

Economic Overview

During the last quarter of 2016, markets were glued to the US presidential election and were thoroughly stumped when Clinton was “Trumped”. This was followed by a Trump rally in the U.S. stock markets which surprised many investors. Thereafter the market turned its attention to the Federal Reserve (FED). In December, there was a 100% probability of the FED increasing rates, and they did exactly as predicted. This was identical to the increase in the benchmark interest rate made one year earlier. The FED increased rates by a quarter of a percentage point to a range of 0.5% - 0.75%. This was a total of one increase after predicting four rate increases for the year, alongside a decrease in the GDP growth which was 1.9% for 2016 compared to 2.6% in the previous year. The slowdown was attributed to a decline in exports and an increase in imports in the fourth quarter of 2016 due to a stronger U.S. dollar. Some major Central Banks are still keeping rates low (sometimes negative) in contrast to the U.S. The market expects increased spending to take place in accordance with Trump’s stated policies, however, there are concerns that some of them may be inflationary and some may even have a retarding effect on growth.

The Eurozone’s GDP grew by 1.7% in 2016 rounding out four years of recovery and growth. This, despite challenges faced by the region with Brexit and terrorist attacks. Inflation reached a three year high in December (1.1%) as a result of higher energy prices and a weaker euro. The region is projected to grow at a rate of 1.5% in 2017, however, there remains major political uncertainty as elections are slated for France, Germany and the Netherlands with the possibility of snap elections in Italy. Mario Draghi (president of the ECB) stressed that a high degree of accommodation as regards monetary policy is still warranted.

Oil performed very well in 2016, despite a rocky start. It began the year at \$37.04 (WTI) and ended the year at \$53.72, a 45% increase following the 37.4% decline of 2015. The oil rally was partially buoyed by the OPEC agreement made on November 30th to curtail production. The impact on commodities was mixed following the outcome of the U.S. election as most commodities increased on the planned infrastructure spending announced by President Trump, however, his intent to ease restrictions on drilling has fuelled concerns that U.S. shale producers will add to the oil supply.

The political uncertainty which started with Brexit in 2016 will continue into 2017 as the outcomes of the elections in the Eurozone unfold. President’s Trump’s actions and the subsequent consequences will also be scrutinized by the market. The US Equity (S&P) market increased by 9.5% and set a new all-time high, after being essentially flat in 2015 while bond indices (Barclays high yield bond ETF US index e.g.,) were up 7.5% in 2016. So far in 2017 (February 8th) – the S&P 500 has increased by 2.5% setting new highs and the Barclays high yield bond index has increased by 0.93% YTD. Bond and equity markets are likely to experience persistent volatility in 2017 as political events unfold.

Growth in revenue	18.6%
Growth in net profit	10.4%
Growth in equity	16.8%
Efficiency ratio as at December 2016	17.5%
Weighted average number of shares	55,933,235
Earnings per share	J\$1.41

Financial Overview

Net interest income, SIL's primary source of income, amounted to J\$78.1 million as at December 2016; 7.3% higher than net interest income for the corresponding period in 2015 of J\$72.8 million. The net interest margin increased slightly to 93.9%. This is due to the company's astute management which has profited from its United States Dollar exposure.

Gains on sale of investments decreased marginally from J\$12.4 million in December 2015 to J\$10.2 million in December 2016 as the company realized some of the trading gains in its portfolio. The company manages its portfolio with a view to profit taking when conditions are favourable.

There was a significant increase in foreign exchange gains due to a higher rate of devaluation in 2016 compared to the same period in 2015. The devaluation in 2016 was 6.7% compared to 5.0% in 2015. As a result, foreign exchange gains increased by 56.0% from J\$34.1 million as at December 2015 to J\$53.2 million as at December 2016.

Gross revenue was J\$141.4 million for the fiscal year 2016 compared to J\$119.3 in the prior fiscal year. This is an increase of 18.6% over the corresponding period in 2015. This is a solid performance in a year characterized by its tremendous political uncertainty. Net profit for the fiscal year 2016 was J\$78.6 million compared to J\$71.2 million for the prior fiscal year. The results were impacted by an impairment charge of J\$16.8 million as a result of the default by the issuer of a municipal bond. This is a one-off unrealized loss. The re-structuring of the debt has not yet been completed and this charge may increase or decrease when that process has finished. Without this impairment, net profit would have increased by 28.4% from J\$71.2m in 2015 to J\$95.4m in 2016.

Operating expenses for the fiscal year ending December 2016 were J\$24.7 million or approximately 13.9% higher than the J\$21.7 million of operating expenses for the corresponding period in 2015. This was due to an increase in preference dividends and management fees.

Total equity increased by 16.8% from J\$693.9 million in December 2015 to J\$810.4 million in December 2016. This increase was due to a number of reasons including the increase in retained earnings, the reduction in the loss in the fair value reserve and the introduction of the Dividend Reinvestment Programme (DRIP) and Complementary Share Purchase Programme (CSPP) during the year. Retained earnings increased by 41% from J\$144.9m to J\$204.1m highlighting the company's continued pledge to deliver growth and value creation for stockholders.

Total assets increased by 4.2% from J\$935.8 million as at December 2015 to J\$974.7 million as at December 2016. This was largely attributed to the increase in investment securities which experienced a 3.4% increase over the same period. This was funded by retained earnings and the DRIP and CSPP programmes introduced in the second half of the year. As at December 2016, margin loans totalled J\$131.8 million, or 14.0% of the total portfolio of investment securities compared to 23.6% the previous year. The company's use of margin has enhanced the income of the portfolio.

Sterling Investments Limited

Statement of Financial Position

December 31, 2016

	2016	2015
Assets		
Cash and cash equivalents	1,155,576	213,152
Accounts receivable	34,924,407	27,731,676
Income tax recoverable	18,269	-
Investment securities	938,603,156	907,825,257
Total assets	974,701,408	935,770,085
Liabilities		
Margin loans payable	131,808,102	214,341,641
Other payables	17,191,962	14,039,600
Due to related company	15,264,740	13,124,190
Manager's preference shares	10,000	10,000
Income tax payable	-	366,028
Total liabilities	164,274,804	241,881,459
Equity		
Share capital	630,913,829	627,796,101
Prepaid Share Reserve	12,266,188	-
Fair value reserve	(36,893,285)	(78,774,046)
Retained earnings	204,139,872	144,866,571
Total equity	810,426,604	693,888,626
Total liabilities and equity	974,701,408	935,770,085

STERLING INVESTMENTS LIMITED

Statement of Profit or Loss and Other Comprehensive Income

For the twelve-month period ended December 31, 2016

	Audited 12 months ending 2016	Audited 12 months ending 2015
Revenue		
Interest income	78,099,467	72,778,939
Foreign exchange gains	53,159,616	34,073,892
Gain on disposal of available-for-sale securities	10,174,691	12,437,526
	141,433,774	119,290,357
Expenses		
Interest	(4,759,702)	(5,442,115)
Impairment loss available-for-sale securities	(18,772,015)	(9,651,021)
Unrealised loss on embedded derivative	(1,113,392)	(147,575)
Other operating	(24,743,062)	(21,719,906)
	(49,388,171)	(36,960,617)
Operating profit	92,045,603	82,329,740
Other income	422,338	8,875
Manager's preference share interest expense	(13,278,611)	(10,573,808)
	79,189,330	71,764,807
Profit before taxation	79,189,330	71,764,807
Taxation	(591,937)	(596,800)
Profit for the year	78,597,393	71,168,007
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Realised gains on disposal of available-for-sale securities reclassified to profit for the year	(5,027,151)	(8,482,202)
Impairment loss on available-for-sale securities reclassified to profit for the year	16,814,973	
Unrealised change in fair value of available-for-sale securities	30,092,939	(81,268,337)
	41,880,761	(89,750,539)
Total comprehensive income/(loss) for the year	120,478,154	(18,582,532)
Basic earnings per stock unit	1.41	1.53
Diluted earnings per stock unit	1.41	1.53

Sterling Investments Limited

Statement of Changes in Equity Year ended December 31, 2016

	Share Capital	Prepaid share reserve	Fair value reserve	Retained earnings	Total
Balances at December 31, 2014	437,296,904	-	10,976,493	91,219,714	539,493,111
Comprehensive income:					
Profit for the year	-	-	-	71,168,007	71,168,007
Other comprehensive income:					
Realised gains on disposal of available-for-sale securities reclassified to profit	-	-	(8,482,202)	-	(8,482,202)
Unrealised change in fair value of available-for-sale securities	-	-	(81,268,337)	-	(81,268,337)
Total other comprehensive income	-	-	(89,750,539)	-	(89,750,539)
Total comprehensive (loss)/income	-	-	(89,750,539)	71,168,007	(18,582,532)
Transactions with owners:					
Shares issued during the year	190,499,197	-	-	-	190,499,197
Dividends	-	-	-	(17,521,150)	(17,521,150)
Balances at December 31, 2015	190,499,197	-	-	(17,521,150)	172,978,047
Comprehensive income:					
Profit for the year	627,796,101	-	(78,774,046)	144,866,571	693,888,626
Other comprehensive income:	-	-	-	78,597,393	78,597,393
Realised gain on disposal of available-for-sale securities reclassified to profit	-	-	(5,027,151)	-	(5,027,151)
Impairment loss on available-for-sale securities reclassified to profit	-	-	16,814,973	-	16,814,973
Unrealised change in fair value of available-for-sale securities	-	-	30,092,939	-	30,092,939
Total other comprehensive income	-	-	41,880,761	-	41,880,761
Total comprehensive income	-	-	41,880,761	78,597,393	120,478,154
Transactions with owners:					
Shares issued during the year	3,117,728	-	-	-	3,117,728
Prepayments for share Dividends	-	12,266,188	-	(19,324,092)	12,266,188
	-	-	-	(19,324,092)	(19,324,092)
	3,117,728	12,266,188	-	(19,324,092)	(3,940,176)
Balances at December 31, 2016	630,913,829	12,266,188	(36,893,285)	204,139,872	810,426,604

Sterling Investments Limited

Statement of Cash Flows
Year ended December 31, 2016

	2016	2015
Cash flows from operating activities		
Profit for the year	78,597,393	71,168,007
Adjustments for :		
Interest Income	(78,099,467)	(72,778,939)
Interest Expense	4,759,702	5,442,115
Impairment loss on available-for-sale securities	18,772,015	9,651,021
Unrealised loss on embedded derivative	1,113,392	147,575
Taxation	591,937	596,800
Manager's preference share interest	13,278,611	10,573,808
	39,013,583	24,800,387
Changes in:		
Accounts receivable	(249,560)	3,878
Margins loans payable	(82,533,539)	(9,544,746)
Other payables	447,559	228,824
Due to related company	2,140,550	2,473,301
	(41,181,407)	17,961,644
Interest received	71,156,296	64,007,260
Interest paid	(4,759,702)	(5,442,115)
Tax paid	(976,234)	(726,282)
Net cash provided by operating activities	24,238,953	75,800,507
Cash flows from investing activity		
Investment securities, being net cash used by investing activity	(8,782,545)	(240,637,257)
Cash flows from financing activities		
Issue of ordinary shares	2,147,802	190,499,197
Complementary share purchase programme	12,266,188	
Manager's preference shares interest paid	(10,573,808)	(9,271,165)
Dividends paid	(18,354,166)	(17,521,150)
Net cash (used)/provided by financing activities	(14,513,984)	163,706,882
Increase/(decrease) in cash and cash equivalents	942,424	(1,129,868)
Cash and cash equivalents at beginning of year	213,152	1,343,020
Cash and cash equivalents at end of year	1,155,576	213,152

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. During the year the Company issued 225,636 new ordinary shares via the Dividend Reinvestment and Complementary Share Purchase Programmes.
3. Statement of compliance and basis of preparation
 - a. **Statement of compliance:** The audited financial statements as at December 31, 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 December 31, 2016

Name	Number of shares	Percentage
ATL Group Pension Trustees Nominee limited	10,000,000	17.82
Grace Kennedy Limited Pension Scheme	5,227,270	9.32
Stephen Gager	3,455,170	6.16
PAM – Cable and Wireless Pension Real Estate Fund	3,000,000	5.35
V.M.B.S A/C Contributory Pension Scheme	2,668,905	4.76
National Insurance Fund	2,016,129	3.59
Satyanarayana Parvataneni	1,964,950	3.50
Winnifred Mullings	1,842,760	3.28
Charles A. Ross	1,838,098	3.28
Everton McDonald	1,599,790	2.85

Shareholdings of Directors as at December 31, 2016

	Number of shares	% of total
Derek Jones	0	0%
Maxim Rochester	0	0%
Michael Bernard	0	0%
Charles Ross	1,838,098	3.28