



SOMERS LIMITED



# 2017

ANNUAL REPORT

MANAGED BY  ICM

BANKING

ASSET FINANCING

WEALTH MANAGEMENT

Somers is a financial services investment company with high quality assets and minimal leverage.

SHAREHOLDERS' FUNDS

**US\$361.2**

MILLION

ASSETS UNDER MANAGEMENT

**US\$17.5**

BILLION

CONCENTRATED PORTFOLIO WITH INTERESTS IN  
BERMUDA, UK, AUSTRALIA AND IRELAND



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### COMPANY INFORMATION

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# SOMERS LIMITED

## NATURE OF THE COMPANY

Somers Limited is a Bermuda exempted company incorporated with limited liability whose shares are traded on the Bermuda Stock Exchange. The business of the Company consists of investing the funds of its shareholders in accordance with its investment objective and policy, with the aim of generating a return for shareholders with an acceptable level of risk. The Company has borrowings (“gearing”), the proceeds of which can also be invested with the aim of enhancing returns to shareholders. The gearing increases the potential risk to shareholders should the value of the investments fall.

The Company has contracted with an external investment manager, ICM Limited (the “Investment Manager” or “ICM”) to manage its investments. The Company has a board of non-executive directors who oversee and monitor the activities of the Investment Manager and the other service providers and ensures that the investment policy is adhered to.

**The Company’s shares are traded on the Bermuda Stock Exchange.**

## FINANCIAL CALENDAR

Year End	September 30
Annual General Meeting	February 8, 2018
Half Year	March 31
Dividends Payable	January and July

## FORWARD-LOOKING STATEMENTS

This annual report may contain “forward looking statements” with respect to the financial condition, results of operations and business of the Company. Such statements involve risk and uncertainty because they relate to future events and circumstances that could cause actual results to differ materially from those expressed or implied by forward looking statements. The forward looking statements are based on the Directors’ current views and on information known to them at the date of this report. Nothing in this publication should be construed as a profit forecast.

Somers’ results are reported in US Dollars, unless otherwise stated. A number of its assets are priced in foreign currencies, particularly Sterling and Australian Dollars.

## GEOGRAPHICAL INVESTMENT EXPOSURE

BERMUDA  
Fair Value                    \$129.4m  
% Total Investments      35.9%

UNITED KINGDOM  
AND IRELAND  
Fair Value                    \$114.8m  
% Total Investments      31.8%

AUSTRALIA  
Fair Value                    \$109.2m  
% Total Investments      30.2%



# CORPORATE STRUCTURE

Investment holdings as at December 20, 2017

# 2017



## BANKING / ASSET FINANCING



100.0%

Banking

Licensed bank in Bermuda with total assets of \$604 million

Focus on commercial banking and private banking / wealth management

## BANKING / ASSET FINANCING



61.9%

Non-bank Lender

Australian and New Zealand mortgage securitisation business

Loan portfolio in excess of A\$10 billion

## OTHER PORTFOLIO COMPANIES



Financial Services

Irish Independent financial services firm

Stockbroking, corporate finance advisory and fund management services



Stockbroking

UK Corporate and Institutional Stockbroking



Legal Services

UK Specialist legal services to the Alternative Asset Management industry



Property Management

Bermuda Property Holding and Management company

**BANKING / ASSET FINANCING**



**65.7%**

**Banking**

A London Stock Exchange listed asset financing company  
Focus on retail banking and business banking

**ASSET MANAGEMENT**



**62.5%**

**Wealth Management**

UK Private wealth management business  
Assets under management of over US\$6.7 billion



**Infrastructure**

UK service provider of fire and emergency services to the Middle East



**Asset Management**

London listed Alternative Asset Management with Middle Eastern focus



**Asset Leasing**

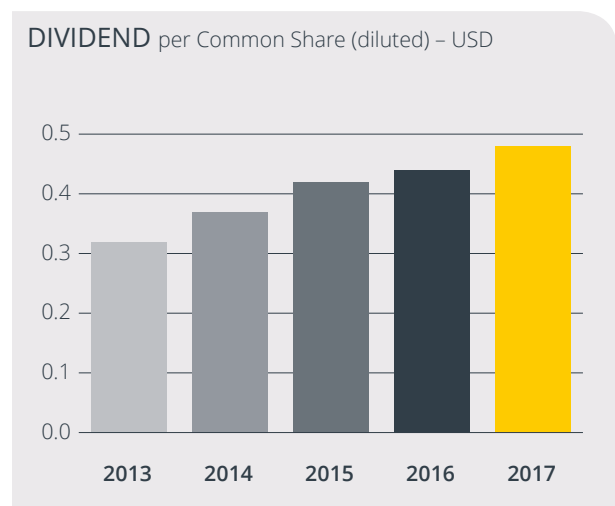
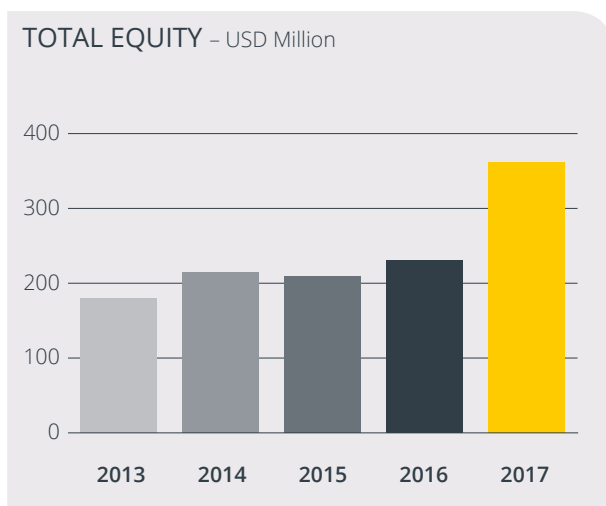
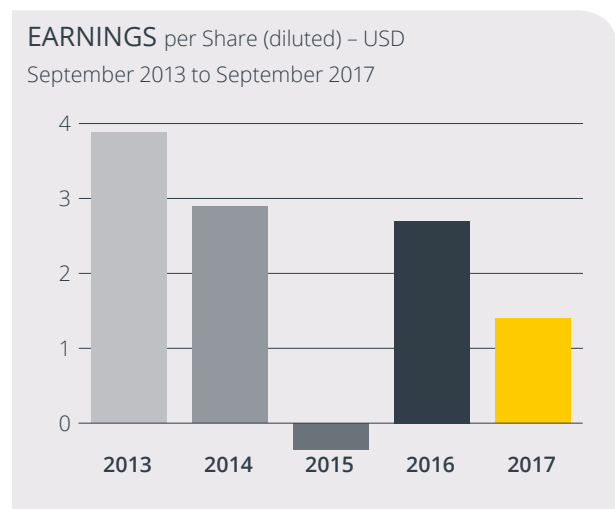
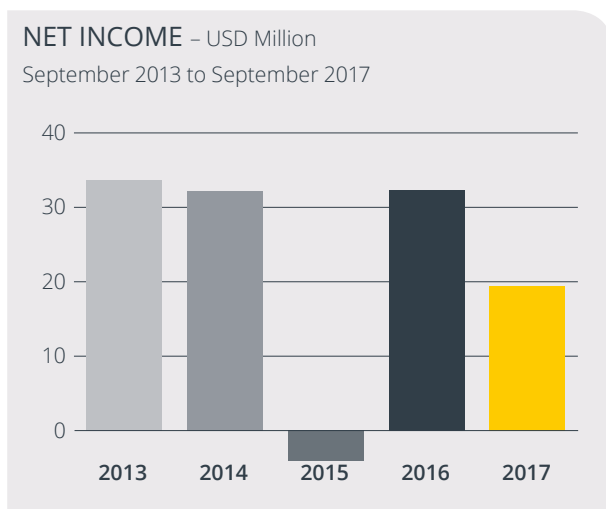
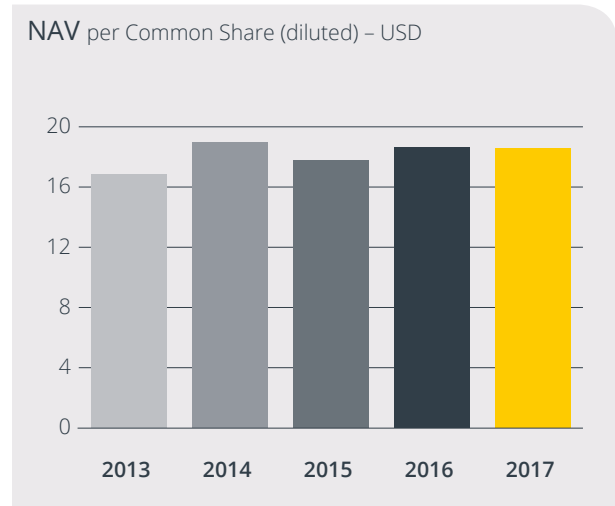
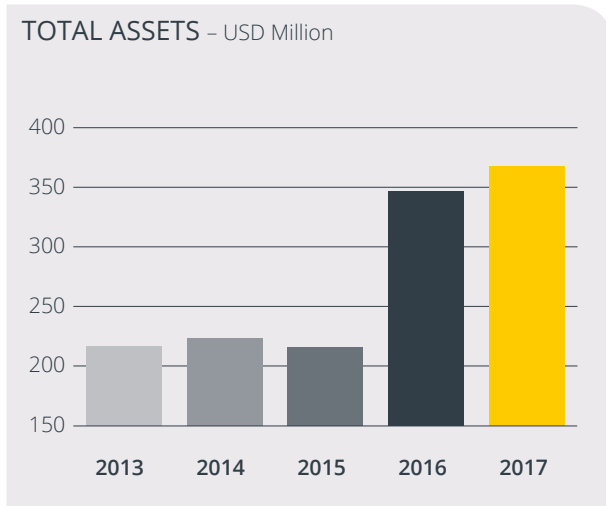
New Zealand asset financing company



**Stockbroking Trading Forum**

Australia's largest stock trading and investment internet discussion forum

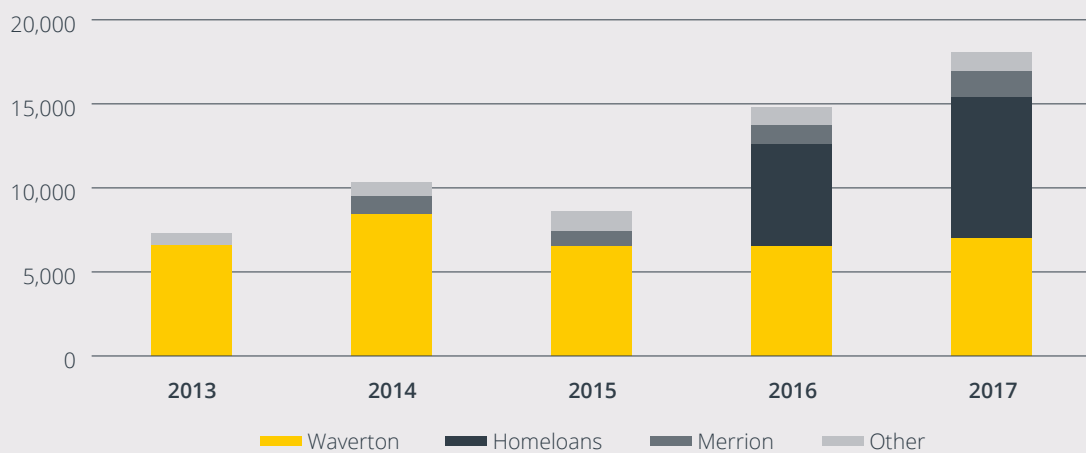
## FINANCIAL HIGHLIGHTS





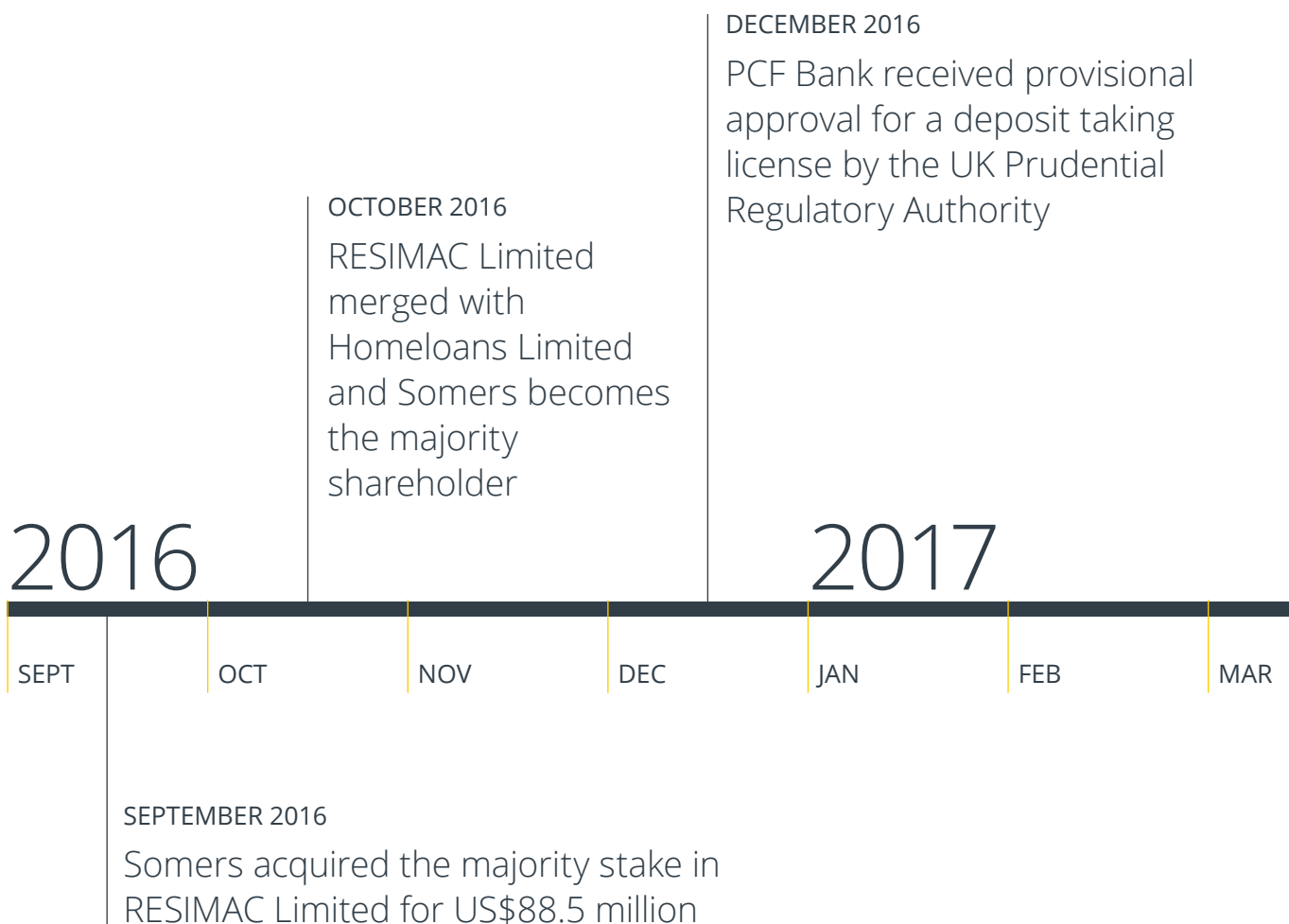
Year ended September 30, 2017	2017	2016
NAV per share	\$18.55	\$18.66
Share price	\$14.00	\$13.75
Discount to NAV	24.52%	26.32%
Shares in issuance (excluding shares held in treasury)	19.48m	12.11m
Total return per ordinary share	1.88%	7.67%
Ordinary dividend per share	48.0c	44.0c
Cash from shares issued	\$2.96m	\$4.49m
Cash raised from warrants	\$33.62	\$nil
Total assets	\$368.14m	\$346.92m

SOMERS GROUP AuM – USD Million



## FINANCIAL HIGHLIGHTS (continued)

### Key Highlights



**2017 was a profitable year with increased valuations for a number of our largest companies, driving a positive financial performance.**

JULY 2017

Further investment in MJ Hudson to fund increased infrastructure investment across the company

JULY 2017

Disposal of investment in Ascot Lloyd for a total consideration of £15.3 million, the proceeds of which were used to reduce bank debt

APR

MAY

JUN

JUL

AUG

SEP

JULY 2017

PCF Bank commenced taking retail deposits in July 2017

SEPTEMBER 2017

Increase in value at both Homeloans and Waverton due to strong financial performance at both companies

## CHAIRMAN'S STATEMENT

I am pleased to report that 2017 was a successful year for many of our investee companies. This is partially due to positive global capital markets benefiting from supportive central bank policy, which in turn led to low inflation and low interest rates. Foreign currency movements during the year also helped our valuations, as a significant portion of our assets are denominated in Sterling and the Australian Dollar, which strengthened against the US Dollar by 3.3% and 2.3% respectively. While Somers recorded a profit for the year of \$19.4 million, the dilutive impact of the bonus warrant issue to all shareholders, with shares being issued at a discount to net asset value ("NAV"), resulted in Somers' NAV per share decreasing marginally during the year.

In 2017, we continued to invest in our portfolio, notably supporting the capital raising of PCF Group plc ("PCF"), in addition to making several new investments. One of the year's highlights was PCF receiving a deposit taking license in the UK, which is expected to have a positive impact on their business and earnings moving forward. In October 2016, RESIMAC merged with the ASX listed Homeloans Limited ("Homeloans"), and as a result Somers became the controlling shareholder of the merged group. In addition, we chose to exit our investment in Ascot Lloyd in June 2017, the proceeds of which enabled Somers to significantly reduce its modest bank debt. Overall, the composition of the Company's investee companies remains largely unchanged.

Our focus remains on delivering strong returns for our shareholders and during the year Somers launched a bonus two for five warrant issue to all shareholders, the proceeds of which enabled Somers to repay its debt to its major shareholder, UIL Limited.

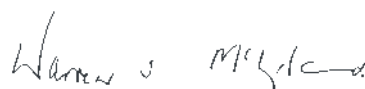
We are currently fully invested, but as our capital grows and our investments generate surplus cash which they can distribute to Somers in the form of dividends, then we will continue to look to increase the portfolio where the strategic and financial case is strong.

Given the strong underlying performance of the investee companies and the attractive dividend yield of 3.4%, it is disappointing that the Company's share price remains

at a significant discount to its NAV. The Board continues to monitor Somers' share price, and believes that the current market price does not fully reflect the underlying value of the Company's investments. As such, we intend to continue to buy back shares when opportunities arise, with a total buy back of 23,989 shares during the year, at an average price of \$13.28 per share. These buybacks were accretive to Somers' NAV per share and earnings per share, and are supported by the Board. These shares were cancelled prior to year end. The Board has resolved to pay a final dividend per share of \$0.28 (2016: \$0.26). The total dividend payment for the year was \$0.48 a share, an increase of \$0.04 per share compared to 2016.

### OUTLOOK

We are conscious that the current period of low volatility and growth in stock market valuations cannot continue forever and we expect that volatility will increase at some stage in the coming years. Our investments, whilst performing strongly, are faced with increased regulatory burden. Inevitably, regulatory change needs to balance the concerns of increased safety in the financial system, whilst creating conditions for financial companies to grow. It is a fascinating time to be involved in the financial services industry with the increased adoption of Fintech, Automation and Artificial Intelligence. These are game changing developments and we encourage all our investee companies to embrace these opportunities, and to look at how they can adopt these technologies in their businesses. The Board remains confident that Somers can continue to perform in the prevailing economic conditions, and identify attractive long-term investments.



Warren McLeland  
Chairman

# ABOUT THE COMPANY

## HIGHLIGHTS

2017 has been a pleasing year for Somers and our investee companies, benefiting from a positive performance in global capital markets and foreign currency movements. The latter half of the year highlighted that the global economy is expanding which has given a further boost to global stock markets.

We completed 2017 with US\$18.0 billion AuM, a profit for the year of \$19.4 million, and an attractive dividend yield of 3.4%.

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## FINANCIAL REVIEW

Somers' financial highlights for the year ended September 30, 2017, are set out on page 6 and the results for the year are set out in the attached accounts.

2017 was another strong year for Somers. The Company recorded annual net income of \$19.4 million (2016: \$32.3 million) and shareholders' equity has grown to \$361.2 million (2016: \$230.4 million). Earnings per share (on both a basic and fully diluted basis) were \$1.40 compared with basic and fully diluted earnings of \$2.70 in 2016. Diluted NAV per share ended the year at \$18.55 from \$18.66 a year ago. The annualised total return on shareholders' equity (including dividends) was 1.9%.

### INCOME

#### Gains on Investments

During the year, Somers recorded a \$15.2 million gain on its investment portfolio (2016: \$34.8 million). Investment gains and losses result from changes in the valuations of the Company's investments and during the year there were significant unrealised valuation increases at Homeloans (\$13.8 million) and Waverton (\$11.0 million). Homeloans' uplift followed strong mortgage settlement flows at the company which lead to improved earnings, and Waverton's valuation gains mirrored the strong performance in the UK wealth management industry along with positive global equity markets. PCF and Stockdale also recorded valuation increases following revenue and earnings growth at both these companies. Partially offsetting these gains were valuation reductions at BCB, RESIMAC Treasury Services and at Ascot Lloyd prior to its disposal.

#### Net Interest Income

Interest income totalled \$1.0 million (2016: \$1.1 million), with \$0.5 million (2016: \$0.9 million) generated from convertible loan notes and \$0.5 million (2016: \$0.2 million) generated from lending to portfolio companies. Following the disposal of the investment in Ascot Lloyd, and with no new material lending planned for 2018, interest income is expected to reduce in the short term.

Interest expense was \$1.3 million in 2017 (2016: \$0.7 million) following an increase in borrowing levels to fund a number of acquisitions. Most of these borrowings were repaid prior to year end, and therefore current run-rate interest expense is significantly below 2017 levels.

#### Dividend Income

Somers received distributions of \$4.1 million during the year compared to \$3.4 million a year ago. Of the dividends received, \$2.7 million was received from Homeloans and \$1.2 million was received from Waverton, both of whom are generating positive levels of earnings and cash flow.

#### Foreign Exchange Movements

Net foreign exchange gains were \$3.3 million for the year (2016: loss of \$4.2 million). \$119 million of Somers' assets are denominated in Sterling and a further \$111 million are denominated in Australian Dollars, and during the year these currencies appreciated against the US Dollar by 3.3% and 2.3% respectively. These gains were primarily unrealised. Currency risk is an integral consideration when making investments into non-US Dollar denominated assets and the Investment Manager monitors currency movements on an on-going basis. Foreign currency policy is discussed with the Board of Directors on a regular basis and asset allocation or currency risk strategies may be altered as a result. There is no regular hedging of foreign currency as the Company is a long term investor and currency fluctuations are expected to equal out over time. The Company may however engage in currency hedging to limit Somers' exposure to currency fluctuations, and while the Company did not engage in currency hedging throughout 2017, it did commence a limited hedging program shortly after year end.

The net assets of the Company by currency and the sensitivity for further currency movements are shown in note 18 of the audited financial statements.

## EXPENSES

Somers' cost base is actively managed and monitored on an ongoing basis and there is a focus on linking the cost base to revenue streams. Investment management fees are based on a fixed percentage of qualifying portfolio assets and during the year these assets increased substantially compared to 2016, with a corresponding increase in investment management fees to \$1.2 million (2016: \$0.5 million). The remaining expenses were impacted by transaction legal costs and one-off restructuring costs. It is anticipated that this restructuring will result in a lower level of operating costs in 2018 despite an expected increase in average assets.

As in 2016, no performance management fee was accrued for 2017. Somers pays a performance fee on an annual basis upon achievement of a cumulative hurdle rate of return based on shareholders' equity.

## ASSETS

Total assets ended the year at \$368.1 million from \$346.9 million a year earlier. This increase in Somers' balance sheet resulted primarily from valuation gains on the holdings in Homeloans and Waverton.

### Financial Investments

The investment portfolio was \$361.0 million at year end (2016: \$332.0 million) with equity investments of \$355.8 million accounting for 98.6% of this total. The remaining 1.4% (\$5.2 million) consisted of convertible loan note investments.

Within investments, Homeloans at \$107.5 million, BCB at \$102.5 million and Waverton at \$85.1 million, together represent 81.8% of total investments. It is anticipated that this concentration will continue to reduce as new capital flows, an increased but limited level of leverage and net positive cash flows from existing investments allow for new investment opportunities. A table setting out the Company's significant investments is provided on page 28, and individual company details are provided in the Summary of Core Investments section of this report.

## Loans and Receivables

As part of its investment strategy, Somers will occasionally provide lending facilities to companies within its investment portfolio. These facilities are typically used by the companies for growth or investment purposes and at September 30, 2017, such loan balances were \$2.7 million (2016: \$13.7 million). The year on year reduction resulted primarily from the repayment of the Ascot Lloyd loans, and the repayment of our investment in factored trade receivables that the Company had used to earn yield on short term cash balances.

## BORROWINGS

Somers' borrowings decreased to \$4.5 million at September 30, 2017, from \$26.5 million a year earlier. The prior year balance included \$18.1 million of debt funding provided by UIL Limited, Somers largest shareholder, which had been used for investment purposes, along with \$8.4 million of bank debt. Somers utilised the proceeds from the Q4 bonus warrant issue to repay both the UIL borrowings and the \$5.0 million Butterfield bank loan.

The Somers convertible loan notes (2016 balance of \$88.5 million) were converted during the year by Permanent Investments Limited ("Permanent"), into 4.7 million Somers shares with the balance of \$6.9 million being repaid to Permanent. The convertible notes had been issued in September 2016 as consideration for the purchase of the majority stake of RESIMAC Limited.

## SHAREHOLDERS' EQUITY

Shareholders' equity increased to \$361.2 million at September 30, 2017 from \$230.4 million a year ago, primarily due to the conversion of the Permanent convertible loan notes and the bonus warrant issue. The conversion of the Permanent convertible loan notes added \$82.9 million to shareholders' equity while \$33.6 million was raised from the bonus warrant issue. Additionally \$3.0 million of the \$8.3 million dividends paid during the year were reinvested, under the dividend reinvestment plan, through the issuance of 0.2 million

## FINANCIAL REVIEW (continued)

shares. The net result from these actions was an increase in the number of issued shares to 19,475,459 (2016: 12,105,086). The closing diluted NAV per share was \$18.55 (2016: \$18.66).

### NEW INVESTMENTS DURING 2017

Somers is a mid to long term investor with a strategy of supporting and growing its core investments. The Company is building a portfolio of financial services companies and the trading of investments within this portfolio is generally kept to a minimum. The investment activity in 2017 was funded primarily through the

proceeds from the warrant issue and funds received from the sale of the investment in Ascot Lloyd. The following key investments were made during the year:

- Acquisition of 23.6 million shares (£5.9 million) in PCF increasing the Group's (Somers and BCB) consolidated holding to 65.6%;
- Acquisition of an additional 0.4 million shares (A\$0.2 million) in Homeloans increasing the holding to 59.0%; and
- Invested a further £1.25 million in MJ Hudson, increasing the diluted holding to 13.0%.

ACQUISITION OF

**23.6**

MILLION SHARES  
(£5.9 million) in PCF

ACQUISITION OF

**0.4**

MILLION SHARES  
(A\$0.2 million) in Homeloans

INVESTED A FURTHER

**£1.25**

MILLION  
in MJ Hudson



## INVESTMENT MANAGER'S REPORT

ICM is the Investment Manager of Somers.

### OVERVIEW

Somers reported a profit of \$19.4 million for the twelve months to September 30, 2017, driven by increased valuations at Homeloans, Waverton and PCF. Global capital markets have performed strongly during the year, and continue to be supported by Central Bank policies of low interest rates while inflation remains stubbornly low. The latter half of the year highlighted that the global economy is expanding which has given a further boost to global stock markets. The S&P 500 increased by 16.2% since October 1, 2016, and over the same period the FTSE 100 Total Return Index has increase by 22.7%.

Whilst equity markets have remained buoyant in a period of unprecedented low volatility, currency markets continue to have relatively high volatility. The impact of the Brexit vote continues to be felt in the value of Sterling, and for most of the year Sterling traded at a historical low value. Towards the end of the year the value of Sterling against the US Dollar increased on the back of higher UK inflation and increased chances of an interest rate increase. As a result, Sterling slightly

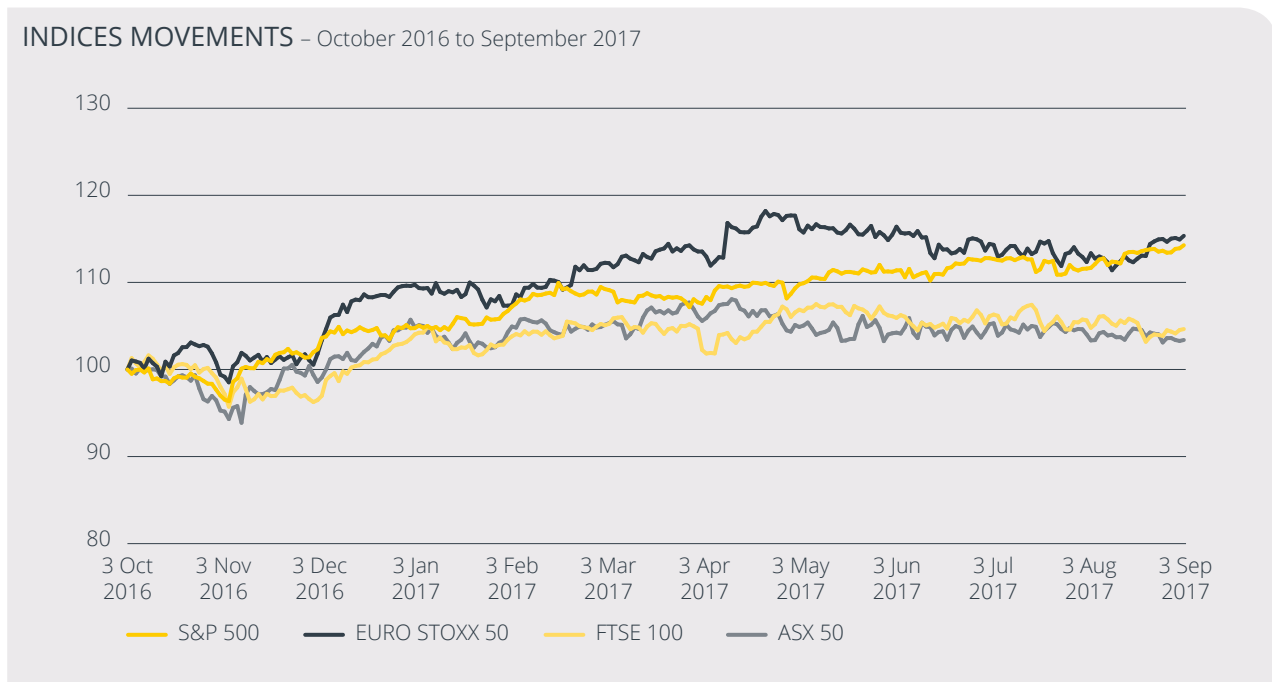
strengthened against the US Dollar for the year. With the various global Central Banks at different stages of economic cycles, currencies remain important to any investment decision that is made. We would expect the US Dollar to strengthen against a basket of currencies during the next year as the US Federal Reserve continues its programme of increasing interest rates and unwinding its balance sheet. However, with the next move by the Bank of England and the European Central Bank likely to be to increase interest rates, it is possible that there will be significant movements in individual currencies. Combined with geopolitical issues such as Brexit and North Korea, we are in a period of currency uncertainty, and the Investment Manager continues to monitor the optimal way to hedge Somers' foreign currency exposure.

The underlying performance of our investments has been positive during the financial year. Homeloans, Waverton and PCF have all increased in value over the year. The increase in the PCF share price has had a positive impact on both Somers' direct holding and BCB's shareholding in PCF. BCB also returned to profitability during the year. Each of the Company's core investments is reviewed in more detail later in the report.

CURRENCY MOVEMENTS VS US DOLLAR – October 2016 to September 2017



## INVESTMENT MANAGER'S REPORT (continued)



The year to September 30, 2017 contained one major realisation with the sale of Somers' investments in Ascot Lloyd in May 2017, for a total consideration of \$15.3 million. The proceeds of which were used to repay the Company's debt. Somers made several investments during the year, to support existing investments such as PCF's capital raising in April 2017, and to make new investments. The total amount invested during the year was \$18.6 million.

Somers' shares continue to trade at a significant discount to its NAV. The share price as at September 30, 2017 was \$14.00 which is a discount of 24.5% to the year-end diluted NAV of \$18.55. The significant discount is one of the reasons the Company continues to buy back shares, and during the year the Company bought back 23,989 shares for a total cost of \$0.3 million. It is hoped that combined with the performance of the investments, the share buyback programme will help with narrowing this discount.

### SIGNIFICANT INVESTMENTS

The Company has a small number of concentrated investments which are essentially focused on the financial services sector, with 60.6% of the portfolio in this

sector. Within geographic allocations, Bermuda accounts for 35.9% of the portfolio (2016: 40.1%), while Australia 30.2% (2016: 28.0%) and the UK 30.9% (2016: 29.6%), make up most of the balance.

As at September 30, 2017, the largest seven investments accounted for 95.7% of the portfolio (2016: 97.0%).

### Homeloans

Homeloans is now Somers' largest investment, accounting for 29.8% of Somers' portfolio (2016: 27.5%). Homeloans operates in targeted market segments and asset classes in Australia and New Zealand with assets under management of A\$10.2 billion. Its shares are listed on the Australian Securities Exchange and Somers owns approximately 60% of Homeloans, with the balance owned by institutional and retail investors.

The company generated a net profit after tax for the year ended June 30, 2017 of A\$18.7 million. This is an adjusted figure to reflect the company's normalised earnings, excluding one-off transaction and restructure costs associated with the merger between Homeloans

and RESIMAC in October 2016. As at June 30, 2017 the company's principally funded AuM was A\$6.6 billion and non-principally AuM was A\$3.6 billion.

The company's merger integration continues to progress well and synergies are expected to be better than the planned A\$6 million. Homeloans' strategy is focused on a combination of organic and acquisition growth. Organically the company is looking to build upon its strong volume growth in Australia, which is driven by anticipated market growth in the specialist and prime segments of the residential mortgages market. Homeloans is also in a strong position to benefit from its unique position as a non-bank lender with many customers seeing the company as an alternative to major lenders. Acquisition growth will focus on opportunities that may stem from regulatory change and capital markets volatility, and the company is looking to explore opportunities for further market partnerships.

With the relatively illiquid nature of Homeloans' shares, Somers' investment in Homeloans has been valued on a peer comparison basis using an EV/PAT valuation methodology. Following the company's strong performance post the merger, the value of Somers investment in Homeloans has increased to A\$137.2 million (2016: A\$119.3 million). More information on Homeloans can be found on page 30.



BCB is one of Bermuda's four licensed banks and accounts for 28.4% of the portfolio at the year-end (2016: 31.9%). BCB continues to face headwinds due to increased regulatory requirements which have prevented it from implementing its strategic plan in 2017. With a new management team in place and increased investment across all levels of the organisation, the Bank is well placed to start to implement its strategic plan and to drive the company forward. As such, there remains a potentially exciting opportunity for BCB in both its local market but also internationally.

It is pleasing to report that following on from a challenging 2016, BCB returned to profitability in 2017. Through the

performance of its subsidiary PCF, a strong return from its investment portfolio, and good cost management, BCB generated a profit for the year of \$1.1 million (2016: loss of \$6.6 million).

As at September 30, 2017, BCB was interested in 54.5% of PCF's issued share capital and PCF's share price was 28.0p (2016: 25.0p) representing an unrealised profit for BCB of £11.0 million. More information on BCB can be found on page 30.



PCF have had a successful year in 2017, receiving a deposit taking license from the UK's Prudential Regulatory Authority in July 2017, and following this, PCF commenced accepting retail deposits. This allows PCF to significantly reduce its cost of funding and provides it with access to a much larger section of the asset financing market in the UK, whilst being able to maintain a strong return on assets. In addition to BCB's holding of PCF, Somers is interested in an additional 10.9% of PCF which Somers principally acquired as part of PCF's fund raising in April 2017, a pre-requisite for its deposit taking license.

As at September 30, 2017 PCF had deposits of £53.0 million. PCF produced very strong financial results for the year ended September 30, 2017, with reported profit before tax of £3.7 million (18 months ended September 30, 2016: £5.1 million).

Somers' investment in BCB is calculated with reference to the value of BCB on a stand-alone book value basis combined with the value of BCB's investment in PCF. With the continued regulatory burden faced by BCB and the delay in implementing its strategic plan, Somers has decided to value BCB at a 10% discount to its stand-alone book value. However, this discount has been partially offset due to a combination of the increase in the value of Sterling in 2017, and with the increase in PCF's share price. The result is that the valuation of BCB decreased by \$3.5 million to \$102.5 million (2016: \$106.0 million) in 2017. More information on PCF can be found on page 31.

## INVESTMENT MANAGER'S REPORT (continued)



**WAVERTON**  
INVESTMENT MANAGEMENT

Waverton's AuM was £5.2 billion as at September 30, 2017 (2016: £5.0 billion). With global stock markets performing well in 2017, Waverton's existing AuM have grown, and for the year Waverton attracted net new assets of £64 million. Waverton's acquisition in 2016 of 2CG Senhouse continues to be positive for the company's financial performance, and several of their funds have generated pleasing investment performances in 2017, and are ranked in the top quartile of investment funds in those sectors.

Somers' investment in Waverton has been valued based on peer comparisons using an EV/EBITDA valuation methodology. Over the course of the year, Waverton's assessed maintainable EBITDA was £9.3 million (2016: £9.7 million). With the strong performance of global stock markets and increased merger and acquisition activity in the wealth management sector in the UK and globally, Waverton's peer multiple increased to 11.8x from 10.8x in 2016. The net result was an increase in the value of Somers' investment in Waverton to £63.5 million (2016: £57.2 million).

In September 2017, Waverton announced the appointment of David Rosier as Non-Executive Chairman. David has spent almost forty years in the wealth management sector at companies such as SG Warburg, Mercury Asset Management and Merrill Lynch. His appointment is extremely positive for Waverton, and will be key to determining the way forward for Waverton and how they take the next step in growing its business. More information on Waverton can be found on page 31.



**WEST HAMILTON**  
HOLDINGS LIMITED

West Hamilton is a Bermuda Stock Exchange listed property investment and management company with property assets in Bermuda, and in which Somers has a 57.1% equity interest.

It was a positive year for West Hamilton with continued strong occupancy of its assets, the Belvedere Building, Belvedere Residences and its car park facility. The Belvedere Residences, which was completed in September 2016 is fully occupied. The car park facility is 100% occupied, and The Belvedere Building is approximately 90% occupied, which in an over supplied commercial property environment in Bermuda is a good achievement.

For the year ended September 30, 2017, West Hamilton reported strong results with revenue of \$3.1 million (2016: \$2.1 million). Shareholders' equity increased to \$22.8 million (2016: \$21.5 million) and the book value per share if fair value is used, would be \$16.20. Somers' investment in West Hamilton has been valued using the fair value of West Hamilton's identifiable assets and liabilities and is valued at \$26.9 million as at September 30, 2017. More information on West Hamilton can be found on page 32.

### Stockdale

Stockdale's trading performance in 2017 has been very strong. The company was profitable for every month during the year which is a significant turnaround from previous years. With a restructured balance sheet and cost profile, combined with helpful capital markets, Stockdale has been able to provide the required solutions for its clients. The reduction in the cost basis was alongside offering employees the opportunity to own up to 45% of the company depending on certain profitability metrics (currently employees own 25% of the company).

For the year ended September 30, 2017, Stockdale reported revenue of £13.0 million (2016: £8.7 million) and a profit before tax of £1.7 million (2016: loss of £0.4 million).

During the year Stockdale repaid £0.7 million of its loan due to Somers, and as at September 30, 2017 Stockdale owed Somers £1.5 million. With Stockdale returning to profitability in 2017, Somers has valued Stockdale on an EV/EBITDA market multiple. This provides recognition

of the earnings stream derived from its long-standing relationships with several existing clients, as well as winning selective new mandates and a restructuring of its cost base. Somers' has therefore increased its valuation of its equity investment in Stockdale to £5.7 million as at September 30, 2017 (2016: £1.0 million).

Stockdale has started to build a strong franchise, but its continued positive performance will remain dependent on the stock markets and the appetite for IPOs remaining strong. In addition, increased regulatory burden in the shape of MiFID II is likely to have a financial and business impact on Stockdale in the next financial year. More information on Stockdale can be found on page 32.

## MJ HUDSON

MJ Hudson is a UK based specialist law firm and asset management services provider, founded in 2010 as a law firm for the alternative asset management and investment industry. MJ Hudson has created an outsourced platform for asset managers, thereby allowing them to focus on fund raising and making investments.

During 2017, Somers invested an additional £1.25 million in MJ Hudson to fund further investment in the company's infrastructure and product offering. Somers has now invested a total of £4.3 million for a fully diluted interest of 13.0% in MJ Hudson. For the year ended June 30, 2017, MJ Hudson reported revenue of £15.8 million (2016: £6.0 million) and EBITDA of £2.2 million. Somers values its investment in MJ Hudson at £5.2 million, which is equivalent to the value of the company's most recent fundraising in July 2017. More information on MJ Hudson can be found on page 33.

## OTHER INVESTMENTS

Somers has a number of other smaller investments which are a mixture of both unlisted and listed holdings. The total value of these investments as at September 30, 2017, was \$15.6 million (2016: \$8.7 million).

## GEARING AND BANK DEBT

The Company's level of bank debt is very low and has significantly decreased since 2016. As at September 30, 2017, gearing stood at 1.2% (2016: 11.5%). This reflects a decrease in total debt from \$26.5 million to \$4.5 million together with an increase in shareholders' equity to \$361.2 million from \$230.4 million.

The total debt figure as at September 30, 2017, of \$4.5 million, relates entirely to a single loan facility with BCB. There is no other bank or shareholder debt. All the debt provided by UIL Limited was repaid as part of the bonus warrant issue in June 2017.

## REVENUE RETURNS

The majority of Somers' returns are expected to be capital in nature, but we also monitor Somers on a revenue return specific basis. Revenue returns include, but are not limited to, dividend and interest income less operating expenses, finance costs and taxation insofar as they are not allocated to capital. Revenue income was \$1.8 million (2016: \$2.0 million). Management fees were \$1.2 million (2016: \$0.5 million) and no performance fee was earned in 2017.

The Company reported a profit for the year of \$19.4 million (2016: \$32.3 million). The resultant profit per share was \$1.40. The Company has declared a final dividend of \$0.28 per share bringing the total dividend for the year to \$0.48 per share.

## ICM'S INVESTMENT PHILOSOPHY

ICM is a value investor and generally operates focused portfolios with narrow investment remits. ICM has a number of dedicated research teams who have deep knowledge in their specific sectors, which improves the ability to source and make investments. ICM has approximately \$3.0 billion of assets directly under management and \$19.0 billion indirectly under management.

ICM looks to exploit market and pricing opportunities and concentrates on absolute performance. The investments are not market index driven, and ICM is unlikely to participate in either an IPO or an auction unless there is compelling value.

Somers seeks to leverage ICM's investment abilities to both identify and make investments in the wider financial services sector, including new Fintech and Paytech opportunities. New investments usually offer a mix of compelling value, scalability and optionality at the time of investment. There is no desire to establish a "portfolio of must have investments", rather the investment portfolio comprises a series of bottom up decisions.

ICM has extensive sector knowledge and understanding of investments in the financial services sector and will remain focused on the undoubted opportunities in this sector. Somers will look to actively engage with each investee company through ICM.

Neither Somers nor ICM has the management team to step in and manage investee companies. Furthermore, Somers is not a private equity investor. Somers does not seek to exit, or establish short term returns. Somers is a long term investor looking for long term performance.

Somers expects investee companies to:

- Remain independent – the business must stand on its own two feet
- Have their own strategic plan and ambition statements – without a road map the business will under achieve
- Be agile and exploit business opportunities created by disruptive technology

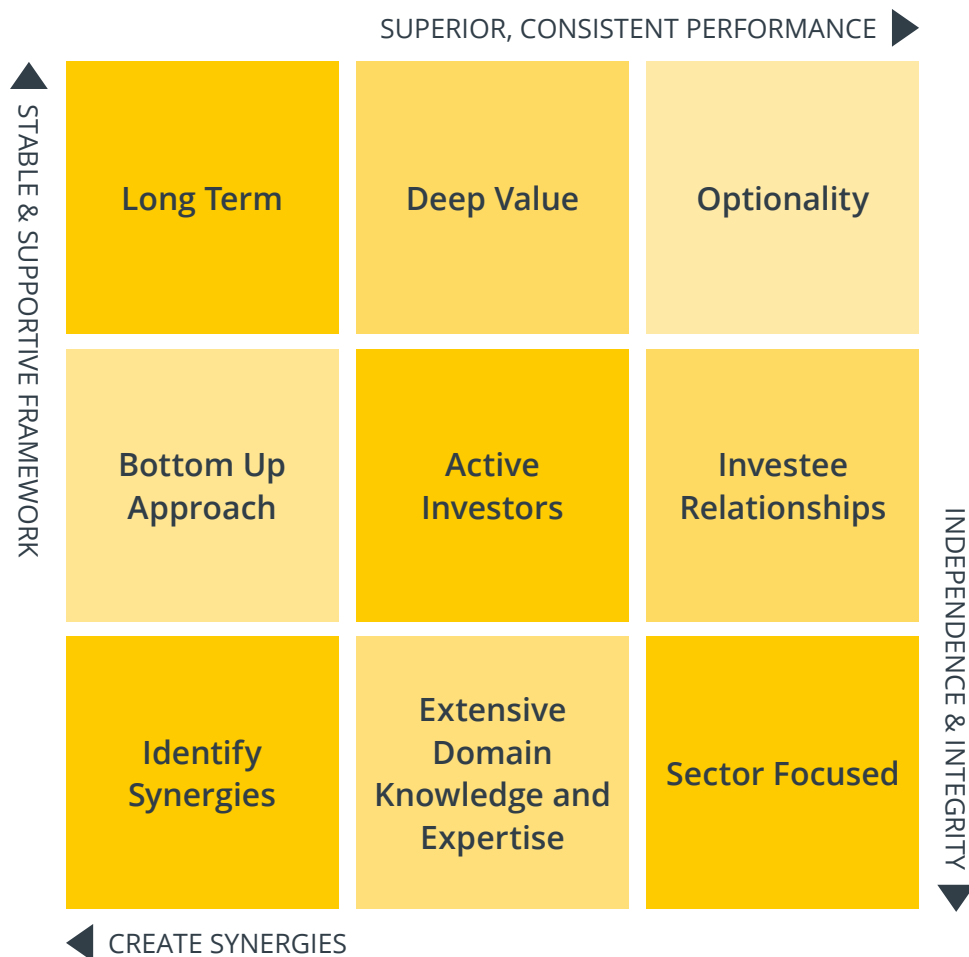
- Address and mitigate their business risks
- Have their own DNA and character
- Seek internal and group synergies, but remain independent

Somers encourages its investee companies to create synergies, to collaborate on both commercial and revenue opportunities, and identify and action gradual cost savings within the wider Group. Somers looks to optimise each investee company by seeking a sharing of knowledge and experience with a view to achieving more than they could independently. Areas of collaboration include cyber security, regulation, risk and compliance and Fintech. By establishing a like-minded open and constructive dialogue with investee companies, the opportunities to thrive and grow are maximised. Both ICM and Somers are acutely aware of the benefits of technology that are available to agile companies including in the areas of Fintech, Paytech, automation and outsourcing opportunities, and investee companies are encouraged to embrace these opportunities.

Somers will seek to provide a stable, consistent, supportive framework in which businesses can thrive. Somers will use its knowledge, acumen, financial support, contacts and relationships to help build the investee businesses and optimise strategy. Somers will generally use its balance sheet to support investee companies and work with them to seize opportunities available to each business.

Somers' guiding principle is that investee companies must maintain their business independence through pro-active and supportive boards of directors, capable management teams and use the abilities and opportunities within the whole Somers Group to optimise the long-term value of their respective companies for the benefit of all shareholders.

We seek out and make compelling investments



## MACRO TRENDS AFFECTING FINANCIAL SERVICES

### DIGITISATION AND AUTOMATION



- Financial institutions are increasingly becoming disrupted by artificial intelligence and automation both internally (replacement of staff, digitisation of business processes and workflows) and externally (move to robo-advice or underwriting, automated data driven decision making, smart contracts, etc)
- Decreasing customer loyalty, especially in younger demographic groups, promotes the commoditisation of finance, and requires new approaches to customer / user experience with a focus on reducing friction and lead times and improving transparency and instant engagement
- Significant move towards e-commerce and mobile in an environment of demonetisation, smartphone penetration and screen-time of four plus hours a day in developed nations, emerging nations e.g. China, India, Indonesia quickly catching up and driving large scale user adoption and behaviours

### FINTECH



- Fintech expanding rapidly as consumers demand cheaper, efficient service with more choice, multiple value chains continually being aggregated across banking, wealth management, insurance and non-FS
- Millennial engagement and the drive to maintain relevance against other daily-user platforms have driven growth in new platforms focused on social, mobile, hyperlocal and predictive personalisation
- Evolution of payments and the recent advent of blockchain / distributed ledger and cryptocurrency will change the financial services landscape long term, though this has yet to see widespread adoption
- Industry facing increasing threats from challenger firms working on technology enabled products which disintermediate traditional distribution and go direct to customer such as online and P2P lending



## CYBERSECURITY



- Sophistication and frequency of cyber-attacks in the spotlight with companies spending larger parts of total budget on protection from wide scale privacy and data breaches – digital enablement has necessitated a move to the cloud for large parts of FS infrastructure
- Reputational risk becoming as important as financial risk in an era of increased transparency and decreased trust with companies unable to control dissemination of content and customer backlash in social and online communities, social sentiment often mirroring share price
- Increase in enforcement of material financial and civil penalties related to cyber-crime and inadequate protection of consumer data, additional concerns over voice, facial and other biometric protocols

## MONETARY POLICY



- Adapting to and operating in an era of low interest rates, quantitative easing, low inflation and record stock markets and asset valuations coping with increased global government debt
- Encouraging financial institutions and investors to chase higher yielding assets thereby causing asset prices to increase and heightening risks
- As Central Banks around the world commence to remove quantitative easing and initiate interest rate rises there is the potential for increased market volatility and risk to the global economy

## REGULATORY AND COMPLIANCE



- Financial institutions and in particular banks are stronger than they were pre-crisis due to increased capital requirements but will have more constrained lending policies
- Increased global focus on regulation following the 2008 financial crisis e.g. MiFID II, GDPR, Basel III shaping technology driven customer interaction, particularly around consent, KYC, identity and AML
- Stronger regulation of established institutions contrasted by incentives and policies encouraging smaller, newer companies to compete and grow e.g. relaxing fintech capital and licencing requirements

## SOMERS' STRATEGY

Somers is an exempted investment holding company whose shares are listed on the Bermuda Stock Exchange. Our core investment markets are Bermuda, UK and Australia.

Somers' primary objective is to deliver superior shareholder total returns through both capital appreciation and dividend payments, which in turn can be expected to be reflected in the growth of the share price. To achieve this, the Company seeks to invest in undervalued companies within the financial services sector and has the flexibility to make investments in a range of financial related sectors and markets. Somers will identify and invest in opportunities where the underlying value is not reflected in the market or purchase price. The perceived undervaluation may arise from a variety of factors including the limited number of potential buyers, the paucity of lending to smaller financial service companies and an abundant supply of financial service companies for sale as financial institutions continue to deleverage in response to the global credit crisis. Somers will hold investments in unlisted securities when the attractiveness of the investment justifies the risk and lower liquidity associated with unlisted investments.

Key areas of focus for Somers are wealth and fund management, banking and asset origination. Somers holds a particular bias towards fund and asset management owing to a number of factors, including: its annuity style income; lower capital requirements; less onerous albeit increasing regulatory requirements; solid returns; the projected sector growth; and, the wider group's experience in this area. The Company remains interested in areas such as Fintech and Automation and how these opportunities can add value to our investments. There are dramatic changes in the global financial ecosystem whether it be payments, artificial intelligence or crypto currencies. The Company is reviewing how best to unlock value in this area for Somers; whether through new investments or our existing investee companies making use of new technology.

Somers will generally aim to achieve a control or strategic position but is equally comfortable with a

portfolio position if the purchase price or investment instrument is sufficiently attractive. The Company aims to maximise value for shareholders by holding a reasonably concentrated portfolio of investments and maintaining a prudent level of gearing. These investments can be either in the unlisted or listed arena. Besides looking for 'bolt-on' opportunities, the Company hopes to extract synergistic benefits from the investee companies on both costs and revenue as companies are encouraged to collaborate with each other and share resources, such as technology, where appropriate.

Somers, through its investment manager ICM, seeks to engage with and work with investee companies to achieve operational synergies and to leverage a group approach to meet various compliance, regulatory and risk requirements. Somers engages with the management of investee companies to stimulate new and better ways of doing important tasks, and to mitigate risk both at the investee level and also at a Somers level. Somers also works with investee companies in the important area of cyber-security, and Somers views cyber risk as one of the key risks to be managed and mitigated.

Somers does not expect to trade its core investments. It aims to be supportive of its investee companies, maintain regular dialogue with their management and, where appropriate, provide additional capital to ensure that the companies can develop and grow.

### BUSINESS MODEL

The business model the Board has adopted to achieve its objective is to appoint an external investment manager to whom it has contractually delegated the management of the portfolio. The Company has appointed ICM to manage the portfolio in accordance with the Board's strategy of generating capital growth and income return. The ICM investment team responsible for the management of the portfolio is detailed in the Investment Management Team section of this report. Other administrative functions such as company secretarial, legal and custody are contracted to external services providers who may be associates of Somers. The Somers' Board oversee and

monitor the activities of ICM and other service providers on behalf of shareholders and ensure that the investment objectives are adhered to.

ICM actively monitors and manages all investments from point of origination. Portfolio companies are managed through a system of monthly management information which is supported by ICM's valuation team, and benefit from Somers' Board oversight. Proposed investments are assessed individually and all significant new investments require approval from the Somers' Board. Overall investment targets are subject to periodic reviews and the investment portfolio is reviewed to monitor exposure to specific geographies, economic sectors and asset classes.

#### **BORROWING**

Portfolio investments are generally funded with a mixture of shareholders' funds and debt in order to maximise returns to shareholders. Leverage generally increases the returns, but has potential risk to shareholders. Recourse to external borrowings will only be undertaken if the Directors and the Investment Manager consider that the terms and conditions attaching to such borrowings are acceptable, having regard to the investment objective and policy of Somers. The Company will be indirectly exposed to borrowings to the extent that entities within the investment portfolio are themselves leveraged. Borrowings will generally be drawn down in US Dollars, Sterling or any currency for which there is a corresponding asset within the Company's portfolio.

#### **DIVIDENDS**

Dividends form a key component of the total return to shareholders, and the level of potential dividend payable and income from the investment portfolio is reviewed by the Board. As a Bermuda company, Somers is able to distribute both capital and income returns as dividends, and the Board has the flexibility to pay dividends from capital reserves.

It is Somers' intention to pay regular, semi-annual dividends to shareholders with the split between

the interim and final dividend weighted towards the final dividend. The Board's objective is to maintain or increase the total annual dividend while strengthening the Company's financial position. Dividends will generally be increased in line with long term trends in earnings per share growth, while sufficient profits will also be retained to support anticipated business growth and to fund further investments.

Dividends are determined taking into account historic and anticipated profits, cash flow and financial conditions. The Board will consider net debt levels and debt service obligations of the Company, and any other factors that the Board may deem relevant. All dividend payments will be conditional on meeting the applicable restrictions on the payments of dividends under the Bermuda Companies Act.

**Key areas of focus for Somers are wealth and fund management, banking and asset origination.**

## INVESTMENT MANAGER AND TEAM

The Directors are responsible for Somers' investment policy and have overall responsibility for the Company's day to day activities. Somers has, however, entered into an Investment Management Agreement with ICM under which ICM provides investment management services to Somers including investment analysis, portfolio monitoring, research and corporate finance.

ICM is a Bermuda based fund manager and corporate finance adviser. Other ICM clients include UIL Limited and Utilico Emerging Markets Limited, both listed on the London Stock Exchange, Zeta Resources Limited, listed on the Australian Securities Exchange, and Allectus Capital Limited.

ICM focuses on identifying investments at valuations that do not reflect their true long term value. Their investment approach is to have a deep understanding of the business fundamentals of each investment and its environment versus its intrinsic value. ICM manages some \$2.9 billion directly and has indirect involvement in over \$19.0 billion in a range of mandates. ICM has over 45 staff based in offices in Bermuda, Cape Town, Dublin, London, Sydney, Singapore and Wellington. The investment teams are led by Charles Jillings and Duncan Saville, who are both directors of ICM.

The Directors believe that ICM has performed consistently since their appointment by Somers. As such, it is the view of the Directors that it is in the best interests of the shareholders to continue with the current appointment of ICM under the terms agreed.

### ALASDAIR YOUNIE

Alasdair Younie joined the ICM Group in 2010. He is a Director of ICM and is based in Bermuda. Alasdair has extensive experience in financial markets and corporate finance and is responsible for the day to day running of the Somers Group. Alasdair qualified as a chartered accountant with PricewaterhouseCoopers and subsequently worked for six years in the corporate finance division of Arbuthnot Securities Limited in London. Alasdair is a Non-Executive Director of Ascendant Group Limited, Bermuda Commercial Bank Limited, Bermuda First Investment Company Limited and West Hamilton Holdings Limited. Alasdair graduated from Bristol University with a BSc in Economics and Economic History in 1998, and is a Member of the Institute of Chartered Accountants in England and Wales.

### CHARLES JILLINGS

Charles Jillings joined the ICM Group in 1995, and established ICM Investment Research Limited in 1997 and ICM Investment Management Limited in 2015. He is a qualified chartered accountant and has extensive experience in corporate finance and asset management with over thirty years of experience in international financial markets. He is an Executive Director of these companies, and he is responsible for the day to day running of UIL Limited and Utilico Emerging Markets Limited. Charles is currently a Non-Executive Director of Waverton Investment Management Limited, Merrion Capital Group and One Communications Limited. Charles graduated from University of Cape Town with a B. Com.

#### GREG REID

Greg Reid joined the ICM Group in 2014. He is a Director of ICM Capital Research Limited and is based in Ireland. His responsibilities include management of finance and risk at the Somers Group. Prior to joining ICM, Greg was the Chief Financial Officer of Bermuda Commercial Bank Limited, and previously the Controller with a Bermuda based provider of accounting services to the hedge fund industry, and an auditor. Greg is a Non-Executive Director of the Pentagon Global Diversified Fund, and is a member of the Institute of Chartered Accountants in Ireland. Greg holds an honours degree in Business Studies from the University of Limerick, Ireland.

#### DUNCAN SAVILLE

Duncan Saville founded the ICM Group and has been employed by ICM and its predecessor companies since 1988. He is a chartered accountant, and an experienced non-executive director having previously been a director in multiple utility, investment and technology companies. He is Non-Executive Director of Homeloans Limited and West Hamilton Holdings Limited. He is a Fellow of the Institute of Chartered Accountants Australia and New Zealand, the Australian Institute of Company Directors and the Financial Services Institute of Australasia.

#### SANDRA POPE

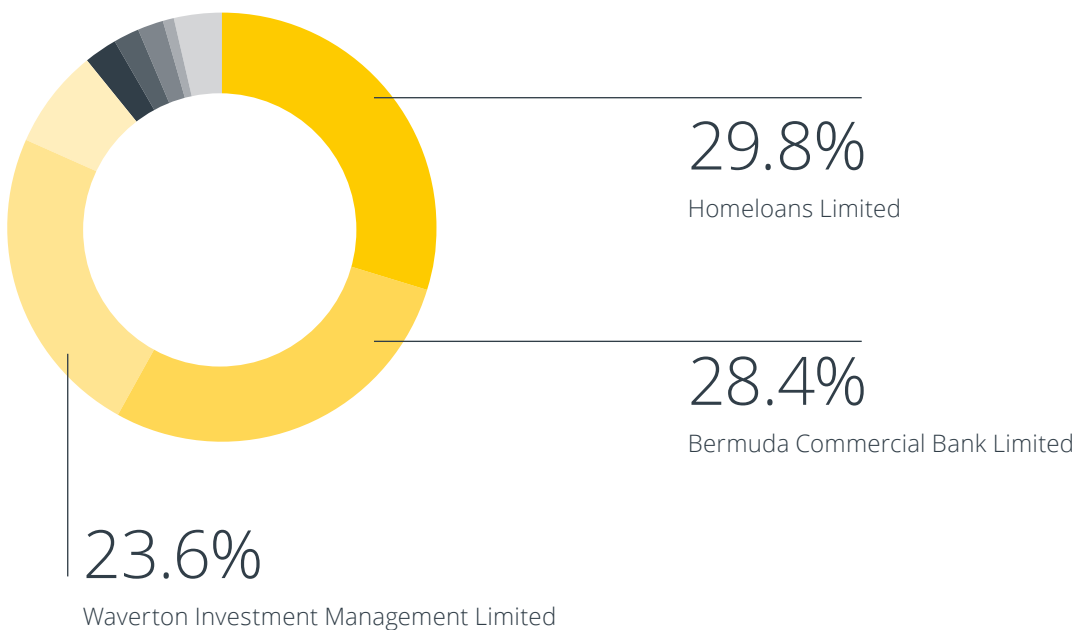
Sandra Pope joined the ICM Group in 1999 and is based in the UK. She has over twenty five years of experience in corporate finance. Prior to joining ICM, Sandra worked in corporate finance at Deloitte Haskins & Sells, Hill Samuel Bank and Close Brothers. She is a Director of ICM Investment Management Limited and ICM Investment Research Limited, ICM's fully owned UK subsidiary which focuses on research and analysis. She is a Non-Executive Director of several private companies including Harlequins Football Club Ltd, and Stockdale Securities Limited. Sandra is a qualified chartered accountant and holds the Securities & Investment Institute Certificate of Corporate Finance.

**ICM focuses on identifying investments at valuations that do not reflect their true long term value.**

## SIGNIFICANT INVESTMENTS

### CORE INVESTMENTS

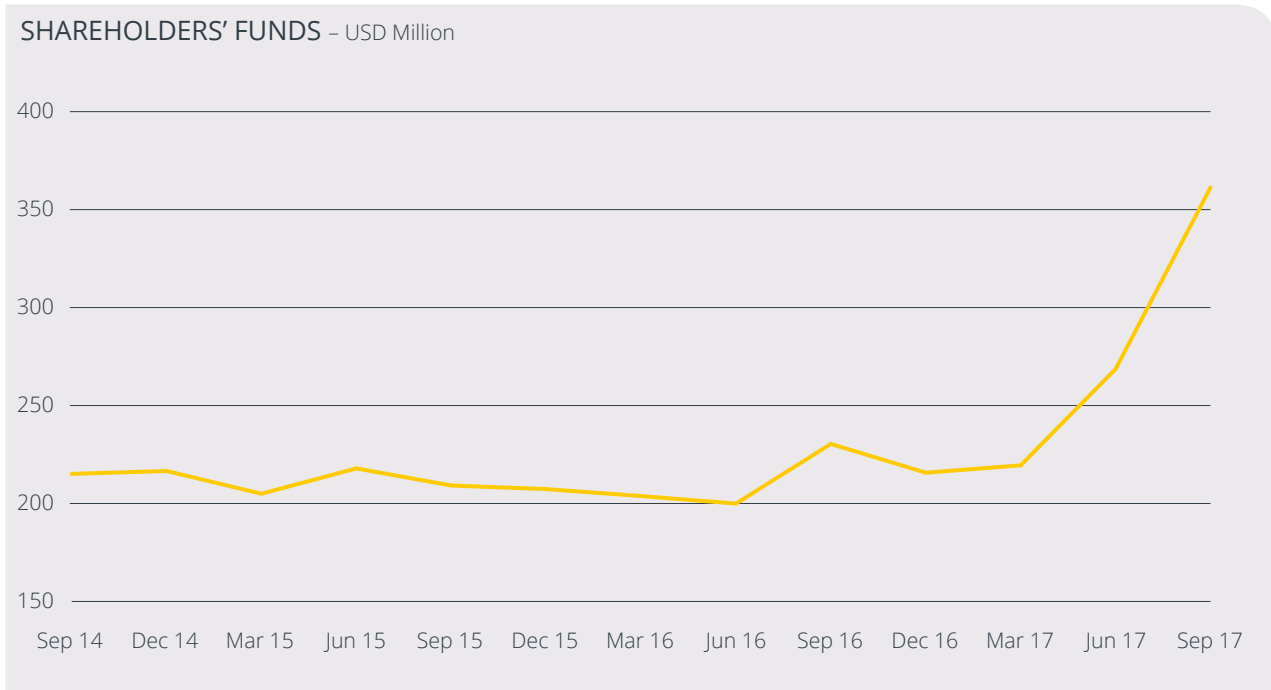
Somers' investments are predominantly Bermuda, UK and Australia based with these three jurisdictions together accounting for 97.0% of total investments. In total, the Company's significant holdings account for 96.6% of total investments at September 30, 2017.



	Company	Country	Fair Value (\$)	% of Total Investments
1	Homeloans Limited	Australia	107,532,882	29.8%
2	Waverton Investment Management Limited	UK	85,110,441	23.6%
3	Bermuda Commercial Bank Limited (excluding PCF) <sup>(1)</sup>	Bermuda	59,122,584	16.4%
4	PCF Group plc	UK	52,223,369	14.5%
5	West Hamilton Holdings Limited	Bermuda	26,884,188	7.4%
6	Stockdale Securities Limited	UK	7,633,593	2.1%
7	MJH Group Holdings Limited	Jersey	6,909,268	1.9%
8	Merrion Capital Holdings Limited	Ireland	3,113,694	0.9%
	Significant investments		348,530,019	96.6%
	Other investments		12,439,881	3.4%
	<b>Total Investments</b>		<b>360,969,899</b>	<b>100.0%</b>

(1) BCB's consolidated value including its PCF shareholding is \$102,493,281 (28.4%)

## SHAREHOLDERS' FUNDS



**Somers is well positioned to continue to perform in the prevailing economic conditions, and identify attractive long-term investments, that will generate increased shareholder value.**

## SUMMARY OF CORE INVESTMENTS

Details of our Somers' core investments are provided below. Details of Somers' subsidiary companies are provided in note 4 to the accounts.

### HOMELOANS LIMITED ("HOMELOANS")



[www.homeloans.com.au](http://www.homeloans.com.au)

VALUATION

**\$107.5** MILLION

Homeloans is a residential mortgage lender and multi-channel distribution business specialising in prime mortgage and specialist lending with excellent securitisation expertise. It operates in targeted market segments and asset classes in Australia and New Zealand, with assets under management of A\$10.2 billion. Its primary activities are as mortgage manager, mortgage broker and in addition, originating, servicing and securitising mortgage assets. Homeloans generated a net profit after tax for the year ended June 30, 2017 of A\$18.7 million. This is an adjusted figure to reflect the company's normalised earnings excluding the one-off transaction and restructure costs associated with the merger between Homeloans and RESIMAC in October 2016. Total revenues and other income was A\$315.3 million, a 25% increase from 2016. Net interest income increased by 19% to A\$278.8 million and loan impairment expense reduced by 38% to A\$1.3 million. Total mortgage settlement flows across its combined distribution channels (i.e. both principally funded and non-principally funded) was A\$3.6 billion, a 20% increase from 2016. As at June 30, 2017 the company's principally funded AuM was A\$6.6 billion and non-principally AuM was A\$3.6 billion.

NET INTEREST INCOME

**A\$278.8**  
MILLION

TOTAL SETTLEMENTS

**A\$3.6**  
BILLION

### BERMUDA COMMERCIAL BANK LIMITED ("BCB")



[www.bcb.bm](http://www.bcb.bm)

VALUATION

**\$102.5** MILLION

BCB is one of Bermuda's four licensed banks and the only bank focused solely to the needs of commercial, corporate and high net-worth clients. BCB offers an array of banking solutions, corporate administration, global custody and brokerage, estate planning and trust administration. BCB returned to profitability in 2017, mainly as a result of the strong return from its investment portfolio, good cost management and the performance of its subsidiary PCF Bank.

Profit for the year was \$1.1 million on revenue of \$35.1 million. Total assets were of \$779 million and there was a significant jump in total customer deposits to \$586 million. As at September 30, 2017, BCB's Tier 1 and total capital ratios were 22.5% and 22.5% respectively, exceeding the prescribed regulatory limits and confirming BCB's strong and liquid balance sheet. Management continue to focus on implementing the BCB's new strategic plan which remains dependent on regulatory approval.

PROFIT

**\$1.1**  
MILLION

TOTAL ASSETS

**\$779**  
MILLION



## WAVERTON INVESTMENT MANAGEMENT LIMITED ("WAVERTON")



WAVERTON  
INVESTMENT MANAGEMENT

[www.waverton.co.uk](http://www.waverton.co.uk)

VALUATION

**\$85.1** MILLION

Waverton is a London-based specialist investment manager which focuses on discretionary portfolio management for private clients, charities and institutions as well as offering a suite of in-house managed investment funds. Somers, in conjunction with Waverton's management and staff, acquired Waverton from Credit Suisse AG in 2013 for a total cash consideration of £50 million. Waverton reported AuM as at September 30, 2017 of £5.2 billion, an increase of £200 million from the prior year which was driven by strong capital markets and net new assets. For the year ended September 30, 2017, Waverton earned revenue of £35.5 million (2016: £32.8 million), EBITDA of £9.7 million (2016: £8.1 million), and operating profit before tax of £9.4 million (2016: £7.9 million). During the year Waverton repaid all its bank debt and paid Somers dividends totalling £0.9 million.

REVENUES

**£35.5**  
MILLION

EBITDA

**£9.7**  
MILLION

## PCF GROUP PLC ("PCF")



[www.pcfbank.co.uk](http://www.pcfbank.co.uk)

VALUATION

**\$8.9** MILLION

PCF is the AIM-quoted parent of the specialist bank, PCF Bank Limited. PCF was established in 1994 and has two lending divisions: Consumer Finance which provides finance for motor vehicles to consumers; and, Business Finance which provides finance for vehicles, plant and equipment to small and medium sized businesses. During 2017, PCF was granted a deposit taking license by the UK's Prudential Regulatory Authority. Following receipt of the license, PCF commenced accepting retail deposits. As at September 30, 2017 PCF had deposits of £53.0 million. PCF is targeting portfolio sizes of £350 million in 2020 and £750 million in 2022, by growing its current market share, in addition to diversifying into other asset financing sectors. The company now has the capability to lend increasingly to prime segments of the finance market. For the year ended September 30, 2017, PCF reported profit before tax of £3.7 million and excluding one-off costs associated with the deposit taking license, profit before tax was £5.0. The return on average assets was of 2.8% and PCF reported a total loan portfolio of £145.2 million.

PROFIT BEFORE TAX

**£3.7**  
MILLION

TOTAL LOAN PORTFOLIO

**£145.2**  
MILLION

## SUMMARY OF CORE INVESTMENTS (continued)

### WEST HAMILTON HOLDINGS LIMITED ("WEST HAMILTON")



[www.westhamilton.bm](http://www.westhamilton.bm)

VALUATION

**\$26.9** MILLION

West Hamilton is a Bermuda Stock Exchange listed property investment and management company, with property assets in the west of Hamilton, Bermuda. The Belvedere Residences, West Hamilton's mixed-use building, which was completed in September 2016, is fully occupied with all commercial space let on long term leases, 7 apartments let on long term leases and two apartments sold, the proceeds of which have been used to reduce the company's debt. The car park facility is 100% occupied with a long waiting list, and planning permission has been received to extend the facility by an additional two levels. The Belvedere Building is close to 90% occupied. For the year ended September 30, 2017, West Hamilton reported pleasing results with revenue of \$3.1 million. West Hamilton reported net income for the year of \$1.5 million and total assets amounted to \$38.7 million (2016: \$40.1 million). An independent third-party valuation undertaken in September 2017 valued the property at \$60 million. Total liabilities were \$15.9 million (2016: \$18.6 million), and net debt was \$14.5 million (2016: \$15.9 million). During the year West Hamilton paid a dividend of \$0.2 million to Somers.

REVENUE

**\$3.1**  
MILLION

NET INCOME

**\$1.5**  
MILLION

### STOCKDALE SECURITIES LIMITED ("STOCKDALE")



[www.stockdalesecurities.com](http://www.stockdalesecurities.com)

VALUATION

**\$7.6** MILLION

Stockdale is a London based corporate and institutional stockbroking group, with a greater focus on growth companies and investment funds. Its target market is the small and mid-market capitalised companies listed in London, and the company generates revenue through equity research, sales, trading and corporate finance and broking revenues. Stockdale's trading performance in 2017 has been very good. The company was profitable for every month during the year. As at September 30, 2017, Stockdale had 59 corporate clients generating recurring retainer revenue of approximately £2.6 million per annum. During the 2017 financial year Stockdale generated £10.3 million in corporate finance revenue and £2.3 million in trading and commission revenue. For the year ended September 30, 2017, Stockdale reported revenue of £13.0 million (up 49%) and a profit before tax of £1.7 million (against a prior year £0.4 million loss). During the year Stockdale repaid £0.7 million of its loan owing to Somers.

REVENUE

**£13.0**  
MILLION

PROFIT BEFORE TAX

**£1.7**  
MILLION

**MJ HUDSON GROUP LIMITED  
("MJ HUDSON")**



[www.mjudson.com](http://www.mjudson.com)

VALUATION

**\$6.9** MILLION

MJ Hudson is a UK based specialist law firm and asset management services provider for the alternative asset and investment industry. MJ Hudson is now a multi-service infrastructure business. It is essentially a one-stop outsourcer for asset managers and investors encompassing legal, operating and fiduciary, administration and reporting and investor relations services. For the year ended June 30, 2017, MJ Hudson reported revenue of £15.8 million and EBITDA of £2.2 million. Following Brexit, MJ Hudson made the decision to set up an office in Luxembourg to assist asset managers who are concerned about future access to the EU. A large percentage of these equity funds raised in 2017 will be used in the Luxembourg build-out, and additional IT and product related infrastructure investment. The company completed one small acquisition during the year, and is actively looking in selective areas for future acquisitions to drive top line revenue growth.

REVENUE

**£15.8**  
MILLION

EBITDA

**£2.2**  
MILLION

**MERRION CAPITAL HOLDINGS LIMITED  
("MERRION")**



[www.merrion-capital.com](http://www.merrion-capital.com)

VALUATION

**\$3.1** MILLION

Merrion is an independent Irish financial services firm that provides institutional asset management services through Merrion Investment Management ("MIM") and private client stockbroking and corporate finance services. As at September 30, 2017, MIM had approximately €746 million assets under management (2016: €752 million) and Merrion's private client business managed approximately €1,309 million (2016: €856 million) of private client funds mainly on an advisory and execution only basis. Whilst MIM continues to have a positive investment performance the fixed income business continues to struggle due to yield compression. For the nine months ended September 30, 2017, Merrion recorded unaudited revenue of €10.1 million (2016: €11.0 million).

ASSETS UNDER  
MANAGEMENT

**€746**  
MILLION

REVENUE

**€14.3**  
MILLION

## DIRECTORS

### WARREN MCLELAND



#### CHAIRMAN

Warren McLeland is a Science and MBA graduate and former stockbroker and investment banker, with over thirty years' experience in domestic and international financial services. He acts as an adviser in funds management and business strategy to companies operating in the Asia Pacific region. He is a Non-Executive Director of UIL Limited, Homeloans Limited, and a former Executive Chairman of RESIMAC Limited.

### CHARLES JILLINGS



Charles Jillings joined the ICM Group in 1995, and established ICM Investment Research Limited in 1997 and ICM Investment Management Limited in 2015. He is a qualified chartered accountant and has extensive experience in corporate finance and asset management with over thirty years of experience in international financial markets. He is an Executive Director of these companies and he is responsible for the day to day running of UIL Limited and Utilico Emerging Markets Limited. Charles is currently a Director of Waverton Investment Management Limited, Merrion Capital Group and One Communications Limited. Charles graduated from University of Cape Town with a B. Com.

### DAVID MORGAN



David Morgan has over thirty five years of experience in international banking; building his career at Standard Chartered Bank in Europe and the Far East before becoming Chief Executive for the UK and Europe in 1998. Since leaving Standard Chartered in 2003, he has been involved in a wide range of business advisory and non-executive roles and is currently Deputy Chairman of Bermuda Commercial Bank Limited and a Non-Executive Director of Waverton Investment Management Limited, and PCF Bank Limited.

#### DUNCAN SAVILLE



Duncan Saville founded the ICM Group and has been employed by ICM and its predecessor companies since 1988. He is a chartered accountant, and an experienced non-executive director having previously been a director in multiple utility, investment and technology companies. He is Non-Executive Director of Homeloans Limited and West Hamilton Holdings Limited. He is a Fellow of the Institute of Chartered Accountants Australia and New Zealand, the Australian Institute of Company Directors and the Financial Services Institute of Australasia.

#### ALASDAIR YOUNIE



Alasdair Younie joined the ICM Group in 2010. He is a Director of ICM and is based in Bermuda. Alasdair has extensive experience in financial markets and corporate finance and is responsible for the day to day running of the Somers Group. Alasdair qualified as a chartered accountant with PricewaterhouseCoopers and subsequently worked for six years in the corporate finance division of Arbuthnot Securities Limited in London. Alasdair is a Non-Executive Director of Ascendant Group Limited, Bermuda Commercial Bank Limited, Bermuda First Investment Company Limited and West Hamilton Holdings Limited. Alasdair graduated from Bristol University with a BSc in Economics and Economic History in 1998, and is a Member of the Institute of Chartered Accountants in England and Wales.

#### DIRECTORS AND OFFICERS INTEREST IN SOMERS' SHARE CAPITAL

At September 30, 2017, the Directors of the Company and their related interests had interests in aggregate totalling 9,675,401 common shares representing approximately 49.7% of Somers' issued share capital.

## BOARD RESPONSIBILITIES AND GOVERNANCE

Details of how Somers is governed and managed are provided in this section. Roles, organisation and composition of the Somers' Board are explained along with information on risk management and organisational oversight. The Company endeavours to comply with established best practice in the field of corporate governance, and the Company's processes, controls and governance framework are being continually reviewed and updated towards this goal.

### ROLE OF THE BOARD

The Company's Board of Directors is responsible for overall stewardship of the Company, including corporate strategy, corporate governance, risk and controls assessment, overall investment policy and gearing limits.

The Directors have a duty to take into consideration the likely consequences of any decision in the long term; the need to foster the Company's business relationships with its Investment Manager and advisers; the impact of the Company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and, the need to act fairly to all shareholders of the Company. The Directors are responsible for the proper conduct of the Company's affairs by directing and supervising its affairs within a framework of effective controls which enable risk to be assessed and managed. In addition, the Directors are responsible for ensuring that the Company's policies and operations are in the best interests of the Company as a whole, and that the all stakeholders are properly considered.

A schedule of matters reserved for decision by the Board and detailing the responsibilities of the Board has been established. The main responsibilities include: setting the Company's objectives, policies and standards; considering any major acquisitions or disposals of portfolio companies; ensuring that the Company's obligations to shareholders and others are understood and complied with; approving accounting policies and dividend policy; managing the capital structure; setting long term objectives and strategy; assessing

and managing risk; reviewing investment performance; monitoring the net borrowing position and consideration of the appropriate use of gearing; undertaking audit committee responsibilities; reviewing Directors' remuneration; undertaking nomination responsibilities; and, assessing the Investment Manager on an ongoing basis. The Board also seeks to ensure that shareholders are provided with sufficient information to understand the risk/reward balance to which they are exposed by owning the Company's shares, through the financial information given in the annual and quarterly financial report disclosures.

Matters delegated by the Board to ICM include: implementation of the Board approved strategy, day to day operation of the business including management of the internal control framework, and the formulation and execution of risk management policies and procedures. ICM periodically report to the Board on risk management, financial and operational performance and progress in delivering the Company's strategic objectives. Additionally, the ICM investment management team report on the acquisition, management and disposal of investments.

The Directors monitor performance by regularly considering a number of performance indicators to assess the Company's success in achieving its investment objectives. These include share price and NAV performance, net cash flow, ROE reports at the Company and underlying investment level, risk management and adherence to investment guidelines issues. Additionally, the Directors receive regular updates on the performance of the Company's individual investments.

### BOARD MEETINGS

The Board meets at least four times a year, and between these scheduled meetings there is regular contact between Directors, the Investment Manager and the Company Secretary, including strategy meetings and Board update calls. The Directors are kept fully informed of investment and financial controls and other matters that are relevant to the business of the Company that

should be brought to the attention of the Directors. The Directors may request any agenda item to be added that they consider appropriate for Board discussion. In addition, each Director is required to inform the Board of any potential or actual conflict of interest prior to Board discussion. The Directors also have access, where necessary in the furtherance of their duties, to independent professional advice at the expense of the Company.

In the financial year ended September 30, 2017, the Board met each quarter to review the activities of the Company for that period and held a meeting devoted solely to strategic issues. Additional meetings were held at short notice to consider limited objectives. All Directors received notice of the meetings, the agenda and supporting documents, and were able to comment on the matters to be raised at the proposed meeting. In addition to the formal quarterly, strategy, and ad-hoc meetings, the Board also receives detailed updates from the Investment Manager via update calls.

## **BOARD CHANGES**

Somers seeks to maintain the right sized board commensurate with the business activity of the Company. The current Board has an appropriate breadth of experience relevant to the Company and includes a balance of skills, experience and age. Applicants are assessed on their range of skills, expertise and industry knowledge, and business and other experience. There were no changes to the Board during the year.

## **BOARD COMMITTEES**

Due to the nature of the Company being an externally managed investment company with no executive employees, the roles typically delegated to sub committees are fulfilled by the Board as a whole. However, this status is regularly reviewed by the Board and action will be taken to remedy any significant failings or weaknesses identified from the review of the effectiveness of the internal control and governance systems.

## **Audit Committee**

There is no separate audit committee and the Board as a whole fulfils the function of an audit committee in relation to, amongst other things, monitoring the internal controls and risk management systems of the Company and its service providers, reviewing the financial statements of the Company, monitoring the independence of the external auditor and the effectiveness of the audit process, and reviewing the findings of the external auditor. The Board considers that given its size (five directors), the size of the Company and the low number of transactions, it would not currently be appropriate to establish a separate audit committee.

## **Remuneration Committee**

The Board as a whole fulfils the function of a remuneration committee in relation to the setting and periodic review of the fees of the Directors and the Chairman. The Board considers that, given the size and nature of the Company, it would not be appropriate to establish a separate remuneration committee.

## **Nomination Committee**

The Board as a whole will consider new Board appointments and fulfils the function of a nomination committee. The Board considers that, given its size and the size and nature of the Company, it would not be appropriate to establish a separate nomination committee.

## **REGULATORY AND COMPETITIVE ENVIRONMENT**

The Company is obliged to comply with Bermuda law, the Listing Rules of the BSX and International Financial Reporting Standards ("IFRS"). The Company is exempt from taxation, except insofar as it is withheld from income received and capital gains taxes in some jurisdictions. Under Bermuda law, the Company may not distribute income or capital reserves by way of a dividend unless, after distribution of the dividend, the Company would be able to pay its liabilities as they become due, and the realisable value of the Company's assets would be

## BOARD RESPONSIBILITIES AND GOVERNANCE (continued)

greater than the aggregate of its liabilities, its issued share capital, and its share premium account. It is registered with the IRS in the USA under the Foreign Account Tax Compliance Act.

The accounting policies of the Company are detailed in note 2 to the accounts on page 56.

### GOING CONCERN AND COMPANY VIABILITY

The financial statements have been prepared on a going concern basis. The Directors consider this is the appropriate basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being taken as 12 months after the signing of the balance sheet. The Board has considered each of the Company's principal risks and uncertainties. All of the key operations required by the Company are outsourced to third party providers, and alternative providers could be engaged at relatively short notice if necessary. The Directors also considered the revenue forecast for the forthcoming year, expected cash flows from investments, future dividend payments and significant areas of possible liquidity risk, and have satisfied themselves that no material exposures exist.

### INVESTMENT MANAGEMENT ARRANGEMENTS

The Investment Manager is ICM and details of the Investment Management Team are found on pages 26 and 27 of this report. Under an investment adviser agreement dated December 2014, the Company has agreed to pay ICM an annual fee for its management services equal to 0.5% of the gross asset value of Somers' qualifying financial investments, payable quarterly in arrears. The investment management agreement may be terminated by Somers, by giving ICM not less than six month's written notice of termination, or by ICM giving Somers not less than three months written notice of termination, or such lesser period of notice as Somers and ICM agree.

Included within the terms of the revised investment management agreement is a performance fee payable

to ICM if the growth in the Company's shareholders' equity exceeds a hurdle rate equal to the higher of 8% or 4% plus the UK Retail Price Index inflation. The fee arrangement is payable at a rate of 15% on the amount by which the growth in the Company's shareholders' equity exceeds the hurdle rate. The growth in Somers' shareholders' equity did not exceed the hurdle rate in 2017 and therefore no performance fee was payable for the year.

The Board continually reviews the policies and performance of the Investment Manager. The Board's philosophy and the Investment Manager's approach are that the portfolio should consist of investments thought attractive irrespective of their inclusion or weighting in any index. Over the long term, the Board expects the combination of the Company's and Investment Manager's approach to generate a positive return for shareholders. The Board is satisfied with the terms of appointment of ICM.

### COMPANY SECRETARY

The Board has direct access to the advice and services of the Company Secretary, BCB Charter Corporate Services Limited, a related party to the Company. The Company Secretary assists the Board, with advice from the Company's lawyers and financial advisers, in ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible to the Board for ensuring timely delivery of information and reports and that the statutory obligations of the Company are met. The Company Secretary is responsible for advising the Board on all governance matters.

### ADMINISTRATION

The provision of accounting and administration services to the Company has been delegated to ICM. ICM's responsibilities include assisting in the day to day management of the Company's business, ensuring the financial risks of the Company are properly managed, and oversight of all financial and stock exchange reporting.



This role also includes ensuring compliance with the required standards of good corporate governance. ICM, in conjunction with the Company Secretary, also organises, prepares agendas, and ensures accurate minutes are kept of board and other corporate meetings.

Somers is a Bermuda incorporated investment company with an external investment manager and all of the Company's day to day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations. The Company has therefore not reported further in respect of the role of the chief executive, executive directors' remuneration, the need for an internal audit function, and nomination of a senior independent director.

#### **INTERNAL AUDIT**

Due to the nature of the Company, being an externally managed investment company with no executive employees, the Company does not have its own internal audit function. The Board has concluded that there is no current need for such a function, based on the satisfactory operation of controls within the Company's service providers.

#### **EXTERNAL AUDITOR AND AUDIT TENURE**

KPMG Audit Limited ("KPMG") has been the auditor of the Company since 2014, following a competitive tender process. The audit partner is Neil Patterson. The Board has considered the independence of the auditor and the objectivity of the audit process and is satisfied that KPMG has fulfilled its obligations to shareholders as independent auditor to the Company.

It is the Company's policy not to seek substantial non-audit services from its auditor, unless they relate to a review of the interim or quarterly reports or reporting on financial information in circulars or prospectuses, as the Board considers the auditor is best placed to provide these services. If the provision of significant non-audit services were to be considered, the Board would consider whether the particular skills of the audit firm made it a suitable supplier of those services and that

there was no threat to the objectivity and independence of the audit. No non-audit fees were paid to KPMG for the year ended September 30, 2017 (2016: \$nil).

The partner and manager of the audit team at KPMG presented their audit plan to the Board and subsequently reported on the nature, scope and results of their audit at the meeting when the draft annual financial report was considered. Members of the Board meet in camera with the external auditor at least annually.

The audit plan and timetable were presented by and agreed with KPMG in advance of the financial year end. Items of audit focus were discussed, agreed and given particular attention during the audit process. KPMG reported to the Board on these items, their independence and other matters. This report was considered by the Board and discussed with KPMG and ICM prior to approval of the annual financial report.

#### **CUSTODY OF ASSETS**

The Company's listed investments are held in custody by JPMorgan, and the Company's unlisted investments are held in custody by Bermuda Commercial Bank. Operational matters with these custodians are carried out on the Company's behalf by ICM.

#### **VALUATION OF UNLISTED INVESTMENTS**

The majority of Somers' investment portfolio consists of unlisted investments, and the Board has ultimate responsibility for the valuation of these investments. Please refer to the Overview of the Investment Valuation Process on page 44 for details on our valuation approach for unlisted investments.

#### **SHAREHOLDER RELATIONS**

Shareholder communications are a high priority for the Board and every effort is made to enable shareholders to understand the strategy, developments and financial performance of the Company. A financial announcement detailing the performance of the Company is released to the Bermuda Stock Exchange on a quarterly basis and is available for viewing on the Company's website ([www.somers.limited](http://www.somers.limited)). Members of the Board and the

## BOARD RESPONSIBILITIES AND GOVERNANCE (continued)

Investment Manager's team make themselves available at all reasonable times to meet with principal shareholders, and feedback from these meetings is provided at the quarterly Board meetings.

In addition, the Board is kept fully apprised of all market commentary on the Company by the Investment Manager and other professional advisers. Through this process the Board seeks to monitor the views of shareholders and ensure that the Company's communication programme is effective.

Members of the Board and the Investment Manager are expected to be available during each Annual General Meeting to answer any questions that attending shareholders may have.

### **DIRECTORS' INTERESTS**

The Directors' interests in the ordinary share capital of the Company are disclosed in the Directors' section on page 35 of this report. The Directors have declared any potential conflicts of interest to the Company. There are no agreements between the Company and its Directors concerning compensation for loss of office. Potential conflicts of interest are reviewed regularly by the Board. The Directors have undertaken to advise the Company Secretary and/or Chairman as soon as they become aware of any potential conflicts of interest.

### **DIRECTORS' AND OFFICERS' LIABILITY INSURANCE**

The Company maintains Directors' and Officers' Liability Insurance which provides appropriate cover for any legal action brought against its Directors.

## RISK MANAGEMENT

Somers' primary objective is to deliver superior shareholder total returns through both capital growth and income generation. Our business model involves taking risk in return for reward. Our global financial services sector mandate offers opportunities for financial returns but exposes us to market, geopolitical and economic risks.

Effective risk management is a cornerstone in the successful delivery of our strategy. It is an essential part of our business and a key element of good corporate governance.

### THE BOARD

The Board has responsibility for setting the overall strategic direction of the Company. As part of this process, the Board seeks to achieve an appropriate balance between taking risk and generating returns for our shareholders. The evaluation of strategic choices and new opportunities requires a detailed risk assessment to ensure we operate within our risk tolerance and limits. We seek to achieve this by the:

- Effective and efficient continuity of operations
- Safeguarding of our assets
- Preservation and enhancement of our reputation
- Reliability of internal and external reporting
- Compliance with applicable laws and regulations
- Identifying and managing risks
- Monitoring investee companies

The Board meets four times a year to consider the quarterly risk review report prepared by ICM. It reviews financial reports, valuation reports and performance metrics. The effectiveness of the Company's system of internal controls, including financial, operational, compliance and risk management systems, is reviewed as part of this quarterly review process and no significant failings or weaknesses occurred during the year ended September 30, 2017, or subsequently up to the date of this annual report.

While the external environment remains challenging, the Board considers that the Company's risk profile has remained stable during the year. In making this determination, the Board has considered the continuing development of internal controls, risk processes and the composition of the investment portfolio. The Board also considered the macro-economic environment and evolving risks such as regulatory, currency and cyber security.

### ICM LIMITED

The Board has delegated responsibility for day to day risk management to ICM subject to the overall policies, supervision, review and control of the Board. ICM review investment risk in the context of individual investee companies, overall portfolio composition, and acquisitions and disposal decisions.

ICM monitor the operational and regulatory risks in the business and the related risk management controls and have responsibility for ensuring day to day compliance with the required standards of good corporate governance as well as oversight of all financial, regulatory and stock exchange reporting and management information.

ICM maintain the Company's risk register, which details the Company's significant risks and their owners, associated mitigating actions and any internal risk indicators. The risk register is updated on a continuous basis and a summary risk review report is presented to the Board each quarter.

### PRINCIPAL RISKS

Most of the Company's principal risks are market-related and similar to those of other investment companies which invest globally in various different currencies. The Board carefully considers the Company's principal risks at its quarterly meetings and seeks to mitigate these risks through continual and regular review, policy setting, compliance with and enforcement of contractual obligations and active communication with ICM.

For risk management purposes, the Company categorises risk within two broad categories – investment risk and business operational risk.

## RISK MANAGEMENT (continued)

### INVESTMENT RISK

Investment risk is, in absolute terms, the risk of incurring any loss in the portfolio in pursuit of investment returns. In relative terms, the investment risk of incurring losses greater than, or of earning gains less than those of a benchmark index or an alternative investment.

The Company and its investments are materially affected by a variety of risks and uncertainties in the global financial markets and economic conditions throughout the world.

The Company monitors the following significant investment risks; foreign currency risk, concentration risk, interest rate risk, leverage risk, liquidity risk, geographic and political risk, acquisition due diligence risk, conflict of interest risk, investee company business risk and economic environment risk.

Many of these factors are outside Somers' control and may affect the level and volatility of securities prices, the amount of distributions received and the liquidity and value of investments in the portfolio. The Company may be unable to mitigate its exposure to these conditions as efforts to manage its exposure may or may not be effective. In addition, while adverse market conditions provide opportunities to make investments in undervalued companies, such conditions also increase the risk of default or decreased operational performance which would adversely affect the profitability and valuation of these entities, and consequently, the profitability, net asset value and share price of Somers. Please refer to note 18 of the audited financial statements for a more detailed discussion of the above principal risks and uncertainties.

A primary objective of Somers is to acquire attractive investments at the optimal price and to then to support these investments in delivering on their business plans. The investment process employed by ICM combines an assessment of economic and market conditions in the relevant countries where we invest. Fundamental analysis forms the basis of the Company's investment selection process, with an emphasis on sound balance sheets, positive cash flow potential, the ability to pay and sustain dividends and understanding market conditions.

Somers' results are reported in US Dollars, whilst a number of its assets are priced in foreign currencies, particularly Sterling and Australian Dollars. The impact of adverse movements in exchange rates can significantly affect the returns in US Dollars of both capital and income. Such factors are out of the control of the Board and ICM and may create distortions in the reported returns to shareholders. The Company does not currently hedge its currency exposures but where we borrow for investment purposes we endeavour to ensure the borrowing currency matches the associated investment.

In addition, the ordinary shares of Somers may trade at a discount to their NAV. The Board monitors the price of the Company's shares in relation to their NAV and the premium/discount at which they trade. The Board may buy back shares if there is a significant overhang of stock in the market, having regard to the percentage of shares in public hands.

The Board regularly reviews strategy in relation to a range of issues including the concentration of the portfolio, the allocation of assets between geographic regions and sectors and borrowing levels. Periodically the Board holds a separate meeting devoted to strategy, the most recent one being held in September 2017.

A review of economic and market conditions is included in the Investment Manager's Report section of this Report.

### BUSINESS OPERATIONAL RISK

Business operational risk refers to the risk of loss that may arise from running an investment holding company and, in essence, encompasses everything except investment risk. It captures the risks arising from inadequate or failed internal processes, people and systems, and from external events. Somers monitors the following business operational risks; regulatory risk, cyber risks, key personnel risk at our service providers, valuation of portfolio investments and in particular unquoted investments, credit risk, counterparty exposure, geo-political risk and disruptive technology.

Somers also monitors the risk of failure in execution, delivery or process (such as data entry errors), internal or external fraud (such as insider trading or forgery)

and business disruption and system failures (such as telecommunications outages).

The consequences of risks may be financial, reputational or regulatory. Business operational risks do not typically generate positive returns; therefore, the management of these risks entails minimising them to the extent practicable and subject to reasonable costs.

Operational risks arise from all of the Company's activities and the Company's objective is to manage operational risk so as to balance the limiting of financial losses and damage to its reputation, with achieving its investment objective of generating returns to investors.

The Board reviews operational issues at each Board meeting and receives reports on the operation of internal controls, regulatory and compliance issues and the risk of cybercrime. The cyber-security risk for the Company itself is not considered to be high but in the investee companies it is high, as it is with most organisations. However, the Board regularly seeks assurances from ICM and other service providers on the preventative steps that they are taking to mitigate this risk. Although there has been no change in overall risk in the year, the risk of cybercrime continues to be of significant concern as the nature of the risk continues to change. The Company's assets are considered to be relatively secure, so the risk is primarily of a reputational nature.

## INTERNAL FINANCIAL AND NON-FINANCIAL CONTROLS

The Directors are responsible for ensuring that Somers maintains a sound system of internal financial and non-financial controls ("internal controls") to safeguard shareholders' investments and the Company's assets.

Somers' system of internal control is designed to manage and monitor rather than eliminate risk of failure to achieve the Company's investment objective and/or adhere to the Company's investment policy and/or investment limits. The system can therefore only provide reasonable and not absolute assurance against material misstatement or loss. ICM and the Company's custodians maintain their own systems of internal controls and the Board receive regular reports from ICM on the internal control environment.

The Board meets regularly, at least four times a year. It reviews financial reports and performance against relevant stock market criteria and the Company's peer group, amongst other things. The effectiveness of the Company's system of internal controls, including financial, operational, IT, compliance and risk management systems are reviewed at the quarterly meetings. The Board confirms that the necessary actions are taken to remedy any significant failings or weaknesses identified from its review. No significant failings or weaknesses occurred during the current year or subsequently up to the date of this annual financial report.

## OUTLOOK AND FUTURE TRENDS

The main trends and factors likely to affect the future development, performance and position of Somers' business can be found in the Investment Manager's Report section of this Report.

## OVERVIEW OF THE INVESTMENT VALUATION PROCESS

In preparing the Somers' quarterly and annual financial accounts, the most important accounting judgements and estimates relate to the carrying value of our unlisted investments which are stated at fair value. At September 30, 2017, almost 96% of the Company's investment portfolio consisted of level 3 investments that were valued using inputs that were not based on observable market data. Given the importance of this area to the integrity of our financial reporting, the Board and ICM carefully review the valuation policies and processes and the individual valuation methodologies at each reporting date. However, the valuation of unlisted securities is inherently subjective, as they are made on the basis of assumptions which may not prove to be accurate. As detailed in note 20, small changes to inputs may result in material changes to the carrying value of our investments.

### VALUATION PROCESS

The valuation of the unlisted investments is the responsibility of the Somers Board with valuation support and analysis provided by the valuation team at ICM. The investment portfolio is valued at fair value, and this is achieved by valuing each investment using an appropriate valuation technique and applying a consistent valuation approach for all investments.

The concept of fair value is key to the valuation process, and is defined as "the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date" (International Private Equity and Venture Capital ("IPEV") guidelines, December 2015).

Maximum use is made of market based information, and the valuation methodologies used are those generally used by market participants. Valuations are compliant with IFRS fair value guidelines, and guidelines issued by the IPEV valuation board which set out recommended practice for fair valuing unlisted investments within the IFRS framework. The valuation of unlisted investments require the exercise of judgment, and every effort is made to ensure that this judgment is applied objectively, and is not used to overstate or understate the valuation result.

The Board reviews the unlisted valuations each quarter in conjunction with the Company's external financial reporting process. The Board receives a detailed report from ICM's valuation team recommending a proposed valuation for each of the Company's investments. The report includes details of all material valuations, explanations for movements above agreed thresholds and confirmation of the valuation process adopted. Representatives of ICM and its valuation team are in attendance at these meetings to answer any questions the Board may have on the valuation process and the choice of valuation techniques and inputs. The Board reviews and challenges the assumptions behind the unlisted asset valuations.

### VALUATION METHODOLOGIES

The valuation of our unlisted investments is normally determined by using one of the following valuation methodologies, and depending on the investment and relevance of the approach, any or all of these valuation methods could be used.

We would note that the application of valuation policies has wide inputs, wide approaches and therefore wide outcomes. Somers policy is to adopt market metrics where it can such as EV/EBITDA and then discount for illiquidity. While comfortable with this policy and while the directors are not recommending any change, the directors are aware that many other investment companies adopt similar metrics and then apply a premium for control. Interestingly, if Somers were to exit several of its controlling positions, it would fully expect to realise a premium.

### EARNINGS MULTIPLES

This is the Company's most commonly used valuation methodology and is used where the investment is profitable, and where a set of comparable listed companies with similar characteristics to our holding can be determined. As a number of our investments are not traded on an active market, the valuations are then adjusted by a liquidity discount with the discount varying depending on the nature of the underlying investment

entity and its sector, and whether restrictions exist on our ability to sell the asset in an orderly fashion. In certain instances, Somers may use a revenue multiple approach if this is deemed more appropriate.

It is the Company's policy to use reported earnings adjusted for non-recurring items, which are typically sourced from the investee companies' management accounts or audited financial reports. In certain cases, current maintainable earnings provide a more reliable indicator of the company's performance, and in these instances an estimate of maintainable earnings is used in the valuation calculation.

Multiples are derived from comparable listed companies in the same business sector. Adjustments are made for relative performance versus the comparables and other company specific factors including size, product offering and growth rates.

#### **DISCOUNTED CASH FLOW**

This methodology may be used for valuing investments with long term stable cash flows and uses maintainable earnings discounted at appropriate rates to reflect the value of the business. Generally, the latest historical accounts are used unless reliable forecast results for the current year are available. Earnings are adjusted where appropriate for exceptional or non-recurring items.

#### **NET ASSETS**

This valuation technique derives the value of an investment by reference to the value of its net assets. This technique is used for investments whose value derives mainly from the underlying fair value of their assets rather than their earnings, such as property holding companies and investment businesses. In addition, we may also use this valuation approach for investments that are not making an adequate return on assets, and for which a greater value can be realised by liquidating the business and selling its assets.

#### **RECENT INVESTMENTS**

For an initial or recent transaction, Somers may value the investment using cost for a limited period following the transaction, where the transaction represents fair value.

Please also refer to note 20 of the audited financial statements for more details on Somers' unlisted investments and the valuation methodologies adopted.

## FIVE YEAR SUMMARY 2013-2017

(expressed in United States Dollars)

	2017 \$	2016 \$	2015 \$	2014 \$	2013 \$
<b>Income and Expense Items</b>					
Net interest (expenses) income	(236,441)	384,736	1,081,496	694,190	584,727
Dividend income	4,147,891	3,399,044	2,587,780	7,874,758	6,351,911
Gains (losses) on investments	15,227,092	34,832,011	(3,129,227)	28,362,934	29,686,082
Other income (losses)	3,281,818	(4,154,241)	(2,675,088)	(1,217,400)	1,297,305
Total income	22,420,360	34,461,550	(2,135,039)	35,714,482	37,920,025
Total expenses	2,863,038	1,893,335	1,976,456	3,532,777	4,244,024
Net income (loss) before tax	19,557,322	32,568,215	(4,111,495)	32,181,705	33,676,001
Income tax expense	(130,790)	(278,121)	(19,203)	(9,170)	-
<b>Net income (loss)</b>	<b>19,426,532</b>	<b>32,290,094</b>	<b>(4,130,698)</b>	<b>32,172,535</b>	<b>33,676,001</b>
<b>Balance Sheet</b>					
Financial investments	360,969,899	332,038,271	209,864,255	218,284,392	177,952,475
Other assets	7,172,058	14,886,105	6,124,777	5,295,345	38,790,723
Total assets	368,141,957	346,924,376	215,989,032	223,579,737	216,743,198
Total liabilities	6,898,242	116,526,005	6,813,958	8,469,131	37,117,518
<b>Total equity</b>	<b>361,243,715</b>	<b>230,398,371</b>	<b>209,175,074</b>	<b>215,110,606</b>	<b>179,625,680</b>
<b>Per Common Share</b>					
NAV per share	18.55	18.66	17.74	18.96	16.81
Share price	14.00	13.75	13.00	13.75	12.00
Dividend paid	0.48	0.44	0.42	0.37	0.32



# FINANCIAL STATEMENTS

TOTAL EQUITY AT  
30 SEPTEMBER 2017

**\$361.2**

MILLION  
(2016: \$230.4 million)

PROFIT FOR THE YEAR

**\$19.4**

MILLION  
(2016: \$32.3 million)

FINAL DIVIDEND  
PER SHARE OF

**\$0.28**

(2016: \$0.26)

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**Total dividend payment for 2017 was \$0.48 a share, an increase of \$0.04 per share compared to 2016.**

## INDEPENDENT AUDITOR'S REPORT



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### INDEPENDENT AUDITOR'S REPORT

#### TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF SOMERS LIMITED

#### OPINION

We have audited the consolidated financial statements of Somers Limited (the "Company"), which comprise the consolidated statement of financial position as at September 30, 2017 and the consolidated statements of income, 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2017, 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 "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements and include the most significant assessed risks of material misstatement identified by us, including those which had the greatest effect on the overall audit strategy, the allocation of resources during the audit, including the use of specialists, and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our opinion above, together with our audit procedures to address those matters and our results from those procedures. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter that arose is as follows:

##### ***Valuation of the unquoted investment portfolio***

As presented in the Significant Accounting Policies, per Note 2, and in Notes 3, 4, 5 and 20 to the consolidated financial statements the Company holds investments in unquoted equity and debt securities at September 30, 2017 of US\$345.4 million, representing approximately 94% of total assets, where quoted prices do not exist. Such unquoted equity investments and debt securities are carried at their estimated fair values based upon the principles of the International Private Equity and Venture Capital Association ("IPEV") valuation guidelines.

The valuation of the unquoted equity and debt securities held in the Company's investment portfolio is the key driver of its net asset value and total return to shareholders. The valuation of these investments is complex and requires the application of judgment by the Investment Manager.

The fair values are based upon the market approach which estimates the enterprise value of each investee using a comparable multiple of revenues or EBITDA, information from recent comparable transactions, or the underlying net asset value, fair market value or the replacement cost/net asset approach which reflects the amount that would be currently required to replace the service capacity of an asset or to acquire or construct an asset of comparable utility, adjusted for any obsolescence.



### **The risk**

The significance of the unquoted investments to the Company's consolidated financial statements, combined with the complexity and judgment required in estimating their fair values means this was an area of focus during our audit.

### **Our response to the risk**

We performed the following key audit procedures:

- Obtained the Investment Manager's valuation models for valuing the unquoted equity investments and debt securities;
- Challenged the Investment Manager on the methodologies followed and key assumptions used in determining the valuations in the context of the IPEV valuation guidelines;
- Using our own valuation specialists, we assessed the methodologies and assumptions used by management;
- Obtained the underlying financial information, including audited financial statements, management accounts, budgets and forecasts for revenues and EBITDA, which are the key inputs used in the valuation models by the Investment Manager and compared this information to that used in the models;
- Independently sourced revenue and EBITDA multiples for comparable companies used by the Investment Manager, considered whether those companies are comparable to the investee and compared them to the multiples used in the valuations;
- Where a recent transaction was used, we obtained an understanding of the transaction and whether it was considered an arm's length transaction and was comparable for the purposes of the valuation;
- Performed media searches and other procedures to determine whether there was any contradictory evidence for any of the inputs used;
- Tested the mathematical accuracy of the valuation models.

### **OTHER INFORMATION IN THE ANNUAL REPORT**

Management is responsible for the other information contained within the Annual Report. The other information comprises the information on pages 2 to 47 of the Annual Report, which does not include the consolidated financial statements and the auditor's report thereon.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

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

In preparing the consolidated 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## INDEPENDENT AUDITOR'S REPORT (Continued)



### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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 auditor's report is Neil Patterson.

*KPMG Audit Limited*

KPMG Audit Limited  
Chartered Professional Accountants  
Hamilton, Bermuda  
December 20, 2017

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2017 (Expressed in United States Dollars)

Notes	2017 \$	2016 \$	
<b>Assets</b>			
17	Cash and cash equivalents	2,581,893	751,940
7	Other assets	1,640,641	82,889
17	Interest receivable	212,052	356,995
6, 17	Loans and receivables	2,737,472	13,694,281
3, 17	Financial investments	360,969,899	332,038,271
	<b>Total assets</b>	<b>368,141,957</b>	<b>346,924,376</b>
<b>Liabilities</b>			
	Interest payable	-	107,638
8, 17	Other liabilities	2,398,242	1,409,263
9, 17	Convertible loan notes	-	88,519,562
10, 17	Interest bearing loans and borrowings	4,500,000	26,489,542
	<b>Total liabilities</b>	<b>6,898,242</b>	<b>116,526,005</b>
	<b>NET ASSETS</b>	<b>361,243,715</b>	<b>230,398,371</b>
<b>Equity</b>			
11	Capital stock	1,948	1,211
11	Contributed surplus	286,063,186	166,915,045
11	Treasury shares	-	-
	Accumulated other comprehensive loss	(13,558,072)	(14,161,446)
	Retained earnings	88,736,653	77,643,561
	<b>TOTAL EQUITY</b>	<b>361,243,715</b>	<b>230,398,371</b>

See accompanying notes.

Signed on behalf of the Board:



**Warren McLeland**  
Chairman



**David Morgan**  
Director

## CONSOLIDATED STATEMENT OF INCOME

For the Year Ended September 30, 2017 (Expressed in United States Dollars)

Notes	2017 \$	2016 \$
<b>Income</b>		
14, 17 Interest income	1,039,594	1,069,332
17 Interest expense	(1,276,035)	(684,596)
<b>Net interest (expense) income</b>	<b>(236,441)</b>	<b>384,736</b>
17 Dividend income	4,147,891	3,399,044
15, 17 Gains on investments	15,227,092	34,832,011
Net foreign exchange gains (losses)	3,281,818	(4,154,241)
<b>TOTAL INCOME</b>	<b>22,420,360</b>	<b>34,461,550</b>
<b>Expenses</b>		
17 Investment management fees	1,231,431	538,145
17 Legal and professional fees	715,837	561,588
Audit and accounting fees	339,574	273,482
17 Directors' fees	65,000	65,000
17 General and administrative expenses	511,196	455,120
<b>TOTAL EXPENSES</b>	<b>2,863,038</b>	<b>1,893,335</b>
Net income before tax	19,557,322	32,568,215
16 Income tax expense	(130,790)	(278,121)
<b>NET INCOME</b>	<b>19,426,532</b>	<b>32,290,094</b>

See accompanying notes.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended September 30, 2017 (Expressed in United States Dollars)

	2017 \$	2016 \$
<b>Net income for the year</b>	<b>19,426,532</b>	32,290,094
<b>Other comprehensive income (loss)</b>		
Exchange differences on translation of foreign operations	<b>(75,905)</b>	(10,183,051)
Net unrealised gain (loss) on available-for-sale financial investments	<b>728,196</b>	(125,834)
Reclassification of gains on available-for-sale financial investments realised in net income	<b>(48,917)</b>	(13,629)
Other comprehensive income (loss)	<b>603,374</b>	(10,322,514)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>20,029,906</b>	21,967,580

See accompanying notes.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended September 30, 2017 (Expressed in United States Dollars)

Notes	Capital Stock \$	Contributed Surplus \$	Treasury Stock \$	Other Comprehensive Income (Loss) \$	Retained Earnings \$	Total \$
<b>October 1, 2015</b>	1,179	162,674,966	-	(3,838,932)	50,337,861	209,175,074
Net income for the period	-	-	-	-	32,290,094	32,290,094
Other comprehensive loss	-	-	-	(10,322,514)	-	(10,322,514)
11 Issue of share capital	34	4,487,661	-	-	-	4,487,695
11 Exercise of warrants	-	-	-	-	-	-
11 Net purchase of treasury stock	-	-	(247,584)	-	-	(247,584)
11 Cancellation of treasury stock	(2)	(247,582)	247,584	-	-	-
13 Dividends	-	-	-	-	(4,984,394)	(4,984,394)
<b>September 30, 2016</b>	<b>1,211</b>	<b>166,915,045</b>	<b>-</b>	<b>(14,161,446)</b>	<b>77,643,561</b>	<b>230,398,371</b>
Net income for the period	-	-	-	-	19,426,532	19,426,532
Other comprehensive income	-	-	-	603,374	-	603,374
11 Issue of share capital	21	2,957,756	-	-	-	2,957,777
Exercise of convertible loan notes	469	82,885,125	-	-	-	82,885,594
9 Exercise of warrants	249	33,623,917	-	-	-	33,624,166
11 Net purchase of treasury stock	-	-	(318,659)	-	-	(318,659)
11 Cancellation of treasury stock	(2)	(318,657)	318,659	-	-	-
13 Dividends	-	-	-	-	(8,333,440)	(8,333,440)
<b>September 30, 2017</b>	<b>1,948</b>	<b>286,063,186</b>	<b>-</b>	<b>(13,558,072)</b>	<b>88,736,653</b>	<b>361,243,715</b>

See accompanying notes.



## CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2017 (Expressed in United States Dollars)

	2017 \$	2016 \$
<b>Operating activities</b>		
Net income	19,426,532	32,290,094
Adjustments to reconcile net income to cash flows (used in) provided by operating activities:		
Gains on investments	(20,408,000)	(34,832,011)
Foreign exchange (gains) losses on investments	(3,620,543)	3,080,137
Decrease in interest receivable	144,943	163,139
Increase in other assets	(1,557,752)	(48,207)
(Decrease) increase in interest payable	(107,638)	107,638
Increase in other liabilities	988,979	595,305
<b>Net cash (used in) provided by operating activities</b>	<b>(5,133,479)</b>	<b>1,356,095</b>
<b>Investing activities</b>		
Net decrease (increase) in loans and receivables	10,956,809	(9,232,996)
Proceeds from sale of financial investments	14,342,325	5,803,290
Purchases of financial investments	(18,642,036)	(18,028,384)
<b>Net cash provided by (used in) investing activities</b>	<b>6,657,098</b>	<b>(21,458,090)</b>
<b>Financing activities</b>		
Net increase in interest bearing loans and borrowings	11,147,126	20,489,542
Repayment of convertible loan notes	(6,929,863)	-
Proceeds from issue of shares	487,498	4,487,695
Net purchase of treasury stock	(318,659)	(247,584)
Dividends paid (excludes dividends satisfied by issue of shares)	(4,079,768)	(4,984,394)
<b>Net cash provided by financing activities</b>	<b>306,334</b>	<b>19,745,259</b>
Net increase (decrease) in cash and cash equivalents	1,829,953	(356,736)
Cash and cash equivalents, beginning of year	751,940	1,108,676
<b>Cash and cash equivalents, end of year</b>	<b>2,581,893</b>	<b>751,940</b>
<b>Non-cash investing and financing activities:</b>		
Repayment of borrowings offset against proceeds from exercise of warrants	33,136,668	-
Purchase of financial investments by issuance of convertible loan notes	-	88,519,562

See accompanying notes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars)

## 1. DESCRIPTION OF BUSINESS

Somers Limited ("Somers") is a Bermuda exempted investment company listed on the Bermuda Stock Exchange with investments in the financial services sector. Somers is engaged in a single segment of business, focusing on maximising shareholder returns by identifying and investing in companies where the assessed underlying value is not reflected in the market price. The Company's registered office is at 34 Bermudiana Road, Hamilton HM 11, Bermuda.

The investment activities of Somers are managed by ICM Limited ("ICM").

As at September 30, 2017, the significant shareholders (the "Major Shareholders") in the Company, who held, in aggregate 93.08% (2016: 89.59%) of Somers' issued share capital, are as follows:

- Permanent Investments Limited ("Permanent") holds 45.88% (2016: 34.36%) which is incorporated in Bermuda;
- UIL Limited ("UIL") holds 44.11% (2016: 49.75%) which is incorporated in Bermuda; and
- Permanent Mutual Limited ("Permanent Mutual") holds 3.09% (2016: 5.48%) which is incorporated in Bermuda.

The Company is deemed to meet the definition of an investment entity per IFRS 10 as it continues to meet the following requirements:

- The Company has obtained funds for the purpose of providing investors with investment management services.
- The Company's business purpose, which was communicated directly to investors, is investing solely for returns from capital appreciation and investment income.
- The performance of its investments is measured and evaluated on a fair value basis.

Therefore, in accordance with IFRS 10, subsidiaries held as part of the Company's investment portfolio are not consolidated, but are accounted for as investments and carried at fair value through profit or loss.

These financial statements were authorised for issue in accordance with a resolution of the directors on December 20, 2017.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis, except for financial instruments that have been measured at fair value. The consolidated financial statements are presented in United States Dollars, which

is the Company's functional and presentational currency. All values are rounded to the nearest dollar, except when otherwise indicated.

### Statement of Compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The Company has consistently applied the significant accounting policies to all periods presented in these consolidated financial statements.

### Presentation of Consolidated Financial Statements

The Company presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding the maturity or settlement of the financial assets and liabilities within 12 months after the reporting date (current), and more than 12 months after the reporting date (non-current), is presented in note 18.

### Basis of Consolidation

The consolidated financial statements include the financial statements of the Company, SI Asset Management S.a.r.l., Somers Luxembourg S.a.r.l., Somers UK (Holdings) Limited, Somers Pte. Ltd, Somers Treasury Pty Ltd and Somers AM Pty Ltd. All intercompany balances and transactions are eliminated on consolidation. Non-consolidated subsidiaries, and associated undertakings held as part of the investment portfolio are carried at fair value through profit or loss and accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Details of the non-consolidated subsidiaries and associates are included in notes 4 and 5 to the consolidated financial statements.

### Significant Accounting Judgments, Estimates, and Assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make certain significant estimates, judgments, and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Estimates, judgments, and assumptions are continually evaluated, and are based on historical experience, and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. The estimates, judgments, and assumptions, that have a significant risk of causing material adjustments to the consolidated financial statements within the next financial year, are discussed below:

### ***Fair Value of Financial Instruments***

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined, in compliance with IFRS 13, using a variety of valuation techniques that include the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish their fair values. The judgments include consideration of liquidity and model inputs such as revenue, EBITDA, estimated future cash flows, multiples of comparable companies, volatility and discount rates. The estimates and judgments used in the valuation of financial instruments are described in more detail in note 20.

### ***Impairment Losses on Loans and Advances***

The Company reviews its individually significant loans and advances to assess impairment at least on an annual basis. In particular, management judgment is required in the estimation of the amount and expected timing of future cash flows when determining impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ from current estimates resulting in future changes to the allowance.

### **Foreign Currency Translation**

The consolidated financial statements are presented in United States Dollars. The Company and each of its subsidiaries determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Bermuda Dollar balances and transactions are translated into United States Dollars at par. Monetary assets and liabilities in other currencies are translated into United States Dollars at the rates of exchange prevailing at the reporting date and non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into United States Dollars at historic rates or the rates of exchange prevailing at the dates of the transactions.

Income and expense items in other currencies are translated into United States Dollars at the rates prevailing at the dates of the transactions. Realised and changes in unrealised gains and losses on foreign currency positions are reported under net exchange gains or losses in the consolidated statement of income.

On consolidation, the assets and liabilities of foreign operations are translated into US Dollars at the rate of exchange on the reporting date, and their statements of income and comprehensive income are translated at the weighted average exchange rates for the period. Exchange differences arising on

translation are recognised in a separate component of equity within other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of income as part of the gain or loss on sale.

### **Cash and Cash Equivalents**

Cash and cash equivalents in the consolidated statement of cash flows consist of cash and term deposits which are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and have original maturities of three months or less.

### **Financial Instruments – Initial Recognition and Subsequent Measurement**

#### ***Date of Recognition***

All financial assets and financial liabilities are initially recognised on the trade date basis, which is the date that the Company becomes a party to the contractual provisions of the instrument. This includes purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

#### ***Initial Recognition of Financial Instruments***

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities at fair value through profit or loss.

The Company classifies its financial assets into the following categories:

#### **Financial Assets and Financial Liabilities at Fair Value through Profit or Loss**

##### ***Financial Assets and Financial Liabilities Designated at Fair Value through Profit or Loss***

Financial assets and financial liabilities designated at fair value through profit or loss are designated as such by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities, or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Expressed in United States Dollars)

- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows of its host contract or it is clear, with little or no analysis, that it would not be separately recorded. This category comprises financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, or if so designated by management. Derivatives are also categorised as held for trading, unless they are designated as hedges.

As the Company's business is investing in financial assets with a view to profiting from their total return in the form of dividends, interest or increases in fair value, its investments (including those ordinarily classified as subsidiaries under IFRS 10, but exempted by that financial reporting standard from the requirement to be consolidated) are designated at fair value through profit or loss on initial recognition.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in their fair value are recorded in the consolidated statement of income.

### ***Derivatives Recorded at Fair Value through Profit or Loss***

Derivatives include foreign exchange forward contracts, index and equity option contracts, interest rate swap contracts, and warrants. Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives embedded in financial instruments, such as warrants, and the conversion option in an acquired convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not designated at fair value through profit or loss.

The embedded derivatives separated from the host contract are carried at fair value through profit or loss.

Changes in the fair value of derivatives are reported under gains or losses on investments for option contracts and under net exchange gains or losses for foreign exchange forward contracts in the consolidated statement of income.

### **Loans and Advances**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short term resale and are not designated as available-for-sale, or designated at fair value through profit or loss. After initial measurement, loans and advances are measured at amortised cost using the effective interest rate (EIR) method, less any allowance for impairment. Amortised

cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The EIR amortisation is reported under interest income and losses arising from impairment are reported separately in the consolidated statement of income.

### **Available-for-Sale Financial Investments**

Available-for-sale financial investments include equity investments, debt securities and portfolio funds. Equity investments classified as available-for-sale are those that are not designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions. After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Changes in unrealised gains and losses, with the exception of foreign exchange gains and losses, which are recorded in the consolidated statement of income, are recognised directly in equity under other comprehensive income or loss. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is included in the gains or losses on investments in the consolidated statement of income.

Interest on available-for-sale financial investments is reported under interest income or expense in the consolidated statement of income using the EIR method, and dividends are recorded as dividend income in the consolidated statement of income or loss when the right of the payment has been established. The losses arising from impairment of such investments are reported under impairment losses on available-for-sale financial investments in the consolidated statement of income.

### **Derecognition of Financial Assets and Financial Liabilities**

#### ***Financial Assets***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred substantially all the risks and rewards of the asset.

#### ***Financial Liabilities***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

### **Determination of Fair Value**

The fair values of financial instruments traded in active markets at the reporting date are determined based on their quoted market price or dealer price quotations (bid price

for long positions and ask price for short positions), without any deductions for transaction costs. For all other financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques.

An analysis of fair values of financial instruments and further details as to how they are measured is provided in note 20.

#### **Impairment of Financial Assets**

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

In assessing evidence of impairment, the Company evaluates, among other factors, counterparty/issuer/borrower financial information, the asset's historical share price, counterparty ratings, history of defaults, subordination, transaction nature, and other market and security-specific factors.

If there is objective evidence that an impairment loss has been incurred, the financial asset is written down to its realisable value, with the impairment loss being recognised in the consolidated statement of income. Any subsequent increase in the fair value of such assets that can be objectively related to an event that occurred after the impairment was initially recognised will result in a reversal of the impairment loss in the period in which the event occurs.

#### **Derivative Financial Instruments**

The Company may use derivatives to manage its credit and market risk exposures. The Company does not use derivatives for trading or for speculative purposes, although certain derivatives may be embedded in the investments held by the Company.

Derivatives are carried at fair value and presented in the consolidated statement of financial position on a gross basis. These include exchange traded options, warrants and other derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. An embedded derivative is a component of a hybrid instrument that includes a non-derivative host contract, with the effect that some of the cash flows of the hybrid instrument vary in a way similar to a stand-alone derivative. When an embedded derivative is separated, the host contract is accounted for based on accounting standards applicable to contracts of that type without the embedded derivative.

#### **Interest-Bearing Loans and Borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of income when the liabilities are derecognised.

#### **Recognition of Income**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### ***Interest Income***

Interest income is recognised in the consolidated statement of income for all interest bearing instruments on the accrual basis, using the effective interest rate method.

##### ***Dividend Income***

Dividend income is recognised when the Company's right to receive the payment is established.

##### **Expenses**

Expenses are recognised in the consolidated statement of income on the accrual basis. Interest expense is calculated using the effective interest rate method.

#### **Dividends on Common Shares**

Dividends on common shares are recognised as a liability and are deducted from equity in the period in which they are declared.

#### **Earnings Per Share**

Basic earnings per share (EPS), is calculated by dividing net income attributable to shareholders by the weighted average number of common shares outstanding during the period. The diluted EPS calculation assumes that stock warrants are only exercised and converted when the exercise price is below the average market price of the shares. It also assumes that the Company will use any proceeds to purchase its common shares at their average market price during the period. Consequently, there is no imputed income on the proceeds, and the number of weighted average shares are only increased by the difference between the number of warrants exercised, outstanding warrants, and the number of shares purchased by the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Expressed in United States Dollars)

### Treasury Stock

The Company's own equity acquired by Somers or by any of its subsidiaries (treasury stock) is recognised at cost and deducted from equity. Consideration paid or received on the purchase, sale, issue or cancellation of the Company's own equity instruments is recognised directly in equity.

No gain or loss is recognised in net income on the purchase, sale, issue or cancellation of the Company's own equity instruments.

When the Company holds its own equity instruments on behalf of its clients, those holdings are not included in the Company's consolidated statement of financial position.

### New Standards, Interpretations, and Amendments to Published Standards Relevant to the Company

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018 and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Company except for IFRS 9 'Financial Instruments' which could change the classification and measurement of the Company's financial assets. The Company does not plan to adopt this standard early. As the Company has not yet concluded its assessment of the impact of IFRS 9 and as the effect the new standard could have on the financial results of the Company will change as the circumstances of the Company's financial investments portfolio change up to the point of initial adoption, it is not yet practical to reliably estimate the financial impact on the financial statements.

### 3. FINANCIAL INVESTMENTS

The following table is an analysis of the investment portfolio disclosing fair value balances by category:

	2017 \$	2016 \$
<b>Financial assets at fair value through profit or loss</b>		
Equity investments	349,059,406	307,630,037
Debt securities	5,233,758	20,280,456
<b>Total</b>	<b>354,293,164</b>	<b>327,910,493</b>
<b>Available-for-sale financial assets</b>		
Equity investments	6,676,735	4,127,778
<b>Total</b>	<b>6,676,735</b>	<b>4,127,778</b>
<b>Total financial investments</b>	<b>360,969,899</b>	<b>332,038,271</b>

The following table is an analysis of the investment portfolio disclosing fair value balances and fair value movements of the investments:

	2017 \$	2016 \$
<b>Financial assets at fair value through profit or loss</b>		
Fair value at beginning of year	327,910,493	209,008,995
Purchase of investments	16,803,420	102,787,022
Proceeds from disposal of investments	(14,113,678)	(5,768,950)
Net fair value movement in the year (including foreign exchange gains and losses)	23,692,929	21,883,426
<b>Fair value at end of year</b>	<b>354,293,164</b>	<b>327,910,493</b>
<b>Available-for-sale financial assets</b>		
Fair value at beginning of year	4,127,778	855,260
Purchase of investments	1,838,616	3,760,924
Proceeds from disposal of investments	(228,647)	(34,340)
Net fair value movement in the year (including foreign exchange gains and losses)	938,988	(454,066)
<b>Fair value at end of year</b>	<b>6,676,735</b>	<b>4,127,778</b>
<b>Total financial investments</b>	<b>360,969,899</b>	<b>332,038,271</b>

#### 4. SUBSIDIARY UNDERTAKINGS

The following were consolidated subsidiary undertakings of the Company at September 30, 2017 and September 30, 2016.

	Country of operation, registration and incorporation	Holdings and voting rights	
		2017	2016
Somers AM Pty Ltd	Australia	100%	100%
Somers Treasury Pty Ltd	Australia	100%	100%
SI Asset Management S.a.r.l.	Luxembourg	100%	100%
Somers Luxembourg S.a.r.l.	Luxembourg	100%	100%
Somers Pte. Ltd	Singapore	100%	100%
Somers UK (Holdings) Limited	United Kingdom	100%	100%

In accordance with IFRS 10, subsidiaries held as part of the Company's investment portfolio are not consolidated, but are accounted for as investments and carried at fair value through profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Expressed in United States Dollars)

Details of these undertakings are as follows:

	<b>Country of registration, incorporation and operations</b>	<b>Number of ordinary shares held</b>	<b>Percentage of ordinary shares held</b>
Homeloans Limited ("Homeloans")	Australia	232,331,619	59.01%
Bermuda Commercial Bank Limited ("BCB")	Bermuda	7,003,318	100.00%
West Hamilton Holdings Limited ("West Hamilton")	Bermuda	1,659,390	57.06%
RESIMAC Treasury Services (UK) Ltd ("RTSL")	UK	100	100.00%
Stockdale Securities Limited ("Stockdale") <sup>(1)</sup>	UK	1,559,984,735	75.00%
Waverton Investment Management Limited ("Waverton")	UK	10,750,000	62.50%

(1) The shares held by Somers as of September 30, 2017, confer the right to 75% of the economic, voting and other rights attaching to the entire issued share capital of Stockdale irrespective of the number of shares in issue.

At September 30, 2016 Somers held 18,062,467 (81.25%) of RESIMAC Limited's ("RESIMAC") common shares. On October 25, 2016, RESIMAC merged with Homeloans pursuant to a court approved scheme of arrangement and RESIMAC became a subsidiary of Homeloans. RESIMAC shareholders were issued with shares in Homeloans based on the ratio of RESIMAC shareholders owning 72.5% and existing Homeloans shareholders owning 27.5% of the combined group. Under the terms of the merger, Somers was issued with 231,922,076 shares in Homeloans equating to a 58.91% holding in the company's issued share capital. The shares are listed on the Australian Stock Exchange ("ASX"). Trading of the new Homeloans shares on the ASX on a normal settlement basis commenced on October 26, 2016.

### 5. ASSOCIATE UNDERTAKINGS

The associate undertakings are held as part of the investment portfolio and consequently are carried at fair value through profit or loss. The Company had the following associate undertakings at September 30, 2017, none of which are considered individually material to Somers:

	<b>Incol Limited ("Incol")</b>	<b>Merrion Capital Holdings Limited ("Merrion")</b>
Country of registration, incorporation and operations	Ireland	Ireland
Number of ordinary shares held	100,000	12,312
Percentage of ordinary shares held	23.81%	22.57%

In June 2017 Somers sold its entire investment in Ascot Lloyd Holdings Limited; thereby realising a gain of \$2,735,460.

Transactions with associate undertakings are disclosed in note 17.



## 6. LOANS AND RECEIVABLES

Loans and receivables at September 30 were as follows:

	2017 \$	2016 \$
Loans to unconsolidated subsidiaries	1,965,920	2,854,940
Loans to associates	771,552	6,587,981
Receivable from unconsolidated subsidiaries	-	1,233,582
Factored receivables	-	3,017,778
<b>Total</b>	<b>2,737,472</b>	<b>13,694,281</b>

### Factored Receivables

The Company entered into a number of debt factoring arrangements in 2016 whereby the rights to cash flows from trade receivables were transferred to Somers. These receivables had terms of up to sixty days and all outstanding receivables at September 30, 2016 were paid in full during the current year.

## 7. OTHER ASSETS

Other assets at September 30 were as follows:

	2017 \$	2016 \$
Dividends receivable	1,365,761	-
Prepayments and other receivables	274,880	82,889
<b>Total</b>	<b>1,640,641</b>	<b>82,889</b>

Dividends receivable represent dividends declared by certain of the Company's investments but not yet paid as at September 30.

## 8. OTHER LIABILITIES

Other liabilities at September 30 were as follows:

	2017 \$	2016 \$
Accounts payable	355,764	565,899
Payables for financial investments purchased	150,577	357,052
Accrued liabilities	551,259	486,312
Financial investment termination provision	1,340,642	-
<b>Total</b>	<b>2,398,242</b>	<b>1,409,263</b>

### Financial Investment Termination Provision

During 2017 the Company committed to terminating its investment in its unconsolidated subsidiary, RESIMAC Treasury Services (UK) Ltd ("RTSL") and selling its mortgage loan book. The Company made this decision following a reassessment of the expected future cash flows from RTSL. The sale of the loan book completed shortly after year end and the proceeds from this sale were not sufficient to satisfy all of RTSL's outstanding liabilities. As detailed in note 17, a substantial majority of these liabilities are payable to Somers and entities related to Somers and Somers has committed to funding these liabilities. The Company has recognised a provision of \$5,180,908 (note 15) relating to the expected costs of satisfying these outstanding liabilities. The Company offset \$3,840,266 of this provision against loans and receivables due from RTSL to the Company resulting in a net provision of \$1,340,642 as at September 30, 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Expressed in United States Dollars)

### 9. CONVERTIBLE LOAN NOTES

As consideration for the purchase of 17,572,015 shares of RESIMAC Limited from Ingot Capital Management Pty Limited ("Ingot"), a related party entity controlled by Mr Duncan Saville (a director of Somers), Somers issued convertible loan notes ("CLNs") with a principal value of \$88,519,562 to Ingot on September 29, 2016. The CLNs were convertible into 4,984,210 common shares of Somers Limited upon the receipt of certain regulatory approvals relating to shareholder controller levels, which were duly received during 2017. On November 25, 2016, Ingot assigned its interest in the CLNs to its parent, Permanent Investments Limited, by way of a sale.

The CLNs were non-interest bearing and had a final maturity date of September 29, 2017. In the event that the Company paid a dividend to its shareholders prior to their conversion, the CLN holders had the right to receive the equivalent value of the dividend in shares of the Company. On May 15, 2017, the Company, Ingot and Permanent agreed to amend the CLN notes, inter alia, to allow for the partial exercise of the conversion rights, from time to time pursuant to the terms of amended and restated CLNs.

On May 18, 2017, the Company received a conversion notice from Permanent to convert \$41.7 million of the CLNs and 2,350,000 Somers shares were issued to Permanent.

On May 29, 2017, the Company made a partial repayment of the CLNs to Permanent of \$6.9 million, equivalent to 390,195 Somers shares.

On June 20, 2017, the Company received a second and final conversion notice from Permanent to convert approximately \$41.1 million of the CLNs and 2,338,261 Somers shares were issued to Permanent.

The following table provides details of the movement in the CLNs during the year:

Date	Action	Number of shares	Amount \$
September 2016	CLNs issued to Ingot	4,984,210	88,519,562
January 2017	Final dividend for the year ended September 30, 2016	94,246	1,295,895
May 2017	CLN conversion and issuance of 2,350,000 shares	(2,350,000)	(41,736,000)
May 2017	Partial CLN repayment	(390,195)	(6,929,863)
June 2017	CLN conversion and issuance of 2,338,261 shares	(2,338,261)	(41,149,594)
<b>Balance at September 30, 2017</b>			<b>-</b>

### 10. INTEREST BEARING LOANS AND BORROWINGS

Interest bearing loans and borrowings at September 30 were as follows:

	2017 \$	2016 \$
\$4.5 million loan facility from BCB	<b>4,500,000</b>	-
\$3.5 million bank overdraft facility from BCB	-	3,458,491
£3.8 million loan facility from BNTB	-	4,962,524
<b>Total bank borrowings</b>	<b>4,500,000</b>	<b>8,421,015</b>
£1.0 million loan facility from UIL	-	1,233,582
GBP 6% loan facility from UIL	-	16,834,945
<b>Total</b>	<b>4,500,000</b>	<b>26,489,542</b>

#### BCB Loan

This \$4.5 million loan facility from BCB carries an interest rate of one-month LIBOR plus 5.0%. The facility is unsecured and is subject to annual principal repayments of \$1,053,795 commencing February 28, 2018 with a final repayment date of March 31, 2022.

#### Bank Overdraft from BCB

This \$3.5 million overdraft facility with BCB carried an interest rate of one-month LIBOR plus 5.0%. The facility was unsecured and was repaid in full in August 2017.

#### Bank of N.T. Butterfield Loan

This loan from the Bank of N.T. Butterfield was secured by a guarantee from ICM Limited and was repaid in full in July 2017. The loan carried a fixed interest rate of 5.25%.

#### £1.0 Million Loan Facility from UIL

This £1.0 million unsecured facility from UIL carried a fixed interest rate of 6% and was settled in full in June 2017 against UIL's stock warrant exercise. At September 30, 2016, £950,591 was drawn down on this facility.

#### GBP 6% Loan Facility from UIL

This unsecured facility from UIL carried a fixed interest rate of 6% and was settled in full in June 2017 against UIL's stock warrant exercise. At September 30, 2016, £12,972,909 was drawn down on this facility.

#### Compliance with Loan Covenants

Somers has complied with the financial covenants of its borrowing facilities during the 2017 and 2016 reporting periods, see note 11 for details.

## 11. EQUITY

All shares are common shares with a par value of \$0.0001 each.

	Authorised Shares	Par Value	Issued & Fully Paid Shares	Par Value	Contributed Surplus
Balance at October 1, 2015	120,000,000	12,000	11,792,805	1,179	162,674,966
Issuance of 331,124 shares under dividend reinvestment plan	-	-	331,124	34	4,487,661
Cancellation of treasury stock	-	-	(18,843)	(2)	(247,582)
<b>Balance at September 30, 2016</b>	<b>120,000,000</b>	<b>12,000</b>	<b>12,105,086</b>	<b>1,211</b>	<b>166,915,045</b>
Issuance of 215,422 shares under dividend reinvestment plan	-	-	215,422	21	2,957,756
Exercise of convertible loan notes	-	-	4,688,261	469	82,885,125
Exercise of warrants	-	-	2,490,679	249	33,623,917
Cancellation of treasury stock	-	-	(23,989)	(2)	(318,657)
<b>Balance at September 30, 2017</b>	<b>120,000,000</b>	<b>12,000</b>	<b>19,475,459</b>	<b>1,948</b>	<b>286,063,186</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Expressed in United States Dollars)

### Treasury Stock

	2017		2016	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Balance at beginning of year	-	-	-	-
Purchase of treasury stock	23,989	318,659	18,843	247,584
Cancellation of treasury stock	(23,989)	(318,659)	(18,843)	(247,584)
<b>Balance at end of year</b>	-	-	-	-

### Regulatory Capital

Certain of Somers' unconsolidated subsidiaries have external regulatory capital requirements. BCB has complied with all minimum capital requirements prescribed by its regulator, the Bermuda Monetary Authority, for the current year. BCB's subsidiary PCF Group plc ("PCF"), has complied with all minimum capital requirements prescribed by its dual regulators, the Prudential Regulation Authority and the Financial Conduct Authority, for the current year. Waverton's lead regulator, the Financial Conduct Authority, sets and monitors capital requirements for Waverton and no breaches were reported during the year. Stockdale's regulator, the Financial Conduct Authority, sets and monitors capital requirements for Stockdale and no breaches were reported during the year.

With the exception of BCB, PCF, Waverton and Stockdale the other subsidiaries are not subject to external regulatory capital requirements.

### Loan Covenants

Under the terms of its BCB loan facility, Somers is required to comply with principal lending covenants in respect of the ratio of borrowings to equity, the ratio of cash income to interest expense, and minimum net assets levels. No breaches were reported during the year.

### Capital Management

The Company's capital levels are regularly reviewed by the Board of Directors in light of changes in economic conditions and the risk characteristics of the Company's activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payments to shareholders, return capital to shareholders, or issue new capital securities.

There were no changes in the Company's approach to capital management during the year.

### Dividend Reinvestment Plan

The Company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares are issued under the plan based on the Company's average share price on the Bermuda Stock Exchange for a predetermined period prior to the dividend payment date.

### Bonus Warrant Issue

During the year the Company made a bonus warrant issue to shareholders on the basis of two bonus warrants for every five Somers shares held. Each bonus warrant entitled the holder to subscribe for two bonus warrant shares at a subscription price of \$13.50 per share. The bonus warrants were exercisable at any time from the issue date of June 30, 2017 to their expiry date of September 30, 2017.

During the exercise period, 2,490,679 bonus warrant shares were subscribed for resulting in total proceeds of \$33,624,166. The warrant exercise resulted in the issuance of 2,490,679 new ordinary shares.

## 12. EARNINGS PER SHARE

	Net Earnings \$	Weighted Average Shares	Earnings per Share \$
<b>2017</b>			
<b>Basic Earnings Per Share</b>			
Net profit	19,426,532	13,903,372	1.40
<b>Diluted Earnings Per Share</b>			
Net profit	19,426,532	13,903,372	1.40
<b>2016</b>			
<b>Basic Earnings Per Share</b>			
Net profit	32,290,094	11,945,144	2.70
Add: Incremental shares from assumed exercise of convertible notes (Note 9)		27,311	
<b>Adjusted weighted average shares outstanding</b>		<b>11,972,455</b>	
<b>Diluted Earnings Per Share</b>			
Net profit	32,290,094	11,972,455	2.70

For the 2016 diluted earnings per share calculation, the convertible loan notes are assumed to have been converted into ordinary shares at the date of their issue on September 29, 2016.

## 13. DIVIDENDS

The Company declared and paid dividends as follows:

	2017 \$	2016 \$
Final dividend for the year ended September 30, 2016 of 26.0 cents (2015: 24.0 cents) per common share. Paid January 2017	<b>4,443,153</b>	2,831,172
Interim dividend for the year ended September 30, 2017 of 20.0 cents (2016: 18.0 cents) per common share. Paid July 2017	<b>3,890,287</b>	2,153,222
<b>Total</b>	<b>8,333,440</b>	4,984,394

Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended September 30, 2017 and 2016 were as follows:

	2017 \$	2016 \$
Paid in cash	<b>4,079,768</b>	496,699
Satisfied by issue of shares	<b>4,253,672</b>	4,487,695
<b>Total</b>	<b>8,333,440</b>	4,984,394

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Expressed in United States Dollars)

### 14. INTEREST INCOME

The Company earned interest income as follows:

	2017 \$	2016 \$
Loans and receivables	517,802	185,084
Financial assets at fair value through profit or loss	493,999	859,282
Factored receivables	27,793	24,966
<b>Total</b>	<b>1,039,594</b>	<b>1,069,332</b>

### 15. GAINS ON INVESTMENTS

The Company recorded the following gains (losses) on investments:

	2017 \$	2016 \$
<b>Financial assets at fair value through profit or loss</b>		
Unrealised gains on investments	25,663,745	35,972,172
Financial investment termination provision (Note 8)	(5,180,908)	-
Realised losses on sale of investments	(5,304,662)	(1,153,790)
<b>Total</b>	<b>15,178,175</b>	<b>34,818,382</b>
<b>Available-for-sale financial assets</b>		
Unrealised gains on investments	-	-
Realised gains on sale of investments	48,917	13,629
<b>Total</b>	<b>48,917</b>	<b>13,629</b>
<b>Total gains on investments</b>	<b>15,227,092</b>	<b>34,832,011</b>

### 16. INCOME TAX

Somers and its subsidiaries domiciled in Bermuda are not subject to income tax on their net income for the period. Somers' subsidiaries domiciled in other jurisdictions are subject to the tax laws of those jurisdictions. The Company records income taxes based on the tax rates applicable in the relevant jurisdiction.

The income tax expense for the year was as follows:

	2017 \$	2016 \$
Overseas taxation	130,790	278,121
<b>Total</b>	<b>130,790</b>	<b>278,121</b>

## 17. RELATED-PARTY DISCLOSURES

As at September 30, 2017, the Major Shareholders held, in aggregate, 93.08% (2016: 89.59%) of Somers' common shares. Details of the Major Shareholders are disclosed in note 1.

The following are considered related parties of the Company: the Major Shareholders, General Provincial Life Pension Fund (L) Limited (which holds 61.8% of UIL's ordinary shares), Mr Duncan Saville (who owns 100% of Permanent, Permanent Mutual and ICM), entities controlled by these entities and individuals, the subsidiaries of the Company set out under note 4, the associates of the Company set out under note 5, and the Board of Directors.

The following transactions were carried out during the year ended September 30, 2017, between the Company and its related parties:

### Bermuda Commercial Bank Limited

Somers uses BCB for banking services and enters into transactions with BCB under the same terms as an unrelated party would receive. For the year ended September 30, 2017, Somers paid BCB fees of approximately \$80,108 (2016: \$70,877) for banking services.

At September 30, 2017, Somers had deposits with BCB amounting to \$2,392,523 (2016: \$777,162).

During the year Somers repaid its \$3.5 million overdraft facility with BCB and entered into a new \$4.5 million loan facility with BCB all of which was drawn down at year end. This unsecured loan facility carries an interest rate of one-month LIBOR plus 5.0% and is subject to annual principal repayments of \$1,053,795 commencing on February 28, 2018 with a final repayment date of March 31, 2022. Somers paid interest of \$184,023 to BCB on its loan and overdraft during the year (2016: \$106,658).

During the year, Somers purchased securities from BCB at amounts equal to their fair value of \$4,833,450 (2016: \$6,922,740). There were no payables as a result of the purchase of these securities at the year end.

Somers received no dividends during the year from BCB (2016: \$2,500,000).

### Waverton Investment Management Limited

Somers received £937,500 (2016: £637,475) of dividends during the year from Waverton.

### Stockdale Securities Limited

In December 2015 Somers provided a £2,200,000 loan facility to Stockdale. The loan has a term of 5 years and carries a fixed interest rate of 5%. Following repayments during the year, the principal balance on the loan was £1,466,667 at

September 30, 2017 and is included in loans and receivables in the consolidated statement of financial position. During the year Somers charged Stockdale interest of £104,640 (2016: £91,014) of which £18,990 was receivable at September 30, 2017 (2016: £91,014).

During the year Somers paid Stockdale £25,000 (2016: £27,086) for consultancy services, which is included in legal and professional fees in the consolidated statement of income.

Somers has issued a guarantee to a third party asset manager in relation to brokerage operations provided by Stockdale to that asset manager. The Directors believe the probability of the guarantee being called upon is remote and no fee was charged for this guarantee.

### Homeloans Limited

Homeloans paid Somers A\$3,481,903 (2016: A\$nil) of dividends during the year, of which A\$1,742,487 was receivable at year end.

### RESIMAC Treasury Services (UK) Ltd ("RTSL")

In May 2016 Somers provided a £1,000,000 loan facility to RTSL of which £950,591 was drawn down at September 30, 2017 (2016: £950,591). This facility is unsecured, carries a fixed interest rate of 6% and is currently repayable. Somers earned interest of £57,035 (2016: £21,525) during the year, and £78,560 was receivable at the year end. Somers has recorded a 100% provision against this loan as at year end.

At September 30, 2017 Somers had receivables due from RTSL of \$2,566,094 (2016: \$15,728) relating to costs incurred by Somers on behalf of RTSL. Somers has recorded a 100% provision against this receivable as at year end.

Shortly after year end RTSL sold its entire mortgage loan book following a reassessment of the expected future cash flows from its operations. The proceeds from the sale of the mortgage loan book were not sufficient to satisfy all of RTSL's outstanding liabilities which consist primarily of those amounts payable to Somers and Homeloans. Somers had previously committed to paying RTSL's excess liabilities and accordingly, and as detailed in note 8, Somers has recognised a provision of \$5,180,908 in its accounts equating to the expected costs of satisfying these outstanding liabilities.

### West Hamilton Holdings Limited

Somers received \$165,939 (2016: \$nil) of dividends during the year from West Hamilton.

### Ascot Lloyd Holdings Limited

On March 14, 2017 Somers acquired a convertible loan note issued by Ascot Lloyd with a par value of £2.30 million bringing its holding, at that date, to five convertible loan notes with

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Expressed in United States Dollars)

a combined par value of £8.75 million. In addition, Somers had provided £4.45 million of loan facilities to Ascot Lloyd which were fully drawn down as of September 30, 2016. On June 30, 2017 Somers sold its entire investment in Ascot Lloyd for proceeds of £15,300,000 (\$19,929,780) thereby realising a gain of £2,100,000 (\$2,735,460).

During the period October 1, 2016 to the date of the disposal, Somers earned interest of £489,156 (2016: £550,764) on these convertible loan notes and loan facilities.

### **Somers and Partners Pty Ltd (“Somers & Partners”)**

Somers has provided a loan to Somers & Partners with an outstanding balance at September 30, 2017 of A\$525,000 (2016: A\$1,000,000). This loan carries a fixed interest rate of 10% and is currently repayable. During the year Somers earned interest of A\$75,125 (2016: A\$41,667) from Somers & Partners of which A\$57,625 was receivable at year end.

In June 2017 Somers' holding of 1,200,000 ordinary shares in Somers & Partners was reduced to a 760,000 shares, a voting shareholding of 19%.

### **Incol Limited**

In August 2016 Somers provided a €42,000 loan to Incol. The loan is unsecured, carried no interest and is repayable on March 31, 2018.

### **UIL Limited**

During 2016 Somers entered into a number of loan facilities with UIL and at September 30, 2016, £12,972,909 was drawn down on these facilities. The unsecured facilities carried a fixed interest rate of 6% and were repayable upon UIL giving Somers not less than 12 months' notice. The facilities were repaid in full in June 2017. During the year, Somers incurred interest expenses of \$836,138 (2016: \$257,590) on these loans.

In May 2016 UIL provided a separate £1,000,000 loan facility to Somers of which £950,591 was drawn down at September 30, 2016. This unsecured loan facility carried a fixed interest rate of 6% and was repaid in full on June 30, 2017. During the year, Somers incurred interest expenses of £42,659 (£17,970) on this loan.

On July 6, 2017 the Company issued 2,454,568 Somers shares to UIL following UIL's exercise of its bonus warrants.

### **Permanent Investments Limited**

As described in note 9, Somers entered into a convertible loan note with Ingot in September 2016 and in November 2016, Ingot assigned its interest in this CLN to Permanent, by way of a sale.

During the year Permanent converted \$82.8 million of the CLN and was issued with 4,688,261 Somers shares. The balance of the CLN, \$6.9m, was repaid to Permanent and the CLN expired.

During the year, Somers bought securities from Permanent at their fair value of £224,250.

### **ICM Limited**

ICM Limited is the investment manager of Somers and UIL and investment adviser to BCB. The Directors of ICM are Duncan Saville, Charles Jillings and Alasdair Younie who are all directors of Somers.

In December 2014, Somers entered into a revised investment manager agreement with ICM. This revised agreement replaced an agreement entered into in December 2012 and remains in force until terminated by Somers, by giving ICM not less than six month's written notice of termination, or by ICM giving Somers not less than three months written notice of termination, or such lesser period of notice as Somers and ICM agree.

Somers has agreed to pay ICM an annual fee for its advisory services equal to 0.50% (payable quarterly in arrears) of the gross asset value of qualifying investments within Somers' financial investment portfolio. For the year ended September 30, 2017, this fee amounted to \$1,231,431 (2016: \$538,145), of which \$nil remained payable at year end. Included within the terms of the revised investment manager agreement is a performance fee payable to ICM if the growth in the Company's equity exceeds a hurdle rate equal to the higher of 8% or 4% plus the UK Retail Price Index inflation (“Hurdle Rate”). The fee arrangement is payable at a rate of 15% on the amount by which the growth in the Company's equity exceeds the Hurdle Rate. The growth in Somers' equity did not exceed the Hurdle Rate in 2017 and therefore no performance fee was payable for the year ended September 30, 2017 (2016: \$nil).

ICM provided administration and other professional services to Somers for which Somers paid fees of \$50,000 (2016: \$55,380) and this is included in “Audit and accounting fees” in the Consolidated Statement of Income.

In addition, ICM guaranteed a £3.82 million BNTB bank loan facility provided to Somers. The fee for this guarantee was \$50,261 for the period from October 1, 2016 to the date of repayment of the loan in July 2017 (2016: \$49,625).

In January 2017 ICM provided a £456,650 loan facility to Somers. This loan was unsecured and carried a fixed interest rate of 6%. The loan was repaid in full on June 9, 2017, and the loan facility was terminated on that date. Somers paid interest of £10,509 to ICM on the loan.



## The Board of Directors

Directors had the following beneficial interest in the Company's issued share capital:

	2017	2016
Duncan Saville	<b>9,539,187</b>	4,823,569
Charles Jillings	<b>83,000</b>	83,000
Warren McLeland	<b>46,464</b>	44,930
David Morgan	<b>6,750</b>	6,750

The Company's directors' fees for the year ended September 30, 2017, amounted to \$65,000 (2016: \$65,000).

Charles Jillings was a director of Waverton during the year ended September 30, 2017 and received directors' fees of \$51,410 in the year (2016: \$56,413). Alasdair Younie was a director of West Hamilton and BCB during the year ended September 30, 2017 and received directors' fees of \$7,500 and \$28,500, respectively, in the year (2016: \$7,900 and \$31,500). Duncan Saville was a director of West Hamilton during the year ended September 30, 2017 and received directors' fees of \$7,500 in the year (2016: \$7,500). Warren McLeland was a director of Homeloans during the year ended September 30, 2017 and received directors' fees of \$36,423 in the year. David Morgan was a director of BCB, Waverton, PCF and Ascot Lloyd during the year ended September 30, 2017 and received directors' fees of \$36,000, \$51,410, \$33,738 and \$11,567, respectively (2016: \$42,000, \$56,413, \$28,206, \$16,924). Morwill Ltd, a company related to Mr Morgan, also received fees for providing services to Somers of \$103,853 for the year (2016: \$116,293).

BCB also provides banking services to directors under normal commercial terms. At September 30, 2017, directors and parties associated with directors had deposit balances with BCB of \$317,004 (2016: \$252,174).

### Other

In addition, the following transactions were carried out during the year between the Company's subsidiaries and related parties:

#### BCB

BCB provides banking services and enters into transactions with related parties of Somers under the same terms as an unrelated party would receive. Outstanding balances and/or transactions with related parties of Somers were as follows:

#### Loans and advances to customers

At September 30, 2017, BCB had total loans and advances receivable from related parties of Somers amounting to \$12,656,100 (2016: \$15,095,540), of which \$6,165,095

(2016: \$5,954,965) was unsecured and \$6,491,005 (2016: \$9,140,575) was secured by the related parties' cash and portfolio assets managed/custodied by BCB. The undrawn portion of credit facilities with related parties of Somers at September 30, 2017 totaled \$188,646 (2016: \$188,646).

For the year ended September 30, 2017, BCB earned net interest and fees of \$1,139,171 (2016: \$2,075,651) for banking services provided to related parties of Somers.

At September 30, 2017, BCB had investments in asset-backed notes in various securitisation entities that were set up by RESIMAC, with a carrying value of \$22,309,681 (2016: \$26,774,876).

#### Deposit Liabilities

At September 30, 2017, BCB had deposit balances placed by Somers' related parties amounting to \$5,750,234 (2016: \$6,380,486).

#### Investment Adviser Agreement with ICM

BCB has entered into an investment adviser agreement with ICM and has agreed to pay ICM an annual fee for its advisory services equal to 0.50% of the value of BCB's investment portfolio. For the year ended September 30, 2017, such fees amounted to \$529,242 (2016: \$763,061) of which \$128,157 remained payable at year end (2016: \$163,718). In addition, pursuant to a consultancy agreement, a fee of \$100,000 (2016: \$100,000) was paid to ICM for its consultancy services, of which \$25,000 remained payable at year end (2016: \$25,000).

In addition, depending upon the performance of its investment portfolio, BCB may determine that the Investment Adviser should receive performance fees on account of the services provided. During the year ended September 30, 2017, BCB incurred a performance fee of \$950,000 (2016: \$240,000) of which \$950,000 remained payable at year end (2016: \$240,000).

#### RTSL

RTSL has issued £12,500,000 of promissory notes to BCB (2016: £12,500,000). The promissory notes carry an interest rate of twelve-month Sterling LIBOR plus 5.5%. During the year RTSL incurred interest expenses of £784,532 (2016: £922,463) on the promissory notes and at September 30, 2017, total interest payable was £142,835 (2016: £384,833). In October 2017 the promissory notes were called and were fully repaid to BCB.

At September 30, 2017, RTSL had a loan balance owing to Homeloans of A\$1,846,368 (2016: A\$3,312,317). During the year RTSL incurred interest expenses of A\$177,520 (2016: A\$273,466) on this loan and at year end total interest payable by RTSL was A\$63,090 (2016: A\$273,466).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Expressed in United States Dollars)

### 18. RISK MANAGEMENT

The Company's investment objective is to maximise shareholder returns by identifying and investing in investments when the underlying value is not reflected in the market price.

The Company seeks to meet its investment objective by investing in a portfolio of principally unlisted companies. Derivative instruments may be used for purposes of hedging the underlying portfolio of investments that are denominated in foreign currencies. The Company has the power to enter into short and long term borrowings. In pursuing its objectives, the Company is exposed to financial risks. These financial risks are principally related to the market (currency movements, interest rate changes and security price movements), liquidity and credit and counterparty risk. The Board of Directors is responsible for the Company's risk management. The Directors' policies and processes for managing the financial risks are set out in (a) to (e) below.

#### (a) Market Risk

The fair value of the financial securities held in the Company's portfolio fluctuate with changes in market prices. Market risk embodies currency risk, interest rate risk and price risk. Prices are affected by movements in currencies and interest rates and by other financial issues, including the market perception of future risks. The Company's investments may be materially affected by economic conditions in the global financial markets and those markets where Somers has material exposure. Capital and credit markets have experienced significant volatility and disruption over recent periods. Uncertainty created by market and economic conditions and a tightening of credit could lead to declines in valuations of financial securities without regard to the underlying financial condition of the issuer.

The Board sets policies for managing these risks within the Company's objectives and meets regularly to review full, timely and relevant information on investment performance and financial results. The Investment Manager assesses exposure to market risks when making each investment decision and monitors on-going market risk within the portfolio. The Investment Manager consults with the Board of Directors on a quarterly basis, or more frequently as required.

The Company's other assets and liabilities may be denominated in currencies other than US Dollars and may also be exposed to exchange rate risks. The Investment Manager and the Board regularly monitor these risks.

The Company does not normally hold significant cash balances. Borrowings are limited to amounts and currencies commensurate with the portfolio's exposure to those currencies, thereby limiting the Company's exposure to future changes in exchange rates.

Borrowings may be short or long term, in US Dollars and foreign currencies, and enable the Company to take a long term view of the countries and markets in which it is invested without having to be concerned about short term volatility. Income earned in foreign currencies is converted to US Dollars on receipt. The Board regularly monitors the effects on net revenue of interest earned on deposits and paid on borrowings.

#### *Currency exposure*

Currency risk arises from the possibility that fluctuations in foreign currency exchange rates will affect the value of certain of the Company's assets and liabilities. The Company's functional currency is the US Dollar. As a result, foreign currency assets and liabilities are translated to US Dollars. The Company maintains investments in Sterling, Australian Dollars, Euros, and other currencies, and may invest in financial instruments and enter into transactions denominated in currencies other than US Dollars.

When valuing investments that are denominated in currencies other than the functional currency, the Company is required to convert the values of such investments into its functional currency based on prevailing exchange rates as at the end of the applicable accounting period. Changes in exchange rates between the functional currency and other currencies could lead to significant changes in its Net Asset Values that the Company reports from time to time and could subject such Net Asset Values to favourable or unfavourable fluctuations. Among the factors that may affect currency values are trade balances, levels of short term interest rates, differences in relative values of similar assets in different currencies, long term opportunities for investment and capital appreciation and political developments.

The Company may engage in currency hedging to limit the Company's exposure to currency fluctuations. Currency hedging by the Company may be by means of spot and forward foreign exchange contracts or options on such contracts or by using such other derivative instruments as may be available and having the same or similar effect. To date, the Company has not engaged in currency hedging.

The Company's underlying investments are denominated in Sterling, Australian Dollars, Euros, New Zealand Dollars and US Dollars. The Investment Manager considers currency risk when making investments into non-US Dollar denominated assets and monitors currency movements on an on-going basis. The Investment Manager discusses its foreign currency policies with the Board of Directors on a regular basis and may choose to alter its asset allocation or currency risk strategies as a result.

At the reporting date the carrying value of the Company's financial assets and financial liabilities held in individual foreign currencies and the net exposure to foreign currencies were as follows:

2017						
	Financial Assets \$	Financial Liabilities \$	Net Financial Assets \$	% of Company Net Financial Assets	Hedging Contracts \$	Net Exposure \$
Sterling	120,865,702	(1,542,839)	119,322,863	33.0%	-	119,322,863
Australian Dollar	111,036,659	(10,089)	111,026,570	30.7%	-	111,026,570
Euro	3,173,917	(59,746)	3,114,171	0.9%	-	3,114,171
New Zealand Dollar	889,827	-	889,827	0.2%	-	889,827
Singapore Dollar	60,580	(72)	60,508	0.0%	-	60,508
<b>Total</b>	<b>236,026,685</b>	<b>(1,612,746)</b>	<b>234,413,939</b>	<b>64.8%</b>	<b>-</b>	<b>234,413,939</b>

2016						
	Financial Assets \$	Financial Liabilities \$	Net Financial Assets \$	% of Company Net Financial Assets	Hedging Contracts \$	Net Exposure \$
Sterling	115,824,597	(23,552,105)	92,272,492	40.0%	-	92,272,492
Australian Dollar	93,919,417	(38,760)	93,880,657	40.7%	-	93,880,657
Euro	3,230,818	(35,974)	3,194,844	1.4%	-	3,194,844
New Zealand Dollar	582,639	(291,320)	291,319	0.1%	-	291,319
Singapore Dollar	3,754	(71)	3,683	0.0%	-	3,683
<b>Total</b>	<b>213,561,225</b>	<b>(23,918,230)</b>	<b>189,642,995</b>	<b>82.2%</b>	<b>-</b>	<b>189,642,995</b>

Based on the financial assets and liabilities held, and the exchange rates at each reporting date, a strengthening or weakening of the US Dollar against each of these currencies by 10% would have had the following approximate effect on annualised income before tax and on the Net Asset Value (NAV) per share:

#### Strengthening of US Dollar

2017					
	Sterling £	Australian Dollar \$	Euro €	New Zealand Dollar \$	Singapore Dollar \$
Net income for the year	(11,932,286)	(11,102,657)	(311,417)	(88,983)	(6,051)
NAV per share – Basic	(0.61)	(0.57)	(0.02)	(0.00)	(0.00)

2016					
	Sterling £	Australian Dollar \$	Euro €	New Zealand Dollar \$	Singapore Dollar \$
Net income for the year	(9,227,249)	(9,388,066)	(319,484)	(29,132)	(368)
NAV per share – Basic	(0.76)	(0.78)	(0.03)	(0.00)	(0.00)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Expressed in United States Dollars)

### **Weakening of US Dollar**

The relevant weakening of the reporting currency against the above currencies would have resulted in an approximate equal but opposite effect on net income and NAV per share by amounts shown above, on the basis that all other variables remain constant.

These analyses are broadly representative of the Company's activities during the current year as a whole, although the level of the Company's exposure to currencies fluctuates throughout the year in accordance with the investment and risk management processes.

### ***Interest rate exposure***

The Company's exposure to the risk of changes in interest rates relates primarily to its holding of convertible debt securities within its financial investments portfolio and its \$4,500,000 variable rate bank loan. Apart from this bank loan, the Company had no floating rate debt obligations at September 30, 2017 (2016: \$3,458,491). The Company has incurred, and expects to continue to incur, indebtedness, to leverage certain investments. Due to the foregoing, the Company is, and believes that it will continue to be, exposed to risks associated with movements in prevailing interest rates. An increase in interest rates could make it more difficult or expensive to obtain debt financing, could negatively impact the values of fixed income investments, and could decrease the returns that investments generate or cause them to generate losses.

At September 30, 2017 the Company held convertible debt securities with a fair value of \$5,233,758 (2016: \$20,280,456). These securities had fixed interest rates. The remaining terms to maturity varied between one and five years with a weighted average of 3.5 years (2016: 3.1 years). Changes in prevailing interest rates or changes in expectations of future rates may result in an increase or decrease in the value of these securities. In general, if interest rates rise, the value of fixed income securities will decline and a decline in interest rates should have the opposite effect.

The Company is, and believes that it will continue to be, subject to additional risks associated with changes in prevailing interest rates due to the fact that its capital is invested in underlying portfolio companies whose capital structures may have a significant degree of indebtedness. Investments in leveraged companies are inherently more sensitive to declines in revenues, increases in expenses and interest rates and adverse economic, market and industry developments. A leveraged company's income and net assets also tend to increase or decrease at a greater rate than would be the case if leverage was absent. As a result, the risk of loss associated with an investment in a leveraged company is generally greater than for those companies with comparably less debt.

External borrowings will only be undertaken if the Directors and the Investment Manager consider the prevailing interest rates to be favourable and that the terms and conditions attaching to such borrowings are acceptable, having regard to the investment objectives of the Company. As at September 30, 2017, the Company had bank loans and overdrafts of \$4,500,000 (2016: \$8,421,015), and non-bank loans of \$nil (2016: \$18,068,527). Following their conversion or repayment during the year, the Company had no outstanding convertible notes as at September 30, 2017 (2016: \$88,519,562).

The majority of the Company's assets are non-interest bearing and the assets that do have interest rate exposure are entirely at fixed rates. Excess cash held by the Company may be invested in short term fixed deposit accounts that are rolled over on a regular basis. As a result it is not significantly exposed to interest rate risk on its other assets and liabilities.

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table classifies the financial assets and liabilities by fixed and variable rate instruments.

	2017 \$	2016 \$
<b>Fixed rate instruments</b>		
Financial assets	6,177,004	32,629,821
Financial liabilities	-	(23,031,051)
	<b>6,177,004</b>	<b>9,598,770</b>
<b>Variable rate instruments</b>		
Financial assets	-	-
Financial liabilities	(4,500,000)	(3,458,491)
	<b>(4,500,000)</b>	<b>(3,458,491)</b>
<b>Total interest rate sensitivity gap</b>	<b>1,677,004</b>	<b>6,140,279</b>

An increase in 100 basis points in interest rates as at the reporting date would have decreased net interest income by \$45,000 (2016: \$34,585). A decrease of 100 basis points would have increased net interest income by \$45,000 (2016: \$34,585).

As described above, a change in interest rates may impact the fair value of the Company's fixed rate debt instruments. An increase in 100 basis points in interest rates as at the reporting date would have reduced gains on investments and basic NAV per share by approximately \$120,586 and \$0.01 respectively (2016: \$346,914 and \$0.03). A decrease of 100 basis points would have had an equal but opposite effect on net income and basic NAV per share.

**Exposure to other price risk**

Other price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in that market. As many of the Company's financial instruments are carried at fair value with fair value changes recognised in the consolidated statement of income, such changes in market conditions will affect net gains on investments and the Company's net asset value.

The valuation of unquoted investments depends upon a combination of market factors and the performance of the underlying assets. The Investment Manager monitors price risk and consults with the Board of Directors on a quarterly basis, or more frequently as the case may be. The impact on valuations of the Company's larger unquoted investments from changing certain unobservable inputs used in the Company's valuations, where the value is estimated by the Directors and Investment Manager, is presented in note 20.

The Company also has direct exposure to assets that are publicly traded on various equity markets. These represent 4.30% (2016: 1.24%) of the Company's portfolio fair value as at September 30, 2017.

**(b) Liquidity Risk Exposure**

The Company's financial instruments primarily include investments in unlisted equity investments that are not publicly traded and therefore may be illiquid. As a result the Company may not be able to liquidate some of its investments in these instruments at an amount close to their fair value, or in a timely manner, should such liquidation be necessary to meet liquidity requirements.

The risk of the Company having insufficient liquidity is not considered by the Board to be significant, given the relatively low level of leverage, the absence of outstanding undrawn commitments and other obligations and the amount of quoted investments held in the Company's portfolio.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Expressed in United States Dollars)

The Company's exposure to liquidity risk is actively managed and monitored on an ongoing basis by the Investment Manager and by the Board. The Investment Manager frequently reviews upcoming capital requirements as well as potential exit and other monetisation events. Allocations to new investments take into consideration the near term capital needs within the Company's broader equity portfolio. Where the Investment Manager believes there may be upcoming liquidity requirements, it will take necessary action to ensure that adequate funds are available.

The contractual maturities of financial assets and financial liabilities, based on the earliest date on which payment can be required, are as follows:

	2017				Total
	Less than 1 month	1 – 3 months	3 months – 1 year	More than 1 year	
<b>Financial asset by type</b>					
Cash and cash equivalents	2,581,893	-	-	-	2,581,893
Other assets	1,640,641	-	-	-	1,640,641
Interest receivable	212,052	-	-	-	212,052
Loans and receivables	-	39,190	421,945	2,276,338	2,737,473
Financial investments	-	-	-	4,021,200	4,021,200
<b>Total</b>	<b>4,434,586</b>	<b>39,190</b>	<b>421,945</b>	<b>6,297,538</b>	<b>11,193,259</b>

<b>Financial liability by type</b>					
Other liabilities	1,053,083	4,517	-	-	1,057,600
Interest bearing loans and borrowings	-	-	1,053,795	3,446,205	4,500,000
<b>Total</b>	<b>1,053,083</b>	<b>4,517</b>	<b>1,053,795</b>	<b>3,446,205</b>	<b>5,557,600</b>

	2016				Total
	Less than 1 month	1 – 3 months	3 months – 1 year	More than 1 year	
<b>Financial asset by type</b>					
Cash and cash equivalents	751,940	-	-	-	751,940
Other assets	82,889	-	-	-	82,889
Interest receivable	356,995	-	-	-	356,995
Loans and receivables	3,017,778	766,000	1,280,798	8,629,705	13,694,281
Financial investments	-	-	-	12,263,265	12,263,265
<b>Total</b>	<b>4,209,602</b>	<b>766,000</b>	<b>1,280,798</b>	<b>20,892,970</b>	<b>27,149,370</b>

<b>Financial liability by type</b>					
Interest payable	107,638	-	-	-	107,638
Other liabilities	1,409,263	-	-	-	1,409,263
Convertible loan notes	-	-	88,519,562	-	88,519,562
Interest bearing loans and borrowings	3,458,491	-	6,196,106	16,834,945	26,489,542
<b>Total</b>	<b>4,975,392</b>	<b>-</b>	<b>94,715,668</b>	<b>16,834,945</b>	<b>116,526,005</b>

Assets and liabilities with no contractual maturity are not included in this table.

### (c) Credit Risk and Counterparty Exposure

The Company is exposed to potential failure by counterparties to deliver securities for which the Company has paid, or to pay for securities which the Company has delivered. The Company's overall credit risk is managed by the Board of Directors. The Board approves all counterparties used in such transactions, which must be settled on a basis of delivery against payment (except where local market conditions do not permit). Cash and deposits are held with reputable banks including BCB, a subsidiary of the Company.

The Company is exposed to the risk of non-payment of loans and debt securities provided to investee companies. Generally, no collateral is received from the underlying companies. It is believed that the risk of default is low, and the capital repayments and interest payments will be made in accordance with the agreed terms and conditions. No terms and conditions have been renegotiated.

The Company's principal custodians are BCB and JPMorgan Chase. The Company has an on-going contract with BCB for the provision of custody services and also uses JPMorgan Chase to specifically custody its listed investments. Details of securities held in custody on behalf of the Company are received and reconciled monthly.

To the extent that ICM carries out transactions (or causes transactions to be carried out by third parties) on the Company's behalf, the Company is exposed to counterparty risk. The Board manages this risk regularly through meetings with ICM.

The Company's policy is to provide financial guarantees only for subsidiaries' and associates' liabilities. As set out in note 17, at September 30, 2017, the Company had issued one guarantee to a third party asset manager in relation to the brokerage operations of a subsidiary.

At the reporting date, the Company's financial assets exposed to credit risk amounted to the following:

	2017	2016
	\$	\$
Cash and cash equivalents	2,581,893	751,940
Interest receivable	212,052	356,995
Loans and receivables	1,340,642	13,694,281
Financial investments	5,233,758	20,280,456
<b>Total</b>	<b>10,765,175</b>	<b>35,083,672</b>

### (d) Fair Values of Financial Assets and Liabilities

The assets and liabilities of the Company are, in the opinion of the Directors, reflected in the consolidated statement of financial position at fair value. Borrowings under loan facilities do not have a value materially different from their capital

repayment amount. Borrowings in foreign currencies are converted into US Dollars at exchange rates ruling at each valuation date.

Unquoted investments are valued based on assumptions and methodologies that may not be supported by prices from available current market transactions or by observable market data. The Directors make use of recognised valuation techniques and may take account of recent arms' length transactions in the same or similar investments. Details of the valuation process for unquoted investments are set out in note 20.

### (e) Reliance on Investment Manager

The Company relies on the Investment Manager and its ability to evaluate investment opportunities and to further manage the Company's investee companies. The Investment Manager exercises a central role in the investment decision making process. Accordingly, the returns of the Company will depend on the performance of the Investment Manager.

## 19. SEGMENT INFORMATION

The Directors are of the opinion that the Company's activities comprise a single operating segment, which is identifying and investing in investments where the underlying value is not reflected in the market price.

## 20. FINANCIAL INSTRUMENTS

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1: quoted (unadjusted) prices in active markets for identical financial instruments;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

### Financial Instruments Recorded at Fair Value

#### *Available-for-Sale Financial Investments*

There were no available-for-sale financial assets valued using valuation techniques during the year ended September 30, 2017 or 2016.

#### *Financial Investments at Fair Value through Profit or Loss*

Financial assets at Fair Value through Profit or Loss that are valued, in accordance with IFRS 13, using valuation techniques include unquoted equity and debt securities. The Company adopts valuation methodologies based on the International

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Expressed in United States Dollars)

Private Equity and Venture Capital ("IPEV") valuation guidelines and the assets are valued using models that use both observable and unobservable data. The unobservable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry, and geographical jurisdiction in which the investee operates.

### **Valuation methodology**

The objective of using valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Company uses proprietary valuation models, which are compliant with IPEV guidelines and IFRS 13 and which are usually developed from recognised valuation techniques. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows of the financial instrument being valued, determination of the probability of counterparty default and prepayments, peer group multiple and selection of appropriate discount rates.

Fair value estimates obtained from such models are adjusted for any other factors, such as controlling interest, historical and projected financial data, entity specific strengths and weaknesses, or model uncertainties, to the extent that the Company believes that a third party market participant would take them into account in pricing a transaction. Where appropriate, the Directors may also engage the services of a third party valuation firm to assist with valuing certain assets.

The Directors have satisfied themselves as to the methodologies used, the discount rates and key assumptions applied, and the estimated valuations. The Level 3 assets comprise a number of unlisted investments at various stages of development and each has been assessed based on its industry, location, and place in the business cycle. Where sensible, the Directors have taken into account observable data and events to underpin the valuations. Unlisted valuations which are based on observable data may be discounted to reflect the illiquid nature of the investment. These discounts have ranged between 10% and 30% depending on the nature and characteristics of each investment.

The key inputs and assumptions used in the valuation models are as follows:

### **Homeloans – Australia Incorporated**

Valuation inputs: Maintainable EV/Profit After Tax ("PAT") multiple of 11.1 times.

Valuation Methodology: The Homeloans shares were deemed not to trade in an active market and Homeloans has been valued based on peer comparisons and in particular EV/PAT. Listed peer valuations average 11.1 times for 2017 resulting in a valuation of A\$232.5 million. Somers holds a 59.0% equity interest in Homeloans and, as at September 30, 2017, carried this investment at A\$137.2 million.

Sensitivities: Should the PAT of Homeloans move by A\$1.0 million the gain or loss in valuation would be A\$6.6 million. Should the peer group multiple ascribed to Homeloans' PAT be reduced/increased by 1.0 the change in valuation for Somers would be A\$12.3 million.

Homeloans merged with RESIMAC effective October 25, 2016. Somers had acquired 17.6 million shares in RESIMAC for A\$116.1 million or A\$6.6075 per share from Ingot on September 29, 2016. The acquisition price of the RESIMAC shares was based on the weighted average of the Homeloans mid-market share price for the 30 days prior to the notification of the Special General Meeting of Somers' shareholders to approve the acquisition (A\$0.5146), and the previously announced RESIMAC-Homeloans share conversion ratio of 12.84. The Homeloans shares were deemed not to trade in an active market and due to the close proximity of the acquisition date of the RESIMAC shares to the Somers' prior year end, and, as no adjusting events were identified in the intervening period, the RESIMAC shares were valued at their acquisition price of A\$6.6075 as at September 30, 2016.

### **BCB – Bermuda Incorporated**

Valuation inputs: Fair value of BCB's identifiable assets and liabilities.

Valuation Methodology: Sum-of-the-parts valuation. Somers has a 100% interest in BCB and this was valued at \$102.5 million (2016: \$106.0 million). Included within this valuation is BCB's holding of 115,559,047 shares in PCF that are valued at their closing bid price on the reporting date.

Sensitivities: Should BCB's net assets increase/decline by \$5.0 million the gain/loss in valuation would be \$4.5 million.

### **Waverton – UK Incorporated**

Valuation inputs: Maintainable EV/EBITDA multiple of 11.8 times (2016: 10.8). Unlisted discount applied of 10%.

Valuation Methodology: Waverton has been valued based on peer comparisons and in particular EV/EBITDA. Listed peer valuations average 11.8 times for 2017. After applying a 10% discount the valuation is £101.6 million (2016: £91.6 million).



Somers holds a 62.5% equity interest in Waverton and, as at September 30, 2017, carried this investment at £63.5 million (2016: £57.2 million).

Sensitivities: Should the EBITDA of Waverton move by £1.0 million the gain or loss in valuation would be £6.6 million. Should the peer group multiple ascribed to Waverton's EBITDA be reduced/increased by 1.0 the change in valuation for Somers would be £5.2 million.

#### West Hamilton – Bermuda Incorporated

Valuation inputs: Fair value of West Hamilton's identifiable assets and liabilities.

Valuation Methodology: Fair value of West Hamilton's properties held in Hamilton, Bermuda are estimated by an independent Chartered Valuation Surveyor. Somers has a 57.06% interest in West Hamilton. Somers' holding was valued at \$26.9 million (2016: \$27.0 million).

Sensitivities: Should West Hamilton's properties increase/decline by \$5.0 million the gain/loss in valuation would be \$2.9 million.

#### Other

Valuation Methodology: Somers has a further ten unlisted investment holdings with values from \$nil to \$7.6 million each. These were valued using a mixture of cost for recent investments, where no material events had taken place since acquisition which would impact fair value, EV/EBITDA multiple, EV/Revenue multiple, and fair value of the underlying net assets. The total value of these ten holdings was \$23.4 million at September 30, 2017.

The following table shows an analysis of financial investments recorded at fair value by level of the fair value hierarchy:

	2017			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial assets at fair value through profit or loss</b>				
Equity investments	8,852,672	-	340,206,734	349,059,406
Debt securities	-	-	5,233,758	5,233,758
	<b>8,852,672</b>	<b>-</b>	<b>345,440,492</b>	<b>354,293,164</b>
<b>Available-for-sale financial assets</b>				
Equity investments	6,676,735	-	-	6,676,735
	6,676,735	-	-	6,676,735
Total	15,529,407	-	345,440,492	360,969,899

	2016			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial assets at fair value through profit or loss</b>				
Equity investments	-	-	307,630,037	307,630,037
Debt securities	-	-	20,280,456	20,280,456
	-	-	327,910,493	327,910,493
<b>Available-for-sale financial assets</b>				
Equity investments	4,127,778	-	-	4,127,778
	4,127,778	-	-	4,127,778
Total	4,127,778	-	327,910,493	332,038,271

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Expressed in United States Dollars)

Movement in Level 3 financial instruments measured at fair value:

	Equity Investments \$	Debt Securities \$	Total \$
<b>Financial assets at fair value through profit or loss</b>			
At October 1, 2015	188,816,911	20,192,084	209,008,995
Total gains (losses) recorded	23,801,950	(1,918,524)	21,883,426
Purchases	97,064,897	5,722,125	102,787,022
Disposals	(5,768,950)	-	(5,768,950)
Conversion of convertible debt securities	3,715,229	(3,715,229)	-
<b>At September 30, 2016</b>	<b>307,630,037</b>	<b>20,280,456</b>	<b>327,910,493</b>
Total gains (losses) recorded	25,903,525	(3,730,970)	22,172,555
Purchases	6,673,172	2,797,950	9,471,122
Disposals	-	(14,113,678)	(14,113,678)
<b>At September 30, 2017</b>	<b>340,206,734</b>	<b>5,233,758</b>	<b>345,440,492</b>

There were no Level 3 available-for-sale financial assets held during the years ended September 30, 2017 and September 30, 2016.

There were no Level 3 financial liabilities held during the years ended September 30, 2017 and September 30, 2016.

There were no transfers between fair value levels during the year or the prior year.

### 21. SUBSEQUENT EVENTS

#### Final Dividend

Effective December 12, 2017, the Board of Directors resolved to pay a final dividend for the year ended September 30, 2017 in the amount of \$0.28 per share to shareholders of record at January 15, 2018, payable on January 29, 2018.

## COMPANY INFORMATION

**Company Number: 46441**  
**[www.somers.limited](http://www.somers.limited)**

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Charles Jillings  
David Morgan  
Duncan Saville  
Alasdair Younie

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### COMPANY BANKER

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