



STERLING INVESTMENTS LIMITED

Management Discussion & Analysis

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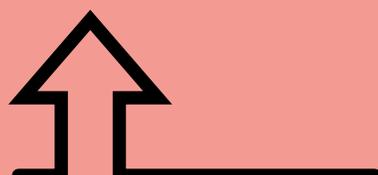
Economic Highlights

For the 6 months ended June 30, 2022



-15%

The **S&P 500** has declined by 15%



225

basis points of interest rate hikes by the **U.S Federal Reserve**



9.1%

YOY Increase in the **U.S Consumer Price Index**



\$543.3
million USD

1st half 2022; BOJ US\$ SALES
vs. US\$415 million in 2021

SIL thrives in times of crisis and is cautiously and patiently assessing the market for accretive investment opportunities.

Markets are behaving as **expected** and in line with SIL Management's **predictions**.

Economic Highlights:

High Inflation, Rising Interest Rates, Recession fears driving prices lower.

International: The prices of most global asset classes recorded declines in the first 6 months of 2022. Year to date in 2022, the S&P 500 has declined by 15%, the Dow by 10.5% and the European Stoxx 600 by 10.4%. Russia's war in Ukraine, rising inflation and 225 basis points of interest rate hikes by the U.S Federal Reserve helped to drive this performance. Central Banks across the world started increasing interest rates in response to higher inflation. The U.S Consumer Price Index increased by 9.1% between June 2021 and June 2022. As inflation rose, yields on sovereign debt followed. The yield on the 10-year US Treasury increased 150 bps from 1.51% in December 2021 to 3.01% in June 2022 while the 30-year yield rose 129 bps from 1.9% in December 2021 to 3.19% in June 2022. Perhaps most significant was the increase in yields on short-dated Treasuries- the 2-year US Treasury rose from a yield of 0.73% as at December 31, 2021 to a yield of 2.96% as at June 30, 2022. Oil prices continued to rise in 2022. WTI rose by 32.5% and Brent rose by 41.3% in the first half of 2022. The US dollar appreciated against most other currencies, one of the few exceptions being the Jamaican dollar.

Local: Local interest rates have risen significantly. During July, BOJ Treasury Bills yielded between 7.4% and 7.9% for 30 day to 180 day tenors respectively (up from 4.1% to 4.3% as at December 31, 2021). The BOJ has increased its benchmark rate by 300 Bps in 2022 to 5.5% in response to rising inflation. Point to Point Inflation in June 2022 was 10.9% and the Central Bank anticipates that inflation will continue to exceed its range of 4%- 6% over the next 8-10 months. The JMD/USD exchange rate as at June 30, 2022 was J\$150.71/US\$, down 2.8% from the December 31, 2021 rate of J\$155.09. This is attributable to the US\$543.3 million sold into the local foreign exchange market by the Bank of Jamaica. (Already eclipsing the US\$415 million sold during all of 2021). The Jamaica Stock Exchange Main index declined by 2.5% in the first 6 months of 2022. The JSE still has not recouped it's 2020 losses. In 2020 the JSE declined by 22.4% and in 2021 it rose by 0.1%.

OUTLOOK: Markets are behaving as expected and in line with Management's predictions. We anticipate that interest rates will continue to rise, and the probability of a recession has increased significantly. This will present opportunities to purchase undervalued securities at attractive valuations for shareholders. SIL thrives in times of crisis and is cautiously and patiently assessing the market for accretive investment opportunities.

FINANCIAL OVERVIEW

Highlights:

Management's predictions proved to be correct

US\$ investment portfolio consistently generating steady income

Declining asset prices worldwide are providing good buying opportunities for Sterling Investments Limited.

JMD/USD appreciation driving short term foreign exchange losses. are unlikely to persist in the medium term

In sync with management's outlook at the last two quarterly reports, asset prices are lower and interest rates are higher. In the first quarter 2022 report, Management had stressed that it anticipated a significant increase in interest rates and a decline in the market prices of financial assets. This prediction has manifested itself. While these events have had a broadly negative impact on the company's CURRENT performance, it provides a wealth of buying opportunities for SIL and is likely to create value in the medium term.

Income Statement

Second Quarter of 2022 (April 1 – June 30, 2022)

Net Interest income for the second quarter of the 2022 financial year, totalled J\$33 million, roughly 3% higher than the net interest income generated in the second quarter of 2021. The appreciation in the Jamaican dollar resulted in foreign exchange losses of J\$24.6 million compared to gains of J\$49 million in the second quarter of 2021. The appreciation in the currency can be attributed to the sale of over US\$543.3 million by the Central Bank into the local foreign exchange market during the quarter. This volume of BOJ intervention is unlikely to persist in the long-term. The unrealized foreign exchange losses in combination with a decline in prices on structured note investments, led to a second quarter loss of J\$29.0 million. The loss is unrealized and primarily driven by exogenous, one-off factors. Management maintains that shareholders will benefit in the medium and long term from the high-quality US\$ assets in the portfolio and the steady stream of US\$ dividend income it produces.

First Half of 2022 (January – June 30, 2022)

Net Interest income increased 8% to J\$69.1 million in the first half of 2022, reflecting continued growth in the income earning capacity of the company. Total operating expenses declined by 6% year on year from J\$24.6 million for the first half of 2021 to J\$23.2 million for the first half of 2022. Unrealized foreign exchange losses totalled J\$32.6 million over the period, compared to gains of J\$77.7 million for the first 6 months of 2021. This was the direct result of an appreciation in the Jamaican dollar against the US dollar. The combined effect of these movements was net profit of J\$7.1 million for the first 6 months of 2022.

The company retains access to affordable funding to permit it to take advantage of market opportunities as they arise.

Balance Sheet

Market prices of stocks and bonds across the globe declined in the first half of 2022. Similarly, SIL's total asset base declined to J\$1.8 billion as at June 30, 2022 (from J\$2.23 billion as at June 30, 2021). This reflected the broad based, systemic downward market movements occurring in the global capital markets. The decline has presented a wide array of attractive buying opportunities for the company. However, management is patiently assessing the macro-economic data, credit spreads and liquidity conditions, to appropriately deploy its capital. The company retains access to affordable funding to permit it to take advantage of market opportunities as they arise. Total liabilities declined by 17% to J\$536 million as at June 30, 2022, largely the result of a 19% decline in margin loans to J\$498 million. Total equity also declined to J\$1.3 billion, also a result of the lower market prices for the assets in the investment portfolio.



Sterling Investments Limited
Balance Sheet
as at June 30, 2022

	Unaudited 6 months ended Jun-22	Unaudited 6 months ended Jun-21	Audited 12 months ended Dec-21
ASSETS			
Cash & Cash Equivalents	24,821,243	2,154,545	1,391,627
Accounts Receivable	37,465,123	35,990,246	35,849,924
Income Tax Recoverable	125,628	125,628	-
Investment Securities	1,740,365,139	2,192,364,144	2,240,316,407
TOTAL ASSETS	1,802,777,133	2,230,634,563	2,277,557,958
LIABILITIES			
Margin Loan Payables	497,811,741	617,006,163	637,986,196
Other Payables	32,489,146	11,196,386	41,149,882
Due to Related Company	5,754,020	15,162,025	30,920,420
Manager's Preference Shares	10,000	10,000	10,000
TOTAL LIABILITIES	536,064,907	643,374,574	710,066,498
SHAREHOLDERS' NET EQUITY			
Share Capital	1,044,858,301	1,022,176,861	1,034,495,652
Prepaid Share Reserve	16,142,341	688,623	731,364
Fair Value Reserve	(227,543,886)	124,547,526	73,499,294
Retained Earnings	433,255,470	439,846,979	458,765,150
	1,266,712,225	1,587,259,989	1,567,491,460
	1,802,777,133	2,230,634,563	2,277,557,958

Sterling Investments Limited

Statement of Comprehensive Income

for the period ended June 30, 2022

	Unaudited 6 months ended Jun-22	Unaudited 6 months ended Jun-21	Unaudited 3 months ended Jun-22	Unaudited 3 months ended Jun-21	Audited 12 months ended Dec-21
Revenue:					
Interest income calculated using the effective interest method	75,973,351	70,778,723	36,337,714	35,643,922	145,258,401
Foreign exchange (loss)/gain	(32,627,854)	77,710,044	(24,642,114)	49,303,875	110,543,676
Net gain/(loss) on sale of debt investment securities at FVOCI	6,053,738	13,309,086	1,111,110	(3,582,810)	37,688,252
Net loss on sale of equity investment securities at FVTPL	(524,603)	-	-	-	-
	<u>48,874,632</u>	<u>161,797,852</u>	<u>12,806,711</u>	<u>81,364,987</u>	<u>293,490,329</u>
Expenses:					
Interest	(6,857,415)	(6,657,364)	(3,330,593)	(3,626,528)	(14,153,207)
Impairment loss on financial instruments	(989,322)	(11,641,244)	(1,157,576)	(3,174,205)	(14,777,656)
Unrealised fair value loss on equity investment securities at FVTPL	(11,434,922)	(7,397,713)	(24,625,292)	(6,776,495)	(22,729,391)
Other operating expenses	(23,158,924)	(24,609,815)	(12,378,240)	(12,027,894)	(48,269,872)
	<u>(42,440,583)</u>	<u>(50,306,137)</u>	<u>(41,491,701)</u>	<u>(25,605,122)</u>	<u>(99,930,126)</u>
Operating Profit	6,434,050	111,491,716	(29,209,594)	55,759,866	193,560,203
Other Income	710,678	89,880	189,156	70,630	282,686
Preference Dividend Expense	-	(6,372,918)	-	(6,372,918)	(32,806,453)
Profit Before Income tax	7,144,728	105,208,678	(29,020,438)	49,457,577	161,036,436
Income Tax Expense	-	(873,962)	-	(354,132)	(1,223,518)
Profit for Period	7,144,728	104,334,715	(29,020,438)	49,103,446	159,812,918
Other comprehensive income:					
Item that are or may be reclassified subsequently to profit or loss:					
Realised loss/(gain) on disposal of FVOCI debt investment securities reclassified to profit or loss	(1,392,072)	42,046,677	(7,872,528)	6,268,042	40,064,794
Change in fair value of FVOCI debt instrument securities	(299,651,108)	25,590,530	(154,049,916)	70,916,075	(23,475,819)
Total other comprehensive (loss)/income for the year	<u>(301,043,180)</u>	<u>67,637,207</u>	<u>(161,922,444)</u>	<u>77,184,116</u>	<u>16,588,975</u>
Total comprehensive (loss)/income for the year	<u>(293,898,452)</u>	<u>171,971,923</u>	<u>(190,942,882)</u>	<u>126,287,562</u>	<u>176,401,893</u>
Shares outstanding	420,383,504	409,290,629	420,383,504	409,290,629	413,442,100
Earnings per stock unit:					
Basic and diluted earnings per stock unit	0.02	0.25	(0.07)	0.12	0.39

Sterling Investments Limited
Statement of Cash Flows
for period ended June 30, 2022

	Period ended June 30, 2022	Period ended June 30, 2021	Audited Dec 2021
Cash flows from operating activities			
Profit for the period	7,144,728	104,334,715	159,812,918
Adjustments for :			
Interest Income	(75,973,351)	(70,778,723)	(145,258,401)
Interest Expense	6,857,415	6,657,364	14,153,207
Impairment loss on FVOCI	989,322	11,641,244	14,777,656
Unrealised gain on quoted equities	11,434,922	7,397,713	22,729,391
Income Tax Expense	-	873,962	1,223,518
Managers Preference Share Interest	26,602,937	6,372,918	32,806,453
	(22,944,028)	66,499,194	100,244,742
Changes in operating assets:			
Accounts Receivable	(1,719,224)	(1,311,091)	(524,148)
Margins Payable	(140,174,455)	85,205,397	106,185,430
Other Payables	(35,263,673)	(23,702,350)	1,442,455
Due to Related Company	(25,166,400)	(8,702,462)	7,055,933
	(225,267,780)	117,988,688	214,404,412
Interest Received	76,077,376	63,219,148	137,052,208
Interest Paid	(6,857,415)	(6,657,364)	(14,153,207)
Income Taxes Paid	(125,628)	(873,962)	(1,097,890)
Net cash (used)/provided by operating activities	(156,173,447)	173,676,510	336,205,523
Cash flows from investing activity			
Investment securities, being net cash used by investing activity	186,483,845	(249,181,529)	(366,650,114)
Net cash provided/(used in) Investing activities	186,483,845	(249,181,529)	(366,650,114)
Cash flows from financing activities			
Issue of ordinary shares	10,362,649	112,829,115	125,147,906
Prepaid Share Reserve	15,410,977	466,890	509,631
Manager's preference shares interest paid	-	-	(21,624,846)
Dividend payment	(32,654,408)	(37,089,950)	(73,649,982)
Net cash (used)/provided by financing activities	(6,880,782)	76,206,054	30,382,709
Increase/(Decrease) in cash and cash equivalents during the period	23,429,615	701,036	(61,882)
Cash and cash equivalent at the beginning of period	1,391,627	1,453,509	1,453,509
Cash and cash equivalent at the end of period	24,821,243	2,154,545	1,391,627

Sterling Investments Limited
Statement of Changes in Equity
for period ended June 30, 2022

	Share capital	Prepaid Share Reserve	Fair value	Retained earnings	Total
Balance at December 31, 2021	1,034,495,652	731,364	73,499,294	458,765,150	1,567,491,460
Comprehensive income:					
Profit for period	-	-	-	7,144,728	7,144,728
Other comprehensive income:					
Realised gain on disposal of FVOCI debt instrument securities reclassified to profit or loss			(1,392,072)		(1,392,072)
Change in fair value of FVOCI debt instrument securities net	-	-	(299,651,108)		(299,651,108)
Total Other Comprehensive Income			(301,043,180)	7,144,728	(293,898,452)
Total comprehensive income	1,034,495,652	731,364	(227,543,886)	465,909,878	1,273,593,008
Transactions with owners:					
Share issued during the period	10,362,648	-	-	-	10,362,648
Transfer of prepayment of shares		(731,364)			(731,364)
Prepayments for shares		16,142,341			16,142,341
Dividends	-	-	-	(32,654,408)	(32,654,408)
	10,362,648	15,410,977	-	(32,654,408)	(6,880,782)
Balance at June 30, 2022	1,044,858,300	16,142,341	(227,543,886)	433,255,470	1,266,712,225
	Share capital	Prepaid Share Reserve	Fair value	Retained earnings	Total
Balance at December 31, 2020	909,347,746	221,733	56,910,319	372,602,214	1,339,082,012
Comprehensive income:					
Profit for period	-	-	-	104,334,715	104,334,715
Other comprehensive income:					
Realised gain on disposal of FVOCI debt instrument securities reclassified to profit or loss			42,046,677		42,046,677
Change in fair value of FVOCI debt instrument securities net	-	-	25,590,530	-	25,590,530
Total Other Comprehensive Income			67,637,207	104,334,715.19	171,971,923
Total comprehensive income	909,347,746	221,733	124,547,526	476,936,930	1,511,053,935
Transactions with owners:					
Share issued during the period	112,829,114	-	-	-	112,829,114
Transfer of prepayment of shares		(221,733)			(221,733)
Prepayments for shares		688,623			688,623
Dividends	-	-	-	(37,089,950)	(37,089,950)
	112,829,114	466,890	-	(37,089,950)	76,206,054
Balance at June 30 2021	1,022,176,860	688,623	124,547,526	439,846,979	1,587,259,989

NOTES TO FINANCIAL STATEMENTS

1. Identification

Sterling Investments Limited (“the Company”) was incorporated on August 21, 2012 in St. Lucia under the International Business Companies Act and commenced operations on December 1, 2012. The Company’s registered office is located at 20 Micoud Street, Castries, St. Lucia. The principal activities of the Company are holding and trading of tradable and other securities and other investments.

2. Basis of preparation

These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Company’s last annual financial statements as at and for the year ended December 31, 2021 (‘last annual financial statements’). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the company’s financial position and performance since the last annual financial statements. These interim financial statements are presented in Jamaican dollars, which is the Company’s functional currency.



Director

3. Use of judgements and estimates

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

4. Significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the Company’s financial statements as at and for the year ended December 31, 2021 which was prepared in accordance with International Financial Reporting Standards (IFRS).

5. Important changes to the Tax and Economic Substance regime in St. Lucia

The company is currently conducting an evaluation on the change in requirements relating to tax and economic substance in St. Lucia. Appropriate advice is being sought by professionals in the region and updates will be provided as more clarity is obtained.



Director

Top Ten Shareholders as at June 30, 2022

Shareholder Name	% Ownership
ATL Group Pension Fund Trustees Nominee Limited	11.3%
GraceKennedy Pension Fund Custodian Ltd for GraceKennedy Pension Scheme	8.3%
VMWealth Equity Fund	7.9%
PAM - Pooled Equity Fund	6.4%
Cable and Wireless Jamaica Pension Fund	3.4%
Charles A. Ross	3.3%
Everton Lloyd McDonald	3.2%
Satyanarayana Parvataneni	2.8%
National Insurance Fund	2.4%
JN Fund Managers Limited for JN Pooled Pension Local Equity Fund	2.1%

Shareholdings of Directors as at June 30, 2022

Name	# Shares	% Ownership
Derek Jones	Nil	Nil
Michael Bernard	Nil	Nil
Maxim Rochester	Nil	Nil
Charles Ross	13,793,450	3.3%
Marian Ross	1,455,471	0.35%

Shareholdings of Connected Parties as at June 30, 2022

Name	# of shares	% Ownership
Charles Ross	13,793,450	3.3%
Natalie A. Farrell-Ross	97,302	0.02%
Marian Ross	1,455,471	0.35%
Charles Andrew Ross	702,183	0.17%