

Sterling Investments Limited (SIL)

Economic Overview

The third quarter commenced with the aftermath of the Brexit vote. The initial shock to the markets from the plunging prices gave way to a rapid recovery as investors took advantage of the sell-off and quickly jumped back into the markets. Lower bond yields, stable global economic data along with other factors assuaged investor concerns. Security price gains continued over the quarter, driving valuations higher across most asset classes. The Federal Reserve (FED) met in September, when they decided not to raise rates, despite improving fundamentals. The reason cited was that the Federal Open Market Committee (FOMC) believed that the economy still needed more time to improve in light of inflation staying below the 2% target and the lack of upward movement in wages despite being near full employment.

Japan and Europe continued to experience low growth rates in spite of the negative interest rate policies which were employed to combat very low inflation. In Europe, doubts have been raised as to the current monetary policy's effectiveness and there are fears that the European Central Bank will start to taper its 80 billion euro monthly bond buyback programme in light of its scheduled March 2017 expiration. In September, the Bank of Japan (BOJ) introduced a target of 0% for their ten year bond in an effort to raise longer term rates from the negative levels. The BOJ continues to purchase government bonds and ETFs as a necessary part of its monetary policy.

Oil prices fell over the quarter, but are still positive year to-date. Oil prices (WTI) started the year at 43.83, and the quarter at 50.62, however, by the end of September, prices closed at 48.82. There was a surprise decision by OPEC to cut oil production at the meeting held in September. The details of the agreement will be determined in their scheduled November 30th meeting. In addition, the forecasted winter oil demand may be reduced as temperatures remain unseasonably high.

The bond and equity markets recovered very well in the third quarter following the Brexit vote. The Barclay's High Yield ETF US Index increased 8.3% from the start of the year to September 30, and for the quarter increased by 2.9. The US Equity (S&P) market improved, with a gain of 3.3% for the quarter and a gain of 6.1% from the start of the year to September 30th. There are two major events on the horizon; an expected increase in the Fed funds rate in December, and the upcoming U.S. general election. A Clinton victory will not roil markets, but the same cannot be said about a Trump victory. SIL's portfolio continues to be well balanced and provides excellent returns to shareholders.

Growth in revenue	33%
Growth in net profit	66%
Growth in equity	16%
Efficiency ratio as at September, 2016	17%
Weighted average number of shares	55,893,599
Earnings per share	J\$1.48

Financial Overview

Net interest income, SIL's principal source of income, totalled J\$51.5 million for the nine month period ended September 2016; 15.3% higher than the net interest income of J\$44.7 million for the corresponding period in 2015. The net interest margin inched up slightly to 93.6% from 92.7%. This is due to the company's shrewd management which has profited from its United States Dollar exposure.

Gain on sale of investments for the nine month period ended September 2016 was J\$4.8 million, a 53.6% reduction when compared to gains of J\$10.3 million for the corresponding period in 2015. The reduced gain was more than offset by significant increases in interest income and foreign exchange gains.

There was a significant increase in foreign exchange gains stemming from an increase in the rate of devaluation in the first nine months of 2016 compared to the corresponding period in 2015. The Jamaican dollar depreciated against the US dollar by J\$7.86 or 6.5% for the nine month period ended September 2016, relative to the same period in 2015 when it depreciated by J\$4.39 or 3.8%. This resulted in unrealized foreign exchange gains of J\$52.4 million for the nine months ended September 2016, a J\$26.7 million or 103.8% increase, relative to the same period last year.

Gross revenue was J\$112.3 million for the nine month period ended September 2016 compared to J\$84.2 million in the matching 2015 period. This is an increase of 33.3% over the corresponding period in 2015. Bond trading in the majority of the year was done amidst improved bond prices and expectations of continued Central bank accommodation in Europe.

Operating expenses for the nine month period ended September 2016 were J\$18.7 million or 6.0% lower than the J\$19.9 million of operating expenses recorded for the corresponding period in 2015. This was as a result of judicious fiscal management.

Total equity increased by 16% from J\$681 million as at September 2015 to J\$790.6 million as at September 2016, notwithstanding the negative impact of the widespread decline in the prices of bonds and equities. Retained earnings increased by 68%, highlighting the company's continued commitment to growth and value creation for stockholders.

Total assets increased by 7.7% from J\$916.5 million as at September 2015 to J\$986.7 million as at September 2016. As at September 2016, margin loans totalled J\$170.7 million, or 18% of the total portfolio of investment securities compared to 24.6% for September 2015. The company's use of margin has boosted the income of the portfolio.

The profit after tax for the first nine months of 2016 was J\$82.7 million, an increase of 65.6% over the J\$49.9 million realised in the corresponding period of 2015. Earnings per share for the first nine months of 2016 were \$1.48 per share versus \$1.04 per share for the corresponding period of 2015, an increase of 42.2% year over year.

Sterling Investments Limited

Income Statement

For Period Ended September 30, 2016

	Unaudited 9 months ended Sep-16	Unaudited 9 months ended Sep-15	Unaudited 3 months ended Sep-16	Unaudited 3 months ended Sep-15	Audited 12 months ended Dec-15
Revenue:					
Interest Income	55,093,905	48,221,909	18,009,545	17,686,209	72,778,939
Foreign Exchange Gains	52,429,882	25,723,820	11,099,248	13,461,042	34,073,892
Gain on disposal of available-for-sale securities	4,775,968	10,288,166	(122,795)	-	12,437,526
	<u>112,299,755</u>	<u>84,233,895</u>	<u>28,985,998</u>	<u>31,147,251</u>	<u>119,290,357</u>
Expenses:					
Interest	(3,553,173)	(3,508,940)	(1,088,064)	(1,203,336)	(5,442,115)
Impairment loss on available-for-sale-securities	(2,137,607)	(9,475,356)	(109,313)	(9,475,356)	(9,651,021)
Unrealised gain/(loss) on embedded derivative	34,589	-	304,352		(147,575)
Other operating	(18,749,659)	(19,951,460)	(6,178,919)	(4,478,945)	(21,719,906)
	<u>(24,405,851)</u>	<u>(32,935,756)</u>	<u>(7,071,944)</u>	<u>(15,157,637)</u>	<u>(36,960,617)</u>
Operating Profit	87,893,904	51,298,139	21,914,054	15,989,614	82,329,740
Other Income	4,153,471	3,482,545	1,280,077	1,188,527	8,875
Preference Dividend Expense	(8,750,000)	(4,541,783)	(3,500,000)	93,799	(10,573,808)
Profit before Income Tax	83,297,375	50,238,901	19,694,131	17,271,940	71,764,807
Income Tax Expense	(610,206)	(304,040)	(207,511)	(34,476)	(596,800)
Profit for Period	82,687,170	49,934,861	19,486,620	17,237,464	71,168,007
Other Comprehensive Income:					
Items that may be reclassified to profit & loss:					
Realised gains on disposal of available-for-sale securities reclassified to profit for the year	1,750,597	(7,619,857)	1,856,967	-	(8,482,202)
Unrealised change in fair value of available-for-sale securities	30,733,749	(78,254,062)	16,537,682	(38,399,980)	(81,268,337)
	<u>115,171,516</u>	<u>(35,939,058)</u>	<u>37,881,269</u>	<u>(21,162,516)</u>	<u>(18,582,532)</u>
Shares outstanding	55,893,599	48,010,876	55,893,599	48,010,876	46,640,630
Earning Per Share	1.48	1.04	0.35	0.36	1.53

Sterling Investment Ltd.

Balance Sheet

As Of September 30, 2016

	Unaudited 9 months ended Sep-16	Unaudited 9 months ended Sep-15	Audited 12 months ended Dec-15
ASSETS			
Cash Resources			
Cash & Cash Equivalents	2,904,681	385,953	213,152
Accounts Receivable	33,515,545	28,845,465	27,731,676
Investment Securities	950,343,725	887,275,628	907,825,257
TOTAL CURRENT ASSETS	986,763,951	916,507,046	935,770,085
TOTAL ASSETS	986,763,951	916,507,046	935,770,085
LIABILITIES			
Margin Loan Payables	170,755,977	218,233,634	214,341,641
Other Payables	25,361,402	17,095,184	14,039,600
Due to Related Company	0	0	13,124,190
Preference Shares	10,000	10,000	10,000
Income Tax Payable	0	73,267	366,028
TOTAL LIABILITIES	196,127,379	235,412,085	241,881,459
SHAREHOLDERS' NET EQUITY			
Share Capital	628,696,624	632,358,961	627,796,101
Fair Value Reserve	(46,289,700)	(74,897,426)	(78,774,046)
Retained Earnings	208,229,648	123,633,426	144,866,571
TOTAL EQUITY	790,636,572	681,094,961	693,888,626
TOTAL LIABILITIES & EQUITY	986,763,951	916,507,046	935,770,085

STERLING INVESTMENTS LIMITED

Statement of Cash Flows

For period ended September 30, 2016

	Period ended	Audited	Period ended
	September 2016	Dec 2015	September 2015
Cash flows from operating activities			
Profit for the period	82,687,170	71,168,007	49,934,861
Adjustments for :			
Interest Income	(55,093,905)	(72,778,939)	(48,221,909)
Interest Expense	3,553,173	5,442,115	3,508,940
Impairment loss on available-for-sale securities	2,137,607	9,651,021	-
Unrealised loss on embedded derivative	(34,589)	147,575	-
Income Tax Expense	610,206	596,800	304,040
Managers Preference Share Interest	8,750,000	10,573,808	4,541,783
	<u>42,609,662</u>	<u>24,800,387</u>	<u>10,067,715</u>
Changes in operating assets:			
Accounts Receivable	8,536,127	3,878	(238,679)
Margins Payable	(43,585,664)	(9,544,746)	(5,652,753)
Other Payables	(8,724,531)	228,824	45,268
Due to Related Company	(1,827,856)	2,473,301	(10,650,889)
	<u>(2,992,263)</u>	<u>17,961,644</u>	<u>(6,429,338)</u>
Interest Received	40,773,909	64,007,260	38,578,999
Income Taxes Paid	(976,234)	(5,442,115)	(726,283)
Interest Paid	(3,553,173)	(726,282)	(3,508,940)
Net cash provided by operating activities	<u>33,252,239</u>	<u>75,800,507</u>	<u>27,914,438</u>
Cash flows from investing activity			
Investment securities, being net cash used by investing activity	(12,137,140)	(240,637,257)	(206,412,412)
Cash flows from financing activities			
Issue of Preference shares			
Issue of ordinary shares	900,523	190,499,197	195,062,057
Manager's preference shares interest paid	-	(9,271,165)	-
Dividend payment	(19,324,092)	(17,521,150)	(17,521,150)
Net cash provided by financing activities	<u>(18,423,570)</u>	<u>163,706,882</u>	<u>177,540,907</u>
Increase/(decrease) in cash and cash equivalents during the period	2,691,529	(1,129,868)	(957,067)
Cash and cash equivalent at the beginning of period	213,152	1,343,020.00	1,343,020
Cash and cash equivalent at the end of period	2,904,681	213,152	385,953

Sterling Investments Limited

Statement of Changes in Equity
For period ended September 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	-	-	82,687,170	82,687,170
Other comprehensive income:				
Realised gain on disposal of available-for-sale securities reclassified to profit for the year		1,750,597		1,750,597
Unrealised gains in fair value of available-for-sale securities	-	30,733,749	-	30,733,749
Total comprehensive income	<u>627,796,101</u>	<u>(46,289,700)</u>	<u>227,553,741</u>	<u>809,060,142</u>
Transactions with owners:				
Share issued during the period	900,523	-	-	900,523
Dividends	-	-	-19,324,092	(19,324,092)
	<u>900,523</u>	<u>-</u>	<u>(19,324,092)</u>	<u>(18,423,570)</u>
Balance at September 30, 2016	<u>628,696,624</u>	<u>(46,289,700)</u>	<u>208,229,648</u>	<u>790,636,572</u>
	Share capital	Fair value	Retained earnings	Total
Balance at January 1, 2015	437,296,904	10,976,493	91,219,714	539,493,111
Comprehensive income:				
Profit for period	-	-	49,934,861	49,934,861
Other comprehensive income:				
Realised gain on disposal of available-for-sale securities reclassified to profit for the year		(7,619,857)		(7,619,857)
Unrealised gains in fair value of available-for-sale securities	-	(78,254,062)	-	(78,254,062)
Total comprehensive income	<u>437,296,904</u>	<u>(74,897,426)</u>	<u>141,154,575</u>	<u>503,554,053</u>
Transactions with owners:				
Share issued during the period	195,062,056	-	-	195,062,056
Dividends	-	-	(17,521,150)	(17,521,150)
	<u>195,062,056</u>	<u>-</u>	<u>(17,521,150)</u>	<u>177,540,906</u>
Balance at September 30, 2015	<u>632,358,960</u>	<u>(74,897,426)</u>	<u>123,633,425</u>	<u>681,094,959</u>

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 September 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 September 30, 2016

Name	Number of shares	Percentage
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 September 30, 2016

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