

STERLING INVESTMENTS LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2016



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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 6 to 39, which comprise the statement of financial position as at December 31, 2016, 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, 2016, 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.



Page 2

INDEPENDENT AUDITORS' REPORT (CONT'D)

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

The key audit matter	How the matter was addressed in our audit
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The Company's investment securities measured at fair value include corporate and municipal bonds, derivatives and preference shares, classified as available-for sale. Valuation of these instruments often involves the exercise of judgement and the use of assumptions and estimates. The risk is that these valuations may be misstated.

Our audit procedures included:

- Evaluation of management's fair value estimates against independent pricing data obtained by our internal valuation specialists.
- Assessing 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*.

The investment securities held by the Company were categorised as Level 2 in the fair value hierarchy. Judgement is involved in determining whether certain markets are liquid enough to conclude that Level 1 or 2 categorisation is appropriate.

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.



Page 3

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Shareholders of
STERLING INVESTMENTS LIMITED

Other information (cont'd)

Our opinion on the financial statements does not cover the other information and we will 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.

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.



Page 4

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Shareholders of
STERLING INVESTMENTS LIMITED

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

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 auditors' 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 auditors' 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.



Page 5

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Shareholders of
STERLING INVESTMENTS LIMITED

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

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 Frank Myers.

A handwritten signature of the KPMG firm, written in blue ink. The letters 'KPMG' are written in a cursive, stylized font.

KPMG Eastern Caribbean

February 25, 2017

STERLING INVESTMENTS LIMITED

Statement of Financial Position

December 31, 2016

(Expressed in Jamaican Dollars)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Assets			
Cash and cash equivalents	4	1,155,576	213,152
Accounts receivable	5	34,924,407	27,731,676
Income tax recoverable		18,269	-
Investment securities	6	<u>938,603,156</u>	<u>907,825,257</u>
Total assets		<u>\$974,701,408</u>	<u>935,770,085</u>
Liabilities			
Margin loans payable	7	131,808,102	214,341,641
Other payables	8	17,191,962	14,039,600
Due to related company	9(c)(i)	15,264,740	13,124,190
Manager's preference shares	10	10,000	10,000
Income tax payable		<u>-</u>	<u>366,028</u>
Total liabilities		<u>164,274,804</u>	<u>241,881,459</u>
Equity			
Share capital	11	630,913,829	627,796,101
Prepaid share reserve	12	12,266,188	-
Fair value reserve	13	(36,893,285)	(78,774,046)
Retained earnings		<u>204,139,872</u>	<u>144,866,571</u>
Total equity		<u>810,426,604</u>	<u>693,888,626</u>
Total liabilities and equity		<u>\$974,701,408</u>	<u>935,770,085</u>

The financial statements on pages 6 to 39 were approved for issue by the Board of Directors on February 25, 2017 and signed on its behalf by:


 _____ Director
 Charles Ross


 _____ Director
 Maxim Rochester

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

STERLING INVESTMENTS LIMITEDStatement of Profit or Loss and Other Comprehensive Income
Year ended December 31, 2016*(Expressed in Jamaican Dollars)*

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Revenue	14		
Interest income		78,099,467	72,778,939
Foreign exchange gains		53,159,616	34,073,892
Gains on disposal of available-for-sale securities		<u>10,174,691</u>	<u>12,437,526</u>
		<u>141,433,774</u>	<u>119,290,357</u>
Expenses			
Interest		(4,759,702)	(5,442,115)
Impairment loss on available-for-sale securities		(18,772,015)	(9,651,021)
Unrealised loss on embedded derivative	6(iii)	(1,113,392)	(147,575)
Other operating	15	<u>(24,743,062)</u>	<u>(21,719,906)</u>
		<u>(49,388,171)</u>	<u>(36,960,617)</u>
Operating profit		92,045,603	82,329,740
Other income		422,338	8,875
Manager's preference share interest expense		<u>(13,278,611)</u>	<u>(10,573,808)</u>
Profit before taxation		79,189,330	71,764,807
Taxation	16	<u>(591,937)</u>	<u>(596,800)</u>
Profit for the year		<u>78,597,393</u>	<u>71,168,007</u>
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Realised gains on disposal of available-for-sale securities reclassified to profit for the year		(5,027,151)	(8,482,202)
Impairment loss on available-for-sale securities reclassified to profit for the year		16,814,973	-
Unrealised change in fair value of available-for-sale securities		<u>30,092,939</u>	<u>(81,268,337)</u>
		<u>41,880,761</u>	<u>(89,750,539)</u>
Total comprehensive income/(loss) for the year		<u>\$120,478,154</u>	<u>(18,582,532)</u>
Basic and diluted earnings per stock unit	17(a), 17(b)	<u>\$ 1.41</u>	<u>1.53</u>

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

STERLING INVESTMENTS LIMITED

Statement of Changes in Equity
Year ended December 31, 2016
(Expressed in Jamaican Dollars)

	Share capital (note 11)	Prepaid share reserve (note 12)	Fair value reserve (note 13)	Retained earnings	Total
Balances at December 31, 2014	<u>437,296,904</u>	<u>-</u>	<u>10,976,493</u>	<u>91,219,714</u>	<u>539,493,111</u>
Comprehensive income:					
Profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>71,168,007</u>	<u>71,168,007</u>
Other comprehensive income:					
Realised gains on disposal of available-for-sale securities reclassified to profit	<u>-</u>	<u>-</u>	<u>(8,482,202)</u>	<u>-</u>	<u>(8,482,202)</u>
Unrealised change in fair value of available-for-sale securities	<u>-</u>	<u>-</u>	<u>(81,268,337)</u>	<u>-</u>	<u>(81,268,337)</u>
Total other comprehensive loss	<u>-</u>	<u>-</u>	<u>(89,750,539)</u>	<u>-</u>	<u>(89,750,539)</u>
Total comprehensive (loss)/income	<u>-</u>	<u>-</u>	<u>(89,750,539)</u>	<u>71,168,007</u>	<u>(18,582,532)</u>
Transactions with owners:					
Shares issued during the year	190,499,197	-	-	-	190,499,197
Dividends (note 18)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(17,521,150)</u>	<u>(17,521,150)</u>
	<u>190,499,197</u>	<u>-</u>	<u>-</u>	<u>(17,521,150)</u>	<u>172,978,047</u>
Balances at December 31, 2015	<u>627,796,101</u>	<u>-</u>	<u>(78,774,046)</u>	<u>144,866,571</u>	<u>693,888,626</u>
Comprehensive income:					
Profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>78,597,393</u>	<u>78,597,393</u>
Other comprehensive income:					
Realised gains on disposal of available-for-sale securities reclassified to profit	<u>-</u>	<u>-</u>	<u>(5,027,151)</u>	<u>-</u>	<u>(5,027,151)</u>
Impairment loss on available-for- -sale securities reclassified to profit	<u>-</u>	<u>-</u>	<u>16,814,973</u>	<u>-</u>	<u>16,814,973</u>
Unrealised change in fair value of available-for-sale securities	<u>-</u>	<u>-</u>	<u>30,092,939</u>	<u>-</u>	<u>30,092,939</u>
Total other comprehensive income	<u>-</u>	<u>-</u>	<u>41,880,761</u>	<u>-</u>	<u>41,880,761</u>
Total comprehensive income	<u>-</u>	<u>-</u>	<u>41,880,761</u>	<u>78,597,393</u>	<u>120,478,154</u>
Transactions with owners					
Shares issued during the year	3,117,728	-	-	-	3,117,728
Prepayments for share	-	12,266,188	-	-	12,266,188
Dividends (note 18)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(19,324,092)</u>	<u>(19,324,092)</u>
	<u>3,117,728</u>	<u>12,266,188</u>	<u>-</u>	<u>(19,324,092)</u>	<u>(3,940,176)</u>
Balances at December 31, 2016	<u>\$630,913,829</u>	<u>12,266,188</u>	<u>(36,893,285)</u>	<u>204,139,872</u>	<u>810,426,604</u>

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

STERLING INVESTMENTS LIMITED

Statement of Cash Flows
 Year ended December 31, 2016
 (Expressed in Jamaican Dollars)

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

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

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements
Year ended December 31, 2016

1. Identification

Sterling Investments Limited (“the Company”) was incorporated on August 21, 2012 in Saint 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, 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 9(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”) as issued by the International Accounting Standards Board.

Amended standards that became effective during the year

Certain amended standards which were in issue, came into effect for the current financial year. Their adoption did not result in any change in accounting policies and did not have any effect on the amounts and disclosures in the financial statements.

New standards and amendments to existing standards that are not yet effective

At the date of approval of the financial statements, certain new and amended standards were in issue but were not yet in effect and had not been early-adopted by the Company. The Company has assessed their relevance and has determined that the following may be relevant to its operations:

- Amendments to IAS 7, *Statement of Cash Flows*, effective for accounting periods beginning on or after January 1, 2017, requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

The Company is assessing the impact that this amendment will have on its 2017 financial statements.

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

2. Statement of compliance and basis of preparation (cont'd)

(a) Statement of compliance (cont'd)

New standards and amendments to existing standards that are not yet effective (cont'd)

- Amendments to IAS 12, *Income Taxes*, effective for accounting periods beginning on or after January 1, 2017, clarifies the following:
 - The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.
 - A deferred tax asset can be recognised if the future bottom line of the tax return is expected to be a loss, if certain conditions are met.
 - Future taxable profits used to establish whether a deferred tax can be recognised should be the amount calculated before the effect of reversing temporary differences.
 - An entity can assume that it will recover an asset for more than its carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.
 - Deductible temporary differences related to unrealised losses should be assessed on a combined basis for recognition unless a tax law restricts the use of losses to deductions against income of a specific type.

The Company is assessing the impact that this amendment will have on its 2017 financial statements.

- IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

The Company is assessing the impact that this standard will have on its 2018 financial statements.

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

2. Statement of compliance and basis of preparation (cont'd)

(a) Statement of compliance (cont'd)

New standards and amendments to existing standards that are not yet effective (cont'd)

- IFRS 15, *Revenue from Contracts with Customers*, is effective for annual reporting periods beginning on or after January 1, 2018. It replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers*, and SIC 31, *Revenue - Barter Transactions Involving Advertising Services*. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties.

The Company will apply a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised at a point in time, when control of goods or services is transferred to the customer; or over time, in a manner that best reflects the entity's performance.

There will be new qualitative and quantitative disclosure requirements to describe the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Company is assessing the impact that the standard will have on its 2018 financial statements.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) 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.

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

2. Statement of compliance and basis of preparation (cont'd)

(d) Use of estimates and judgements (cont'd)

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:

Judgements

- (i) 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.
- (ii) Uncertainties arising from the use of estimates
 - (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 assessing whether certain facts and circumstances, such as significant financial difficulty of the issuer or obligor, repayment default, and adverse economic conditions, are indicators that there may be a measurable decrease in the estimated future cash flows from outstanding financial asset balances – i.e. they are impaired. Management also makes estimates of the likely estimated future cash flows from financial assets that it determines are impaired, as well as the timing of cash flows. If the financial assets are individually significant, the amount and timing of cash flows are estimated for each asset individually. Where indicators of impairment are not observable on individually significant assets, or on a group or portfolio of assets that are not individually significant, management estimates the impairment by classifying each financial asset or group or portfolio of financial assets according to their characteristics, such as credit risks, and applying appropriate factors, such as historical loss experience, to each class with similar characteristics.

The use of assumptions makes uncertainty inherent in such estimates.

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

2. Statement of compliance and basis of preparation (cont'd)

(d) Use of estimates and judgements (cont'd)

Judgements (cont'd)

(ii) Uncertainties arising from the use of estimates (cont'd)

(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 20) requires judgement as to whether a market is active.

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).

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. Consequently, the estimates arrived at may be significantly different from the actual price of the instrument in an arm's length transaction.

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

3. Significant accounting policies

(a) Financial instruments

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.

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

(i) Classification of financial instruments

The Company classifies non-derivative financial assets into the following categories: Financial assets at fair value through profit or loss, loans and receivable, 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.

(ii) Embedded derivatives

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

- the host contract is not itself carried at fair value through profit or loss;
- 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 risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

3. Significant accounting policies (cont'd)

(a) Financial instruments (cont'd)

(ii) Embedded derivatives (cont'd)

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.

(iii) Recognition and derecognition

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

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 asset. Any interest in such derecognised financial assets that are created or retained by the Company, is recognised as a separate asset or liability.

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

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.

(iv) 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.

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

3. Significant accounting policies (cont'd)

(a) Financial instruments (cont'd)

(iv) Measurement and gains and losses (cont'd)

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.

Available-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.

(v) Identification and measurement of impairment

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.

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

3. Significant accounting policies (cont'd)

(a) Financial instruments (cont'd)

(v) Identification and measurement of impairment (cont'd)

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.

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.

(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.

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

3. Significant accounting policies (cont'd)

(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) Revenue recognition

Revenue is income that arises in the course of the ordinary activities of the Company. Accordingly, revenue comprises interest income and income and gains from holding and trading securities.

(i) Interest income

Interest income is 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 re-measurement of those assets.

(f) Interest expense

Interest expense is recognised in profit or loss on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability to the carrying amount of the financial liability.

(g) 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.

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

3. Significant accounting policies (cont'd)

(h) 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.

(i) 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.

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

3. Significant accounting policies (cont'd)

(i) Income tax (cont'd)

(ii) Deferred income tax (cont'd)

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.

(j) 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.

Based on the information presented to and reviewed by the CODM, the entire operations of the Company are considered as one operating segment.

4. Cash and cash equivalents

	<u>2016</u>	<u>2015</u>
Cash	3,000	3,000
Demand deposit accounts	<u>1,152,576</u>	<u>210,152</u>
	<u>\$1,155,576</u>	<u>213,152</u>

Demand deposit accounts includes \$2,471 (2015: \$Nil) [notes 11(iii)(a) and 12] received from stockholders as prepayments for the purchase of the Company's stock units.

5. Accounts receivable

	<u>2016</u>	<u>2015</u>
Interest receivable	34,674,847	27,731,676
Other	<u>249,560</u>	<u>-</u>
	<u>\$34,924,407</u>	<u>27,731,676</u>

Accounts receivable is stated net of impairment provision of \$Nil (2015: \$Nil) and is due as follows:

	<u>2016</u>	<u>2015</u>
Due within twelve (12) months	15,175,515	14,029,631
No specific maturity [note 9(c)(i)]	<u>19,748,892</u>	<u>13,702,045</u>
	<u>\$34,924,407</u>	<u>27,731,676</u>

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

6. Investment securities

	<u>2016</u>	<u>2015</u>
Available-for-sale		
(i) Corporate bonds US\$5,366,344 (2015: US\$5,006,813)	686,784,653	600,717,370
(ii) Municipal bonds US\$1,165,329 (2015: US\$1,748,589)	149,138,869	209,795,708
(iii) Credit linked note US\$302,310 (2015: US\$311,070)	38,689,634	37,322,179
(iv) Unquoted preference shares US\$500,000 (2015: US\$500,000)	<u>63,990,000</u>	<u>59,990,000</u>
	<u>\$938,603,156</u>	<u>907,825,257</u>

(i) Corporate bonds earn interest at rates ranging from 5.125% to 12.75% per annum and mature over the period 2019 to 2049.

(ii) Municipal bonds earn interest at rates ranging from 5.00% to 10.00% per annum and mature over the period 2023 to 2040.

(iii) Credit linked note represents investment in Credit Suisse Contingent Coupon Callable Yield notes which will mature on June 19, 2018. The fair value change in embedded derivative of \$1,113,392 (2015: \$147,575) was recognised in profit or loss.

(iv) Unquoted preference shares, which earn interest at 8% interest per annum and are redeemable, represent investments in cumulative redeemable preference shares issued by Sterling Developments (SKN) Limited, a related party [note 9(c)(i)].

(v) The maturity profile of investments, in relation to the reporting date is shown at note 19(c)(i).

7. Margin loans payable

These are margin loans due to overseas brokers of US\$1,029,912 (2015: US\$1,786,478). The loans bear interest at rates ranging from 2.35% to 2.54% per annum (2015: 2.09% to 2.36%), are collateralised by securities purchased from the brokers with the loan proceeds, and have no set repayment date.

8. Other payables

	<u>2016</u>	<u>2015</u>
Manager's preference shares interest payable [note 9(c)(i)]	13,278,611	10,573,808
Other payables and accruals [note 11(iii)(a)]	<u>3,913,351</u>	<u>3,465,792</u>
	<u>\$17,191,962</u>	<u>14,039,600</u>

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

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

9. 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.

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

9. Related party balances and transactions (cont'd)

(c) Related party amounts

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

	<u>2016</u>	<u>2015</u>
	\$	\$
Entity with common shareholders and directors		
Unquoted preference shares [note 6(iv)]	63,990,000	59,990,000
Interest receivable	<u>19,748,892</u>	<u>13,702,045</u>
Total [note 19(a)(ii)]	83,738,892	73,692,045
Investment manager		
Manager's preference shares interest payable (note 8)	(13,278,611)	(10,573,808)
Due to related company*	(15,264,740)	(13,124,190)
Directors		
Other payables	<u>(614,304)</u>	<u>(575,904)</u>

*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:

	<u>2016</u>	<u>2015</u>
	\$	\$
Entity with common shareholders and directors		
Interest income on unquoted preference shares	5,027,443	4,687,077
Investment manager		
Manager's preference shares interest expense	(13,278,611)	(10,573,808)
Management fees (note 15)	(15,264,740)	(13,124,190)
Directors		
Directors' fees (note 15)	<u>(2,402,144)</u>	<u>(2,247,456)</u>

10. Manager's preference shares

- (a) This represents 10,000 manager's cumulative preference shares (see note 11). 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;

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

10. Manager's preference shares (cont'd)

- (a) (Cont'd)
- (ii) The manager's cumulative preference shares rank *pari passu* as between and among themselves;
- (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 manager's preference shares interest expense in the statement of profit or loss and other comprehensive income.

11. Share capital

	<u>Number of units</u>	
	<u>2016</u>	<u>2015</u>
(i) Authorised:		
Ordinary stock units of no par value	150,000,000	150,000,000
Manager's cumulative preference shares of no par value	<u>10,000</u>	<u>10,000</u>
	<u>150,010,000</u>	<u>150,010,000</u>

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

11. Share capital (cont'd)

(ii) Issued and fully paid:

	<u>Number of units</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Ordinary stock units				
Balance at beginning of year	<u>55,876,281</u>	<u>4,014,547</u>	<u>627,796,101</u>	<u>437,296,904</u>
Issued during the year:				
Regular issuance	-	51,861,734	-	195,062,057
Dividend Reinvestment Programme [note 11(iii)(a)]	69,271	-	969,926	-
Complementary Share Purchase Programme [note 11(iii)(b)]	156,365	-	2,189,074	-
Less transaction costs	<u>-</u>	<u>-</u>	<u>(41,272)</u>	<u>(4,562,860)</u>
Net proceeds from issuance	<u>225,636</u>	<u>51,861,734</u>	<u>3,117,728</u>	<u>190,499,197</u>
Balance at end of year	56,101,917	55,876,281	630,913,829	627,796,101
Manager's cumulative preference shares	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
	56,111,917	55,886,281	630,923,829	627,806,101
Less: Manager's preference shares reclassified to liability (note 10)	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
	<u>56,101,917</u>	<u>55,876,281</u>	<u>\$630,913,829</u>	<u>627,796,101</u>

(iii) Dividend Reinvestment and Complementary Share Purchase Programme

On August 26, 2016, the Company launched two (2) 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 at the closing price applicable on the record date and without incurring fees. Residual unallocated dividends as at December 31, 2016 amounted to \$2,471 (2015: \$Nil) (note 4) and are included in other payables and accruals (see note 8).

During the year, 69,271 stock units were issued to the stockholders.

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

11. Share capital (cont'd)

(iii) Dividend Reinvestment and Complementary Share Purchase Programme (cont'd)

(b) Complementary Share Purchase Programme

Under the Complementary Share Purchase Programme (CSPP), the stockholders of the Company may purchase new ordinary stock units, with a minimum purchase of 100 stock units per participating stockholder, 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 12) and transferred to share capital when the stocks are issued.

During the year, 156,365 stock units were issued to the stockholders.

12. 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 11(iii)(b)]. 39,489 and 827,271 stock units were issued on January 10, 2017 subsequent to the reporting date at a stock unit price of J\$15.70 and US\$0.11, respectively.

13. Fair value reserve

This represents the unrealised gains, net of losses, on the restatement of available-for-sale investment securities at fair value.

14. Revenue

This represents income earned from holding and trading investment securities.

15. Other operating expenses

	<u>2016</u>	<u>2015</u>
Management fees [note 9(c)(ii)]	15,264,740	13,124,190
Auditors' remuneration	2,965,048	2,637,104
Directors' fees [note 9(c)(ii)]	2,402,144	2,247,456
Travel	1,163,373	1,077,926
Public relations	1,087,197	511,131
Stock exchange listing	720,398	656,606
Professional fees	335,284	397,650
Other	<u>804,878</u>	<u>1,067,843</u>
	<u>\$24,743,062</u>	<u>21,719,906</u>

16. Taxation

The Company elected to be charged at the rate of 1% (2015: 1%) as allowed under the International Business Companies Act. However, the effective tax rate is 0.75% (2015: 0.83%).

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

16. Taxation (cont'd)

	<u>2016</u>	<u>2015</u>
Profit before taxation	\$ <u>79,189,330</u>	<u>71,764,807</u>
Computed "expected" tax charge at 1% (2015: 1%)	791,893	717,648
Tax effect of differences between profit for financial statements and tax reporting purposes:		
Unrealised foreign exchange gains	(531,596)	(340,739)
Unrealised loss on embedded derivative	11,134	1,476
Impairment loss on available-for-sale securities	187,720	96,510
Manager's preference share interest expense	132,786	105,738
Under-provision in respect of prior year	<u>-</u>	<u>16,167</u>
Current tax charge, being total taxation charge	\$ <u>591,937</u>	<u>596,800</u>

17. 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.

	<u>2016</u>	<u>2015</u>
Profit attributable to ordinary stockholders	\$ <u>78,597,393</u>	<u>71,168,007</u>
Weighted average number of ordinary stock units in issue	<u>55,933,235</u>	<u>46,640,630</u>
Basic earnings per stock unit	<u>1.41</u>	<u>1.53</u>

(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 \$1.41 (2015: \$1.53).

18. Dividends

	<u>2016</u>	<u>2015</u>
Distribution to ordinary stockholders at \$0.3455 (2015: \$0.3373) per stock unit	\$ <u>19,324,092</u>	<u>17,521,150</u>

During the year certain shareholders elected to reinvested their dividends earned of \$969,926 (2015: \$Nil) [note 11(ii)(a)].

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

19. 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.

(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.

(i) 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.

(ii) 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:

	<u>2016</u>	<u>2015</u>
Issuer:		
Corporate – unrelated parties	737,267,158	648,529,130
Corporate – related party [note 9(c)(i)]	83,738,892	73,692,045
Municipals	152,271,953	213,335,758
Banks	<u>1,155,576</u>	<u>213,152</u>
Total financial assets	<u>\$974,433,579</u>	<u>935,770,085</u>

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

19. Financial risk management (cont'd)(a) **Credit risk (cont'd)**

(ii) Concentration of credit risk (cont'd)

	<u>2016</u>	<u>2015</u>
Location:		
Europe	376,156,967	359,348,944
North America	317,967,404	352,639,276
Caribbean	121,613,999	108,625,620
South America	158,695,209	87,306,513
Other	<u>-</u>	<u>27,849,732</u>
Total financial assets	<u>\$974,433,579</u>	<u>935,770,085</u>

(iii) Credit quality

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.

- Write-off policy

The Company writes off loan or security balances (and any related allowances for impairment losses) when the Company determines that the loans or securities are uncollectible. This determination is usually made after considering information such as changes in the borrower's financial position, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

(iv) 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.

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

19. Financial risk management (cont'd)**(a) Credit risk (cont'd)**

(iv) Settlement risk (cont'd)

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.

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

(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. 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:

	2016				
	Within 3 months	3 to 12 months	No specific maturity	Gross outflow	Carrying value
Margin loans payable	132,122,377	-	-	132,122,377	131,808,102
Other payables	17,191,962	-	-	17,191,962	17,191,162
Due to related company	-	15,264,740	-	15,264,740	15,264,740
Manager's preference shares	-	-	10,000	10,000	10,000
	<u>\$149,314,339</u>	<u>15,264,740</u>	<u>10,000</u>	<u>164,589,079</u>	<u>164,274,004</u>

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

19. Financial risk management (cont'd)**(b) Liquidity risk (cont'd)**

Management of liquidity risk (cont'd)

	<u>2015</u>				
	<u>Within 3</u>	<u>3 to 12</u>	<u>No</u>	<u>Gross</u>	<u>Carrying</u>
	<u>months</u>	<u>months</u>	<u>specific</u>	<u>outflow</u>	<u>value</u>
			<u>maturity</u>		
Margin loans payable	214,740,257	-	-	214,740,257	214,341,641
Other payables	14,039,600	-	-	14,039,600	14,039,600
Due to related company	-	13,124,190	-	13,124,190	13,124,190
Manager's preference shares	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
	<u>\$228,779,857</u>	<u>13,124,190</u>	<u>10,000</u>	<u>241,914,047</u>	<u>241,515,431</u>

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.

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

19. Financial risk management (cont'd)

(c) **Market risk (cont'd)**

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:

	<u>2016</u>					
	<u>Within 1 year</u>	<u>1 - 5 year</u>	<u>Over 5 years</u>	<u>No specific maturity</u>	<u>Non-rate sensitive</u>	<u>Total</u>
Financial assets						
Cash and cash equivalents	1,155,576	-	-	-	-	1,155,576
Accounts receivable	-	-	-	-	34,924,407	34,924,407
Investment securities	-	<u>131,725,335</u>	<u>742,887,821</u>	<u>63,990,000</u>	-	<u>938,603,156</u>
	<u>1,155,576</u>	<u>131,725,335</u>	<u>742,887,821</u>	<u>63,990,000</u>	<u>34,924,407</u>	<u>974,683,139</u>
Financial liabilities						
Margin loans payable	131,808,102	-	-	-	-	131,808,102
Other payables	-	-	-	-	17,191,962	17,191,962
Due to related company	-	-	-	-	15,264,740	15,264,740
Manager's preference shares	-	-	-	10,000	-	10,000
	<u>131,808,102</u>	-	-	<u>10,000</u>	<u>32,456,702</u>	<u>164,274,804</u>
Total interest rate sensitivity gap	<u>\$(130,652,526)</u>	<u>131,725,335</u>	<u>742,887,821</u>	<u>63,980,000</u>	<u>2,467,705</u>	<u>810,408,335</u>
Cumulative gap	<u>\$(130,652,526)</u>	<u>1,072,809</u>	<u>743,960,630</u>	<u>807,940,630</u>	<u>810,408,335</u>	

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

19. Financial risk management (cont'd)

(c) **Market risk (cont'd)**

(i) Interest rate risk (cont'd)

	<u>2015</u>					
	<u>Within 3 year</u>	<u>1 - 5 years</u>	<u>Over 5 years</u>	<u>No specific maturity</u>	<u>Non-rate sensitive</u>	<u>Total</u>
Financial assets						
Cash and cash equivalents	213,152	-	-	-	-	213,152
Accounts receivable	-	-	-	-	27,731,676	27,731,676
Investment securities	-	<u>10,168,305</u>	<u>138,070,891</u>	<u>699,596,061</u>	<u>59,990,000</u>	<u>907,825,257</u>
	<u>213,152</u>	<u>10,168,305</u>	<u>138,070,891</u>	<u>699,596,061</u>	<u>87,721,676</u>	<u>935,770,085</u>
Financial liabilities						
Margin loans payable	214,341,641	-	-	-	-	214,341,641
Other payables	-	-	-	-	14,039,600	14,039,600
Due to related company	-	-	-	-	13,124,190	13,124,190
Manager's preference shares	-	-	-	<u>10,000</u>	-	<u>10,000</u>
	<u>214,341,641</u>	-	-	<u>10,000</u>	<u>27,163,790</u>	<u>241,515,431</u>
Total interest rate sensitivity gap	<u>\$(214,128,489)</u>	<u>10,168,305</u>	<u>138,070,891</u>	<u>699,586,061</u>	<u>60,557,886</u>	<u>694,254,654</u>
Cumulative gap	<u>\$(214,128,489)</u>	<u>(203,960,184)</u>	<u>(65,889,293)</u>	<u>633,696,768</u>	<u>694,254,654</u>	

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

19. Financial risk management (cont'd)(c) **Market risk (cont'd)**

(i) Interest rate risk (cont'd)

Profile

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

	<u>2016</u>	<u>2015</u>
Fixed interest rates		
Financial assets		
Corporate bonds	686,784,653	600,717,370
Municipal bonds	149,138,869	209,795,708
Credit linked note	38,689,634	37,322,179
Unquoted preference shares	<u>63,990,000</u>	<u>59,990,000</u>
	938,603,156	907,825,257
Financial liability		
Margin loans payable	<u>95,109,681</u>	<u>214,341,641</u>
	<u>\$843,493,475</u>	<u>693,483,616</u>
Variable interest rates		
Financial liability		
Margin loans payable	<u>\$ 36,698,421</u>	<u>-</u>

Fair value sensitivity analysis for fixed-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.

	<u>2016</u>		<u>2015</u>	
	Effect on <u>profit</u> \$	Effect on <u>equity</u> \$	Effect on <u>profit</u> \$	Effect on <u>equity</u> \$
Change in basis points:				
-100bps (2015: -50bps)	475,548	38,048,955	1,071,708	34,214,803
+100bps (2015: +50bps)	<u>(951,097)</u>	<u>62,488,969</u>	<u>(1,071,708)</u>	<u>(31,728,322)</u>

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 (2015: 50) basis points in interest rates at the reporting date would have increased equity and the profit for the year by \$366,984 (2015: \$Nil). A decrease of 50 (2015: 50) basis points in interest rates at the reporting date would have increased equity and profit for the year by \$183,492 (2015: \$Nil).

(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.

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

19. Financial risk management (cont'd)(c) **Market risk (cont'd)**

(ii) Foreign currency risk (cont'd)

The Company is exposed to foreign currency risk on transactions that it undertakes, or balances denominated, in foreign currencies. 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:

	<u>2016</u>	<u>2015</u>
Assets:		
Cash and cash equivalents	4,781	1,674
Accounts receivable	270,940	231,136
Other receivable	2,092	-
Investment securities	<u>7,333,983</u>	<u>7,566,472</u>
	<u>7,611,796</u>	<u>7,799,282</u>
Liabilities:		
Margin loans payable	1,029,912	1,786,478
Other payables	<u>30,558</u>	<u>28,814</u>
	<u>1,060,470</u>	<u>1,815,292</u>
Net foreign currency assets	US\$ <u>6,551,326</u>	<u>5,983,990</u>

The foreign exchange rates as at the reporting date was as follows:
 US\$1:J\$127.98 (2015: US\$1:J\$119.98).

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.

		<u>2016</u>	
	<u>% Change in Currency rate</u>	Effect on <u>profit</u> \$'000	Effect on <u>equity</u> \$'000
Currency:			
USD	1% Revaluation	(8,384)	(8,384)
USD	6% Devaluation	<u>50,306</u>	<u>50,306</u>

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2016

19. Financial risk management (cont'd)(c) **Market risk (cont'd)**

(ii) Foreign currency risk (cont'd)

	<u>2015</u>		
	<u>% Change in Currency rate</u>	Effect on <u>profit</u> \$'000	Effect on <u>equity</u> \$'000
Currency:			
USD	1% Revaluation	(7,179)	(7,179)
USD	15% Devaluation	<u>107,693</u>	<u>107,693</u>

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

20. 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

<u>Financial instrument</u>	<u>Method of estimating fair value</u>
(i) Cash and cash equivalents, accounts receivable, other payables and due to related company	Considered to approximate their carrying values due to their short-term mature.
(ii) Municipal and corporate bonds	Estimated using bid-prices published by major overseas brokers/dealers or reputable pricing services such as Bloomberg.
(iii) Credit linked note	<ul style="list-style-type: none"> Obtain price based on the quoted price of the underlying credit default swap which is derived from Bloomberg on the valuation date, plus the valuation of the underlying note. Apply price to estimate fair value.
(iv) Unquoted preference shares	Estimated on the basis of the price of a new issue of identical shares (at par) close to reporting date.

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (continued)
Year ended December 31, 2016

20. Fair value of financial instruments (cont'd)

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:

	2016				2016			
	<u>Carrying amount</u>				<u>Fair value</u>			
	<u>Loan and receivables</u>	<u>Available -for-sale</u>	<u>Other financial liabilities</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$	\$	\$
Financial assets measured at fair value								
Corporate bonds	-	686,784,653	-	686,784,653	-	686,784,653	-	686,784,653
Municipal bonds	-	149,138,869	-	149,138,869	-	149,138,869	-	149,138,869
Credit linked note	-	38,689,634	-	38,689,634	-	38,689,634	-	38,689,634
	-	<u>874,613,156</u>	-	<u>874,613,156</u>	-	<u>874,613,156</u>	-	<u>874,613,156</u>
Financial assets not measured at fair value								
Cash and cash equivalents	1,155,576	-	-	1,155,576				
Accounts receivable	34,924,407	-	-	34,924,407				
Unquoted preference shares	-	63,990,000	-	63,990,000	-	63,990,000	-	63,990,000
	<u>36,079,983</u>	<u>63,990,000</u>	-	<u>100,069,983</u>				
Financial liabilities not measured at fair value								
Margin loans payable	-	-	131,808,102	131,808,102				
Other payables	-	-	17,191,162	17,191,162				
Due to related company	-	-	15,264,740	15,264,740				
Manager's preference shares	-	-	10,000	10,000				
	-	-	<u>164,274,004</u>	<u>164,274,004</u>				

STERLING INVESTMENTS LIMITED

Notes to the Financial Statements (continued)
Year ended December 31, 2016

20. Fair value of financial instruments (cont'd)

	2015							
	<u>Carrying amount</u>				<u>Fair value</u>			
	<u>Loan and receivables</u> \$	<u>Available -for-sale</u> \$	<u>Other financial liabilities</u> \$	<u>Total</u> \$	<u>Level 1</u> \$	<u>Level 2</u> \$	<u>Level 3</u> \$	<u>Total</u> \$
Financial assets measured at fair value								
Corporate bonds	-	600,717,370	-	600,717,370	-	600,717,370	-	600,717,370
Municipal bonds	-	209,795,708	-	209,795,708	-	209,795,708	-	209,795,708
Credit linked note	-	<u>37,322,179</u>	-	<u>37,322,179</u>	-	<u>37,322,179</u>	-	<u>37,322,179</u>
	-	<u>847,835,257</u>	-	<u>847,835,257</u>	-	<u>847,835,257</u>	-	<u>847,835,257</u>
Financial assets not measured at fair value								
Cash and cash equivalents	213,152	-	-	213,152				
Accounts receivable	27,731,676	-	-	27,731,676				
Unquoted preference shares	-	<u>59,990,000</u>	-	<u>59,990,000</u>	-	59,990,000	-	59,990,000
	<u>27,944,828</u>	<u>59,990,000</u>	-	<u>87,934,828</u>				
Financial liabilities not measured at fair value								
Margin loans payable	-	-	214,342,641	214,342,641				
Other payables	-	-	14,039,600	14,039,600				
Due to related company	-	-	13,124,190	13,124,190				
Manager's preference shares	-	-	<u>10,000</u>	<u>10,000</u>				
	-	-	<u>241,516,431</u>	<u>241,516,431</u>				

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.