

Economic Overview

The main themes of the second quarter were the intensification of the trade war between the U.S. and China, and uncertainty surrounding the U.S. and N.A.T.O. In addition, there was political uncertainty in Italy as investors feared that the country would need fresh elections following the inconclusive outcome of the March vote. While this could have become a type of referendum on Italy's membership of the euro, fortunately a governing coalition was eventually formed between populist parties, the League and the Five Star Movement.

Economic data from the eurozone showed steady growth but at diminished levels compared to the prior year. GDP growth for the first quarter was 0.4%, a decrease from 0.7% in Q4 2017. The European Central Bank (ECB) announced that it expects to end its quantitative easing programme in December 2018. The ECB added that interest rates will remain at current levels through the summer of 2019. Oil prices rallied in the second quarter as a result of supply concerns stemming from the withdrawal of the U.S. from the Iran nuclear accord. OPEC stated their intention to increase supply to offset the fallout from the loss of Iran's loss, but this was not sufficient to lower oil prices. The situation was aggravated by expanding US production. At the start of the quarter, oil prices (WTI) were at \$64.94, and ended the quarter at \$74.15 (an increase of 14.2%).

The Federal Reserve (Fed) increased its benchmark rate in June for the seventh time since late 2015. The updated dot plot, which reflects voting Federal Open Market Committee (FOMC) members' expectations, showed two more rate hikes this year for a total of four. In bond markets, U.S. 10-year Treasury yields rose significantly in April and reached a seven-year high in mid-May, before the threat of trade wars increased risk aversion which led to investors fleeing to "safe-haven" assets. The US yield curve flattened with two-year yields increasing from 2.27% to 2.53%. The spread between two and 10-year yields reached its lowest point since 2007. Emerging market (EM) bonds had a difficult quarter, particularly local currency bonds, impacted by the strengthening US dollar. The Barclay's High Yield ETF US Index decreased by 0.01% in the 2nd quarter. The US Equity (S&P) index grew by 2.94% over the same period.

During the quarter, SIL's team continued to purchase assets it believed to be undervalued during the market sell off. The team sought to minimize the duration of securities in the SIL portfolio and believes it is well positioned for a rise in interest rates and volatility. The robust growth in interest income provides another source of income and liquidity for investors.

| | |
|---|-----------------|
| Growth in Net Profit | 20.50% |
| Total Assets | J\$1.25 billion |
| Efficiency ratio as at June 30, 2018 | 18.30 |
| Weighted average number of shares | 59,146,503 |
| Earnings per share | J\$0.87 |
| Book value per share | J\$14.84 |

Financial Overview

Net interest income, SIL's primary source of income, totalled J\$36.9 million for the six-month period ended June 2018. This was 6.0% higher than the amount of \$34.8 million recorded for the corresponding period in 2017. The net interest margin was 88.5%.

The Jamaican dollar depreciated against the US dollar by J\$5.40 or 4.3% for the six-month period ended June 2018, relative to the same period in 2017 when it depreciated by J\$0.18 or 0.1%. This led to increased unrealized foreign exchange gains for the six months ended June 2018 of J\$38.4 million compared to J\$ 2.8 million in June 2017.

Gross revenue was J\$77.8 million for the six months ended June 2018 compared to J\$62.1 million in the prior 2017 period. This reflects an increase of 25.3% over the corresponding period in 2017. Profit after taxes for the six months ended June 2018 was J\$51.8 million, an increase of 20.5% from J\$43.0 million for the period ended June 2017.

Operating expenses for the six months ended June 2018 were J\$14.3 million or 3.6% lower than the J\$14.8 million of operating expenses recorded for the corresponding period in 2017. Total equity increased by 0.2% from J\$875.8 million as at June 2017 to J\$877.7 million as at June 2018.

Total assets increased by 15.5% from J\$1.1 billion as at June 2017 to J\$1.2 billion as at June 2018. This was largely attributed to the increase in investment securities which experienced a 17.5% increase over the same period. This was funded by a combination of an increase in the margin as well as the Dividend Reinvestment Programme (DRIP) and Complementary Share Purchase Programme (CSPP). As at June 2018, margin loans totalled J\$346.8 million, or 28.8% of the total portfolio of investment securities compared to 18.5% for June 2017. The company's use of margin has boosted the income of the portfolio.

Sterling Investments Limited recently concluded their CSPP for the June quarter. Participation in the programme was up significantly as a result of the company's impressive 35% growth in Net Profit for the 1st quarter (2018) compared to the corresponding period in 2017. In addition, investors paid attention when the dividend yield spiked to 8.5%, which was higher than most local stocks during the quarter.

STERLING INVESTMENTS LIMITED

Balance Sheet

As at June 30, 2018

| | Unaudited 6 months ended Jun-18 | Unaudited 6 months ended Jun-17 | Audited 12 months ended Dec-17 |
|---------------------------------------|--|--|---|
| ASSETS | | | |
| Cash Resources | | | |
| Cash & Cash Equivalents | 2,214,662 | 14,074,086 | 14,696,494 |
| Accounts Receivable | 40,457,525 | 40,666,842 | 42,462,081 |
| Income Tax Recoverable | - | 18,269 | - |
| Investment Securities | 1,204,334,456 | 1,025,120,403 | 1,110,936,549 |
| TOTAL CURRENT ASSETS | 1,247,006,643 | 1,079,879,600 | 1,168,095,124 |
| TOTAL ASSETS | 1,247,006,643 | 1,079,879,600 | 1,168,095,124 |
| Margin Loan Payables | 346,809,323 | 189,171,119 | 274,814,733 |
| Other Payables | 13,854,962 | 6,440,228 | 6,687,475 |
| Due to Related Company | 8,597,760 | 8,435,470 | 19,855,271 |
| Manager's Preference Shares | 10,000 | 10,000 | 10,000 |
| Income Tax Payable | - | - | 208,351 |
| TOTAL LIABILITIES | 369,272,045 | 204,056,817 | 301,575,830 |
| SHAREHOLDERS' NET EQUITY | | | |
| Share Capital | 675,533,432 | 652,885,456 | 669,453,676 |
| Prepaid Share Reserve | 20,916,000 | 13,743,595 | 2,195,194 |
| Fair Value Reserve | (30,687,976) | (26,097,100) | (30,491,694) |
| Retained Earnings | 211,973,142 | 235,290,831 | 225,362,118 |
| TOTAL EQUITY | 877,734,598 | 875,822,783 | 866,519,294 |
| TOTAL LIABILITIES & EQUITY | 1,247,006,643 | 1,079,879,600 | 1,168,095,124 |

STERLING INVESTMENTS LIMITED

Income Statement

For Period Ended June 30, 2018

| | Unaudited 6 months ended Jun-18 | Unaudited 6 months ended Jun-17 | Unaudited 3 months ended Jun-18 | Unaudited 3 months ended Jun-17 | Audited 12 months ended Dec-17 |
|---|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|--------------------------------------|
| Revenue: | | | | | |
| Interest Income | 41,656,076 | 37,920,575 | 20,688,532 | 19,896,799 | 79,081,255 |
| Foreign Exchange Gains | 38,398,102 | 2,762,520 | 28,845,347 | 1,691,943 | (26,241,648) |
| Gain on disposal of available-for-sale securities | (232,217) | 21,417,671 | (1,486,240) | 8,056,722 | 37,818,293 |
| Unrealised gain on quoted equities | (1,987,689) | - | (1,652,845) | | 1,318,999 |
| | <u>77,834,272</u> | <u>62,100,766</u> | <u>46,394,794</u> | <u>29,645,464</u> | <u>91,976,899</u> |
| Expenses: | | | | | |
| Interest | (4,802,277) | (3,149,563) | (2,655,475) | (2,004,258) | (7,642,960) |
| Impairment loss on available-for-sale-securities | 3,065,966 | 3,579,366 | 871,435 | 6,273,307 | (1,158,490) |
| Unrealised gain/(loss) on embedded derivative | - | (392,078) | - | - | (392,078) |
| Other operating | (14,256,040) | (14,783,354) | (7,864,539) | (8,620,439) | (28,399,108) |
| | <u>(15,992,352)</u> | <u>(14,745,629)</u> | <u>(9,648,579)</u> | <u>(4,351,390)</u> | <u>(37,592,636)</u> |
| Operating Profit | 61,841,921 | 47,355,137 | 36,746,216 | 25,294,074 | 54,384,263 |
| Other Income | 59,381 | (6,331) | 37,710 | (6,794) | 1,087 |
| Preference Dividend Expense | (9,605,361) | (4,000,000) | (9,605,361) | (500,000) | (1,899,545) |
| Profit before Income Tax | 52,295,941 | 43,348,806 | 27,178,564 | 24,787,280 | 52,485,805 |
| Income Tax Expense | (545,356) | (387,215) | (272,603) | (194,329) | (808,586) |
| Profit for Period | 51,750,585 | 42,961,591 | 26,905,961 | 24,592,951 | 51,677,219 |
| 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 | 2,081,248 | (20,374,775) | 3,649,236 | (8,545,234) | (36,232,680) |
| Impairment loss on available-for-sale securities reclassified to profit for the year | - | | - | | - |
| Unrealised change in fair value of available-for-sale securities | (2,277,530) | 31,170,961 | (26,808,868) | 21,546,997 | 42,634,271 |
| | <u>51,554,304</u> | <u>53,757,777</u> | <u>3,746,329</u> | <u>37,594,714</u> | <u>58,078,810</u> |
| Shares outstanding | 59,146,503 | 57,245,843 | 59,146,503 | 57,245,843 | 57,952,213 |
| Earning Per Share | 0.87 | 0.75 | 0.45 | 0.43 | 0.89 |

| Sterling Investments Limited | | | |
|---|-----------------------------------|-----------------------------|-----------------------------------|
| Statement of Cash Flows | | | |
| For period ended June 30, 2018 | | | |
| | Period ended June 2018 | Audited Dec 2017 | Period ended June 2017 |
| Cash flows from operating activities | | | |
| Profit for the period | 51,750,585 | 51,677,219 | 42,961,591 |
| Adjustments for : | | | |
| Interest Income | (41,656,076) | (79,081,255) | (38,616,716) |
| Interest Expense | 4,802,277 | 7,642,960 | 3,149,563 |
| Impairment loss on FVOCI | (3,065,966) | 1,158,490 | (3,579,366) |
| Unrealised loss on embedded derivative | - | 392,078 | |
| Unrealised gain on quoted equities | 1,987,689 | (1,318,999) | 392,078 |
| Income Tax Expense | 545,356 | 808,586 | 387,215 |
| Managers Preference Share Interest | 9,605,361 | 1,899,545 | 4,000,000 |
| | <u>23,969,227</u> | <u>(16,821,376)</u> | <u>8,694,365</u> |
| Changes in operating assets: | | | |
| Accounts Receivable | 6,811,197 | (22,859) | (649,595) |
| Margins Payable | 71,994,590 | 143,006,631 | 57,363,017 |
| Other Payables | (2,437,874) | 874,579 | (14,749,263) |
| Due to Related Company | (11,257,511) | 4,590,531 | (6,829,270) |
| | <u>89,079,629</u> | <u>131,627,506</u> | <u>43,829,254</u> |
| Interest Received | 36,849,434 | 71,566,440 | 33,523,876 |
| Income Taxes Paid | (753,707) | (581,966) | (387,215) |
| Interest Paid | (4,802,277) | (7,642,960) | (3,149,563) |
| Net cash provided by operating activities | <u>120,373,078</u> | <u>194,969,020</u> | <u>73,816,352</u> |
| Cash flows from investing activity | | | |
| Investment securities, being net cash used by investing activity | (136,855,955) | (166,163,371) | (72,533,773) |
| Net cash provided by Investing activities | <u>(136,855,956)</u> | <u>(166,163,371)</u> | <u>(72,533,773)</u> |
| Cash flows from financing activities | | | |
| Issue of Preference shares | | | |
| Issue of ordinary shares | 6,079,756 | 34,261,721 | 23,446,563 |
| Prepaid Share Reserve | 18,720,806 | (10,070,994) | - |
| Manager's preference shares interest paid | - | (13,278,611) | - |
| Dividend payment | (20,799,518) | (26,176,847) | (11,810,632) |
| Net cash provided by financing activities | <u>4,001,045</u> | <u>(15,264,731)</u> | <u>11,635,931</u> |
| Increase/(decrease) in cash and cash equivalents during the period | (12,481,833) | 13,540,918 | 12,918,510 |
| Cash and cash equivalent at the beginning of period | 14,696,494 | 1,155,576 | 1,155,576 |
| Cash and cash equivalent at the end of period | 2,214,661 | 14,696,494 | 14,074,086 |

STERLING INVESTMENTS LIMITED
Statement of Changes in Equity
For period ended June 30, 2018

| | Share capital | Prepaid Share Reserve | Fair value | Retained earnings | Total |
|--|----------------------|------------------------------|---------------------|--------------------------|--------------------|
| Balance at December 31, 2017 | 669,453,676 | 2,195,194 | (30,491,694) | 225,362,118 | 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 | <u>669,453,676</u> | <u>2,195,194</u> | <u>(30,491,694)</u> | <u>181,022,075</u> | <u>822,179,251</u> |
| 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 gains in fair value of available-for-sale securities | - | - | 788,435.94 | - | 788,436 |
| Total comprehensive income | <u>669,453,676</u> | <u>2,195,194</u> | <u>(30,687,976)</u> | <u>232,772,659</u> | <u>873,733,554</u> |
| Transactions with owners: | | | | | |
| Share issued during the period | 6,079,756 | - | - | - | 6,079,756 |
| Prepaid share reserve | | 18,720,806 | | | 18,720,806 |
| Dividends | - | - | - | (20,799,518) | (20,799,518) |
| | <u>6,079,756</u> | <u>18,720,806</u> | <u>-</u> | <u>(20,799,518)</u> | <u>4,001,045</u> |
| Balance at June 30, 2018 | <u>675,533,432</u> | <u>20,916,000</u> | <u>(30,687,976)</u> | <u>211,973,142</u> | <u>877,734,599</u> |
| | Share capital | Prepaid Share Reserve | Fair value | Retained earnings | Total |
| Balance at December 31, 2016 | 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) |
| Impairment loss on AFS securities reclassified to profit | - | - | - | - | - |
| Unrealised change in fair value of available-for-sale securities | - | - | 31,170,961 | - | 31,170,961 |
| Total comprehensive income | <u>630,913,829</u> | <u>12,266,188</u> | <u>(26,097,099)</u> | <u>247,101,463</u> | <u>864,184,381</u> |
| 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) |
| | <u>21,971,627</u> | <u>1,477,407</u> | <u>-</u> | <u>(11,810,632)</u> | <u>11,638,402</u> |
| Balance at June 30, 2017 | <u>652,885,456</u> | <u>13,743,595</u> | <u>(26,097,099)</u> | <u>235,290,831</u> | <u>875,822,783</u> |

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, 2017 (‘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.

This is the first set of the Company’s financial statements where IFRS 9 has been applied. Changes to significant accounting policies are described in note 4.

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, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 9 which are described in note 4.

4. Changes in significant accounting policies

Except as described below, 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, 2017 which was prepared in accordance with International Financial Reporting Standards (IFRS). The changes in accounting policies are also expected to be reflected in the Company’s financial statements as at and for the year ending December 31, 2018.

Certain other new and amended standards are effective from January 1, 2018 but they do not have any material impact on the Company’s financial statements.

The Company has initially adopted IFRS 9 *Financial Instruments* from January 1, 2018. The effect of initially applying this standard is mainly attributed to an increase in impairment losses recognised on financial assets.

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 largely retains the existing requirement in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held-to-maturity, loans and receivables and available for sale.

(i) Classification and measurement

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt instruments; FVOCI – equity; or fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortised cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest.

A debt investment is measured at FVOCI if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms gives rise on specified dates to cash flows that are solely payments of principal and interest.

On initial recognition of an equity investment that is not held for trading, the company irrevocably elects; on an investment-by-investment basis; to present subsequent changes in the investment's fair value in OCI. All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL.

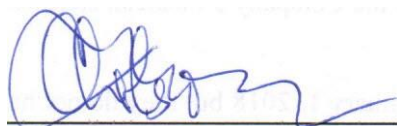
(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL model). The new impairment model applies to financial assets measured at amortised cost and debt instruments at FVOCI, but not to investments in equity instruments.

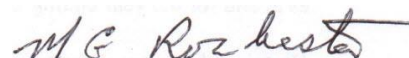
Under IFRS 9, loss allowances are measured on either of the following bases:

- a. 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- b. Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not.



Director



Director

Top Ten Shareholders as at June 30, 2018

| Shareholders | Number of Shares | Percentage |
|---|------------------|------------|
| ATL Group Pension Fund Trustees Nominee Limited | 10,000,000 | 16.84% |
| Lloyd Badal | 5,663,007 | 9.54% |
| GraceKennedy Limited Pension Scheme | 5,227,270 | 8.80% |
| PAM – Cable and Wireless Pension Real Estate Fund | 2,898,403 | 4.88% |
| PAM-Pooled Equity Fund | 2,665,905 | 4.49% |
| Satyanarayana Parvataneni | 2,102,333 | 3.54% |
| National Insurance Fund | 2,016,129 | 3.40% |
| Charles A. Ross | 1,982,478 | 3.34% |
| Winnifred M. Mullings | 1,658,484 | 2.79% |
| Everton Lloyd McDonald | 1,599,790 | 2.69% |
| Trevor E. Barrett | 1,059,590 | 1.78% |

Shareholdings of Directors as at June 30, 2018

| | Number of shares | % of total |
|------------------------|------------------|------------|
| Derek Jones | 0 | 0.00% |
| Maxim Rochester | 0 | 0.00% |
| Michael Bernard | 0 | 0.00% |
| Charles Ross | 1,982,478 | 3.34% |