

Economic Overview

In May 2017, global markets breathed a sigh of relief when Emmanuel Macron was declared the winner of the French presidential elections. This reduced volatility, decreased the spreads between French and German bonds, while simultaneously benefitting the French stock market. Marine le Pen and her anti-EU rhetoric quickly became a distant memory. By the end of the quarter, the United Kingdom's election had come and gone, however instead of Theresa May increasing her mandate (as originally intended), she lost her majority in parliament and was forced to form a coalition government. This was considered a positive outcome, as it is highly unlikely that she will be able to maintain her previous hard Brexit stance amidst a divided government and a weakened position.

Eurozone consumer confidence is at the highest level since 2001 and this may have prompted Mario Draghi's announcement that the European Central Bank (ECB) may soon look to reduce the quantitative easing (QE) that has been in place for some time now. Unfortunately, the bond and equity markets reacted badly to the news as this reduction in monetary stimulus could put pressure on government bond markets over the next 12 months. Oil performed poorly in the second quarter, extending the losses experienced in the first quarter of the year. OPEC members and other producer nations extended production cuts but these were not as deep as the market had anticipated. The situation was aggravated by expanding US production. At the start of the quarter, oil prices (WTI) were at \$50.60, and ended the quarter at \$46.04 (a reduction of 9.01%).

The Federal Reserve (Fed) increased its benchmark rate in June for the second time this year: however, in spite of the increase, the yield on the 10-year Treasury note decreased 9 bps to 2.31% and the 30-year Treasury bond yield decreased 18 bps to 2.84% over the second quarter. The shorter term treasury yields increased due to the Fed hike, however the yield curve continued to flatten as short-term rates increased and longer term yields decreased. The Fed has also announced its plan to gradually reduce the size of its balance sheet starting possibly as early as this year. Emerging market debt has been the best performing fixed income class so far for 2017. The performance of Emerging market debt has been helped by the weakness in the U.S. dollar and by improving growth in Emerging markets. The Barclay's High Yield ETF US Index increased by 0.73% in the 2nd quarter. The US Equity (S&P) index grew by 2.57% over the same period. Chinese growth is forecast to slow; meanwhile rising U.S. interbank lending rates could potentially lead to a slowdown in the U.S. housing and construction markets. If the trend towards tighter global monetary policy continues, some emerging markets could experience more volatility in the second half of the year. SIL's portfolio is poised to take advantage of all the trading opportunities presented, and continues to be well balanced providing a stable source of revenue to shareholders.

Growth in Trading Gains	337%
Growth/(Decline) in net profit	(32)%
Growth in equity	15%
Efficiency ratio as at June, 2017	24%
Weighted average number of shares	57,245,843
Earnings per share	J\$0.75

Financial Overview

Net interest income, SIL's primary source of income, totalled J\$37.9 million for the six-month period ended June 2017. This was 1.5% higher than the \$37.4 million recorded for the corresponding period in 2016. The net interest margin decreased marginally to 91.7% from 93.4%.

Gain on sale of investments for the six-month period ended June 2017 was J\$21.4 million, an increase of 337.2% compared to the gain of J\$4.9 million recorded for the corresponding period in 2016. This was primarily due to the overall improvement in the bond markets including the high yield and emerging markets.

The Jamaican dollar depreciated against the US dollar by J\$0.18 or 0.14% for the six-month period ended June 2017, relative to the same period in 2016 when it depreciated by J\$5.97 or 4.96%. This led to reduced unrealized foreign exchange gains for the six months ended June 2017 of \$2.76 million compared to \$41.3 million in June 2016 or a 93.3% decrease relative to the same period last year. The reduction in foreign exchange gains arose from the relative stability of the Jamaican dollar denoted by a few months of appreciation in value. However prudent management action led to increased trading gains for the period which helped to reduce the effect of the appreciation of the dollar in the first six months of 2017.

Gross revenue was J\$62.1 million for the six months ended June 2017 compared to J\$83.6m in the matching 2016 period. This reflects a decrease of 25.7% over the corresponding period in 2016. Bond trading in the first quarter of the year was much improved and assets were strategically selected to increase the revenue of the portfolio. However, the results were impacted by the fall in foreign exchange gains. Net profit after taxes for the six months ended June 2017 was J\$43.0 million compared to J\$63.2 million for the period ended June 2016.

Operating expenses for the six months ended June 2017 were J\$14.8 million or 14.9% higher than the J\$12.9 million of operating expenses recorded for the corresponding period in 2016. This was mainly due to increased management fees.

Total equity increased by 14.8% from J\$762.9 million as at June 2016 to J\$875.8 million as at June 2017. The unrealized loss recorded in the revaluation reserve of J\$26.1 million as at June 2017 was an improvement of \$38.6 million over the \$64.7 million unrealized loss recorded for the same period in 2016. Retained earnings increased by 17.8% highlighting the company's continued commitment to growth and value creation for stockholders.

Total assets increased by approximately 18.0% from J\$915.2 million as at June 2016 to J\$1.08 billion as at June 2017. This was largely attributed to the increase in investment securities which experienced a 15.9% increase over the same period. This was funded by retained earnings along with the Dividend Reinvestment Program (DRIP) and Complementary Share Purchase Programme (CSPP) programmes introduced in the second half of 2016. As at June 2017, margin loans totalled J\$189.1 million, or 18.5% of the total portfolio of investment securities compared to 15.5% for June 2016. The company's use of margin has boosted the income of the portfolio.

Sterling Investment Ltd.

Balance Sheet

As at June 30, 2017

	Unaudited 6 months ended Jun-17	Unaudited 6 months ended Jun-16	Audited 12 months ended Dec-16
ASSETS			
Cash Resources			
Cash & Cash Equivalents	14,074,086	245,235	1,155,576
Accounts Receivable	40,666,842	30,699,344	34,924,407
Income Tax Recoverable	18,269	-	18,269
Investment Securities	1,025,120,403	884,253,551	938,603,156
TOTAL CURRENT ASSETS	1,079,879,600	915,198,130	974,701,408
TOTAL ASSETS	1,079,879,600	915,198,130	974,701,408
LIABILITIES			
Margin Loan Payables	189,171,119	137,267,677	131,808,102
Other Payables	6,440,228	7,697,907	17,191,962
Due to Related Company	8,435,470	7,336,291	15,264,740
Manager's Preference Shares	10,000	10,000	10,000
Income Tax Payable	-	-	-
TOTAL LIABILITIES	204,056,817	152,311,875	164,274,804
SHAREHOLDERS' NET EQUITY			
Share Capital	652,885,456	627,796,101	630,913,829
Prepaid Share Reserve	13,743,595	-	12,266,188
Fair Value Reserve	(26,097,100)	(64,684,349)	(36,893,285)
Retained Earnings	235,290,831	199,774,503	204,139,872
TOTAL EQUITY	875,822,783	762,886,255	810,426,604
TOTAL LIABILITIES & EQUITY	1,079,879,600	915,198,130	974,701,408

Sterling Investments Limited

Income Statement

For Period Ended June 30, 2017

	Unaudited 6 months ended Jun-17	Unaudited 6 months ended Jun-16	Unaudited 3 months ended Jun-17	Unaudited 3 months ended Jun-16	Audited 12 months ended Dec-16
Revenue:					
Interest Income	37,920,575	37,377,620	19,896,799	18,483,148	78,099,467
Foreign Exchange Gains	2,762,520	41,330,634	1,691,943	30,285,709	53,159,616
Gain on disposal of available-for-sale securities	21,417,671	4,898,763	8,056,722	6,033,242	10,174,691
	<u>62,100,766</u>	<u>83,607,017</u>	<u>29,645,464</u>	<u>54,802,099</u>	<u>141,433,774</u>
Expenses:					
Interest	(3,149,563)	(2,465,110)	(2,004,258)	(1,194,261)	(4,759,702)
Impairment loss on available-for-sale securities	3,579,366	(2,028,294)	6,273,307	(243,660)	(18,772,015)
Unrealised gain/(loss) on embedded derivative	(392,078)	(269,764)	0	(295,308)	(1,113,392)
Other operating	(14,783,354)	(12,863,999)	(8,620,439)	(7,410,652)	(24,743,062)
	<u>(14,745,629)</u>	<u>(17,627,167)</u>	<u>(4,351,390)</u>	<u>(9,143,881)</u>	<u>(49,388,171)</u>
Operating Profit	47,355,137	65,979,850	25,294,075	45,658,218	92,045,603
Other Income	(6,331)	2,873,394	(6,794)	1,244,267	422,338
Preference Dividend Expense	(4,000,000)	(5,250,000)	(500,000)	(2,625,000)	(13,278,611)
Profit before Income Tax	43,348,806	63,603,244	24,787,280	44,277,485	79,189,330
Income Tax Expense	(387,215)	(402,695)	(194,329)	(206,417)	(591,937)
Profit for Period	<u>42,961,591</u>	<u>63,200,549</u>	<u>24,592,951</u>	<u>44,071,068</u>	<u>78,597,393</u>
Other Comprehensive Income:					
Items that may be reclassified to profit & loss:					
Realised (gains)/losses on disposal of available-for-sale securities reclassified to profit for the year	(20,374,775)	(106,370)	(8,545,234)	(3,801,427)	(5,027,151)
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	31,170,961	14,196,067	21,546,997	21,147,828	30,092,939
	<u>53,757,777</u>	<u>77,290,246</u>	<u>37,594,714</u>	<u>61,417,469</u>	<u>120,478,154</u>
Shares outstanding	57,245,843	55,876,281	56882661	55876281	55,933,235
Earning Per Share	0.75	1.13	0.32	0.79	1.41

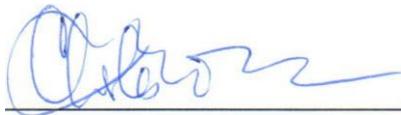
Sterling Investments Limited			
Statement of Cash Flows			
For period ended June 30, 2017			
	Period ended Jun 2017	Audited Dec 2016	Period ended Jun 2016
Cash flows from operating activities			
Profit for the period	42,961,591	78,597,393	63,200,550
Adjustments for :			
Interest Income	(38,616,716)	(78,099,467)	(37,084,361)
Interest Expense	3,149,563	4,759,702	2,465,110
Impairment loss on available-for-sale securities	(3,579,366)	18,772,015	2,028,294
Unrealised loss on embedded derivative	392,078	1,113,392	269,764
Income Tax Expense	387,215	591,937	402,695
Managers Preference Share Interest	4,000,000	13,278,611	5,250,000
	<u>8,694,365</u>	<u>39,013,583</u>	<u>36,532,052</u>
Changes in operating assets:			
Accounts Receivable	(649,595)	(249,560)	8,302,146
Margins Payable	57,363,017	(82,533,539)	(77,073,964)
Other Payables	(14,749,263)	445,089	(11,591,694)
Due to Related Company	(6,829,270)	2,140,550	(5,787,899)
	<u>43,829,254</u>	<u>(41,183,877)</u>	<u>(49,619,359)</u>
Interest Received	33,523,876	71,156,295	25,814,547
Income Taxes Paid	(387,215)	(4,759,702)	(768,723)
Interest Paid	(3,149,563)	(976,234)	(2,465,110)
Net cash provided by operating activities	<u>73,816,352</u>	<u>24,236,482</u>	<u>(27,038,645)</u>
Cash flows from investing activity			
Investment securities, being net cash used by investing activity	(72,533,773)	(8,782,545)	35,363,346
Cash flows from financing activities			
Issue of Preference shares			
Issue of ordinary shares	23,446,563	2,147,802	-
Prepaid Share Reserve	-	12,268,659	-
Manager's preference shares interest paid	-	(10,573,808)	-
Dividend payment	(11,810,632)	(18,354,166)	(8,292,618)
Net cash provided by financing activities	<u>11,635,931</u>	<u>(14,511,513)</u>	<u>(8,292,618)</u>
Increase/(decrease) in cash and cash equivalents during the period	12,918,510	942,424	32,083
Cash and cash equivalent at the beginning of period	1,155,576	213,152.00	213,152
Cash and cash equivalent at the end of period	14,074,086	1,155,576	245,235

Sterling Investments Limited
Statement of Changes in Equity
For period ended June 30, 2017

	Share capital	Prepaid Share Reserve	Fair value	Retained earnings	Total
Balance at January 1, 2017	630,913,829	12,266,188	(36,893,285)	204,139,872	810,426,604
Comprehensive income:					
Profit for period	-	-	-	42,961,591	42,961,591
Other comprehensive income:					
Realised gain on disposal of available-for-sale securities reclassified to profit for the year			(20,374,775)		(20,374,775)
Unrealised gains in fair value of available-for-sale securities	-		31,170,961	-	31,170,961
Total comprehensive income	630,913,829	12,266,188	(26,097,100)	247,101,463	864,184,380
Transactions with owners:					
Share issued during the period	21,971,627	-	-	-	21,971,627
Prepaid share reserve		1,477,407			1,477,407
Dividends	-	-	-	(11,810,632)	(11,810,632)
	21,971,627	1,477,407	-	(11,810,632)	11,638,403
Balance at June 30, 2017	652,885,456	13,743,595	(26,097,100)	235,290,831	875,822,783
	Share capital	Prepaid Share Reserve	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		-	-	-	-
Prepaid share reserve					-
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

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, 2017 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, 2016.
 - 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, 2017

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
PAM – Cable and Wireless Pension Real Estate Fund	3,000,000	5.34
Stephen Gager	2,874,046	6.16
Pam-Pooled Equity Fund	2,665,905	4.75
National Insurance Fund	2,016,129	3.59
Satyanarayana Parvataneni	1,992,656	3.50
Charles A. Ross	1,966,824	3.41
Winnifred Mullings	1,842,760	3.28
Everton McDonald	1,599,790	2.85

Shareholdings of Directors as at June 30, 2017

	Number of shares	% of total
Derek Jones	0	0%
Maxim Rochester	0	0%
Michael Bernard	0	0%
Charles Ross	1,966,824	3.41