embedded derivative	269,764	147,575	
Income Tax Expense	402,695	596,800	269,565
Managers Preference Share Interest	5,250,000	10,573,808	4,635,582
	36,532,052	24,800,387	9,372,447
<b>Changes in operating assets:</b>			
Accounts Receivable	8,302,146	3,878	(435,235)
Margins Payable	(77,073,964)	(9,544,746)	(39,111,547)
Other Payables	(11,591,692)	228,824	(4,228,856)
Due to Related Company	(5,787,899)	2,473,301	(10,650,889)
	(49,619,358)	17,961,644	(45,054,080)
Interest Received	25,814,547	64,007,260	27,351,442
Income Taxes Paid	(768,723)	(5,442,115)	(511,677)
Interest Paid	(2,465,110)	(726,282)	(2,305,604)
Net cash provided by operating activities	(27,038,644)	75,800,507	(20,519,919)
<b>Cash flows from investing activity</b>			
Investment securities, being net cash used by investing activity	35,363,346	(240,637,257)	(168,020,307)
<b>Cash flows from financing activities</b>			
Issue of Preference shares			
Issue of ordinary shares		190,499,197	195,062,057
Manager's preference shares interest paid		(9,271,165)	
Dividend payment	(8,292,618)	(17,521,150)	(7,272,613)
Net cash provided by financing activities	(8,292,618)	163,706,882	187,789,444
<b>Increase/(decrease) in cash and cash equivalents during the period</b>	32,084	(1,129,868)	(750,782)
<b>Cash and cash equivalent at the beginning of period</b>	213,152	1,343,020	1,343,020
<b>Cash and cash equivalent at the end of period</b>	245,236	213,152	592,238

# Sterling Investments Limited

Statement of Changes in Equity  
For period ended June 30, 2016

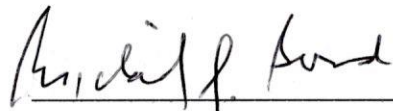
	Share capital	Fair value	Retained earnings	Total
Balance at January 1, 2016	627,796,101	(78,774,046)	144,866,571	693,888,626
Comprehensive income:				
Profit for period			63,200,550	63,200,550
Other comprehensive income:				
Realised gain on disposal of available-for-sale securities reclassified to profit for the year		(106,370)		(106,370)
Unrealised gains in fair value of available-for-sale securities		14,196,067	-	14,196,067
Total comprehensive income	627,796,101	(64,684,349)	208,067,121	771,178,873
Transactions with owners:				
Share issued during the period				
Dividends			(8,292,618)	(8,292,618)
			(8,292,618)	(8,292,618)
Balance at June 30, 2016	627,796,101	(64,684,349)	199,774,503	762,886,255
<b>Share capital</b>				
	<b>Share capital</b>	<b>Fair value</b>	<b>Retained earnings</b>	<b>Total</b>
Balance at January 1, 2015	437,296,904	10,976,493	91,219,714	539,493,111
Comprehensive income:				
Profit for period			32,697,396	32,697,396
Other comprehensive income:				
Realised gain on disposal of available-for-sale securities reclassified to profit for the year		(6,556,952)		(6,556,952)
Unrealised gains in fair value of available-for-sale securities		(40,916,987)		(40,916,987)
Total comprehensive income	437,296,904	(36,497,446)	123,917,110	524,716,569
Transactions with owners:				
Share issued during the period				
Dividends	195,062,056		(7,272,613)	195,062,056
	195,062,056		(7,272,613)	187,789,443
Balance at June 30, 2015	632,358,960	(36,497,446)	116,644,497	712,506,012

## Notes

1. Identification: Sterling Investments Limited (“the Company”) was incorporated on August 21, 2012 in St. Lucia under the International Business Companies Act, and commenced operations on December 1, 2012. The Company’s registered office is located at 20 Micoud Street, Castries, St. Lucia. The principal activities of the Company are holding and trading of tradable and other securities and other investments.
2. Statement of compliance and basis of preparation
  - a. Statement of compliance: The unaudited financial statements as at June 30, 2016 are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. The accounting policies and method of computation are consistent with the audited financial statements for year ended December 31, 2015.
  - b. **Basis of measurement:** The financial statements are prepared on the historical cost basis, except for the inclusion at fair value of available-for-sale securities and financial assets at fair value through profit or loss.
  - c. **Functional and presentation currency:** The financial statements are presented in Jamaican dollars (J\$), which is the functional currency of the Company.



Director



Director

**Top Ten Shareholders as at June 30, 2016**

<b>Name</b>	<b>Number of shares</b>	<b>Percentage</b>
ATL Group Pension Trustees Nominee limited	10,000,000	17.90
Grace Kennedy Limited Pension Scheme	5,227,270	9.36
Stephen Gager	3,455,170	6.19
PAM – Cable and Wireless Pension Real Estate Fund	3,000,000	5.37
V.M.B.S A/C Contributory Pension Scheme	2,668,905	4.78
National Insurance Fund	2,016,129	3.61
Satyanarayana Parvataneni	1,937,630	3.46
Charles A. Ross	1,892,790	3.39
Winnifred Mullings	1,842,760	3.30
Everton McDonald	1,599,790	2.86

**Shareholdings of Directors as at June 30, 2016**

	<b>Number of shares</b>	<b>% of total</b>
Derek Jones	0	0%
Maxim Rochester	0	0%
Michael Bernard	0	0%
Charles Ross	1,892,790	3.39