Note 30

Loan capital

Subordinated debt

Agreements between the Consolidated Entity and the lenders provide that, in the event of liquidation, entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of the Consolidated Entity. Details of selected capital instruments are discussed below.

Macquarie Convertible Preference Securities

In July 2008, Macquarie CPS Trust, a subsidiary of the Company issued six million Macquarie CPS at face value of $100 each. These instruments are non-cumulative and unsecured and may be resold, mandatorily converted into MGL ordinary shares (subject to certain conditions being satisfied) or redeemed on 30 June 2013. The Macquarie CPSs bear fixed-rate coupons at 11.095 per cent per annum, paid semi-annually until 30 June 2013, and thereafter a floating rate will apply.

Macquarie Preferred Membership Interests

On 2 December 2010, Macquarie PMI LLC, a subsidiary of the Company, issued $US400 million of $US denominated Preferred Membership Interests (Macquarie PMI). These instruments are non-cumulative and unsecured equity interests in the issuer. They are redeemable at the Company's option on any distribution date from 2 December 2015, and are non-dilutive, as they will only exchange to MGL preference shares in specified circumstances, and mandatorily on 26 November 2035. The Macquarie PMIs bear fixed-rate coupons at 8.375 per cent per annum, paid semi-annually.

Exchangeable Capital Securities

On 26 March 2012, MBL, acting through its London Branch, issued US$250 million of Exchangeable Capital Securities (ECS).

The ECS, being unsecured subordinated notes, pay non-cumulative interest of 10.25 per cent per annum, payable semi annually in arrears, with the rate to be reset on 20 June 2017 (and each fifth anniversary thereafter) if the ECS remain outstanding after this time. The interest payments are subject to payment tests, including the discretion of MBL as to whether payments should be made. If interest is not paid on the ECS on an interest payment date, MBL and the Company will be restricted from paying dividends or returning capital on their ordinary shares until the next interest payment date.

Subject to certain conditions being met, the ECS will be exchanged for a variable number of fully paid MGL ordinary shares on 20 June 2017, or on any interest payment date thereafter, with exchange to occur no later than 20 June 2057. The ECS may also be exchanged earlier on an acquisition event (where a person acquires control of MBL or the Company), where MBL's common equity Tier 1 capital ratio falls below 5.125 per cent, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

If exchange occurs, a variable number of MGL ordinary shares will be issued at a 5 per cent discount to the MGL share price, as quoted on the ASX and converted to US dollars, determined over a period immediately prior to the date of that exchange. There is no additional amount payable by an ECS holder on an exchange. No ECS were exchanged during the financial year. The total number of MGL ordinary shares that would be issued if ECS were exchanged at 31 March 2012 would be 8,730,560.

The maximum total number of MGL ordinary shares that can be issued on an exchange is 17,689,525.

The ECS will only be redeemable, subject to APRA's written approval, at the discretion of the Bank in limited circumstances, including following a change in law that has an impact on the regulatory or tax treatment of the ECS.

As at 31 March 2012, the remaining principal liability related to the ECS was US$250 million ($241 million).