



# SOMERS LIMITED

**Circular dated 16 September 2016**

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

This circular ("Circular") includes particulars given in compliance with the Listing Regulations of the Bermuda Stock Exchange ("BSX") for the purpose of providing information with regard to Somers Limited. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable enquiries that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

If you have sold or transferred all your shares in Somers Limited, please forward this Circular immediately, together with the accompanying Proxy Form, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee

## **SOMERS LIMITED**

*(An exempted company incorporated with limited liability in Bermuda)*

### **CIRCULAR TO SHAREHOLDERS IN RELATION TO THE PROPOSED ACQUISITION IMPORTANT DATES AND TIMES**

Last date and time for lodgment of Proxy Form:	26 September 2016 at 5.00 p.m.
Date and time of Special General Meeting:	28 September 2016 at 10.00 a.m.
Place of Special General Meeting:	34 Bermudiana Road Hamilton, HM 11 Bermuda



### **Important Information**

The contents of this Circular are not to be construed as legal, financial, business, investment or tax advice and do not constitute a personal recommendation. Each shareholder should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice.

This Circular includes statements that are, or may be deemed to be, "forward-looking statements". They include statements regarding the intentions, beliefs or current expectations of Somers Limited concerning, amongst other things, the investment performance, prospects and dividend policy of Somers Limited and the markets in which it invests and the issuing of securities by Somers Limited. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and, accordingly, forward-looking statements may, and often do, differ materially from actual results. Investors should not place undue reliance on such forward-looking statements, and Somers Limited does not undertake any obligation to update publicly or revise any forward-looking statements, save as required by applicable law or regulation.

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## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Record Date	5:00 p.m. on 9 September 2016
Notice of Special General Meeting of Somers Limited	16 September 2016
Latest time and date for lodgement of Form of Proxy	5:00 p.m. on 26 September 2016
Special General Meeting of Shareholders of Somers Limited	10.00 a.m. on 28 September 2016
Closing Date of Acquisition	29 September 2016

Any reference to a time of day in this Circular shall be a reference to Bermuda time unless otherwise stated.

## LETTER FROM THE CHAIRMAN

### SOMERS LIMITED (an exempted company incorporated under the laws of Bermuda)

Directors:

Warren McLeland (Chairman)  
Charles Jillings  
David Morgan  
Duncan Saville  
Alasdair Younie

Registered Office:

34 Bermudiana Road  
Hamilton, HM 11  
Bermuda

16 September 2016

Dear Shareholder

#### **Acquisition of majority shareholding in RESIMAC Limited**

##### **Introduction**

Somers Limited ("Somers" or the "Company") today announced its intention to acquire the majority shareholding (approximately 79.0%) (the "Majority Interest") of RESIMAC Limited ("RESIMAC"), a leading non-bank Australian financial institution of which I am Executive Chairman, from from Ingot Capital Management Pty Limited (the "Seller"). The Seller is 85% beneficially owned by Duncan Saville and 15% by interests associated with Charles Jillings, each of whom are Directors of the Company.

In line with its strategy to make investments and acquisitions in the financial services sector, the Company has agreed to acquire the Majority Interest of RESIMAC for approximately US\$88.5 million (the "Acquisition Price"). In exchange, the Company shall issue a convertible loan note (the "Note") to the Seller which shall provide for the conversion of the Note into 4,984,210 common shares par value US\$0.0001 of the Company (the "Shares") upon the receipt of all necessary regulatory approvals (the "Acquisition Consideration" and collectively, the "Acquisition"). As a result of the Acquisition, the Seller shall hold approximately 29.2% of Somers.

The Acquisition is conditional upon, amongst other things, shareholder approval which will be sought at the special general meeting (the "SGM") of the shareholders of Somers (the "Somers Shareholders") to be held at 34 Bermudiana Road, Hamilton HM11 Bermuda on 28 September 2016 at 10.00 a.m. (Bermuda time). The notice of the SGM is set out at the end of this Circular.

The purpose of this Circular is to provide you with further details of, and the reasons for, the proposal, and to seek your approval for the Acquisition.

For the purposes of this Circular, the following foreign currency exchange rates have been applied:

- A\$:1.00:US\$0.7624; and

- NZ\$1.00:US\$0.7363.

## **Background on RESIMAC**

RESIMAC is a leading Australian non-bank financial institution which commenced operations in 1985 when it was established by the New South Wales State Government of Australia to service and securitise residential loans for HomeFund, a New South Wales government housing program (then under the name of FANMAC Limited).

RESIMAC's primary activities involve originating, servicing and securitising mortgage assets. It is the pioneer of Australian Residential Mortgage Backed Securities ("RMBS"), being the first issuer in 1988. Since then it has issued more than A\$19 billion through 36 domestic and international RMBS issues.

RESIMAC obtains funding through a securitisation program, coupled with warehouse funding support provided by major Australian banks including National Australia Bank, Westpac Banking Corporation and Commonwealth Bank.

RESIMAC has also achieved a residential loan servicer ranking of 'STRONG' as assigned by Standard & Poor's, reflecting RESIMAC's significant track record in providing loan servicing solutions for its loan portfolio. RESIMAC had 136 full-time equivalent employees across offices in Sydney, Melbourne, Perth, Newcastle and Auckland.

### *Principal activities*

RESIMAC raises wholesale funding to finance its mortgage loan portfolio on a matched funding basis. The RESIMAC funding programme encompasses short and long-term funding tenors across five distinct programmes in Australia, New Zealand and the United Kingdom. The various funding sources provide funding diversification, a global investor base and enables RESIMAC to fund across the capital structure.

### *RESIMAC's securitisation activities*

As an originator, manager and servicer of its securitisation transactions, RESIMAC plays a large role in the Australia market in transforming Australian Dollar dominated assets into RMBS domiciled in Australia, the United States, Europe and the United Kingdom that can be offered in key RMBS markets.

As a trust manager, RESIMAC oversees all aspects of administering:

- 6 RESIMAC Warehouse trusts;
- 5 RHG Warehouse trusts;
- 10 RESIMAC RMBS trusts; and
- 7 RHG RMBS trusts.

### *Warehouse*

In the short term, RESIMAC uses 364 day facilities provided by three banks in Australia and two in New Zealand for both Prime and Non-conforming loans to ensure funding for daily mortgage settlements and

further advances. The facilities are used to support production and acquisition opportunities and to build capacity for term funding in the debt capital markets (securitisation) by using RMBS.

### *Residential mortgage-backed securities*

RESIMAC uses RMBS term funding to refinance its warehouses and secure medium to long term funding (3 to 5 years). RESIMAC's securitisation programme has been in existence for 28 years and with established support from Australian and international institutional investors. RESIMAC has also recently issued RMBS in New Zealand and United Kingdom. In 2012 under RESIMAC's Premier program, it successfully launched a 144a program to issue RMBS in USD, and has subsequently issued US\$1.6 billion in total over 6 transactions.

In May 2016, RESIMAC issued Premier Series 2016-1, an A\$935 million (US\$713 million) RMBS with full Dodd-Frank and European Union Capital Requirements Directives risk retention compliance which was RESIMAC's largest transaction since 2006. The previous US 144a deal RESIMAC Premier Series 2014-1 transaction was the first deal from an Australian issuer into the US term market since the global financial crisis. The deal was subsequently awarded the Asia Money award for Best Securitisation.

Under the non-conforming Bastille programme RESIMAC has issued A\$1.3 billion (US\$991 million) over five transactions since the first transaction in 2011, whilst in New Zealand the first securitisation of the RESIMAC Home Loans business was completed in 2014.

## **Income Sources**

### *Prime*

RESIMAC's Prime (higher quality credit worthy borrowers) business makes up the majority of the overall portfolio and concentrates on borrowers who are generally able to provide full income verification as pay-as-you-go employees for either an owner occupied or investment purpose. This portfolio is more commoditised than the non-conforming portfolio with lower risk reflected in lower loan-to-value ratios and tighter underwriting criteria. Traditionally each loan in the Prime portfolio has been covered by lenders mortgage insurance ("LMI") with each loan written according to the LMI providers criteria, however more recently RESIMAC has moved away from insuring loans less than 80% LVR which reflects the change in the general Australian market. Each Prime loan however would still qualify for LMI as the underwriting criteria still fall within criteria of each LMI provider.

As at 30 June 2016 the current balance outstanding on the Prime portfolio was A\$2.9 billion (US\$2.3 billion).

### *Non-conforming*

RESIMAC's Non-conforming portfolio caters for borrowers who do not fit the profile of the more commoditized Prime portfolio. Some borrower segments have difficulty obtaining loans given amendments in policies by lenders and mortgage insurers in recent times. Many borrowers are strong applicants and are self-employed or have complex refinancing requirements. RESIMAC launched its non-conforming business in 2007 and caters for clear credit and credit impaired borrowers as well as prime borrowers who sit outside the LMI criteria.



These non-conforming loans are conservatively managed to ensure the risk and returns in the portfolio are balanced. Policy and pricing has been used as effective tools to manage the volume of new business and performance of the portfolio. With a higher Net Interest Margin than the Prime portfolio, the Non-conforming portfolio complements the lower risk Prime business.

As at 30 June 2016 the current balance outstanding on the non-conforming portfolio was A\$1.1 billion (US\$839 million).

#### *RHG*

RESIMAC acquired A\$1.8 billion (US\$1.4 billion) of prime mortgage assets from RHG Limited on 8 January 2014. At purchase, the loans in the RHG portfolio had an average of 8.5 years, with a minimum of 6.5 years. Given the age, the pool benefited from the build-up of equity in the security values along with borrower having a long repayment history. In assessing the portfolio, RESIMAC identified opportunities to apply its risk and asset management policies and procedures to improve portfolio performance which it has done successfully since acquiring the prime mortgage assets. The portfolio benefits from 100% LMI cover.

As at 30 June 2016 the current balance outstanding on the RHG portfolio was A\$910 million (US\$686 million).

#### *New Zealand*

The RESIMAC New Zealand business provides a broad range of mortgage products to the New Zealand market. Using the same systems and reflecting the same procedures, corporate governance regimes and policies as in Australia, RESIMAC New Zealand is able to provide significant competition to the more traditional lenders. Similarly, to the Australian business, RESIMAC operates both a prime and non-conforming business in New Zealand.

As at 30 June 2016 the current balance outstanding on the Prime portfolio was NZ\$182 million (US\$134 million).

#### *RESIMAC distribution channels*

RESIMAC as a non-bank lender sells home loan mortgages to retail customers through its various distribution channels. RESIMAC historically focused on Business to Business (“B2B”) lending through a wholesale distribution network providing a white-label (unbranded) solution to mortgage managers. It has since diversified into B2C lending and B2B aggregation lending.

Mortgage originators either deal direct with consumers or use a panel of mortgage brokers to introduce loans. Such mortgage originators package the loan applications prior to submitting to RESIMAC for approval and management of the borrowers’ loans after settlement. The loans are maintained on RESIMAC’s system and all arrears are managed by RESIMAC.

Aggregators utilise a panel of mortgage brokers and originate loans through them, acting only as an intermediary for their brokers to have access to a lender's products without the responsibility of managing the borrower's loan post settlement.

RESIMAC's three main distribution channels are as follows:

*(a) State Custodians*

State Custodians is an online lender which is 100% owned by RESIMAC. Established in 2007, it provides competitive products to customers using a combination of online and telesales. State Custodians is one of Australia's leading online lenders and has been awarded the Non-Bank Lender of the Year 5 years running, from 2011 to 2015 by Money Magazine. The historical focus of State Custodians has been on Prime loans, and while it continues to focus on this space, it also now originates non-conforming loans. This B2C channel enables RESIMAC to access the significant section of the market that is not interested in broker servicing (B2B) options, and will form the foundation for future growth in this channel.

*(b) Finsure*

Established in 2011 as an equal joint venture, Finsure is an Australian retail finance brokerage and is one of Australia's leading and fastest growing mortgage aggregators. In 2013, Finsure acquired another mortgage aggregator, LoanKit. Finsure has approximately 850 brokers and a loan book greater than A\$18 billion (US\$13.7 billion) as at July 2016. Finsure settled over A\$1 billion (US\$0.8 billion) loans in December 2015 and is one of Australia's largest aggregators. Finsure is currently the largest source of RESIMAC's total mortgage business. Finsure provides its brokers access to home loan finance, commercial finance, asset finance and insurance. Finsure is a major source of prime and non-conforming originations for RESIMAC.

*(c) Wholesale and other third party relationships*

RESIMAC utilises the traditional wholesale distribution channel which is the largest source of Specialist Loans. Wholesale originators or mortgage managers perform the additional role of loan packaging for a fee and traditionally market under their own brand.

RESIMAC's distribution channels enable cross-sell opportunities, including the referral of all State Custodians bank loans through the Finsure channel to capture commission income within the RESIMAC Group. RESIMAC's strategy is to grow the State Custodians and Finsure channels while maintaining wholesale and other third party relationships. In addition, RESIMAC aims to own and influence distribution through the internet and third party intermediaries.

## **RESIMAC Financial Information**

For the 12 months ended 30 June 2016, RESIMAC's unaudited net interest income was A\$73 million (US\$56 million) (2015: A\$57 million (US\$43 million)), total income was A\$70 million (US\$53 million) (2015: A\$53 million (US\$40 million)) and net profit after tax of A\$13 million (US\$9.9 million) (2015: A\$7 million (US\$5 million)). Unaudited shareholders' funds as at 30 June 2016 were A\$82 million (US\$63

million) (2015: A\$70 million (US\$53 million)) and total assets were A\$5.4 billion (US\$4.1 billion) (2015: A\$4.7 billion (US\$3.6 billion)).

## **RESIMAC Merger**

In parallel to the Acquisition, RESIMAC is in the final stages of a proposed merger (via a Scheme of Arrangement) with Homeloans Limited ("Homeloans"), an ASX listed company (the "Scheme"). As a result of the Scheme, shareholders in RESIMAC will be issued new shares in Homeloans and Homeloans will remain listed on the ASX. Shareholders of RESIMAC shall end up with 72.5 per cent of the enlarged group and the current shareholders of Homeloans shall end up with 27.5 per cent of the enlarged group.

The Scheme is scheduled to complete in mid-October 2016. It is anticipated that the Acquisition shall complete prior to the Scheme. Upon completion of the Scheme, Somers shall then be issued with shares in Homeloans and shall hold 58.91 per cent of the enlarged group.

## **Background on Homeloans**

Homeloans is an ASX-listed non-bank lender, mortgage manager and mortgage broker with a market capitalisation of approximately A\$56.2 million (US\$42.9 million). Since its origins in 1985, Homeloans has grown to become a leading alternative provider of residential mortgage finance.

In the financial year ended 30 June 2016, Homeloans received net interest income of A\$7.3 million (US\$5.6 million) (2015: A\$5.6 million (US\$4.3 million)) and net fees and commission income of A\$16.4 million (US\$12.5 million) (2015: A\$15.4 million (US\$11.7 million)). As at 30 June 2016, Homeloans' total assets were A\$280.9 million (US\$214.2 million) (2015: A\$295.7 million (US\$225.4 million)) and it had net assets of A\$44.7 million (US\$34.1 million) (2015: A\$43.4 million (US\$33.1 million)). Homeloans' results have reduced in recent years due to senior management changes and unlike RESIMAC a business model which does not access the institutional investor market. However, there are significant benefits arising from the merger of RESIMAC and Homeloans which are set out in detail below.

Homeloans sells residential mortgage loans through external third party mortgage brokers as well as its own branded mortgage broker relationships. Homeloans' distribution capabilities to reach borrowers can be classified under two distinct channels:

- third party, whereby mortgage broker partners distribute Homeloans' loans to customers; and
- direct retail distribution to customers via Homeloans mobile lenders, sales offices and internal loan writers.

Homeloans employs approximately 100 staff and has in excess of 6,000 mortgage brokers.

### **(a) Principal activities**

#### *Origination*

Homeloans originates loan applications through external independent mortgage brokers through its agreements with a selection of major national mortgage broker aggregation businesses. In addition to this, Homeloans has a number of mortgage brokers who operate as independent mortgage brokers

across Australia utilising the Homeloans brand for their business. These branded brokers are able to sell a range of lenders products in addition to Homeloans products. Homeloans also has lending staff who are able to accept loan applications which are originated from the company's website and call centre.

### *Servicing*

Servicing relates to the ongoing provision of services to the borrower and management of the mortgage for the term of the loan. These services range from initial on boarding of the customer onto the relevant funder's systems through to ongoing customer services such as the provision of statements, receipt and disbursement of the loan repayments and the ongoing credit management of the mortgage. Irrespective of the funding source, all Homeloans customers are managed by Homeloans even though the lender on record may vary.

### *Funding*

#### i. White label Funding

Homeloans has a number of funding agreements with major bank and non-bank lenders whereby they provide a white label lending product. Homeloans rebrands these products and whilst the balance sheet funding and credit risk resides with the underlying lender, the customer is serviced as described above by Homeloans. In return for the management of the customer on an ongoing basis, Homeloans receives a mortgage management margin and generally has control of the customer interest rate for the life of the loan. The wholesale funding model accounts for the majority of new settlements volumes in recent years.

#### ii. Securitisation

Non-bank lenders are not authorised to take deposits and are therefore reliant on wholesale funding to fund their loans. In addition to the white label funding model described above, Homeloans funds a portion of their mortgages by securitisation. Homeloans has an established securitisation program with a warehouse facility with Westpac Banking Corporation. Homeloans has not accessed the bond market in recent years due to the low volume of loans being written through this source of funding.

### **(b) Income sources**

Homeloans generates the majority of its income through:

#### *White label products*

Commissions received by Homeloans' white label products comprise two key components:

- Upfront commissions received from wholesale funding lenders on loan products provided by those lenders and originated by Homeloans' broker partners. Upfront commissions are generally paid as a percentage of the loan amount settled; and

- Ongoing manager margin and transaction fees for services provided to borrowers on Homeloans products. Trail commissions or mortgage management margin are received from lenders over the life of the loan and are generally paid as a percentage of the particular loan's outstanding balance.

#### *Principally funded products*

Homeloans receives a net interest margin on principally funded loans, being the difference between the interest rate charged to the borrower on a loan and the cost of funding the loan.

#### *Brokerage Margin*

Homeloans has various arrangements with branded and non-branded mortgage brokers. In these arrangements Homeloans operates as a sub-aggregator and as such is entitled to receive a portion of any upfront commission and ongoing trail commission for loans settled by these brokers through other non-Homeloans loan products.

#### **(c) Loan book**

The Homeloans loan book represents the total value of the outstanding residential loans that have been originated by brokers and direct retail distribution for Homeloans. The loan book has three distinct components reflecting the differing income received on these portfolios.

- Funds under Management – represents the wholesale funding book upon which Homeloans branded products are serviced by Homeloans in return for an ongoing mortgage manager margin.
- Securitised Loan pool – represents the value of loans written under the securitisation program and upon which a net interest margin is received.
- Funds under Administration – represents the value of the brokerage loan book. These are non Homeloans loans upon which Homeloans receives a small portion of the ongoing trail commission on these loans subject to the contractual arrangements with the broker businesses involved.

As at 30 June 2016, Homeloans' total loan book was A\$8.1 billion (US\$6.2 billion), comprising:

• Funds under Management	A\$3.8 billion (US\$2.9 billion)
• Securitised Loan portfolio	A\$0.2 billion (US\$0.2 billion)
• Sub-total Funds under Management	A\$4.0 billion (US\$3.1 billion)
• Funds under Administration	A\$4.1 billion (US\$3.1 billion)
• Total	A\$8.1 billion (US\$6.2 billion)

## Benefits of the RESIMAC and Homeloans merger

The merger of the businesses of RESIMAC and Homeloans will create a combined portfolio in excess of A\$13 billion (US\$9.9 billion) (comprising loans funded internally and externally), and combined new annual originations exceeding A\$3 billion (US\$2.3 billion) in the 12 months to 30 June 2016. The increased scale of the combined group will enable it to attract more borrowers, increase brand awareness and improve efficiency of its cost base. In addition, the merger is expected to attract more investors into the existing RESIMAC funding program and provide access to alternative sources of capital to support incremental growth. Shareholders of the combined group will be able to participate in the value created in a larger and stronger financial services company and through the realisation of potential operational and revenue synergies.

The combined group will benefit from a number of key strategic and financial benefits with the ability to leverage key capabilities:

- The combined group will have improved access to capital due to its increased scale and public listing – a pro forma combined equity value of approximately A\$195 million (US\$148.7 million).
- Access to a broader investor base for RESIMAC's funding program – the enlarged scale of the combined group and the fact it is a listed company is expected to increase investor confidence and result in an improved ability to raise debt to fund its mortgage portfolio. Being a listed entity will provide access to a broader range of debt investors than RESIMAC has previously had access to as an unlisted entity.
- Access to equity capital – the listed environment will assist with access to equity capital, as compared to RESIMAC as a standalone unlisted entity.
- Diversified income streams – RESIMAC predominantly generates its income from earning a NIM from its principally funded loan book, and Homeloans' currently generates mainly fee-based income. As a result of having diversified income streams, the combined group will have a lower risk profile.
- Cost Synergies – the combined group expects to achieve full-run rate cost synergies of approximately A\$6 million (US\$4.6 million) within 12 to 18 months of the completion of the merger. The larger size of the combined group compared to the standalone size of RESIMAC and Homeloans respectively will enable the combined group to achieve economies of scale through leveraging fixed costs and achieving greater standardisation across the business.

Key components of the cost synergies include centralising and consolidating shared services functions and improving efficiency through the removal of any duplicated support framework, which in turn will result in a reduction in labour costs. There will also be an opportunity to migrate select parts of the RESIMAC operations to the off-shore service centre currently utilised by Homeloans to achieve efficiency gains and reduce overheads. In addition, rationalisation of lease expenses and other operating expenditure optimisation initiatives, including combining marketing initiatives will help reduce overall spend.

- Revenue Synergies:
  - the ability to fund a portion of Homeloans branded book with RESIMAC's balance sheet;
  - access to distribution channels that were not previously available to RESIMAC;
  - development of the Homeloans brand to complement RESIMAC's B2C opportunities;
  - customer retention opportunities through the ability to offer Homeloans customers RESIMAC product; and
  - vertically integrated business model - benefit from the diversification of distribution and branded products which will further strengthen RESIMAC's existing capabilities.

### **Reasons for the Acquisition by Somers**

Somers' stated strategy is to make corporate investments and acquisitions in the financial services sector and the Acquisition will complement Somers existing investments.

The key reasons for the Acquisition are:

- Acquiring a profitable and well run business with a strong brand in the independent Australian mortgage securitisation market.
- The current 'hunt for yield' in the world make RESIMAC's assets attractive which should increase its level of profitability in the medium term.
- The benefits that will accrue to shareholders of the enlarged group post implementation of the merger.
- The future cash generative nature of the enlarged group which should enable the payment of dividends to Somers which in turn will assist Somers in maintaining its own progressive dividend policy.
- Significant opportunities for synergies across other group investments:
  - Private & Commercial Finance Group plc, a subsidiary of Bermuda Commercial Bank Limited, may be able to use RESIMAC'S securitization expertise to help grow their asset base.
  - Stockdale Securities Limited may be able to provide access to the UK capital markets to enable RESIMAC to grow their business in the UK.
  - Areas of excellence in one organisation e.g. treasury, IT and fund management, can continue to be used across the entire group
- The Acquisition increases the scale of Somers. As an investment company Somers is not required to consolidate the financial results of its investments. Somers is required to fair value its investments and post-acquisition Somers Shareholders' funds will be approximately US\$300



million (30 June 2016: US\$198 million) which will enable Somers to develop financial relationships with additional capital and debt providers.

- Diversifies Somers' investments such that Somers will have significant assets outside of the UK and Bermuda.
- Somers' holding will be in a listed company giving Somers the potential to recycle investments in the future.
- Somers has been a shareholder in RESIMAC for almost a year (holding approximately 2.2%). RESIMAC is therefore well known to Somers reducing the risk associated with such a transaction. The Directors have therefore decided to not engage an independent financial adviser given their knowledge of RESIMAC. I have been involved with RESIMAC for 16 years and RESIMAC has been actively involved with a number of Somers' other investee companies thereby increasing the comfort associated with this Acquisition.
- The Shares issued to the Seller on conversion of the Note are being issued at the Somers net asset value as at 31 July 2016 of US\$17.76 per share which is a premium to the existing share price of US\$13.75 and therefore reduces dilution for Somers' existing shareholders and improves the earning enhancing nature of the Acquisition.
- The enlarged group, on a pro forma basis, would have reported total income of A\$90 million (US\$68.6 million) and profit after tax of A\$15.7 million (US\$11.9 million) for the year ended 30 June 2016. On a Price/Earnings valuation the proposed acquisition is 7.5x the enlarged group's pro forma profit for 2016. The forecast for profit for the 12 months to 30 June 2017 is approximately A\$20 million (US\$15.2 million) which equates to a forward Price/Earnings ratio of 5.9x. On a Price/Earnings multiple the Acquisition is reasonably priced and the forecast profit for 2017 does not include all the synergies that are expected to emerge from the merger.
- As part of the merger with Homeloans, RESIMAC was advised by an independent adviser Gresham Advisory Partners Limited ("Gresham"). Gresham valued 100% of RESIMAC on a standalone basis at between A\$143 million (US\$109 million) and A\$180 million (US\$137.2 million). The Acquisition values 100% of RESIMAC at A\$145 million (US\$110.5 million) which is towards the bottom of the range produced by Gresham. The Independent Director (being David Morgan) believes that this should give comfort to Somers existing shareholders that the Acquisition price is fair.

### **Details of the Acquisition**

The Acquisition Price is based on the weighted average of the Homeloans mid-market share price for the 30 days up to and including 9 September 2016, converted into USD based on the average USD/AUD FX rate for the 30 days up to and including 9 September 2016.

The consideration payable to the Seller of A\$116.1 million (US\$88.5 million) shall be satisfied by the issue to the Seller of the Note. The Note will convert into 4,984,210 Shares, subject to the receipt of all necessary regulatory approvals. Upon the issuance of the Shares, the Seller shall own approximately



29.2% of the Company. Mr Saville and Mr Jillings shall beneficially own 52.6% and 4.9% of the Company respectively. Post completion of the Acquisition, the major shareholders in Somers will be:

- UIL Limited – 34.8%
- Ingot – 29.2%
- Permanent Investments Limited – 24.0%

The number of Shares to be issued to the Seller is based on an issue price of US\$17.76 per common share which is equal to the most recently announced net asset value per share of the Company. The issue price is a 29% premium to the Company's closing share price of US\$13.75 per share as at 9 September 2016.

The Shares will represent approximately 29.2% of the enlarged issued share capital of the Company. The Shares will, when issued and fully paid, rank *pari passu* in all respects with the existing common shares of Somers, including the right to receive all dividends or other distributions declared, made or paid after the date of their issue.

It is expected that the closing of the Acquisition shall take place on or around 29 September 2016 (the "Closing Date").

The Acquisition shall be conditional upon, amongst other things:

- the BSX's authorisation for listing of the Shares, subject to official notice of issuance; and
- approval of the Acquisition by the Somers Shareholders at the SGM in accordance with Section IIA, Regulation 6.21 of the Listing Regulations of the BSX.

If Somers Shareholders approve the acquisition at the SGM on 28 September 2016, it is anticipated that the Acquisition will complete on or around 29 September 2016. If RESIMAC shareholders do not approve the merger of RESIMAC and Homeloans, Somers will remain a shareholder of RESIMAC and will not become a shareholder of Homeloans.

An application for approval in principal to the admission of the Shares to listing will be submitted to the BSX, any such approval to be granted conditional upon and subject to the conversion of the Note. Subject to such approval in principal being received and following the conversion of the Note and issuance of the Shares to the Seller, it is anticipated that the BSX shall confirm unconditional approval to the listing of the Shares with effect from the date of issuance.

### **Key terms of the Note**

The key terms of the Note are as follows:

- Conversion terms – The Seller will issue a conversion notice to Somers upon Somers confirming it has received the requisite regulatory approvals from Australia's Foreign Investment Review Board, the Bermuda Monetary Authority, the UK's FCA and the Central Bank of Ireland.

- Rate of Conversion – The Note will convert into 4,984,210 Shares of the Company based on the most recent published NAV of the Company of \$17.76.
- Maturity – The Note will mature on 29 September 2017 and if it has not been converted, Somers will be required to repay the loan to the Seller.
- Interest Rate – 0% but in the event Somers pays a dividend to its shareholders prior to the conversion, the Seller has the right to receive the equivalent value of the dividend in shares of the Company.
- Allotment of Shares – to occur within 20 business days of the Seller issuing to Somers a conversion notice.

### **Action to be taken by Somers Shareholders**

Somers is soliciting proxies for use at the SGM to consider and vote upon the proposal to approve matters in connection with Acquisition. The Directors of Somers urge all Somers Shareholders to read this Circular including the Notice of the SGM and the Form of Proxy, carefully and in their entirety.

If a Somers Shareholder is unable to attend the SGM and wishes to appoint a proxy to attend and vote on his behalf, he should complete, sign and return the enclosed Form of Proxy in accordance with the instructions printed thereon as soon as possible and, in any event, so as to reach the registered office of Somers at 34 Bermudiana Road Hamilton HM11, Bermuda not later than 5:00 p.m. on 26 September 2016. The completion and return of the Form of Proxy by a Somers Shareholder will not prevent him from attending and voting in person if he so wishes.

Duncan Saville, Charles Jillings, Alasdair Younie and I, as interested parties in the Acquisition, have each agreed to waive our right to vote on the proposal relating to the Acquisition at the SGM. UIL Limited, who is interested in 6,022,538 shares, has irrevocably undertaken to vote in favour of the resolutions to be proposed at the SGM.

The Record Date for the SGM is 9 September 2016, which we refer to as the “Record Date.” Only holders of shares of Somers at the close of business (5:00 p.m.) on the Record Date are entitled to notice of, and to vote at, the SGM or any adjournment thereof.

### **Recommendation**

After careful consideration, the Independent Director (being David Morgan) considers the Acquisition to be in the best interests of Somers and the Somers Shareholders as a whole. In addition, the Independent Director believes that the Acquisition Consideration is fair from a financial point of view. Accordingly, the Independent Director recommends that the Somers Shareholders vote in favour of the resolutions to be proposed at the SGM as set out in the Notice attached hereto. The Independent Director holds in aggregate 6,750 shares of Somers and he intends to vote his shares of Somers in favour of the resolutions to approve the Acquisition.

Your vote is important. Whether or not you expect to attend the SGM, please vote as soon as possible by following the instructions in this Circular to make sure that your shares are represented at the SGM.

Thank you for your continued support of Somers.

Yours faithfully

Warren McLeland  
Chairman

## QUESTIONS AND ANSWERS ABOUT THE PROPOSAL AND THE SGM

*The following questions and answers briefly address some commonly asked questions about the SGM and the Acquisition. They do not include all of the information that may be important to you. Somers urges you to read carefully this entire Circular, including the annexes and the documents incorporated by reference in this Circular.*

*Capitalised terms not otherwise defined in this Question and Answers Section shall have the meanings ascribed to them in the Letter to the Chairman contained in this Circular.*

**Q: Why am I receiving this Circular?**

A: This Circular is being provided to Somers Shareholders as part of a solicitation of proxies by the Board of Directors of Somers for use at the SGM of Somers Shareholders. This Circular also provides Somers Shareholders with information they need to be able to vote or instruct their vote to be cast at the SGM.

**Q: What is the proposal on which I am being asked to vote?**

A: There is one matter scheduled for a vote at the Somers SGM:

Proposal 1: RESOLVED that as consideration for the acquisition by the Company of 17,572,015 shares in RESIMAC Limited from Ingot Capital Management Pty Ltd. (“Ingot”), subject to the receipt of all necessary regulatory approvals, the Board be and is hereby authorised to issue 4,984,210 common shares par value US\$0.0001 of the Company to Ingot, pursuant to the terms of a convertible loan note agreement between the Company and Ingot.

FURTHER RESOLVED that any director or officer of the Company be, and each of them hereby is, authorised to execute (under the common seal of the Company if appropriate) and deliver on behalf of the Company any and all agreements, instruments and other documents whatsoever, and do any and all other things whatsoever, as such director or officer shall in his absolute and unfettered discretion deem or determine appropriate in connection with the foregoing resolution and/or to carry out the purposes and intent thereof, such deeming or determination to be conclusively evidenced by any such execution or the taking of any such action by such person or persons.

**Q: Where and when will the SGM be held?**

A: The SGM will be held on 28 September, 2016, at 10.00 a.m. local time at the registered office of Somers located at 34 Bermudiana Road, Hamilton HM11, Bermuda.

**Q: What constitutes a quorum for the SGM?**

A: A quorum of shareholders is necessary to hold a valid meeting. A quorum will be present if at least two shareholders holding more than one third of the issued and outstanding shares entitled to vote are present at the SGM in person or represented by proxy. On the Record Date, there were 12,108,186 Shares of Somers issued and outstanding and entitled to vote.

**Q: How many votes are needed to approve Proposal 1?**

A: The affirmative vote of the holders of 75 per cent of the issued and outstanding shares of Somers present in person or represented by proxy and entitled to vote at the SGM is required to approve Proposal 1.

**Q: Who can vote at the SGM?**

A: Only shareholders of record of Somers at the close of business on 9 September 2016 will be entitled to vote at the SGM. As a shareholder of record, you may vote in person at the SGM or vote by proxy. Whether or not you plan to attend the SGM, Somers urges you to vote by proxy.

**Q: What are the voting recommendations of the Board of Directors of Somers?**

A: After careful consideration, the Independent Director of Somers has determined that the Acquisition is fair to and in the best interests of Somers and its shareholders. The Independent Director of Somers recommend that you vote your shares:

- “For” Proposal 1 (the Acquisition).

**Q: How many shares will Somers’ Independent Director be entitled to vote at the SGM? Do you expect them to vote in favor of Proposal 1?**

A: As of the record date, Somers’ Independent Director, had the right to vote approximately 6,750 shares of Somers at the SGM. Somers expects that its Independent Directors will vote “For” the proposal described in the question above.

Warren McLeland, Duncan Saville, Charles Jillings and Alasdair Younie, as interested parties, have each agreed to waive their right to vote on the proposal relating to the Acquisition at the SGM.

**Q: What is the Record Date for the SGM?**

A: The Record Date for the special general meeting is 9 September, 2016, which we refer to as the “Record Date.” Only holders of Shares at the close of business (5:00 p.m.) on the record date are entitled to notice of, and to vote at, the SGM or any adjournment thereof.

**Q: What do I need to do now?**

A: The parties urge you to read carefully this Circular, including its annexes hereto and the documents incorporated by reference herein.

**Q: How do I vote if I am a shareholder of record?**

A: If you are a shareholder of record, you may vote in person at the SGM or you may vote by proxy using the enclosed proxy card. If you are a beneficial owner of shares registered in the name of your broker, bank, or other agent, you should have received a Circular along with voting instructions from that organization rather than from Somers. Simply follow the voting instructions provided by your broker, bank, or other agent to ensure that your vote is counted.

- To vote in person, come to the SGM and we will give you a ballot when you arrive.
- To vote using a proxy card, simply complete, sign and date the enclosed proxy card and return it in accordance with the instructions set out therein. If you return your proxy card to Somers before the SGM, the proxy holders will vote your shares as you direct.

**Q: If my shares are held in “street name” by my bank, broker or other agent, will my bank, broker or other agent vote my shares for me?**

A: Only if you provide your bank, broker or other agent with instructions on how to vote your shares. If you do not provide the organization that holds your shares with specific instructions, under the

rules of various national and regional securities exchanges, the organization that holds your shares may generally vote on routine matters but cannot vote on non-routine matters. If the organization that holds your shares does not receive instructions from you on how to vote your shares on a non-routine matter, the organization that holds your shares will inform the inspector of elections for the special general meeting that it does not have the authority to vote on this matter with respect to your shares. This is generally referred to as a “broker non-vote.” When Somers’ inspector of elections tabulates the votes for any particular matter, broker non-votes will be counted for purposes of determining whether a quorum is present, but will not be counted toward the vote total for any proposal. Somers expects that the proposal presented at the special general meeting will be considered non-routine matters, so Somers encourages you to provide voting instructions to the organization that holds your shares to ensure that your vote is counted on the proposal.

**Q: How many votes do I have?**

A: On each matter to be voted upon, you have one vote for each Share you own as of 9 September 2016.

**Q: Can I change my vote after submitting my proxy?**

A: Yes. You can revoke your proxy at any time before the final vote at the SGM. If you are the record holder of your Shares, you may revoke your proxy in any one of the following ways:

- You may submit another properly completed proxy card with a later date to be received by no later than 5:00 p.m. on 26 September, 2016.
- You may send a timely written notice that you are revoking your proxy to Somers Corporate Secretary, 34 Bermudiana Road, Hamilton HM 11, Bermuda to be received by no later than 5:00 p.m. on 27 September 2016.
- You may attend the special general meeting and vote in person. Simply attending the special general meeting will not, by itself, revoke your proxy.

Your most recent proxy card is the one that is counted.

If your shares are held by your broker or bank as a nominee or agent, you should follow the instructions provided by your broker or bank.

**Q: What if I abstain from voting or do not vote?**

A: If you are a Somers Shareholder and if you do not provide your bank or broker with instructions on how to vote your street name shares, your bank or broker will not be permitted to vote them unless your bank or broker already has discretionary authority to vote such street name shares. Also, if your bank or broker has indicated on the proxy that it does not have discretionary authority to vote such street name shares, your bank or broker will not be permitted to vote them. Either of these situations results in a “broker non-vote.”

**Q: What happens if I sell my Shares of Somers after the Record Date but before the SGM?**

A: If you transfer your Shares after the record date but before the date of the SGM, you will retain your right to vote at the SGM.

**Q: Who can help answer my questions?**

A: If you have any questions about the proposed transactions, need assistance in voting your Shares, or if you need additional copies of this Circular or the enclosed proxy card, you should contact:

Chamiel McDonald  
BCB Charter Corporate Services Limited  
34 Bermudiana Road  
Hamilton, HM 11  
Bermuda  
Tel: 1-441-295-5678  
E-mail: [cmcdonald@bcb.bm](mailto:cmcdonald@bcb.bm)

