2018 Annual REPORT

STERLING INVESTMENTS LIMITED

Investment Mandate

Sterling Investments Limited (SIL) provides long-term investors with attractive returns in US dollar terms. SIL delivers attractive risk adjusted returns to its shareholders by strategically investing in the global capital markets and the real sector.

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"Price is what you pay. Value is what you get."

Warren Buffet

Directors' Report

The Directors are pleased to present their report for the year ended December 31, 2018. The report represents the results for Sterling Investments Limited.

COMPANY RESULTS

- Total assets were **J$1,208,889,427** as at December 31, 2018
- Operating revenue was **J$57,068,847**
- The profit after income tax was **J$53,819,008**
- Stockholder's equity was **J$845,539,836**
- Net gain on equities was **J$2,637,457**

KPMG, Barbados and Eastern Caribbean have indicated their willingness to continue in office as auditors of the company.

The Directors wish to thank the management and all team members for their performance during the year under review. As always, we express our deep and sincere appreciation to the stockholders for their continued support and partnership.

Financial Ratios	2018	2017	2016	2015	2014
Price Earnings Ratio	5.64	14.61	11.17	8.52	8.88
Net Interest Margin	86.6%	90.3%	93.9%	92.5%	92.8%
Dividends Paid & Proposed (in respect of the financial year)	28,678,674.17	39,443,858.95	22,842,106.12	18,541,154.12	12,663,751.68
Dividend Payout Ratio	53.3%	76.3%	29.1%	26.1%	21.6%
Dividend Yield	9.5%	3.5%	2.6%	3.1%	2.4%
Price to Book	0.36	1.30	1.08	0.87	0.97

NB: Calculations use price as at the end of the financial year.

By Order of the Board

Dated this February 15, 2019

"Most investors want to do today what they should have done yesterday."

Laurence Henry Larry Summers

Corporate Profile

Sterling Investments Limited (SIL) is an investment holding company that was formed in 2012 and is registered as an international business company in St. Lucia. The company exists to protect and grow the capital of its stockholders. Early investors in SIL avoided the National Debt Exchange and 36.4% devaluation since its inception. SIL listed its ordinary shares on the Main Market of the Jamaica Stock Exchange in October 2014.

The company invests primarily in an array of high-quality fixed income securities denominated in United States dollars. A small part of the company's portfolio is also dedicated to private equity investments that serve to boost the company's return on equity.

The company generates income in two ways: (a) through interest income earned on the securities in the portfolio; (b) through capital gains as a result of increases in the price of the securities. It offers investors the opportunity to enjoy:

- A hedge against devaluation and inflation
- Higher risk adjusted returns
- Diversification
- Access to the global capital markets
- Access to experienced and successful investment managers

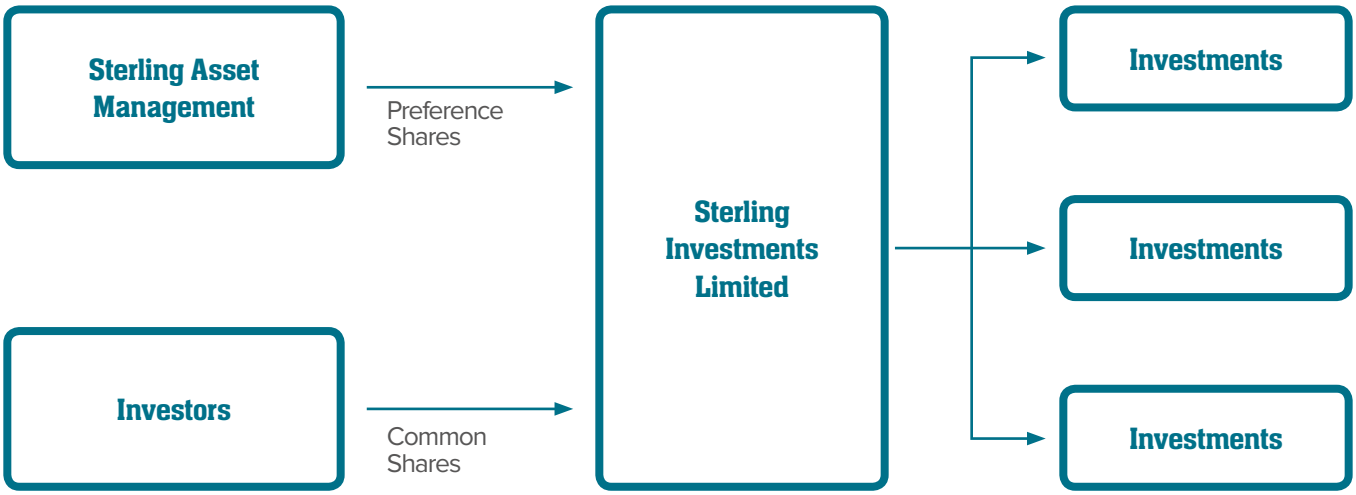
Sterling Investments Limited has no employees. The operations of Sterling Investments Limited are managed by "the Investment Manager" -Sterling Asset Management Limited (SAM). As a result, SIL has one of the highest net profit margins and lowest efficiency ratios of any company on the Jamaica Stock Exchange. SAM's team ensures that SIL's portfolio is optimized and executes the directives of the Board. SAM also ensures SIL's compliance with the applicable regulatory regimes.

The relationship between SAM and SIL is governed by an investment management agreement. The agreement stipulates payment of a management fee and performance dividend as follows:

- Management Fee: During the life of the company the Manager receives a management fee of 0.5% of the value of the assets under management each quarter.
- Performance Fee: 25% of profits in excess of the hurdle rate are paid to preference shareholders. The hurdle rate is the 10 Year UST plus a margin of 300 basis points.

Investment Manager Overview

Sterling Asset Management Limited (SAM) is a licensed securities dealer registered with the Financial Services Commission in Jamaica. SAM is a full service financial planner, fund manager and global securities trader specializing in, but not limited to, US Dollar investments. With one of the highest capital adequacy ratios in the industry, the company significantly exceeds the regulatory capital requirement. Sterling was one of the first local institutions to bring high quality, US dollar fixed income investments to Jamaican investors.



For 18 years, SAM has focused on providing local investors with US dollar investments in the global markets. The company was started because local investors were not able to access safe and attractive medium to long term investments in a hard currency. SAM has provided a source of consistent growth and a safe haven to sophisticated investors locally and internationally. Sterling's hallmark product is an offshore US dollar mutual fund which has delivered returns of over 11.72% per annum between 2003 and 2018. US$100,000 invested in the fund in 2003 would have been worth over US$562,567 at the end of 2018. SIL's investment strategy has been modelled in a similar way, but incorporates a private equity component to boost long term returns. SAM is involved with several charitable projects which include the Franciscan Ministries, the Mico University College Math Project, the Maxfield Park Children's Home and the Phoenix Lodge charities through their annual golf tournament..

Board of **Directors**

Sterling Investments Limited (SIL)

SIL's Board consists of well-respected and experienced professionals who hold the investment manager accountable on behalf of the shareholders.

Charles Ross, BSc. (Hons), MSc. // **Derek Jones**, Chairman QBE
Maxim Rochester, BSc. (Accounting) Hons. FCA, FCCA // **Michael Bernard**, BA, BSc., MBA, FJIM

Derek Jones
Chairman QBE

Charles Ross
BSc. (Hons), MSc.

Michael Bernard
BA, BSc., MBA, FJIM

Sterling Asset Management (SAM)

SAM's Board consists of well-respected and experienced professionals who hold the investment manager accountable on behalf of the shareholders.

Charles Ross, BSc. (Hons), MSc. // **Maxim Rochester**, BSc. (Accounting) Hons. FCA, FCCA //
Marian Ross, BA (Hons), MBA // **Robert Taylor** BSc., MBA, LLB, L.E.C.

Maxim Rochester
BSc. (Accounting) Hons. FCA, FCCA

Marian Ross
BA (Hons), MBA

Robert Taylor
BSc. MBA, LLB, L.E.C.

Sterling Investments Limited (SIL)

Derek Jones, Chairman QBE

Derek is one of the founding partners of HSM Chambers in Grand Cayman 2012. He was admitted to practice in Jamaica in November, 1970 and spent some 40 years with the firm of Myers, Fletcher & Gordon in Jamaica. He is also admitted to several Bars in the Caribbean and as a Solicitor of the United Kingdom. He enjoys the rare distinction of having been ranked by the authoritative guide of Chambers and Partners in two jurisdictions, Jamaica and Cayman, and in two different practice areas. From 2005 to 2007 he was seconded to the Cricket World Cup organization as Senior Legal Counsel leading up to the hosting of the ICC Cricket World Cup in the West Indies in 2007. He chairs the Cable and Wireless Jamaica Pension Fund, the Red Stripe Pension Fund and the Jamaica College Trust. He is a Director of the JN Cayman, formerly known as the National Building Society of the Cayman Islands. He was honoured by the Jamaican Bar Association in 2012 for his services to the Association and to the legal profession. He has done a considerable amount of public speaking, was for many years a member of the National Speakers Association of the United States and is known for his independent thought was well as his wit. He is also the Chairman of the Conduct review Committee.

Other Appointments:

- LIME Pension Fund (Chairman)
- Red Stripe Pension Fund (Chairman)
- Jamaica College Trust (Chairman)

Charles Ross, BSc. (Hons), MSc.

Charles is a founding director of Sterling Asset Management Limited. In his role as President for the past 18 years, the company has generated a return on equity in excess of 30% per annum. Charles is a qualified engineer with over 15 years' experience in the field. Charles left the field of engineering, to act as the Executive Director of the PSOJ. Since its inception, Charles has guided Sterling's investment and portfolio management functions and maintained the company's focus on delivering higher risk adjusted returns for the medium to long term. He holds a Postgraduate Diploma in Business Administration from the University of Manchester, a BSc (Hons) in Civil Engineering from the University of Edinburgh and an MSc. in Construction Engineering and Management from the University of the West Indies.

Other Appointments:

- Sterling Asset Management Limited
- The National Crime Prevention Fund (Crime Stop)

Michael Bernard, BA, BSc, MBA, FJIM

Michael has more than 25 years of executive management experience and is a retired Managing Director of Carreras Group Limited. During his tenure as the Chief Executive at Carreras, he successfully led the company to deliver commendable and continuous growth in shareholder returns, which earned the company awards for being the best performing company listed on the Jamaica Stock Exchange, including "Best Performing Company for 2010". In addition to his extensive local and international business experience, Michael holds a B.A. and BSc. in Business Administration and Forest Management respectively, and an MBA from the Harvard Graduate School of Business Administration. He is the Chairman of the Asset-Liability (ALCO) Committee,

Other Appointments:

- Salada Foods Jamaica Limited
- Carreras Limited
- Jamaica College (Chairman)
- GK General Insurance Co. Limited
- Hardware & Lumber Limited
- Jamaica College Foundation
- Spike Industries Limited (Chairman)
- Peak Bottling Company Limited (Exec. Chairman)
- New Transport Group Limited
- One on One Educational Services Limited (Chairman)
- Pioneer Manufacturing and Distribution Limited (Chairman)
- Catherine's Peak Bottling Company (Chairman)

Maxim Rochester, B.Sc. (Accounting) Hons. FCA, FCCA
(see bio under SAM Ltd.)

Sterling Asset Management Limited (SAM)

Maxim Rochester, B.Sc. (Accounting) Hons. FCA, FCCA

Max, a former Territory Senior Partner of PriceWaterhouseCoopers, has over thirty (30) years' experience in the auditing of Jamaica's largest banking and insurance corporations. As such, Max is intimately familiar with the operations, financial systems, regulatory environment and reporting requirements of the local financial sector. He has invaluable expertise and experience in dealing with international and major domestic corporations and financial institutions. He has a BSc in Accounting with honours from the University of the West Indies, in addition to being a Member of the Chartered Association of Certified Accountants (UK) and a Member of the Institute of Chartered Accountants of Jamaica. Maxim is an independent director on the board of Sterling Asset Management Limited and is the Chairman of the company's Audit Committee.

Other Appointments:

- Sterling Asset Management
- Eppley Limited
- Guardian Holdings Limited
- Guardian Life Limited
- Guardian Life of the Caribbean Limited
- Guardian General Insurance Limited

Charles Ross, BSc. (Hons), MSc.
(see bio under SIL Ltd.)

Marian Ross, BA (Hons), MBA

Marian has eight years of experience in the financial sector and has worked in credit analysis and investment research in both the regional and international capital markets. Her work has covered fixed income, publicly traded equities and private equity. Her work experience has taken her through the Caribbean and to North America and South-East Asia. Ms. Ross has a BA (Hons) in Economics from the University of Western Ontario and an MBA from New York University's Stern School of Business.

Robert Taylor BSC, MBA, LLB, L.E.C.

Robert possesses extensive experience in risk management, corporate banking, real estate development and commercial and real estate law. Robert spent 11 years at Citibank and left as the Resident Vice President, Financial Institutions & Public Sector Unit where he helped to structure credit and capital market transactions and also managed the Bank's relationships with the Government of Jamaica and Financial Institutions. He subsequently launched Taylor Law -a full time law practice specializing in Real Estate and Commercial law. Robert has a Bachelor of Laws from the University of London, an MBA, and a certificate in Legal Education from Norman Manley Law School. Robert is an independent director on the Board of Sterling Asset Management Limited and is the Chairman of the company's Asset Liability Management Committee.

Chairman's Message

STRATEGIC VISION & MISSION

I am pleased to report that Sterling Investments Limited (SIL) recorded profit after tax of J$53.8 million. For the year ended December 2018, total profit increased by 4.1% and total assets increased by 3.5%. In 2018, after consultation with key shareholders, the company held an Extraordinary General Meeting on October 8, 2018 to pass resolutions to increase the authorized share capital, to conduct a rights issue and to effect a 5:1 stock split. SIL was named among the top ten performers of the Jamaica Stock Exchange year to date in November 2018. SIL continued its pursuit of increasing shareholder engagement. This effort led to increased participation in the company's Dividend Reinvestment and Complementary Share Purchase Programmes..

Sterling Investments Limited has prudently navigated the volatile local and international markets while delivering growth and USD income to its shareholders. The company has diversified its asset portfolio by taking advantage of undervalued equities. This has resulted in capital gains within the portfolio. SIL has also successfully managed its fixed income portfolio during the period of rising interest rates in the U.S.

Performance Summary

Financial overview:

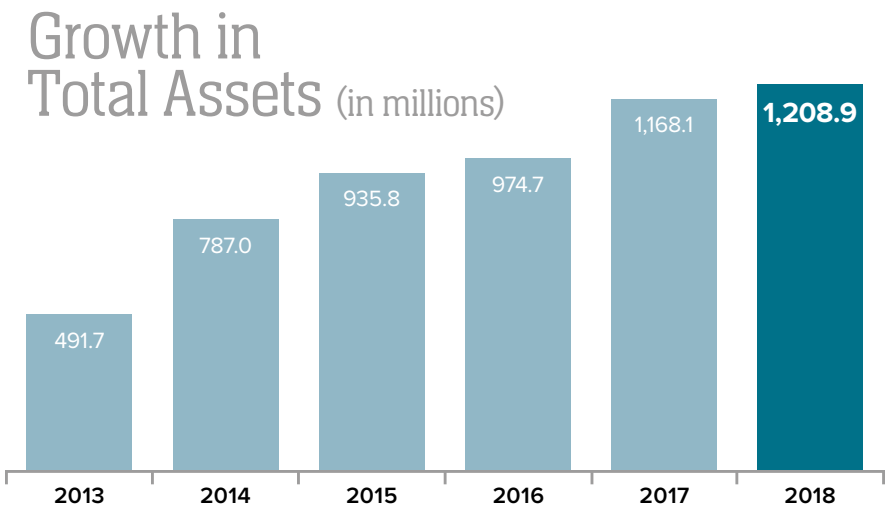
SIL has grown assets by 3.5%, increasing them from J$1.168 billion in the previous year to J$1.209 billion as at December 31, 2018. The portfolio growth was financed by margin loans and from funds raised through the Dividend Reinvestment and Complementary Share Purchase programmes. Interest income grew by 3.95%, increasing from J$79.1 million to J$82.2 million. The increase in income helped to fuel a 4.1% increase in net profit to J$53.8 million for the fiscal year.

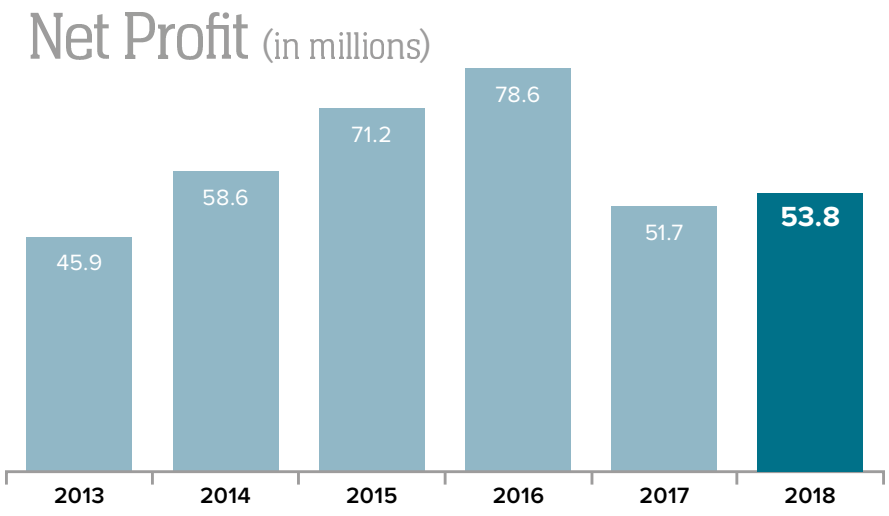
SIL's stock price at the start of the fiscal year was J$13.00 and ended the year at J$18.05 (stock split price of J$3.61), an increase of 38.8%. Dividends are paid in USD, which affords investors a hedge against devaluation and inflation..

Outlook

SIL continues to focus on the company's long-term strategy of delivering growth and value for stockholders. The company plans to take advantage of market sell-offs driven by uncertainty around Brexit, Trade Issues and global growth. Additionally, the improved local macro-economic environment has created opportunities in the public and private equity space.

On behalf of the board of directors, I would like to thank all the shareholders for their continued confidence in SIL and look forward to the year ahead.





Corporate Governance

The Board of Directors of SIL has the following responsibilities:

- Oversee and monitor the performance of the investment manager
- Periodically review the investment strategy and risk criteria to ensure that return on equity is being optimized
- Enforce good corporate and risk governance and ethical codes of conduct
- Enforce the code of ethics

The company's corporate governance guidelines can be found at **www.sterlinginvestmentsltd.com**

The company's code of ethics can be found at the company's website **www.sterlinginvestmentsltd.com**

Board Sub Committees

Audit Committee

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities by monitoring and assessing critical areas of the Company's operations and regularly reporting to the Board of Directors on same. The key focus areas consist of but are not limited to: the integrity of financial record keeping and reporting, the risk and control environment, the Internal Audit, the External Audit, Regulatory Compliance internationally and locally and the Company's Codes of ethical and business conduct. Maxim Rochester serves as the Chairman of the Audit Committee.

Principal Activities of Audit Committee

Assess and Approve:

- The integrity of financial record keeping and reporting
- Monthly in-house management accounts and explanations for divergence from budget
- The system of internal controls and procedures
- Stability and security of IT Infrastructure
- Internal audit report & findings and implementation of recommendations
- Internal audit focus & budget for the financial year
- Appointment of internal auditors
- Annual audited financial statements with a view to ensuring they are complete, utilizing the appropriate accounting principles and consistent with information known to committee members.
- Appointment of external auditors
- Local and international regulatory submissions
- Codes of ethics and business conduct

Meet privately with:

- Internal auditors as deemed necessary
- External auditors as deemed necessary

Meetings and Attendance

Committee Members	Meetings	% Attendance
Maxim Rochester (Chairman)	4	100%
Derek Jones	4	100%
Michael Bernard	4	100%
Charles Ross	4	100%

Audit Committee Report

The Audit Committee continues to play a key oversight role on behalf of the Board. The Committee's principal activities have focused on the oversight of operational risks, compliance and governance of the company. We reviewed the internal audit

plans and the internal audit reports presented throughout the year. The audit areas include AML compliance, securities, accounts, information technology and adherence to regulations. The review of accounts involved reviewing and monitoring the quarterly and annual reporting to shareholders and regulators, including the provision of objective, comprehensive, factual and timely information to the Jamaica Stock Exchange. All issues identified were addressed satisfactorily. The Audit Committee assists the Board in the oversight of the systems of internal controls, the Company's financial reporting processes and audit functions, as well as compliance with legal and regulatory requirements. The Committee reviews adherence to accounting policies, oversees the work of the internal auditors and assists the Board in discharging its duties with regard to: maintaining proper records and controls and ensuring that financial transactions are consistent with the policies and directives of the Board.

Assets & Liabilities Committee (ALCO)

The Asset Liability Committee aims to ensure that the assets and liabilities of Sterling Investments Limited are effectively managed to maximize return on equity, bolster the capital base and to safeguard the company against adverse consequences of changes in interest rate and liquidity risk. These objectives are pursued in the context of a framework of strong risk management, investment and liquidity policy guidelines, which are outlined in the investment policy. The committee's mandate is to oversee the management of the company's assets and liabilities in the context of these objectives and budgeted targets.

This committee meets quarterly and consists of four members. It is chaired by Michael Bernard. Additional meetings may be scheduled as needed. The purpose of this committee is to maximize net interest income over both the short and long term while managing within acceptable board approved risk tolerances for credit risk, liquidity risk, interest rate risk and capital. Other issues such as credit trends, credit concentrations and other credit-related metrics that may impact strategy development; especially as it relates to capacity for growth are discussed in this forum.

Principal Activities of Asset Liability Committee

Assess:

- Local and international macro-economic conditions and the implications for the company's investment strategy
- Management of market, liquidity and credit risk
- Investment strategies employed to maximize risk adjusted return on equity
- Quality and structure of funding and asset base
- Adherence to liquidity, capital and trading policy limits
- Achievement of budgeted profitability targets

Meetings and Attendance

ALCO Members	Meetings	% Attendance
Michael Bernard (Chairman)	4	100%
Derek Jones	4	100%
Maxim Rochester	4	100%
Charles Ross	4	100%

Compensation and Nomination committee

This committee meets quarterly and consists of four members. It is chaired by Derek Jones. The Committee is governed by the Corporate Governance Guidelines. Specifically, the Committee: (i) submits for approval by the Board of Directors the Remuneration Report and the remuneration policy for executive Directors which will be put forward to the approval of the Shareholders' Meeting (ii) puts forward proposals for the remuneration of the Chairman, (iii) puts forward proposals for the remuneration of non-executive Directors, who are members of Board Committees (iv) leads the process for Board appointments. In addition, this committee reviews on an annual basis the performance evaluation of all the non-executive directors in assessing whether they have effectively discharged their duties. They also review new appointments of board members for any potential conflict of interest. All of the directors are non-executive directors. No new appointments were made to the board this financial year.

Principal Activities of the Compensation and Nomination Committee

- It maintains a formal and transparent procedure for setting policy on directors' remuneration and to determine an appropriate remuneration packages for all directors including the Chairman.
- It is responsible for reviewing the structure and composition of the board at least annually and making recommendations to the board to complement its corporate strategy.
- It identifies individuals suitably qualified to become board members and selects or makes recommendations to the board on the selection of individuals nominated for directorships.
- It is responsible for assessing the independence of independent non-executive directors.
- They review new appointments of board members for any potential conflict of interest.
- It reviews the annual evaluation of the performance of board members.

Meetings and Attendance

Members		%
Maxim Rochester	4	100%
Derek Jones (Chairman)	4	100%
Michael Bernard	4	100%
Charles Ross	4	100%

Composition & Frequency of Meetings

The Audit and all other Committees of the board meet at least quarterly and consists of four (4) members. The Committee members are Mr. Maxim Rochester (Chairman), Mr. Michael Bernard (Director), Mr. Derek Jones (Director) and Mr. Charles Ross (Director). All committee members are non- executive directors.

Board Annual Self Evaluation

SIL's Board conducts an annual self-evaluation of its performance and all its sub-committees during the year. Directors are required to evaluate specific issues regarding the effectiveness of the Board governance. The issues include the quality of the information provided by management, the effectiveness of the operation of any Committee and a performance assessment of the Board and Chairman during the year. Additionally, smaller discussions are held with the various Directors to solicit feedback on the performance of the Board and Management. The process has been invaluable to the continuous improvement of the governance process.

SIL remains committed to good corporate governance practices and continues to comply with the applicable laws and regulations, international best practices and guidance from the Jamaica Stock Exchange and the Financial Services Commission).

Directors' Compensation

SIL compensates its Directors fairly and responsibly and aligns remuneration with the company's strategy. For the financial year ending December 31, 2018, a total of JS$3,118,848 was paid to the four Directors. Each director gets the same amount in fees.

Independent Directors

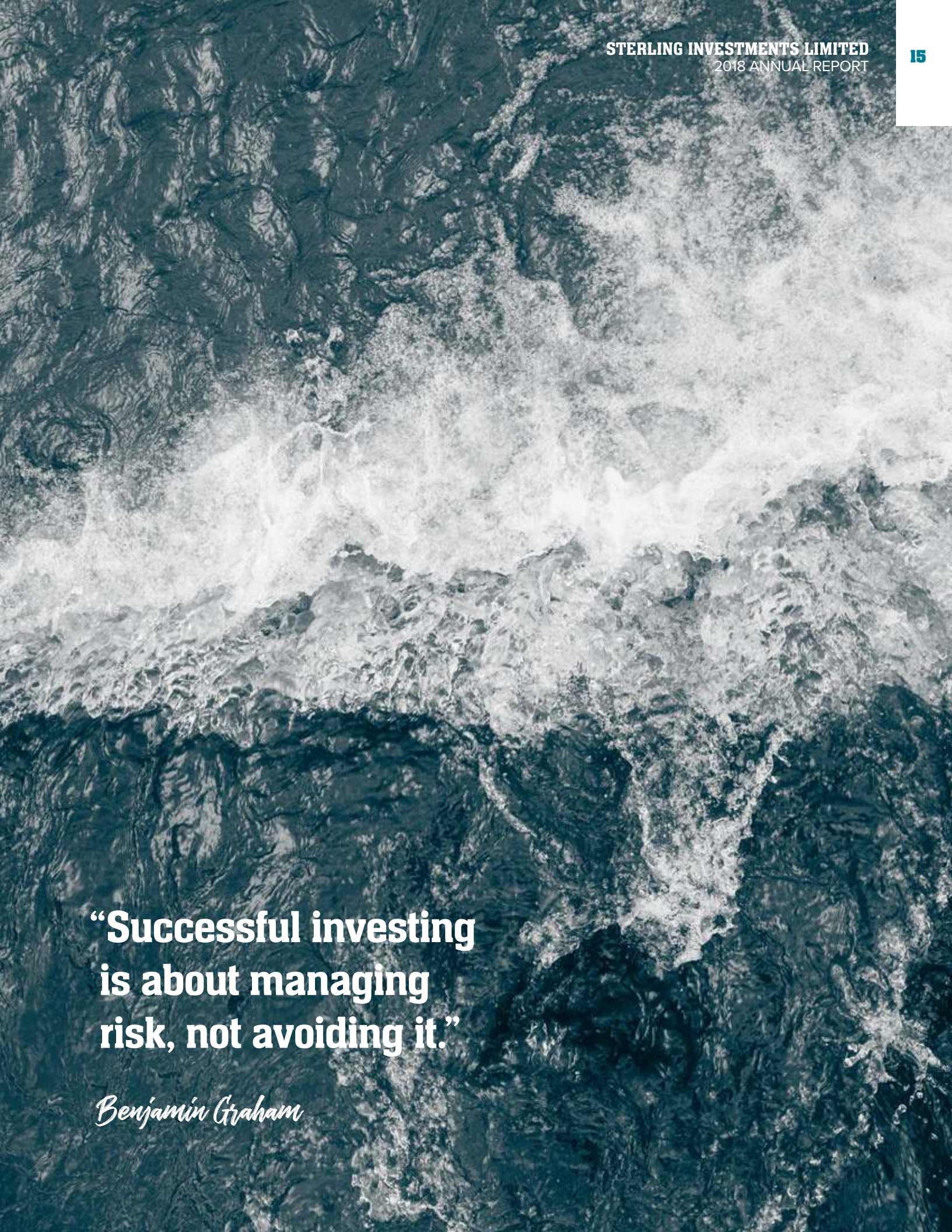
SIL recognizes the important role that independent directors play in the company's governance. Of the four non-executive Directors serving during the year, 75% of them were deemed to be independent. The Board considers a director to have met the criteria for independence if he or she: does not hold cross-directorships or has significant links with other directors through involvement in other companies or bodies; does not represent a substantial shareholding; is not a close relative of a significant shareholder; does not have an employment relationship with the SIL or Sterling Asset Management. The independence of directors is kept under constant review and all independent directors are required to disclose whether they have any interests or relationships that could impact on their ability to act in the best interests of the company.

The Board, having undertaken an assessment in the period under review, has determined that the following nonexecutive directors met the criteria for independence during the period under review:

- Derek Jones (Chairman)
- Michael Bernard
- Maxim Rochester

Cybersecurity

Cybersecurity is a key reporting area for internal and external auditors. The manager of SIL, Sterling Asset Management, retains one of the top IT consulting firms on the island to manage and protect its data and technology infrastructure. The IT consulting firm is in turn held accountable by internal auditors. The Directors receive regular reports from the manager confirming the security and robustness of the IT environment.



"Successful investing is about managing risk, not avoiding it."

Benjamin Graham

Management Discussion & Analysis

Balance Sheet Analysis

SIL's balance sheet continued to grow in 2018 and reflected the volatility inherent in the global capital markets. Total assets increased by 3.5% from J$1.168 billion as at December 31, 2017 to J$1.209 billion as at December 31, 2018. This was largely attributed to the increase in investment securities which experienced a 4.6% increase over the same period. As at December 31, 2018, margin loans totalled J$336.2 million, or 28.9% of the total portfolio of investment securities compared to 24.7% the previous year. The company used this funding to take advantage of attractive investment purchases during the year. The use of margin has enhanced the income and overall return of the portfolio.

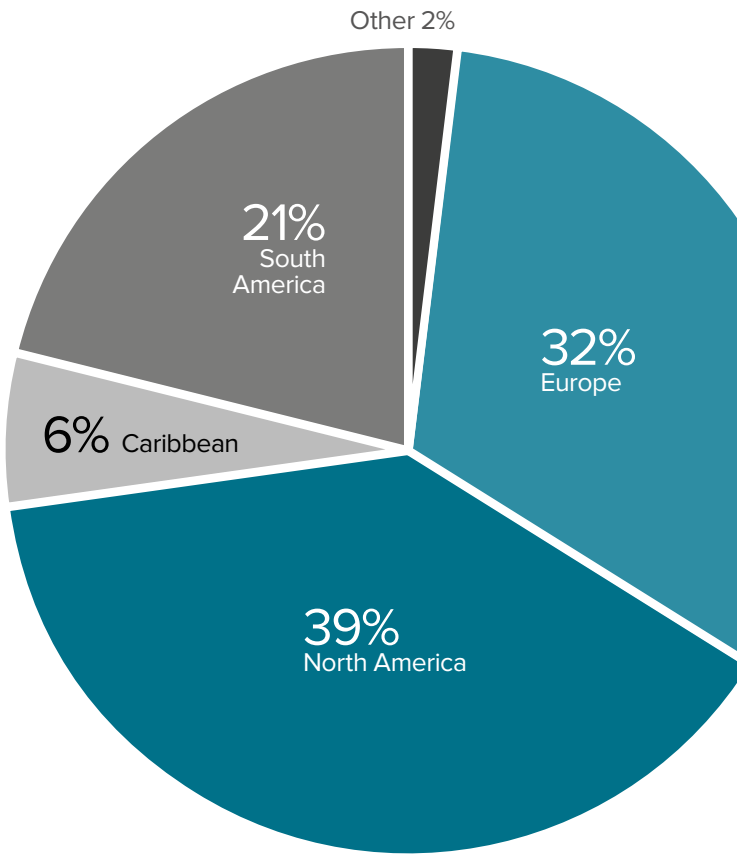
The company's liabilities, excluding margin loans payable, increased by 1.34% from J$26.8 million in 2017 to J$27.1 million in 2018. This is mainly due to an increase in the line item "other payables" which increased by 43.7% from J$6.7 million in 2017 to J$9.6 million in 2018. This was the result of an increase in preference dividends paid to manager.

Rising interest rates, trade tariffs and slowing global economic growth created a volatile and challenging investment environment during 2018. The S&P 500 declined by 6.21 per cent and the yield on the 10-year UST declined by 28bps during the 2018 fiscal year.

A broad-based decline in asset prices at the end of 2018 led to a 2.4 per cent decrease in SIL's total equity from J$866.5 million in December 2017 to J$845.5 million in December 2018. Retained earnings also decreased by 9.7% from J$225.4 million to J$203.6 million as a result of the coming into force of the IFRS 9 accounting standard

Weighted average coupon rate = 8.10%
Weighted average book yield = 7.49%

Portfolio Analysis by Region



Income Statement Analysis

Net profit for the fiscal year 2018 was J$53.8 million compared to J$51.7 million for the prior fiscal year, an increase of 4.1%. The Jamaican dollar depreciated against the U.S. dollar by 2.2%, starting the year at 125.00 and closing at 127.72. As a result, unrealized foreign exchange gains increased from a loss of J$26.2 million as at December 2017 to a gain of J$23 million as at December 2018.

SIL recorded a realized gain on quoted equities of J$2.6 million reflecting profitable equity trading gains.

The company's primary source of revenue is interest income generated by the securities in its portfolio. Total interest income amounted to J$82.2 million as at December 31, 2018; 3.9% higher than the interest income for the corresponding period in 2017 of J$79.1 million. Interest income has increased despite an environment of record low interest rates globally and the broad-based decline in coupons on fixed income securities.

Expenses

Operating expenses for the fiscal year ended December 2018 were J$28.8 million or approximately 1.4% higher than the J$28.4 million of operating expenses for the corresponding period in 2017. Interest expense for the portfolio increased by 43.8% from J$7.6 million for the fiscal year ended December 2017 to J$11 million for the fiscal year ended December 2018. This was a result of higher use and cost of margin loans.

Outlook

Sterling Investments Limited expects global monetary policy to remain accommodative and that U.S. interest rates are near their peak. The U.S Federal Reserve dot plot suggests that long term interest rates will range between 2.75% and 3%. This is a positive tailwind for bonds and is likely to result in continued appreciation in bond prices.

The improved local outlook has enabled a series of profitable equity trades for the company. The investment manager anticipates that this activity will continue to generate positive returns for shareholders. The short-term fluctuations in the exchange rate have not altered the underlying investment thesis of the company. The Board focuses on long term economic trends and fundamentals.

In sum, the company looks forward to continuing to grow the capital of its shareholders.

Employees and Option Scheme

SIL does not have any employees and there are therefore no option schemes or any other incentives in place for the company.

Risk Management

Effective risk management and optimization is essential to sustaining and furthering the success of our business. Risk is continuously analysed with the objective of maximizing profits from upside risks (the risk of upward movement in the value of an asset) while also avoiding and minimizing potential losses arising from downside risks (the risk of losses arising from adverse movements in the market).

Risk Management is incorporated as part of the company's culture and is an on-going, consultative, forward-looking and dynamic process. Risk is analysed within a well-defined framework shaped by the Company's risk appetite, strategic objectives, competitive advantages and the prevailing regulatory and macroeconomic environment. The Investment Management Committee oversees the formation of and adherence to the Company's general risk guidelines.

Corporate Data

Investor Relations Contact:
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sil@sterlinginvestmentsltd.com

External Auditors
Sterling Investments Limited is audited by KPMG, Barbados.

Internal Auditors
PricewaterhouseCoopers Jamaica, serve as the internal auditor for Sterling Asset Management Limited (the Investment Manager for Sterling Investments Limited).

SIL Stockholder Events

Charles Ross, CEO Sterling Asset Management hands over a cheque to Mico University's Pro Chancellor Professor Neville Ying and President Asburn Pinnock with Dr. Grace McLean (Chief Education Officer, Ministry of Education) to fund the Mathematics Enhancement Programme.

SIL Chairman Derek Jones jovially answers questions from the media.

SIL Chairman Derek Jones greets SIL shareholder Lloyd Badal, while L-R directors (SIL) Max Rochester and Michael Bernard look on.

Horace Allison (second right), overall winner of Phoenix Lodge Annual Charity Golf (sponsored by Sterling Asset Management) and Yadires Fonseca, female winner, show off their trophies to Ian Watson (second left), Sterling Asset Management's sales and marketing VP and Worshipful Master, Randolph Burgess.

SIL directors share a chuckle as they listen to the Chairman Derek Jones (not pictured). From L-R: Michael Bernard, Max Rochester, Charles Ross.

A light moment is exchanged with (L-R) SIL broker Herbie Hall (NCB), Yanique Leiba-Ebanks (AVP, Pensions & Portfolio Investments-Sterling Asset Management) and Eugene Stanley (VP, Fixed Income & Foreign Exchange, Sterling Asset Management).

continued ▶

SIL shareholder Courtney Miller poses a question to the Board of Directors.

SIL shareholder Livingston Young poses a question to the Board of Directors

Marva Chang (VP, Finance & Compliance, Sterling Asset Management) in lively discussion with SIL director Michael Bernard.

Charles Ross (CEO, Sterling Asset Management) listens intently to Director of Mona GeoInformatics Institute Dr. Parris Lyew-Ayee at the Caribbean Academy of Sciences Conference.

From L-R Ian Watson (VP, Sales & Marketing, Sterling Asset Management), Pro Chancellor-Mico University College's Professor Neville Ying, Asburn Pinnock -President- Mico University College, the then Chief Education Officer in the Ministry of Education-Dr. Grace McLean (now Permanent Secretary in that ministry), Charles Ross (CEO, Sterling Asset Management) and other members of the Mico team at the signing of the Memorandum of Understanding between the Mico University College and Sterling Asset Management for the development of the Mathematics Enhancement Programme.

Sterling Asset Management's CEO, Charles Ross (L) and VP, Sales & Marketing Ian Watson (R) talk with Principal of The UWI Mona Campus Professor Dale Webber at the 21st General Meeting and 30th Anniversary Celebrations Conference of the Caribbean Academy of Sciences, sponsored by Sterling Asset Management.

Representatives from the Calabar Old Boys Association pose with, from L-R, Charles Ross (CEO, Sterling Asset Management) and Marva Chang (VP, Finance & Compliance, Sterling Asset Management), Howard James and David Miller (President, COBA).

Directors & Connected Parties

TOP TEN STOCKHOLDERS

For Sterling Investments Limited, As at December 31, 2018

Name	Number of shares	Percentage
ATL Group Pension Fund Trustees Nominee Limited	48,315,893	15.73%
Lloyd Badal	26,664,616	8.68%
GraceKennedy Pension Fund Custodian Ltd for GraceKennedy Pension Scheme	26,136,350	8.51%
Pam - Pooled Equity Fund	22,025,175	7.17%
Pam-Cable & Wireless Pension Real Estate Fund	14,492,015	4.72%
Satyanarayana Parvataneni	10,601,480	3.45%
National Insurance Fund	10,080,645	3.28%
Charles A. Ross	10,047,515	3.27%
Winnifred M. Mullings	8,292,420	2.70%
Everton Lloyd Mcdonald	7,998,950	2.60%

Directors & Connected Parties Report

For Sterling Investments Limited as at December 31, 2018

Directors	Shareholdings	Connected Parties
Derek Jones		
Maxim Rochester		
Michael Bernard		
Charles Ross	10,047,515	1,716,625

	Number of shares	% of total
Charles A. Ross	10,047,515	3.27%
Marian A. Ross	1,025,275	0.33%
Charles Andrew Ross	546,970	0.18%
Sterling Asset Management Limited	93,500	0.03%
Natalie A. Farrell-Ross	50,880	0.02%

Audited Financial Statements

December 31, 2018

KPMG
204 Johnsons Centre
No. 2 Bella Rosa Road
Gros Islet
Saint Lucia
Telephone (758) 453-2298
Email: ecinfo@kpmg.lc

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
STERLING INVESTMENTS LIMITED

Opinion

We have audited the financial statements of Sterling Investments Limited ("the Company") set out on pages 31 to 75, which comprise the statement of financial position as at December 31, 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Saint Lucia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG, a Barbados and Eastern Caribbean partnership, registered in Barbados, Antigua and Barbuda, Saint Lucia and St. Vincent and the Grenadines, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Shareholders of
STERLING INVESTMENTS LIMITED

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investment securities

Key audit matter	**How the matter was addressed in our audit**
Investment in an unquoted equity security, previously classified as available-for-sale securities and measured at cost, was reclassified as *equity investment securities at fair value through other comprehensive income (FVOCI)* and measured at fair value, on the adoption of IFRS 9, *Financial Instruments*. Management has determined the fair value of this investment using the net asset approach which involves the valuation of the underlying assets of a business, in the absence of a quoted price for the instrument on a trading market. The key areas requiring greater level of management's judgement and estimate is the expected cash flows to be generated by the underlying assets and the determination of the discount rate to be applied.	• We checked the reasonableness of the input data provided by management, to supporting evidence, such as approved budgets and considered the reasonableness of these budgets by comparing the rates used by management with rates available in the market.

KPMG

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Shareholders of
STERLING INVESTMENTS LIMITED

Key Audit Matters (continued)

Valuation of investment securities (continued)

Key audit matter	**How the matter was addressed in our audit**
	• We assessed the reasonableness of cash flows projection, challenged management's assumptions such as, the future growth and discount rates by comparing these to published market and industry data and other relevant information. We engaged our internal valuation specialist to review the valuation methodology and the reasonableness of the assumptions used including the discount rate. We obtained an understanding of the relevant activities of the business and assessed if there was any inconsistency in the assumptions used in the cash flows projection. • We tested the mathematical accuracy of the cash flows projection. • We assessed the adequacy and appropriateness of the Company's disclosures of its investment securities including the Company's fair value hierarchy policy against the requirements of IFRS 13, *Fair Value Measurement.*

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Shareholders of
STERLING INVESTMENTS LIMITED

Key Audit Matters (continued)

IFRS 9 Expected Credit Losses

Key audit matter	**How the matter was addressed in our audit**
IFRS 9, *Financial Instruments*, was implemented by the Company on January 1, 2018. The standard is new and complex and requires the Company to recognise expected credit losses ('ECL') on financial assets; the determination of which is highly subjective and requires management to make significant judgement and estimates. The key areas requiring greater level of judgement by management and therefore increased audit focus includes the identification of significant increase in credit risk ('SICR') and the application of forward-looking information. The identification of significant increase in credit risk is a key area of judgement as these criteria determine whether a 12 month or lifetime provision is recorded. IFRS 9 requires the Company to measure expected credit losses on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is used in determining the economic scenarios and management overlay.	We performed the following procedures: • Obtained an understanding of the model used by management for the calculation of expected credit losses. • Tested the completeness and accuracy of the data used in the model to the underlying accounting records on a sample basis. • Involved our financial risk modelling specialists to evaluate the appropriateness of the Company's impairment methodologies, including the SICR criteria used and independently assessed the assumptions for probability of default, loss given default and exposure at default. • Involved our financial risk modelling specialists to evaluate the appropriateness of the Company's methodology for determining management overlay • Assessed the adequacy of the disclosures of the key assumptions and judgements as well the details of the transition adjustment for compliance with the standard.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Shareholders of
STERLING INVESTMENTS LIMITED

Key Audit Matters (continued)

IFRS 9 Expected Credit Losses (continued)

Key audit matter	**How the matter was addressed in our audit**
We therefore determined that the impairment of investments has a high degree of estimation uncertainty. In addition, disclosure regarding the Company's application of IFRS 9 are key to understanding the change from IAS 39 as well as explaining the key judgements and material inputs to the IFRS 9 ECL results.	

Other information

Management is responsible for the other information. The other information comprises the information included in the Company's annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Shareholders of
STERLING INVESTMENTS LIMITED

Other information (continued)
When we read the Company's annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Board of Directors.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

KPMG

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Shareholders of
STERLING INVESTMENTS LIMITED

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Shareholders of
STERLING INVESTMENTS LIMITED

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Lisa Brathwaite.

KPMG

Chartered Accountants
Castries, Saint Lucia

February 27, 2019

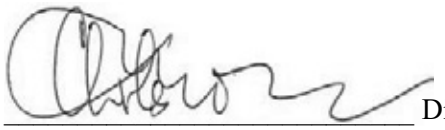
Statement of Financial Position

Year ended December 31, 2018

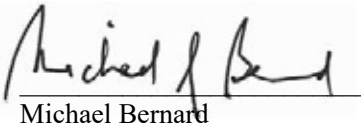
(Expressed in Jamaican Dollars)

	Notes	2018	2017
Assets			
Cash and cash equivalents	5	3,480,597	14,696,494
Accounts receivable	6	43,568,581	42,462,081
Income tax recoverable		92,707	-
Investment securities	7	1,161,747,542	1,110,936,549
Total assets		$1,208,889,427	1,168,095,124
Liabilities			
Margin loans payable	8	336,229,212	274,814,733
Other payables	9	9,612,829	6,687,475
Due to related company	10(c)(i)	17,497,550	19,855,271
Manager's preference shares	11	10,000	10,000
Income tax payable		-	208,351
Total liabilities		363,349,591	301,575,830
Equity			
Share capital	12(ii)	699,274,387	669,453,676
Prepaid share reserve	13	43,321	2,195,194
Fair value reserve	14	(57,387,192)	(30,491,694)
Retained earnings		203,609,320	225,362,118
Total equity		845,539,836	866,519,294
Total liabilities and equity		$1,208,889,427	1,168,095,124

The financial statements on pages 31 to 75 were approved for issue by the Board of Directors on February 27, 2019 and signed on its behalf by:



Director
Charles Ross



Director
Michael Bernard

The accompanying notes form an integral part of the financial statements.

Statement of Profit or Loss and Other Comprehensive Income

Year ended December 31, 2018

(Expressed in Jamaican Dollars)

	Notes	2018	2017
Revenue			
Interest income calculated using the effective interest method	15	82,200,785	79,081,255
Foreign exchange gain/(loss)		23,005,258	(26,241,648)
Net gain on sale of debt investment securities at FVOCI		2,602,419	-
Net gain on sale of available-for-sale debt investment securities		-	37,818,293
Net gain on sale of equity investment securities at FVTPL		2,637,457	-
		110,445,919	90,657,900
Expenses			
Interest		(10,993,501)	(7,642,960)
Impairment loss on financial instruments		(9,443,180)	(1,158,490)
Unrealised fair value loss on embedded derivative		-	(392,078)
Unrealised fair value loss on equity investments securities at FVTPL		(4,142,723)	1,318,999
Other operating expenses	16	(28,797,668)	(28,399,108)
		(53,377,072)	(36,273,637)
Operating profit		57,068,847	54,384,263
Other income		252,709	1,087
Manager's preference share interest expense		(3,049,900)	(1,899,545)
Profit before taxation		54,271,656	52,485,805
Taxation	17	(452,648)	(808,586)
Profit for the year		53,819,008	51,677,219
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Movements in fair value reserve			
Unrealised change in fair value of available-for-sale securities		-	42,634,271
Realised loss/(gain) on disposal of FVOCI debt investment securities (2017: available-for-sale securities) reclassified to profit or loss		4,660,724	(36,232,680)
Change in fair value (of FVOCI debt investment securities)		(80,192,905)	-
Total other comprehensive (loss)/income for the year		(75,532,181)	6,401,591
Total comprehensive (loss)/income for the year		$(21,713,173)	58,078,810
Earnings per stock unit			
Basic and diluted earnings per stock unit	18(a)	0.64¢	0.67¢

The accompanying notes form an integral part of the financial statements.

Statement of Changes in Equity

Year ended December 31, 2018

(Expressed in Jamaican Dollars)

	Share capital [note 12(ii)]	Prepaid share reserve (note 13)	Fair value reserve (note 14)	Retained earnings	Total
Balances at December 31, 2016	630,913,829	12,266,188	(36,893,285)	204,139,872	810,426,604
Comprehensive income:					
Profit for the year	-	-	-	51,677,219	51,677,219
Other comprehensive income:					
Fair value reserve					
Realised gains on disposal of available-for-sale securities reclassified to profit or loss	-	-	(36,232,680)	-	(36,232,680)
Unrealised net change in fair value of available-for-sale securities	-	-	42,634,271	-	42,634,271
Total other comprehensive income	-	-	6,401,591	-	6,401,591
Total comprehensive income	-	-	6,401,591	51,677,219	58,078,810
Transactions with owners:					
Shares issued during the year	38,539,847	-	-	-	38,539,847
Transfer of prepayment	-	(12,266,188)	-	-	(12,266,188)
Prepayments for share	-	2,195,194	-	-	2,195,194
Dividends (note 19)	-	-	-	(30,454,973)	(30,454,973)
	38,539,847	(10,070,994)	-	(30,454,973)	(1,986,120)
Balances 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 (note 3)	-	-	48,636,683	(48,636,683)	-
Restated balances as at January 1, 2018	669,453,676	2,195,194	18,144,989	176,725,435	866,519,294
Comprehensive income:					
Profit for the year	-	-	-	53,819,008	53,819,008
Other comprehensive loss:					
Fair value reserve					
Realised loss on disposal of FVOCI debt instrument securities reclassified to profit or loss	-	-	4,660,724	-	4,660,724
Change in fair value of FVOCI debt instrument securities at FVOCI, net	-	-	(80,192,905)	-	(80,192,905)
Total other comprehensive loss	-	-	(75,532,181)	-	(75,532,181)
Total comprehensive loss	-	-	(75,532,181)	53,819,008	(21,713,173)
Transactions with owners:					
Shares issued during the year	29,820,711	-	-	-	29,820,711
Transfer of prepayment of shares	-	(2,195,194)	-	-	(2,195,194)
Prepayments for share	-	43,321	-	-	43,321
Dividends (note 19)	-	-	-	(26,935,123)	(26,935,123)
	29,820,711	(2,151,873)	-	(26,935,123)	733,715
Balances at December 31, 2018	699,274,387	43,321	(57,387,192)	203,609,320	845,539,836

The accompanying notes form an integral part of the financial statements.

Statement of Cash Flows

Year ended December 31, 2018

(Expressed in Jamaican Dollars)

	Notes	2018	2017
Cash flows from operating activities			
Profit for the year		53,819,008	51,677,219
Adjustments for:			
Interest income		(82,200,785)	(79,081,255)
Interest expense		10,993,501	7,642,960
Impairment loss on investment securities		9,443,180	1,158,490
Unrealised loss on embedded derivative		-	392,078
Unrealised fair value loss on quoted equities at FVTPL		4,142,723	(1,318,999)
Taxation	17	452,648	808,586
Manager's preference share interest expense		3,049,900	1,899,545
		(299,825)	(16,821,376)
Changes in:			
Accounts receivable		(1,829,904)	(22,859)
Margin loans payable		61,414,479	143,006,631
Other payables		1,777,001	874,579
Due to related company		(2,357,721)	4,590,531
		58,704,030	131,627,506
Interest received		82,917,024	71,566,440
Interest paid		(10,993,501)	(7,642,960)
Tax paid		(748,543)	(581,966)
Net cash provided by operating activities		129,879,010	194,969,020
Cash flows from investing activity			
Investment securities, being net cash used by investing activity		(139,929,077)	(166,163,371)
Cash flows from financing activities			
Issue of ordinary shares, net		24,562,577	34,261,721
Complementary share purchase programme		(2,151,873)	(10,070,994)
Manager's preference shares interest paid		(1,899,545)	(13,278,611)
Dividends paid	19	(21,676,989)	(26,176,847)
Net cash used by financing activities		(1,165,830)	(15,264,731)
Increase in cash and cash equivalents		(11,215,897)	13,540,918
Cash and cash equivalents at beginning of year		14,696,494	1,155,576
Cash and cash equivalents at end of year	5	$ 3,480,597	14,696,494

The accompanying notes form an integral part of the financial statements.

Notes to the Financial Statements

Year ended December 31, 2018
(Expressed in Jamaican Dollars)

1. Identification

Sterling Investments Limited ("the Company") is incorporated in Saint Lucia under the International Business Companies Act. Its registered office is located at 20 Micoud Street, Castries, Saint Lucia. The principal activities of the Company are holding and trading of securities and other investments.

The Company's activities are administered by Sterling Asset Management Limited to which management fees are paid [note 10(c)(ii)].

2. Statement of compliance and basis of preparation

(a) Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

This is the first set of the Company's annual financial statements in which IFRS 9, *Financial Instruments* has been applied. Changes to significant accounting policies are described in note 3.

(b) Functional and presentation currency

The financial statements are presented in Jamaican dollars, which is the functional currency of the Company, unless otherwise stated.

(c) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make estimates, based on assumptions, and judgements. The estimates and judgements affect the reported amounts of, and disclosures relating to, assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income and expenses for the year then ended. Actual amounts could differ from those estimates.

The estimates, and the assumptions underlying them, are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements and estimates made by management in the application of IFRS that have a significant effect on these financial statements and/or have a significant risk of material adjustment in the next financial year are set out below:

(i) Judgements

For the purpose of these financial statements, which are prepared in accordance with IFRS, judgement refers to the informed identification and analysis of reasonable alternatives, considering all relevant facts and circumstances, and the well-reasoned, objective and unbiased choice of the alternative that is most consistent with the agreed principles set out in IFRS.

2. Statement of compliance and basis of preparation (continued)

(c) Use of estimates and judgements (continued)

(i) Judgements (continued)

Applicable to 2018 only

(1) Classification of financial assets:

The assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding requires management to make certain judgements on its business operations.

(2) Impairment of financial assets:

Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit loss (ECL) and selection and approval of models used to measure ECL requires significant judgement.

(ii) Key assumptions concerning the future and other sources of estimation uncertainty

Applicable to 2018 only

(1) Allowance for impairment losses

In determining amounts recorded for impairment of debt securities and other financial assets in the financial statements, management makes assumptions in determining the inputs to be used in the ECL measurement model, including incorporation of forward-looking information. Management also estimates the likely amount of cash flows recoverable on the financial assets in determining loss given default. The use of assumptions make uncertainty inherent in such estimates.

Applicable to 2018 and 2017

(2) Determination of fair values

The Company's accounting policies and disclosures require the measurement of fair values for financial assets. The determination of whether a security's fair value may be classified as 'Level 1' in the fair value hierarchy (note 21) requires judgement as to whether a market is active.

2. Statement of compliance and basis of preparation (continued)

(c) Use of estimates and judgements (continued)

(ii) Key assumptions concerning the future and other sources of estimation uncertainty

Applicable to 2018 and 2017 (continued)

(2) Determination of fair values (continued)

When one is available, the Company measures the fair value of an instrument using the quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques, as follows:

Level 1: quoted market prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs). The valuation techniques include the fair value of net asset and discounted cash flows model in addition to the weighted average cost capital and marketability discount factors for which an observable market exist. The objective of the valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the assets in an ordinary transaction between market participants at the measurement date.

In the absence of quoted market prices, the fair value of a significant proportion of the Company's assets was determined using Bloomberg. Considerable judgement is required in interpreting market data to arrive at estimates of fair values. Although management believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair values. Consequently, the estimates arrived at may be significantly different from the actual price of the instrument in an arm's length transaction.

2. Statement of compliance and basis of preparation (continued)

(d) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the inclusion of investments at fair value.

3. Changes in accounting policies

The Company initially applied IFRS 9 *Financial Instruments* from January 1, 2018. A number of other new standards are also effective from January 1, 2018 but they do not have a material effect on the Company's financial statements.

As permitted by the transition provisions of IFRS 9, comparative information throughout these financial statements has not been restated to reflect the requirements of the standard. The effect of initially applying the standard is mainly attributed to the following:

- An increase in impairment losses recognised on financial assets;
- Additional disclosures related to IFRS 9 [see notes 20(a)(i) and 20(a)(iv)].

Except for the changes below, the Company has consistently applied the accounting policies as set out in note 4 to all periods presented in these financial statements.

IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement* and sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. As a result of the adoption of IFRS 9, the Company has adopted consequential amendments to IAS 1, *Presentation of Financial Statements*, which require:

- Impairment of financial assets to be presented in a separate line in the statement of comprehensive income and;
- Separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method.

Additionally, the Company has adopted consequential amendments to IFRS 7, *Financial Instruments: Disclosures,* which are applied to disclosures about 2018 but have not been applied to the comparative information.

The key changes to the Company's accounting policies and the full impact resulting from its adoption of IFRS 9 are summarised below.

The impact, net of tax, of transition to IFRS 9 on the opening retained earnings is as follows:

Closing balance under IAS 39 (December 31, 2017)	225,362,118
Recognition of expected credit losses under IFRS 9 on investment securities	(48,636,683)
Opening balance under IFRS 9 (January 1, 2018)	$176,725,435

3. Changes in accounting policies (continued)

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and 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 flows.

The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. The new classification requirements have not had a material impact on its accounting for its debt and equity securities.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities as it largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

For an explanation on how the Company classifies and measures financial instruments and accounts for the related gains and losses under IFRS 9, see note [4(a)(ii)]. The following table and the accompanying notes explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at January 1, 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at January 1, 2018 relates solely to the new impairment requirements.

	Note	Original classification under IAS 39	New classification under IFRS 9	IAS 39 carrying amount at December 31, 2017	Remeasurement	IFRS 9 carrying amount at January 1, 2018
Financial assets						
Cash resources		Loans and receivables	Amortised cost	14,696,494	-	14,696,494
Accounts receivable		Loans and receivables	Amortised cost	42,462,081	-	42,462,081
Investment – Corporate bonds	3(i)(a)	Available-for-sale	Fair value through other comprehensive income	810,644,331	(44,340,043)	766,304,288
Investment – Municipal bonds	3(i)(a)	Available-for-sale	Fair value through other comprehensive income	234,303,200	(4,296,640)	230,006,560
Unquoted ordinary shares	3(i)(a)	Available-for-sale	Fair value through other comprehensive income	62,150,000	-	62,150,000
Quoted equities		Fair value through profit or loss	Fair value through profit or loss	3,839,018	-	3,839,018
				1,168,095,124	(48,636,683)	1,119,458,441

3. Changes in accounting policies (continued)

(i) Classification and measurement of financial assets and financial liabilities (continued)

(a) Investment securities were categorised under IAS 39 as available-for-sale and fair value through profit and loss. Securities acquired which are not quoted in an active market, were classified as available-for-sale. As permitted by IFRS 9, the Company has designated these investments at the date of initial application as measured at fair value through other comprehensive income (FVOCI). An increase of $48,636,683 in the allowance for impairment was recognised in the opening retained earnings at January 1, 2018 on transition to IFRS 9.

(b) Financial liabilities previous classified as other liabilities and measured at amortised cost are now classified as amortised cost under IFRS 9.

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments. Under IFRS 9, credit loss allowances are recognised earlier than under IAS 39. For an explanation of how the Company applies the impairment requirement of IFRS 9 see note 4(a)(vii).

(iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively. The Company has taken advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement as well as assets changes. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as a January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

4. Significant accounting policies

(a) Financial instruments – Classification, recognition and derecognition, measurement and impairment

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. In these financial statements, financial assets comprise cash and cash equivalents, accounts receivable, and investment securities. Financial liabilities comprise margin loans payable, other payables, due to related company and manager's preference shares.

(i) Recognition and initial measurement

Financial instruments are classified, recognised and measured in accordance with the substance of the terms of the contracts as set out herein.

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and derecognition, measurement and impairment (continued)

(i) Recognition and initial measurement (continued)

The Company recognises a financial instrument when it becomes a party to the contractual terms of the instrument. The Company initially recognises receivables and debt securities on the date when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL; transaction costs that are directly attributable to its acquisition or issue. A receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets- Policy applicable from January 1, 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income; FVOCI – debt investment; FVOCI – equity investment; or fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- 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 on the principal amount outstanding (SPPI).

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- 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 give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and derecognition, measurement and impairment (continued):

(ii) Classification and subsequent measurement (continued)

Financial assets- Policy applicable from January 1, 2018 (continued)

Business model assessments:

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities that are funding these assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Company's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity. However, the information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest:

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and derecognition, measurement and impairment (continued)

(ii) Classification and subsequent measurement (continued)

Financial assets- Policy applicable from January 1, 2018 (continued)

Assessment whether contractual cash flows are solely payments of principal and interest (continued):

The Company's objective is achieved by both collecting contractual cash flows and selling financial assets.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers the following:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- leverage features, that modify consideration of the time value of money such as periodic reset of interest rates;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual parmount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first reporting period following the change in business model.

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and derecognition, measurement and impairment (continued)

(ii) Classification and subsequent measurement (continued)

Policy applicable before January 1, 2018

Management determines the appropriate classification of investments at the time of purchase, taking account of the purpose for which the investments were purchased.

The Company classifies non-derivative financial assets into the following categories: Financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale financial assets. Management determines the appropriate classification of investments at the time of purchase, taking account of the purpose for which the investments were purchased.

Fair value through profit or loss: Securities that are held for trading (i.e. acquired to generate short-term profits or are part of a portfolio of financial assets managed together for that purpose) or are designated as 'at fair value through profit or loss' upon initial recognition.

Loans and receivables: Securities acquired and loans granted with fixed or determinable payments and which are not quoted in an active market, are classified as loans and receivables.

Held-to-maturity: Securities with fixed or determinable payments and fixed maturities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity.

Available-for-sale: Securities are classified as available-for-sale, because they are designated as such or are not classified in any of the other categories.

The Company classifies non-derivative financial liabilities into the other financial liabilities category.

(iii) Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or if it neither transfers nor retains all or substantially all the risks and rewards of ownership and does not retain control over the transferred financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Company derecognises a financial liability when its contractual obligations expire or are discharged or cancelled.

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and derecognition, measurement and impairment (continued)

Policy applicable before January 1, 2018

(iv) Offset

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has the legal right to offset the amounts and intends either to settle them on a net basis, or to realise the assets and settle the liabilities simultaneously.

(v) Measurement and gains and losses

Fair value through profit or loss: Financial assets which are held for trading or are designated as at fair value through profit or loss are measured at fair value. Changes in fair value are recognised in profit or loss.

Loans and receivables: On initial recognition they are measured at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest method, less impairment losses. Premiums and discounts are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Where securities classified as loans and receivables become quoted in an active market, such securities will not be reclassified as available-for-sale securities. An active market is one where quoted prices are readily and regularly available from an exchange dealer, broker or other agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Held-to-maturity: On initial recognition they are measured at fair value, plus any directly attributable transaction costs. Premiums and discounts are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest method, less impairment losses.

Any sale or reclassification of a significant amount of held-to-maturity investments that is not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Company from classifying investment securities as held-to-maturity for the financial year in which sale or reclassification occurs and the following two financial years.

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and derecognition, measurement and impairment (continued)

(v) Measurement and gains and losses (continued)

Policy applicable before January 1, 2018 (continued)

A*vailable-for-sale:* On initial recognition, they are measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value, with unrealised gains and losses arising from changes in fair value treated as follows:

- Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income.

- When securities classified as available-for-sale are sold or impaired, and therefore derecognised, the accumulated fair value adjustments accumulated in other comprehensive income are reclassified to profit or loss.

(vi) Embedded derivatives

Policy applicable from January 1, 2018

Derivative may be embedded in another contractual arrangement (a host contract). The Company accounts for an embedded derivative separately from the host contact when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risk of the embedded derivative are not closely related to the economic characteristics and risk of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with host contract.

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and derecognition, measurement and impairment (continued)

(vii) Identification and measurement of impairment

Policy applicable from January 1, 2018 (continued)

The Company recognises loss allowances for ECL on financial instruments that are not measured at FVTPL, in financial assets that are debt instruments. No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to 12-month ECL on the debt investment securities that are determined to have low credit risk at the reporting date and other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Company does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive) and;

- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows.

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and derecognition, measurement and impairment (continued)

(vii) Identification and measurement of impairment (continued)

Policy applicable from January 1, 2018 (continued)

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Company considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and derecognition, measurement and impairment (continued)

(vii) Identification and measurement of impairment (continued)

Policy applicable from January 1, 2018 (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows: *financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets

Debt instrument measured at FVOCI; no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is fair value. However, the loss allowances are disclosed and recognised in the fair value reserve.

Write off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

Policy applicable before January 1, 2018

At each reporting date, the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and derecognition, measurement and impairment (continued)

(vii) Identification and measurement of impairment (continued):

Policy applicable before January 1, 2018 (continued)

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised directly in other comprehensive income to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If in a subsequent period the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

The Company write off a debt investment security either partially or in full, and any related allowance for impairment when the Company determine that there is no realistic prospect of recovery.

(b) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term commitments (these investments include short-term deposits where the maturities do not exceed three months from the acquisition date). Cash and cash equivalents are measured at amortised cost and are subject to an insignificant risk of changes in their fair value.

4. Significant accounting policies (continued)

(c) Accounts receivable

Accounts receivable is measured at amortised cost, less impairment losses.

(d) Margin loans payable and other payables

Margin loans payable and other payables are measured at amortised cost.

(e) Interest

Policy applicable from January 1, 2018

(i) Interest income and expense are is recognised in profit or loss for using the effective interest method. The "effective interest rate" is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instruments to its gross carrying amount.

Effective interest rate

When calculating the effective interest rate for financial instruments other than purchased or originated credit impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition of a financial asset.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and interest expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

4. Significant accounting policies (continued)

(e) Interest (continued)

Policy applicable from January 1, 2018 (continued)

(i) (Continued)

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that have become credit-impaired on initial recognition, interest income is calculated by applying the credit adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to the gross basis even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income, includes interest on financial assets and financial liabilities measured at amortised cost, and interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss and other comprehensive income includes financial liabilities measured at amortised cost.

Policy applicable before January 1, 2018

Interest income and interest expense are recognised in profit or loss for all interest-earning instruments on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Interest income includes coupons earned on fixed income investments, accretion of discount on discounted instruments, and amortisation of premium on instruments bought at a premium.

(ii) Gain or loss on holding and trading securities

Gain or loss on securities trading is recognised when the Company becomes a party to a contract to dispose of the securities, or, in the case of financial assets measured at fair value, upon remeasurement of those assets.

(f) Foreign currencies

Foreign currency balances at the reporting date are translated at the foreign exchange rates ruling at that date. Transactions in foreign currencies are converted at the foreign exchange rates ruling at the dates of the transactions. Gains and losses arising from fluctuations in exchange rates are recognised in profit or loss.

4. Significant accounting policies (continued)

(g) Share capital

(i) Ordinary stock units

Incremental costs directly attributable to the issue of ordinary stock units are recognised as deduction from equity.

(ii) Preference shares

The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. In the case of its preference share capital, it is classified as:

- Equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary; in such a case, dividends thereon are recognised as equity distributions on approval by the Company's stockholders.

- Liability if it is redeemable on a specific date or at the option of the stockholders, or if dividends are not discretionary; in such a case, dividends thereon are recognised as interest in profit or loss as accrued.

The Company's preference shares bear contractual entitlements to dividends that are cumulative, and not at the discretion of the directors. Accordingly, they are presented as a financial liability.

(h) Income tax

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

(i) Current income tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted at the reporting date, and any adjustment to income tax payable in respect of previous years.

(ii) Deferred income tax

Deferred income tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on laws that have been enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

4. Significant accounting policies (continued)

(i) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses; whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assesses its performance; and for which discrete financial information is available.

The Company's activities are limited to revenue earned from investment securities, operating in a single segment, therefore no additional segment information is provided.

(j) New and amended standards and interpretations issued but not yet effective:

- IFRS 16, *Leases*, which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessees will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short-term leases and for low-value items with value of US$5,000 or less. Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases. Finance lease accounting will be based on IAS 17 lease accounting, with recognition of net investment in lease comprising lease receivable and residual asset. Operating lease accounting will be based on IAS 17 operating lease accounting.

  The Company is assessing the impact that the standard will have on its 2019 financial statements

- IFRIC 23, *Uncertainty Over Income Tax Treatments*, is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.

  An entity has to consider whether it is probable that the relevant tax authority would accept the tax treatment, or group of tax treatments, that is adopted in its income tax filing.

  If the entity concludes that it is probable that the tax authority will accept a particular tax treatment in the tax return, the entity will determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings and record the same amount in the financial statements. The entity will disclose uncertainty.

4. Significant accounting policies (continued)

(j) New and amended standards and interpretations issued but not yet effective (continued)

- IFRIC 23, *Uncertainty Over Income Tax Treatments*, (continued)

  If the entity concludes that it is not probable that a particular tax treatment will be accepted, the entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The decision should be based on which method provides better prediction of the resolution of the uncertainty.

  The Company is assessing the impact that the interpretation will have on its 2019 financial statements.

5. Cash and cash equivalents

	2018	2017
Cash	3,000	3,000
Demand deposit accounts	3,477,597	14,693,494
	$3,480,597	14,696,494

Demand deposit accounts includes $241 (2017: $218) [notes 12(iii)(a) and 13] received from stockholders as prepayments for the purchase of the Company's stock units.

6. Accounts receivable

	2018	2017
Interest receivable	41,473,425	42,189,662
Other	2,095,156	272,419
	$43,568,581	42,462,081

Accounts receivable is stated net of impairment provision of $Nil (2017: $Nil) and is due as follows:

	2018	2017
Due within twelve (12) months	23,909,190	23,281,058
No specific maturity [note 10(c)(i)]	19,659,391	19,181,023
	$43,568,581	42,462,081

7. Investment securities

	2018	2017
Available-for-sale securities		
(i) Corporate bonds US$Nil (2017: US$6,521,676)	-	810,644,331
(ii) Municipal bonds US$Nil (2017: US$1,884,981)	-	234,203,200
(iii) Unquoted preference shares US$Nil (2017: US$500,000)	-	62,150,000
Sub-total carried forward	-	1,106,997,531

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7. Investment securities (continued)

	2018	2017
Sub-total brought forward	-	1,106,997,531
Debt investment securities measured at FVOCI		
(i) Corporate bonds US$6,703,665 (2017: US$Nil)	854,033,577	-
(ii) Municipal bonds US$1,869,632 (2017: US$Nil)	238,191,164	-
Equity investment securities measured at FVOCI		
(iii) Unquoted ordinary shares US$500,000 (2017: US$Nil)	63,700,000	-
Investment securities designated as at fair value through profit or loss		
Quoted ordinary equities	5,822,801	3,839,018
	$1,161,747,542	1,110,936,549

(i) Corporate bonds earn interest at rates ranging from 6.5% to 12.75% per annum and mature over the period 2019 to 2166.

(ii) Municipal bonds earn interest at rates ranging from 6.05% to 7.625% per annum and mature over the period 2029 to 2035.

(iii) Unquoted preference shares which earned interest at 8% per annum up to February 16, 2018 were converted to ordinary shares on a one for one basis. The Company now holds 5.88% of ordinary shares in Sterling Development (SKN) Limited ("SDL"), a related party [note 10(c)(i)]. These shares previously classified as available-for-sale investments and carried at cost are now classified as equity investment securities measured at FVOCI on the adoption of IFRS 9.

The fair value of the investment in SDL's shares was determined using the net asset approach, which was based on the valuation of SDL's underlying assets using the discounted cash flows. The significant and unobservable inputs used in the valuation of the underlying assets include its expected net cash flows, the weighted average cost of capital ranging from 11% to 12% and marketability discount factor ranging from 25% to 30%. An increase in any of these variables will have a downward impact on the fair value on the unquoted ordinary shares, if all other factors are held constant.

(iv) The maturity profile of investments, in relation to the reporting date is shown at note 20(c)(i).

(v) Investment securities are used to collateralise margin loans with brokers (note 8).

8. Margin loans payable

These are margin loans due to overseas brokers of US$2,639,162 (2017: US$2,210,899). The loans bear interest at rates ranging from 2.75% to 4.30% per annum (2017: 2.50% to 3.30%), have no set repayment date and are collateralised by securities purchased from the brokers with the loan proceeds [note7(v)].

9. Other payables

	2018	2017
Manager's preference shares interest payable [note 10(c)(i)]	3,049,900	1,899,545
Other payables and accruals [note 12(iii)(a)]	6,562,929	4,787,930
	$9,612,829	6,687,475

Other payables are due to be settled within twelve (12) months of the reporting date.

10. Related party balances and transactions

(a) Definition of related party

A related party is a person or entity that is related to the Company.

(i) A person or a close member of that person's family is related to the Company if that person:

(1) has control or joint control over the Company;

(2) has significant influence over the Company; or

(3) is a member of the key management personnel of the Company or of a parent of the Company.

(ii) An entity is related to the Company if any of the following conditions applies:

(1) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.

(6) The entity is controlled, or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(8) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or the parent of the Company.

A related party transaction is a transfer of resources, services or obligations between the Company and a related party, regardless of whether a price is charged.

(b) Identity of related parties

The Company has related party relationships with its directors, investment manager and other entities under the common control of its investment manager.

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10. Related party balances and transactions (continued)

(c) Related party amounts

(i) The statement of financial position includes balances with related parties, arising in the ordinary course of business, as follows:

	2018 $	2017 $
Entity with common shareholders and directors		
Unquoted preference shares [note 7(iii)]	-	62,150,000
Unquoted ordinary shares[note 7(iii)]	63,700,000	-
Interest receivable [note 6]	19,659,391	19,181,023
Total	83,359,391	81,331,023
Investment manager		
Interest payable on Manager's preference shares [note 9]	(3,049,900)	(1,899,545)
Due to related company*	(17,497,550)	(19,855,271)
Directors		
Other payables	(611,520)	(596,640)

* The amount due to the Investment manager is unsecured, interest-free and is repayable within twelve (12) months from reporting date.

(ii) The statement of profit or loss and other comprehensive income includes income earned from, and expenses incurred in, transactions with related parties, in the ordinary course of business, as follows:

	2018 $	2017 $
Entity with common shareholders		
Investment manager		
Interest on Manager's preference shares (note 9)	(3,049,900)	(1,899,545)
Management fees (note 16)	(17,497,550)	(17,334,952)
Directors		
Directors' fees (note 16)	(3,118,848)	(2,151,660)

11. Manager's preference shares

(a) This represents 10,000 manager's cumulative preference shares (see note 12). The terms and conditions of these shares include the following:

(i) The block of manager's cumulative preference shares, at all times, regardless of the number of ordinary stock units issued and held, enjoy voting control to the extent of 51% of such votes as may be cast by stockholders of the Company with respect to any and all decisions by such stockholders;

(ii) The manager's cumulative preference shares rank *pari passu* as between and among themselves;

11. Manager's preference shares (continued)

(a) (Continued)

(iii) The manager's cumulative preference shares are entitled to a cumulative annual preference dividend of twenty five per cent (25%) of the Company's return on equity earned in excess of the hurdle rate (computed in accordance with the formula set out in the terms and conditions of issue) applied to the United States dollar value of the Company's profit and equity. The return on equity is calculated as the profit for the year of the Company divided by the value of the Company's average equity as at the end of the financial year, expressed in United States dollars and substantiated by the audited financial statements;

(iv) Apart from the right to the cumulative annual preference dividend, the manager's cumulative preference shares have no economic rights or entitlements save for the right in a winding up to the repayment of the capital paid thereon on a *pari passu* basis with the capital paid on the ordinary stock units; and

(v) In the event that an entity which is (or becomes) the investment manager subsequently ceases to be the investment manager in accordance with the relevant provisions of the Company's Articles of Association, each of the manager's cumulative preference shares held by that entity shall thereupon automatically be converted into a fully paid ordinary stock units in the Company.

(b) The dividend payment is recorded as interest on manager's preference shares in the statement of profit or loss and other comprehensive income.

12. Share capital

	Number of units	
	2018	2017
(i) Authorised:		
Ordinary stock units of no par value	2,000,000,000	150,000,000
Manager's cumulative preference shares of no par value	10,000	10,000
	2,000,010,000	150,010,000

A resolution was passed on October 8, 2018 to increase the authorised share capital from 150,000,000 to 2,000,000,000 stock units.

(ii) Issued and fully paid:

	Number of units		Total	
	2018	2017	2018	2017
Ordinary stock units				
Balance at beginning of year	58,834,167	56,101,917	669,453,676	630,913,829
Issued during the year:				
Dividend Reinvestment Programme [note 12(iii)(a)]	469,690	302,375	5,258,134	4,278,126
Complementary Share Purchase Programme [note 12(iii)(b)]	2,122,471	2,429,875	24,785,673	34,354,583
Stock split [note 12(iv)]	245,705,312	-	-	-
Less transaction costs	-	-	(223,096)	(92,862)
Net proceeds from issuance	248,297,473	2,732,250	29,820,711	38,539,847

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12. Share capital (continued)

(ii) Issued and fully paid (continued):

	Number of units		Total	
	2018	2017	2018	2017
Balance at end of year	307,131,640	58,834,167	699,274,387	669,453,676
Manager's cumulative preference shares	10,000	10,000	10,000	10,000
	307,141,640	58,844,167	699,284,387	669,463,676
Less: Manager's preference shares reclassified to liability (note 11)	10,000	10,000	10,000	10,000
	307,131,640	58,834,167	$699,274,387	669,453,676

(iii) Dividend Reinvestment and Complementary Share Purchase Programme

The Company operates two (2) share incentive programmes as follows:

(a) Dividend Reinvestment Programme

Under the Dividend Reinvestment Programme (DRIP), the stockholders of the Company may elect to reinvest their dividend in new ordinary stock units, rounded down to the nearest stock unit at the closing price applicable on the record date and without incurring fees. Residual unallocated dividends as at December 31, 2018 amounted to $241 (2017: $218) (note 5) and are included in other payables and accruals (see note 9).

During the year, 469,690 (2017: 302,375) stock units were issued to the stockholders.

(b) Complementary Share Purchase Programme

Under the Complementary Share Purchase Programme (CSPP), the stockholders of the Company may purchase new ordinary stock units at the closing price applicable for the last day of the relevant quarter and without incurring fees.

Funds received are recorded as prepaid share reserve (note 13) and transferred to share capital when the stocks are issued.

During the year, 2,122,471 (2017: 2,429,875) stock units were issued to the stockholders.

(iv) Stock split

A resolution was passed on October 8, 2018, at an Extraordinary General Meeting to conduct a 5:1 stock split for each issued stock unit. The stocks were issued on November 27, 2018. The issued stock resulted in an increase in units to 307,131,640.

13. Prepaid share reserve

This represents funds received from stockholders during the last quarter of the financial year to purchase Company's stock units under the CSPP [note 12(iii)(b)]. 17,002 stock units were issued on February 11, 2019 subsequent to the reporting date at a stock unit price of US$0.02.

14. Fair value reserve

The cumulative net change in the fair value of debt securities measured at FVOCI (2017: available-for-sale financial asset) until assets are derecognised or reclassified. This amount is increased by the amount of loss allowance.

15. Revenue

This represents income earned from holding and trading investment securities.

16. Other operating expenses

	2018	2017
Management fees [note 10(c)(ii)]	17,497,550	17,334,952
Auditors' remuneration	3,500,842	3,422,717
Directors' fees [note 10(c)(ii)]	3,118,848	2,151,660
Travel	1,208,432	1,779,657
Public relations	415,449	1,361,531
Stock exchange listing	1,200,000	1,048,927
Professional fees	431,719	339,299
Other	1,424,828	960,365
	$28,797,668	28,399,108

17. Taxation

The Company elected to be charged at the rate of 1% (2017: 1%) as allowed under the International Business Companies Act. However, the effective tax rate is 0.83% (2017: 1.54%).

	2018	2017
Profit before taxation	$54,271,656	52,485,805
Computed "expected" tax charge at 1% (2017: 1%)	542,717	524,858
Tax effect of differences between profit for financial statements and tax reporting purposes:		
Unrealised foreign exchange (loss)/gain	(230,053)	262,417
Unrealised loss on embedded derivative	41,427	3,921
Impairment loss on available-for-sale securities	-	11,585
Impairment loss on debt investment securities	94,432	-
Manager's preference share interest expense	30,499	18,995
Unrealised gains on equity investments securities designated at fair value	(26,374)	(13,190)
Current tax charge, being total taxation charge	$ 452,648	808,586

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18. Earnings per stock unit

(a) Basic earnings per stock unit

Basic earnings per stock unit is calculated by dividing the profit attributable to stockholders by the weighted average number of ordinary stock units in issue during the year.

	2018	2017
Profit attributable to ordinary stockholders	$53,819,008	51,677,219
Weighted average number of ordinary stock units in issue	83,759,951	77,466,142
Basic earnings per stock unit	$ 0.64	0.67

(b) Diluted earnings per stock unit

Diluted earnings per stock unit is calculated by dividing the profit attributable to ordinary stockholders by the weighted average number of ordinary stock units outstanding after adjustment for the effects of all dilutive potential ordinary stock units. The effect of conversion of convertible preference shares, the only potential ordinary stock units, is excluded from the computation as it is antidilutive; thus, the diluted earnings per stock unit is equal to the basic earnings per stock unit of $0.64 (2017: $0.67).

19. Dividends

	2018	2017
Distribution to ordinary stockholders at $0.4474 (2017: $0.5253) per stock unit	$26,935,123	30,454,973

During the year certain stockholders elected to reinvest their dividends earned of $5,258,134 (2017: $4,278,126) [note 12(iii)(a)].

20. Financial risk management

The Company has exposure to credit, liquidity and market risks from its use of financial instruments. The Company's affairs are administered by the Investment Manager, a related company, which, together with the Board of Directors, has overall responsibility for the establishment and oversight of the Company's risk management framework. The risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered.

20. Financial risk management (continued)

(a) Credit risk

Credit risk is the risk of financial loss to the Company that one party to a financial instrument will fail to discharge its contractual obligations, and arises principally from the Company's investment securities. The Board of Directors is responsible for oversight of the Company's credit risk, including formulating policies, establishing the authorisation structure for the approval of credit facilities, reviewing and assessing credit risk, and limiting concentration of exposure to counterparties. Additionally, the Investment Manager reports to the Board of Directors on a regular basis about credit quality, and the appropriate action is taken.

The Board of Directors is responsible for oversight of the Company's credit risk, including formulating policies, establishing the authorisation structure for the approval of credit facilities, reviewing and assessing credit risk, and limiting concentration of exposure to counterparties. Additionally, the Investment Manager reports to the Board of Directors on a regular basis about credit quality, and the appropriate action is taken.

(i) Investments in debt securities:

The Company manages the exposure to credit risk in the following way:

It maintains cash and cash equivalents with major financial institutions which management regards as strong. These financial institutions are continually reviewed by the Investment Manager. Investments are held substantially in United States of America Government Agency and corporate securities.

Total credit exposure is the total of receivables and investment securities recognised in the statement of financial position, as there are no other credit exposures.

Credit quality

The Company identifies changes in credit risk by tracking published external credit ratings. To determine whether published ratings remain up to date and to assess whether there has been a significant increase in credit risk at the reporting date that has not been reflected in published ratings, the Company supplements this by reviewing changes in bond yields together with available press and regulatory information on issuers.

Twelve (12)-month and lifetime probabilities of default are based on historical data supplied by each credit rating and are recalibrated based on current bond yields. Loss given default (LGD) parameters generally reflect an assumed recovery rate of percent except when the security is credit-impaired, in which case the estimate of loss based on the instrument's current market price and original effective interest rate.

20. Financial risk management (continued)

(a) Credit risk (continued)

(i) Investments in debt securities (continued):

Credit quality (continued)

The following table sets out the credit quality of debt investment securities based on Standard and Poor's and Moody's ratings as follows:

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	
Debt investment securities at FVOCI (2017: available-for-sale)					
A-	-	-	-	-	64,228,296
BBB+	283,665,910	-	-	283,665,910	179,544,514
BBB-	451,836,364	-	-	451,836,364	265,637,428
BB+	246,419,500	-	-	246,419,500	69,628,510
B	86,879,156	-	-	86,879,156	436,924,695
CC	-	12,383,327	-	12,383,327	28,884,088
D	-	-	11,040,484	11,040,484	-
Total gross carrying amount	$1,068,800,930	12,383,327	11,040,484	1,092,224,741	1,044,847,531
Loss allowance	$(4,507,315)	(2,349,402)	(51,223,146)	(58,079,863)	(48,636,683)

(ii) Cash resources

Cash resources are held with reputable banks and other financial institutions counterparties.

Applicable before January 1, 2018

Impairment has been measured at 12-month expected credit loss and reflects the short maturities of the exposures. The Company considered that cash resources have low credit risk. No impairment allowances was recognised on initial adoption of IFRS 9 and there was no change during the period.

Concentration of credit risk

The Company monitors concentration of credit risk by issuer and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

	2018	2017
Issuer:		
Corporate – unrelated parties	871,967,338	829,193,649
Corporate – related party [note 10(c)(i)]	19,659,391	19,181,023
Municipals	242,078,601	238,762,521
Banks	3,480,597	14,696,494
Total financial assets	$1,137,185,927	1,101,833,687

20. Financial risk management (continued)

(a) Credit risk (continued)

(ii) Cash resources (continued)

Applicable before January 1, 2018 (continued)

Concentration of credit risk (continued)

	2018	2017
Location:		
Europe	359,513,693	160,541,294
North America	445,951,795	472,452,233
Caribbean	63,394,600	154,566,581
South America	242,969,685	288,259,995
Other	26,065,615	26,013,584
Total financial assets	$1,137,895,388	1,101,833,687

(iii) Settlement risk

The Company's activities may give rise to settlement risk at the time of settlement of trades and other transactions. Settlement risk is the risk of loss due to the failure of a party to honour its obligation to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Company mitigates this risk by conducting settlements through its broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

(iv) Impairment

Applicable before January 1, 2018

Credit quality is measured primarily by the extent of breaches of contractual terms of debt securities.

- Impaired securities

  Impaired securities are securities for which the Company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the securities.

- Past due but not impaired securities

  These are securities where contractual interest or principal payments are past due but the Company believes that impairment is not appropriate on the basis of the level of security or collateral available or the stage of collection of amounts owed to the Company.

20. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Impairment (continued)

Inputs, assumptions and techniques used for estimating impairment.

See accounting policy at note 4(a)(vi).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and third party policies including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Company uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- the 30 day past due backstop indicator

Credit risk grades

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data:

- Data from credit reference agencies, press articles, changes in external credit ratings.
- External data from credit reference agencies, including industry-standard credit scores.
- Existing and forecast changes in business, financial and economic conditions.

20. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Impairment (continued)

Determining whether credit risk has been increased significantly

The Company assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

Credit risk is deemed to increase significantly where the credit rating of a security decreased from grade A- to grade BBB.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist.

In these cases, the Company determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Company;
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

20. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Impairment (continued)

Definition of default (continued))

In assessing whether a borrower is in default, the Company considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Company; and
- based on data obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Company incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

For 2018, forward-looking information was incorporated in the ECL computation by use of a management overlay. Based on the economic factors a proxy of 1.1 times ECL was determined to be appropriate.

The economic scenarios used as at December 31, 2018 assumed no significant changes in key indicators within the next year.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying lifetime PD by LGD and EAD. They are calculated on a discounted cash flow basis using the effective interest rate.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are based on published reports of the major rating agencies: Moody's and Standard & Poor's.

20. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Impairment (continued)

Measurement of ECL (continued)

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Company considers a longer period.

Loss allowance

The loss allowance recognised is analysed as follow:

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	
Debt investment securities:					
Balance at January 1, 2018 (IAS 39)	-	-	-	-	-
Remeasurement on January 1, 2018 (IFRS 9)	4,296,640	-	44,340,043	48,636,683	48,636,683
Net re-measurement of loss allowance	210,675	2,349,402	6,883,103	9,443,180	-
Balance at December 31, 2018	$4,507,315	2,349,402	51,223,146	58,079,863	48,636,683

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and ensuring the availability of funding through an adequate amount of committed facilities.

Management of liquidity risk

Due to the dynamic nature of the underlying business, the Company manages this risk by monitoring its cash needs and obtaining liquidity support from custodian brokers and related companies.

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20. Financial risk management (continued)

(b) Liquidity risk (continued)

Management of liquidity risk (continued)

The Company's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and abnormal conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The daily liquidity position is monitored and regular liquidity testing is conducted under a variety of scenarios covering both normal and more severe market conditions. The Company maintains the daily balances from the bank and broker accounts in order to ensure that sufficient funds are available to meet the liability demands.

The following table presents the undiscounted cash flows payable (both interest and principal cash flows) based on contractual repayment obligations:

	2018				
	Within 3 months	3 to 12 months	No specific maturity	Gross outflow	Carrying value
Margin loans payable	337,235,086	-	-	337,235,086	336,229,212
Other payables	9,612,829	-	-	9,612,829	9,612,829
Due to related company	-	17,497,550	-	17,497,550	17,497,550
Manager's preference shares	-	-	10,000	10,000	10,000
	$346,847,915	17,497,550	10,000	364,355,465	363,349,591

	2017				
	Within 3 months	3 to 12 months	No specific maturity	Gross outflow	Carrying value
Margin loans payable	275,517,663	-	-	275,517,663	274,814,733
Other payables	6,687,475	-	-	6,687,475	6,687,475
Due to related company	-	19,855,271	-	19,855,271	19,855,271
Manager's preference shares	-	-	10,000	10,000	10,000
	$282,205,138	19,855,271	10,000	302,070,409	301,367,479

There has been no change in the Company's exposure to liquidity risk or the manner in which it measures and manages risk.

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the returns for the given level of risk accepted.

20. Financial risk management (continued)

(c) Market risk (continued)

The market risks relevant to the Company and the manner in which it measures and manages them are as follows:

(i) Interest rate risk

The following table summarises the carrying amounts of financial assets and financial liabilities to arrive at the Company's interest rate sensitivity gap, based on the earlier of contractual repricing and maturity dates:

	2018					
	Within 1 year	1 - 5 year	Over 5 year	No specific maturity	Non-rate sensitive	Total
Financial assets						
Cash and cash equivalents	3,480,597	-	-	-	-	3,480,597
Accounts receivable	-	-	-	-	43,568,581	43,568,581
Investment securities	57,117,242	80,410,803	954,696,696	69,522,801	-	1,161,747,542
	60,597,839	80,410,803	954,696,696	69,522,801	43,568,581	1,208,796,720
Financial liabilities						
Margin loans payable	336,229,212	-	-	-	-	336,229,212
Other payables	-	-	-	-	9,612,829	9,612,829
Due to related company	-	-	-	-	17,497,550	17,497,550
Manager's preference shares	-	-	-	10,000	-	10,000
	336,229,212	-	-	10,000	27,110,379	363,349,591
Total interest rate sensitivity gap	(275,631,373)	80,410,803	954,696,696	69,512,801	16,458,202	845,447,129
Cumulative gap	$(275,631,373)	(195,220,570)	759,476,126	828,988,927	845,447,129	

	2017					
	Within 1 year	1 - 5 year	Over 5 year	No specific maturity	Non-rate sensitive	Total
Financial assets						
Cash and cash equivalents	14,696,494	-	-	-	-	14,696,494
Accounts receivable	-	-	-	-	42,462,081	42,462,081
Investment securities	-	287,686,819	757,260,712	65,989,018	-	1,110,936,549
	14,696,494	287,686,819	757,260,712	65,989,018	42,462,081	1,168,095,124
Financial liabilities						
Margin loans payable	274,814,733	-	-	-	-	274,814,733
Other payables	-	-	-	-	6,687,475	6,687,475
Due to related company	-	-	-	-	19,855,271	19,855,271
Manager's preference shares	-	-	-	10,000	-	10,000
	274,814,733	-	-	10,000	26,542,746	301,367,479
Total interest rate sensitivity gap	(260,118,239)	287,686,819	757,260,712	65,979,018	15,919,335	866,727,645
Cumulative gap	$(260,118,239)	27,568,580	784,829,292	850,808,310	866,727,645	

20. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

Profile

At year-end, the interest rate profile of the Company's interest-earning financial instruments, which are contracted as follows:

	2018	2017
Fixed interest rates		
Financial assets		
Corporate bonds	854,033,577	810,644,331
Municipal bonds	238,191,164	234,303,200
Unquoted ordinary shares	63,700,000	-
Unquoted preference shares	-	62,150,000
	1,155,924,741	1,107,097,531
Financial liability		
Margin loans payable	311,859,497	243,734,457
	$ 844,065,244	863,363,074
Variable interest rates		
Financial liability		
Margin loans payable	$ 24,369,715	31,080,276

Cash flow sensitivity analysis for variable rate instruments

The following table indicates the sensitivity to interest rate movements at the reporting date, in terms of the effect on the Company's profit and stockholders' equity of a reasonably probable change in interest rates at the reporting date. The analysis assumes that all other variables, in particular, foreign currency rates, remain constant.

	2018		2017	
	Effect on profit $	Effect on equity $	Effect on profit $	Effect on equity $
Change in basis points:				
-100bps (2017: -100bps)	243,697	97,021,210	310,803	73,667,055
+100bps (2017: +100bps)	(243,697)	(83,437,686)	(310,803)	(84,741,881)

(ii) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk on transactions that it undertakes, or balances denominated, in foreign currencies.

20. Financial risk management (continued)

(c) Market risk (continued)

(ii) Foreign currency risk (continued)

The main foreign currencies giving rise to this risk is the United States dollar (US$). The Company ensures that the risk is kept to an acceptable level by monitoring its foreign currency exposure and, when necessary, adjusting its foreign currency positions in response to fluctuations in exchange rates.

At the reporting date, exposure to foreign currency risk was as follows:

	2018	2017
Assets:		
Cash and cash equivalents	26,558	100,917
Accounts receivable	348,280	341,610
Investment securities	9,093,774	8,906,658
	9,468,612	9,349,185
Liabilities:		
Margin loans payable	2,639,162	2,210,899
Other payables	50,931	38,514
	2,690,093	2,249,413
Net foreign currency assets	US$6,778,519	7,099,772

The foreign exchange rates as at the reporting date was as follows: US$1: J$127.4 (2017: US$1: J$124.30).

Sensitivity to foreign exchange rate movements

This sensitivity is computed by simulating the effect on profit and equity of a different but reasonably probable rate at the reporting date.

A weakening or strengthening of the Jamaica dollar against the United States dollar at the reporting date would, respectively, increase or decrease profit by the amounts shown in the table below. The analysis assumes that all other variables, in particular, interest rates, remain constant.

		2018	
	% Change in Currency rate	Effect on profit $'000	Effect on equity $'000
Currency:			
USD	2% Revaluation	(17,272)	(17,272)
USD	4% Devaluation	34,544	34,544

20. Financial risk management (continued)

(c) Market risk (continued)

(ii) Foreign currency risk (continued)

Sensitivity to foreign exchange rate movements (continued)

		2017	
	% Change in Currency rate	Effect on profit $'000	Effect on equity $'000
Currency:			
USD	2% Revaluation	(17,646)	(17,646)
USD	4% Devaluation	35,292	35,292

There has been no change in the Company's exposure to market risk or the manner in which it measures and manages risk.

21. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date.

The Company's accounting policies and disclosures require the measurement of fair values for financial assets and liabilities.

The techniques used to estimate fair values, together with the input used, are described below. The use of assumptions and estimates means that the estimates arrived at may vary significantly from the actual price of the instrument in an arm's length transaction.

Basis of valuation

Financial instrument	Method of estimating fair value
(i) Municipal and corporate bonds	Estimated using bid-prices published by major overseas brokers/dealers or reputable pricing services such as Bloomberg.
(ii) Unquoted ordinary and preference shares	Estimated on the basis of the price of a new issue of identical shares (at par) close to reporting date.
(iii) Unquoted shares	Discounted cash flows using an appropriate risk-adjusted discount rate.

21. Fair value of financial instruments (continued)

The fair values of financial assets and financial liabilities, together with the carrying amounts and their classifications shown in the statement of financial position, are as follows:

	2018								
	Carrying amount					Fair value			
	Amortised cost	Fair value Through other comprehensive income	Fair value through profit or loss	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
	$	$	$	$	$	$	$	$	$
Financial assets measured at fair value									
Corporate bonds	-	854,033,577	-	-	854,033,577	-	854,033,577	-	854,033,577
Municipal bonds	-	238,191,164	-	-	238,191,164	-	238,191,164	-	238,191,164
Quoted ordinary shares	-	5,822,801	-	-	5,822,801	5,822,801	-	-	5,822,801
Unquoted ordinary shares	-	63,700,000	-	-	-	-	-	63,700,000	63,700,000
	-	1,161,747,542	-	-	1,161,747,542	5,822,801	1,092,224,741	63,700,000	1,161,747,542

	2017								
	Carrying amount					Fair value			
	Loan and receivables	Available -for-sale	Fair value through profit or loss	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
	$	$	$	$	$	$	$	$	$
Financial assets measured at fair value									
Corporate bonds	-	810,644,331	-	-	810,644,331	-	810,644,331	-	810,644,331
Municipal bonds	-	234,303,200	-	-	234,303,200	-	234,303,200	-	234,303,200
Quoted ordinary shares	-	-	3,839,018	-	3,839,018	3,839,018	-	-	3,839,018
	-	1,044,947,531	3,839,018	-	1,048,786,549	3,839,018	1,044,947,531	-	1,048,786,549

Unobservable inputs used in measuring fair value of unquoted ordinary shares are disclosed in note 7(iii).

The Company has not disclosed the fair values of financial instruments such as cash and cash equivalents, accounts receivable, margin loans payable, other payables, due to related company and manager's preference shares, because their carrying amounts are a reasonable approximation of fair values.

No items were transferred from one level to another.

NOTES

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