

## **Re: Colonial Group Unsecured Subordinated Cumulative Notes Offer**

Colonial Group has recently announced it intends to raise \$500 million via the release of unsecured subordinated cumulative notes, which Colonial Group will have the option of redeeming from the 31<sup>st</sup> of March, 2017 onwards.

It is likely that Colonial Group will redeem the notes in 2017 considering 100% of the security will be treated as debt in the future for credit rating purposes rather than equity. On redemption investors will receive a refund of the original issue price, which is \$100 per unit.

The capital raised by the above offer will be used to refinance existing debt of the Colonial Group.

Colonial Group is a leading wealth management and insurance provider whom are wholly-owned by the Commonwealth Bank of Australia.

### **Summary of Colonial Group Unsecured Subordinated Cumulative Notes Offer;**

#### **Liquidity;**

Hybrid securities are liquid considering they can be bought and sold like ordinary shares listed on the stock market.

#### **Interest;**

A full cash payment on the listing unit price is determined by a set margin over and above the 90 day bank bill swap rate.

The margin is yet to be determined, although will be at least 3.25% and up to 3.75%.

Currently the 3 month bank bill swap rate is 4.35%.

Therefore, the total return including the minimum margin of 3.25% at present would be 7.6%.

Given the above is a floating rate note security the overall return will fluctuate if interest rates rise or fall.

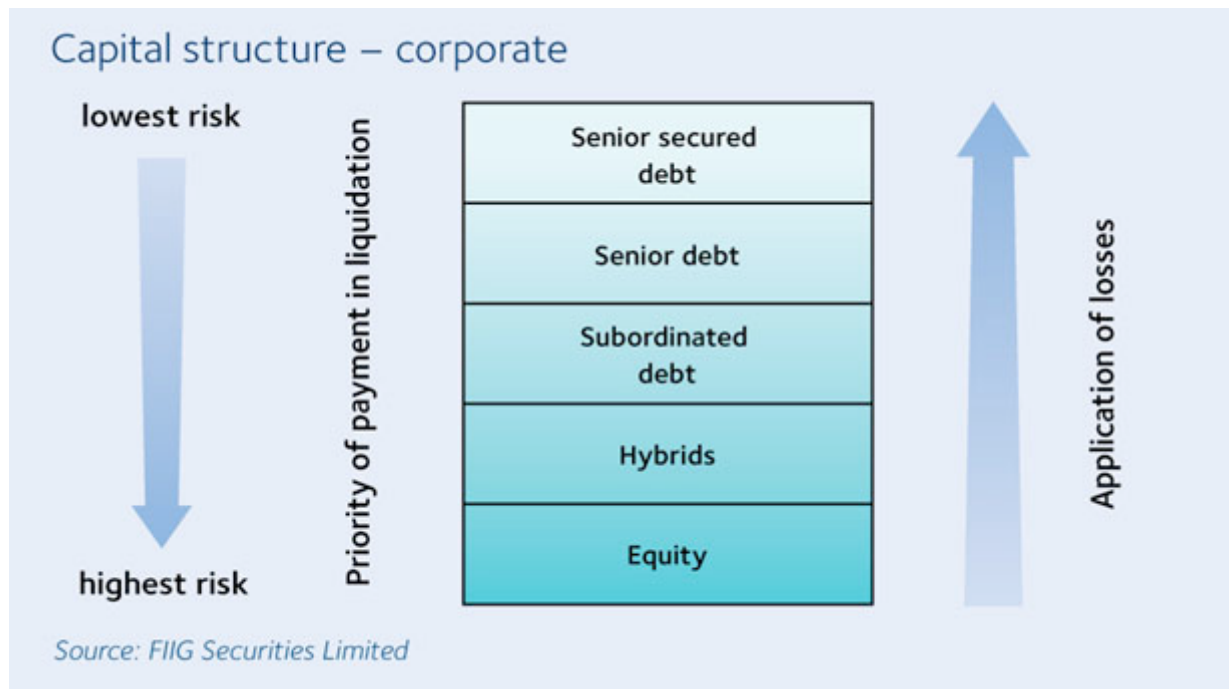
The Colonial Group note is set to pay distributions quarterly.

#### **Security;**

Preferential share holders are also required to receive their dividend payment before ordinary share holders.

Preference share unit values tend to fluctuate much less than ordinary shares due to the maturity redeeming value.

Furthermore, their position in the companies corporate structures (outlined below) provides added security over ordinary shares.



**Opportunity;**

If the bond prices rises above its face value of \$100 and you sell them before maturity you will realise a gain.

**Cost;**

Compared to term deposit break fees the transaction cost to sell hybrid securities is the same as selling ordinary shares. There is no fee on purchasing the Colonial Group Notes via the initial offer.

**Disadvantage(s);**

A potential disadvantage is that the unit price may fall, although if held until redemption you will receive a refund of your initial investment, which needs to be a minimum of \$5,000.

**What To Do Now;**

If you are interested in the above please be sure to register your interest and obtain a product disclosure document as soon as practical.

The lead arrangers will then confirm allocations of the bonds with a probable commencement date on approximately the 29th of March, 2012.

Yours faithfully,

**MULCAHY & CO**