



EBS MORTGAGE FINANCE

(a public unlimited company incorporated under the laws of Ireland with registration number 463791)

€6,000,000,000

MORTGAGE COVERED SECURITIES PROGRAMME

This prospectus supplement (the "**Supplement**") is supplemental to and should be read in conjunction with the base prospectus dated 9 July 2014 (the "**Base Prospectus**"), issued for the purposes of giving information with regard to the issue of mortgage covered securities (the "**Securities**") by EBS Mortgage Finance (the "**Issuer**") under the Issuer's €6,000,000,000 Mortgage Covered Securities Programme (the "**Programme**") during the period of twelve months after the date of the Base Prospectus.

Words and expressions defined in the Base Prospectus shall, unless the context otherwise requires or otherwise defined in this Supplement, have the same meaning when used in this Supplement. Words and expressions defined in this Supplement and also defined in the Base Prospectus shall have the meaning given to them in this Supplement. This document constitutes a supplement to the Base Prospectus for the purposes of Directive 2003/71/EC, as amended (the "**Prospectus Directive**") and is issued in accordance with article 16 thereof and regulation 51 of the Prospectus (Directive 2003/71/EC) Regulations 2005 of Ireland (the "**Irish Prospectus Regulations**"). This Supplement has been approved by the Central Bank of Ireland (the "**Central Bank**") as the competent authority under the Prospectus Directive. The Central Bank only approves this Supplement as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Securities issued under the Programme which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area.

For the purposes of part 6 of the Irish Prospectus Regulations, the Issuer accepts responsibility for the information contained in this Supplement. The Issuer declares that, having taken all reasonable care to ensure that such is the case, the information in this Supplement is, to the best of the knowledge of the Issuer, in accordance with the facts, and does not omit anything likely to affect the import of such information. This declaration is included in this Supplement in compliance with item 1.2 of annex IX to Commission Regulation (EC) No. 809/2004.

The date of this Supplement is 9 June 2015.

Upon approval of this Supplement by the Central Bank, this Supplement will be filed with the Registrar of Companies in Ireland in accordance with regulation 38(1)(b) of the Irish Prospectus Regulations.

To the extent that there is any inconsistency between (a) any statement in, or incorporated by reference in, this Supplement, and (b) any statement in, or incorporated by reference in, the Base Prospectus, the statement in (a) will prevail.

Save as disclosed in this Supplement, there has been no significant change in the information contained in the Base Prospectus and no significant new matter has arisen in relation to the Issuer since 9 July 2014, the date of publication of the Base Prospectus, relevant to Securities to be issued under the Programme.

The issue of this Supplement was authorised in accordance with resolutions of the Board of Directors of the Issuer on 24 June 2014.

INCORPORATION BY REFERENCE

1. The audited financial statements of the Issuer for the financial year ended 31 December 2014 and the auditor's report dated 26 March 2015 by Deloitte & Touche thereon which have been previously published and have been filed with the Central Bank and the Irish Stock Exchange are incorporated in, and form part of, this Supplement save that any statement contained therein shall be deemed to be modified or superseded for the purpose of the Base Prospectus by virtue of any supplement to the Base Prospectus modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of the Base Prospectus. To the extent the audited financial statements referred to above contain information which is incorporated by reference in those audited financial statements, but are not expressly incorporated by reference in this Supplement, that information does not form part of this Supplement.
2. The Issuer will provide, without charge, to each person to whom a copy of this Supplement has been delivered, upon the request of such person, a copy of the audited financial statements deemed to be incorporated herein by reference unless such audited financial statements have been modified or superseded as specified above. Requests for such audited financial statements should be directed to the Issuer at its office set out at the end of the Base Prospectus. In addition, such audited financial statements will be available:
 - (i) in printed form free of charge from the Issuer at its registered office and from the Principal Paying Agent from its office specified at the end of the Base Prospectus; and
 - (ii) in electronic form free of charge at:
www.ebs.ie, access through 'Treasury and Corporate Services' – EBS Mortgage Finance

AMENDMENTS TO THE BASE PROSPECTUS

3. At page 6 of the Base Prospectus, delete the eighth bullet point (which commences " • *a reference to the Central Bank...*") and replace it with the following:
 - "• a reference to the "**Central Bank**" is a reference to:
 - (a) subject to (b) below, the Central Bank of Ireland (and includes where appropriate a reference to the former Central Bank and Financial Services Authority of Ireland and its constituent part, the Irish Financial Services Regulatory Authority, in respect of functions or actions carried out prior to the commencement of relevant parts of the Central Bank Reform Act 2010);
 - (b) the ECB, but only to the extent that the reference is in respect of functions conferred on the ECB by the SSM Regulation and the SSM Framework Regulation;
 - a reference to a "**licence**" or a "**banking licence**" for the purposes of section 9 of the Central Bank Act 1971 or the Central Bank Acts or any of them, means:
 - (a) in the case of such a licence issued prior to 4 November 2014 (including that issued to and held by the Issuer or AIB), such a licence which is deemed in accordance with the SSM Regulation to be an authorisation granted by the ECB under the SSM Regulation; or

- (b) in any other case, an authorisation granted under the SSM Regulation on the application therefor under section 9 of the Central Bank Act 1971,

and a reference to a "**licence holder**", a "**holder**" of a licence or a banking licence or to an entity being "**licensed**" or "**licensed**" is to be construed accordingly;"

4. At page 7 of the Base Prospectus, immediately after the eleventh bullet point which commences "• a reference to a Member State...", insert the following:

- "• a reference to the "**SSM Framework Regulation**" means Regulation (EU) No. 468 / 2014 of the European Central Bank of 16 April 2014 establishing the framework for co-operation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities;
- a reference to the "**SSM Regulation**" means Council Regulation (EU) No. 1024 / 2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions;"

5. At page 20 of the Base Prospectus, immediately above the heading "*Macro-prudential, regulatory and legal risks to the business model*", insert the following:

"The Group is subject to model risk

The Group develops and uses models across a range of risks and activities including, but not limited to, capital management, credit grading, valuations, liquidity, pricing and stress testing. Where the Group uses risk measurement techniques based on historical observations, there is a risk that these under or over-estimate exposure to the extent that future market conditions deviate from historic norms. As a result, the Group may experience material unexpected losses.

The Group may incur losses as a result of inaccuracies in these models, the data used to build them or decisions made based on incomplete understanding of these models.

Negative impacts on the Group's reputation may impact its financial performance

Damage to the Group's reputation may adversely affect relationships with the Group's stakeholders including customers, staff and supervisors. Such damage may lead to impacts on the Group's capability to attract and retain customers, attract, motivate and retain staff and engage positively with supervisors. This may lead to impacts on the Group's ability to conduct its affairs and in turn on the financial performance of the Group."

6. At page 21 of the Base Prospectus, immediately below the heading "*The Group may be subject to the risk of having insufficient capital to meet increased minimum regulatory requirements*", replace the existing text up to (but excluding) the next heading (being "*The Group's business activities must comply with increasing levels of regulation*") with the following:

The Group is subject to minimum capital requirements as set out in CRD IV and implemented under the SSM. CRD IV is designed to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework. On 31 March 2014, the Minister for Finance signed into Irish law two regulations to give effect to CRD IV. The European Union (Capital Requirements) Regulations 2014 gave effect to CRD IV and the European Union (Capital Requirements) (No.2) Regulations 2014 gave effect to a number of technical requirements in order to ensure that the CRR can operate effectively in Irish law. CRD IV measures include:

- enhanced requirements for quality and quantity of capital. CRD IV also harmonises the deductions from own funds in order to determine the amount of regulatory capital that is prudent to recognise for regulatory purposes. Certain of the new provisions of CRD IV are being introduced on a phased basis from 2014, typically

on the following basis: 20 per cent. in 2014, 40 per cent. in 2015, 60 per cent. in 2016, 80 per cent. in 2017 and 100 per cent. in 2018. The main exception to this relates to the deduction for the deferred tax asset which will be deducted at 10 per cent. per year commencing in 2015. The Group commenced reporting to its regulator under the transitional CRD IV rules during 2014;

- the Liquidity Coverage Ratio ("**LCR**"), which will require banks to have sufficient high quality liquid assets to withstand a 30-day stressed funding scenario that is specified by supervisors;
- the Net Stable Funding Ratio ("**NSFR**"), which is a longer term structural ratio designed to address liquidity mismatches. The NSFR provides incentives for banks to use stable funding;
- a leverage ratio, which is designed to act as a non-risk sensitive back-stop measure to reduce the risk of build-up of excessive leverage in an individual bank and the financial system as a whole. The implications of the leverage ratio will be closely monitored prior to its possible move to a binding requirement on 1 January 2018;
- a single set of harmonised prudential rules which banks throughout the EU must respect. The new rules remove a large number of national options and discretions that were previously available; and
- certain other measures including enhanced governance, sanctions, capital buffers, remuneration controls and improved transparency.

As a result of these requirements banks in the EU have been, and will continue to be required to increase the quantity and the quality of their regulatory capital. Given this regulatory context, and the levels of uncertainty in the current economic environment, there is a possibility that the economic outturn over the Group's capital planning period may be materially worse than expected and/or that losses on the Group's credit portfolio may be above forecast levels. Were such losses to be significantly greater than currently forecast or capital requirements for other material risks to increase significantly, there is a risk that the Group's capital position could be eroded to the extent that it would have insufficient capital to meet its regulatory requirements. In addition, capital levels may be negatively affected by volatility arising from the pension schemes and the available for sale portfolio values. The SSM's assessment of the Group's capital position may also change as a result of any assessment and supervisory review of the Group's capital model.

The Group is also subject to stress tests carried out by regulators. In particular, in October 2014, the results of the European wide Comprehensive Assessment, a stress-testing exercise conducted by the European Banking Authority (the "**EBA**") and the ECB in conjunction with the Central Bank, were published. The results of the Comprehensive Assessment confirmed that the Group had capital buffers comfortably above minimum requirements under all stress test assessment scenarios. The Group therefore did not require any additional capital as a result of the Comprehensive Assessment process. However, future assessments carried out by the relevant regulatory authorities may result in the Group being required to increase its capital or to take other appropriate actions to address matters raised in the assessments.

Furthermore, the €3.5 billion of non-cumulative redeemable preference shares AIB issued in 2009 (the "**2009 Preference Shares**") will cease to qualify as core tier 1 capital for CRD IV purposes ("**CET1**") after 31 December 2017. The Group will therefore be required to replace the 2009 Preference Shares prior to that date with further CET1 capital in order to maintain its capital ratios. There can be no assurance that it will be able to do so or if so, on favourable terms."

7. At page 22 of the Base Prospectus, immediately above the heading "*The Group's participation in the NAMA Programme gives rise to certain residual financial risks*", insert the following:

*"Regulatory LTV/Regulatory Loan to Income ("**LTI**") restrictions on residential mortgage lending*

The Central Bank of Ireland issued the Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Housing Loan Requirements) Regulations 2015 on 9 February 2015 (the "**LTV/LTI Regulations**") which impose restrictions on Irish residential mortgage lending by lenders which are regulated by the Central Bank (such as the Issuer). The restrictions impose limits on housing loans (as defined in the LTV/LTI Regulations) by reference to ceilings in respect of (a) the ratio of the total amounts advanced under a housing loan to the value of the residential property (determined under the LTV/LTI Regulations) ("**Regulatory LTV**") and (b) the ratio of the total amount advanced under a housing loan to the gross annual income of the borrower ("**Regulatory LTI**"). In relation to Regulatory LTV restrictions and a housing loan for the purpose of purchasing a principal home (as defined in the LTV/LTI Regulations) (a "**PDH Loan**"), under the LTV/LTI Regulations the Issuer is required to restrict lending to the PDH Ceiling (as defined below) in the case of borrowers who are (i) not first time buyers with a PDH Loan having a Regulatory LTV above 80 per cent. and (ii) first time buyers of a principal home having a value (I) of up to €220,000, with a PDH Loan having a Regulatory LTV above 90 per cent., and (II) in excess of €220,000, with a PDH Loan having a Regulatory LTV exceeding the sum of (A) 90 per cent. on the first €220,000 in value and (B) 80 per cent. on the excess of €220,000 in value. The "**PDH Ceiling**" is no more than 15 per cent of the total aggregate monetary amounts advanced by the relevant lender to borrowers under PDH Loans in the Relevant Lending Period (as defined below). In the case of housing loans other than PDH Loans (such as for purchasing buy-to-let properties), the LTV/LTI Regulations restrict lending by the Issuer above a Regulatory LTV of 70 per cent. to 10 per cent. of the total aggregate monetary amounts advanced to borrowers under such housing loans in the Relevant Lending Period. In relation to Regulatory LTI restrictions and PDH Loans, under the LTV/LTI Regulations the Issuer is required to restrict making advances under housing loans with a LTI above 3.5 times to no more than 20 per cent. of the total monetary amounts advanced to borrowers under PDH Loans in the Relevant Lending Period. The "**Relevant Lending Period**" means between 9 February 2015 and 31 December 2015 and thereafter, each period from 1 January to 31 December.

The Issuer does not itself advance housing loans but rather acquires housing loans from EBS after the relevant housing loans have been originated and advanced by EBS. Accordingly, the LTV/LTI Regulations apply, with respect to the Issuer, to housing loans advanced by EBS on or after 9 February 2015 which are acquired by the Issuer. The LTV/LTI Regulations may adversely affect the level of new mortgage lending the Group is able to undertake, the level of acquisitions of new mortgage loans by the Issuer from the Group and hence could have a material adverse effect on their business, results of operations financial condition and prospects and the Issuer's ability to perform its obligations in respect of the Securities.

The Issuer and the Group is exposed to risk in respect of the manner in which it determines and maintains interest rates on certain loans.

In common with other residential mortgage lenders, the Issuer and the Group faces increased scrutiny and focus by the Irish Government, the Oireachtas (Irish legislature) and consumer protection regulators such as the Central Bank and the Competition and Consumer Protection Commission, in relation to the level of its interest rates on loans, in particular, its standard variable interest rate (that where the lender has the ability to unilaterally vary the rate, unlike a fixed rate or a rate which tracks changes to an ECB official rate) ("**SVR**") on principal private residence ("**PPR**") mortgage lending.

The Irish Government has expressed concern to lenders as to the high level of SVR charged by the lenders in the State as compared to those charged by lenders in other EU Member States and requested the main lenders in the State (including the Group and the Issuer) to reduce the level of their SVR or to offer lower interest rate products or alternative solutions to high level SVRs to new and existing PPR borrowers. Failing which, the Irish Government has indicated that it may significantly increase the bank levy which currently applies to those lenders or seek to give consumer protection regulators additional regulatory powers or those lenders may face investigation or intervention by those

regulators, in relation to the setting and maintenance of SVR by those lenders in the case of PPR mortgage loans.

On 26 May 2015, a bill entitled Central Bank (Emergency Powers) (Variable Interest Rates) Bill 2015 was initiated in the Seanad (the upper house of the Irish legislature) which, if passed into law by both houses of the Oireachtas, would specifically authorise the Central Bank to impose maximum interest rates on PPR mortgage loans made by certain lenders such as the Issuer and the Group.

In common with other lenders, the Issuer and the Group is at risk of a review or investigation by regulators such as the Central Bank and the Competition and Consumer Protection Commission, and potentially serious sanctions or penalties in respect of any perceived or actual failure to act appropriately when setting interest rates on their mortgage or other loan products. Any such review or investigation, and any related litigation or regulatory action, could adversely affect the Issuer's and the Group's business, financial condition, results of operations and profitability, and could result in negative public opinion towards the Issuer and the Group.

In addition, the Issuer's and the Group's mortgage or other interest rates may come under further pressure from competitors in the future.

Increasing competitive pressure or political or regulatory focus on an alignment of mortgage or other interest rates between those from new business and the SVR, or, on an alignment of interest rates with those charged by lenders in other euro area markets, may result in a reduction in the Issuer's and Group's SVR or other interest rates, and any such reduction in those rates could impact adversely the Issuer's and Group's net interest income and net interest margin, which in turn could have material adverse effect on the Issuer's and Group's business, financial condition, results of operations and prospects."

8. At page 23 of the Base Prospectus, immediately above the heading "*The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements, and estimates that may change over time, or may ultimately not turn out to be accurate, and the value realised by the Group for these assets may be materially different from their current, or estimated, fair value*", insert the following:

"The Terms of Reference proposed by the Joint Committee for the Inquiry into the Banking Crisis were agreed by Dáil Éireann and Seanad Éireann in November 2014. The purpose of the Inquiry is to inquire into the reasons why Ireland experienced a systemic banking crisis, including the political, economic, social, cultural, financial and behavioural factors and policies which impacted on or contributed to the crisis and the preventative reforms implemented in the wake of the crisis. The costs and potential implications (including reputational risk) for the Group of this inquiry are uncertain at this time."

9. At page 25 of the Base Prospectus, immediately above the heading "*The Group's risk management strategies and techniques may be unsuccessful*", insert the following:

"The Group is subject to substantial and changing conduct regulations"

The Group is exposed to many forms of conduct risk, which may arise in a number of ways. In particular, the Group may be subject to allegations of mis-selling of financial products, including, as a result of having sales practices and/or reward structures in place that are determined to have been inappropriate, which may result in adverse regulatory action (including significant fines) or requirements to amend sales processes, withdraw products or provide restitution to affected customers, any or all of which could result in the incurrence of significant costs, may require provisions to be recorded in the financial statements and could adversely impact future revenues from affected products."

10. On page 34 of the Base Prospectus, under the heading "*Personal Insolvency Act*", before the penultimate paragraph on that page, insert the following:

"On 13 May 2015, the Irish Government announced its intention to amend the Personal Insolvency Act so as to give the courts the power to review and, where appropriate, approve a PIA which has been rejected by a bank or other secured creditor. It is anticipated that any such amendment will be made by amendments to the Personal Insolvency (Amendment) Bill 2014 which has already been initiated in the Oireachtas (Irish parliament) and contains proposals to amend the Personal Insolvency Act in relation to procedures for the approval of DSAs and PIAs and related matters."

11. At page 46 of the Base Prospectus, under the heading "*Documents Incorporated by Reference*", delete the existing paragraphs (a), (b) and (c) and replace with the following:

"(a) the audited financial statements of the Issuer for the financial year ended 31 December 2014 and the auditor's report dated 26 March 2015 by Deloitte & Touche thereon. Such financial statements and such auditor's report are available on the website of EBS Group at

<http://www.ebs.ie/images/pdf/files/EBS-MF-Annual-Report2014.pdf>

(b) the audited financial statements of the Issuer for the financial year ended 31 December 2013 and the auditor's report dated 24 March 2014 by Deloitte & Touche thereon. Such financial statements and such auditor's report are available on the website of EBS Group at

[http://www.ebs.ie/images/pdf/files/EBS Mortgage Finance Statutory Accounts 2013 FINAL.pdf](http://www.ebs.ie/images/pdf/files/EBS_Mortgage_Finance_Statutory_Accounts_2013_FINAL.pdf)

(c) [Left intentionally blank]".

12. At page 111 of the Base Prospectus, at the end of that page below the sentence that reads, "*Similarly the average employees of EBS are distributed across the Domestic Core Bank, Financial Services Group and Group Segments*", insert the following:

"Capital Structure

Resolutions to reorganise the share capital of the Group were passed at an extraordinary general meeting held on 19 June 2014. These included the renominialisation of the ordinary shares and a resolution to allow for the increase of distributable reserves by €5.0 billion. An application was made to the High Court in July 2014 for approval of that increase in distributable reserves. On 15 October 2014, the High Court granted an order permitting a share capital reduction which gave rise to additional distributive reserves totalling €5.0 billion which reduction was effected on 16 October 2014.

The Group expects to continue its discussions with the Department of Finance regarding the appropriate capital structure of the Group in the context of regulatory and market requirements. These discussions are currently focused on:

- Options in relation to the €3.5 billion 2009 Preference Shares in AIB held by the Ireland Strategic Investment Fund, including the possible conversion into AIB ordinary shares of part or all of the 2009 Preference Shares.
- Options in relation to the €1.6 billion Contingent Capital Notes issued by AIB and held by the Minister for Finance which mature in July 2016.
- A possible significant consolidation in the number of AIB ordinary shares in issue given AIB currently has in excess of 523 billion ordinary shares in issue.

Any future actions in respect of the Group's capital structure will be subject to relevant regulatory and shareholder approvals where necessary. There is no definitive set of outcomes or completion date for these discussions.

Recent Stress Tests by Regulators

The Central Bank concluded a balance sheet assessment of the three credit institutions covered under the Credit Institutions (Eligible Liability Guarantee Scheme) 2009, including AIB, in the fourth quarter of 2013 ("**BSA**"). This review included an assessment of asset quality, risk weighted assets and point in time capital adequacy as at 30 June 2013. AIB did not have to raise additional capital to meet ongoing regulatory capital requirements of 10.5% core tier one capital ratio as a result of this process.

The Group's own assessment of the impairment charge for 2013 was substantially consistent with all of the BSA mean provision findings.

The ECB has undertaken a comprehensive assessment of the banking system significant banks in the Eurozone (including the Group) and announced the results on 26 October 2014 ("**ECB CA**"). The ECB CA exercise entailed a supervisory risk assessment, an asset quality review and a stress test in order to provide a forward-looking view of banks' shock absorption capacity under stress. The results of the ECB CA confirmed that the Group has capital buffers comfortably above minimum requirements under all stress test assessment scenarios. The Group therefore does not require any additional capital as a result of the ECB CA process."

13. At page 125 to 126 (inclusive) of the Base Prospectus, on page 125 from (and including) the third paragraph to (and including) the third paragraph on page 126 (being the second paragraph under the heading "*Single Supervisory Mechanism and Single Resolution Mechanism*"), replace the relevant text in the Base Prospectus with the following:

"The Irish Banking Code consists primarily of the Central Bank Acts 1942 to 2014 (the "**Central Bank Acts**"), (including the Central Bank and Financial Services Authority of Ireland Act 2003 (the "**2003 Act**"), the Central Bank and Financial Services Authority of Ireland Act 2004 (the "**2004 Act**"), the Central Bank Reform Act 2010, the Central Bank and Credit Institutions (Resolution) Act 2011, the Central Bank (Supervision and Enforcement) Act 2013, regulations made by the Minister for Finance under the European Communities Act 1972, regulatory notices, regulations and codes of conduct issued by the Central Bank and EU regulations relating to banking regulation. These Ministerial regulations implement EU directives relating to banking regulation, including the CRD IV Directive, and give full effect to such EU regulations, including the SSM Regulation and the CRR Regulation.

The Central Bank Acts provide that banking business may only be carried on in Ireland by the holder of a banking licence (in the case of an entity incorporated in Ireland) or authorisation (in the case of an Irish branch of an entity incorporated outside the EEA) or by an entity incorporated and authorised elsewhere in the EEA which exercises 'passport rights' to carry on business in Ireland (as to which, see further below). The Central Bank may, in its discretion, grant or refuse a licence or authorisation under the Central Bank Acts and may attach conditions to any licences granted. The Central Bank is empowered in specified circumstances to revoke a licence or authorisation granted under the Central Bank Acts. Under the Central Bank Acts, licensed banks must maintain a minimum deposit with the Central Bank. The Issuer holds a banking licence and accordingly is deemed to be authorised by the ECB under the SSM Regulation. The Issuer is also registered as a designated mortgage credit institution under the 2001 Act.

CRD IV

CRD IV was implemented in Ireland by the European Communities (Capital Requirements) Regulations 2014 (the "**CRD IV Regulations**"). The CRD IV Regulations permit a credit institution authorised in an EU Member State (its "**Home State**") to do business in any other EU Member State (the "**Host State**") without having to obtain an official authorisation from the relevant regulator in the Host State. The authorisation from the Home State operates effectively as a 'passport' to do business throughout the EU. Other EU Directives which have been implemented in Ireland provide similar 'passporting' mechanisms for authorised investment firms and authorised life assurance companies.

Single Supervisory Mechanism and Single Resolution Mechanism

The SSM places the ECB as the central prudential supervisor of financial institutions in the Eurozone, including the Group, and in those non-euro EU countries that choose to join the SSM. On 4 November 2014, the ECB commenced its supervisory role under the SSM, became the direct supervisor of the Issuer and AIB and the banking licence held by the Issuer and AIB became a deemed authorisation by the ECB under the SSM Regulation. The aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe. The EU legislative measures which provide for the SSM are the SSM Regulation and the SSM Framework Regulation. In Ireland the SSM Regulation and the SSM Framework Regulation were from 4 November 2014 given full effect to under the European Union (Single Supervisory Mechanism) Regulations 2014. See *New Role of the ECB under the SSM*.

The European institutions have also agreed to establish the SRM under the Single Resolution Mechanism Regulation (EU No. 806/2014). The SRM will apply to banks covered by the SSM. In the cases when banks fail despite stronger supervision, the SRM will allow bank resolution to be managed effectively through a single resolution board and a single resolution fund, financed by bank levies raised at national level.

New Role of the ECB under the SSM

Framework of Supervision

On 4 November 2013 the ECB was appointed as the single supervisory authority for all credit institutions, financial holding companies and mixed financial holding companies in the Eurozone and in those other Member States that participate in the EU banking union ("**Banking Union**"). On 4 November 2014, the ECB commenced its supervisory role under the SSM and under that role, the ECB has become the direct supervisor of the Issuer and the Issuer is deemed to be authorised by the ECB under the SSM Regulation. In Ireland the SSM Regulation and the SSM Framework Regulation were, from 4 November 2014, given full effect under the European Union (Single Supervisory Mechanism) Regulations 2014 which amended the Central Bank Acts and certain other legislation relating to credit institutions so as to give that effect.

Although the ECB has been conferred with the critical task of ensuring financial stability, some functions (as indicated below) remain at national level.

In performing its supervisory functions the ECB is accountable to the Council of the EU and (to a lesser extent) to the European Parliament and to national parliaments.

Under the SSM Framework Regulation the ECB has established a framework for co-operation within the SSM between the ECB and national competent authorities (which includes the Central Bank of Ireland) and with national designated authorities (together with national competent authorities, "**national supervisory authorities**").

Direct and Indirect Supervision

Under the SSM the ECB supervises any credit institution that satisfies any of the following conditions (each a "**Significant Bank**"):

- the total value of its assets exceeds €30 billion;
- the ratio of the total assets of the credit institution to the gross domestic product of the relevant Member State in which the credit institution is established exceeds 20%, unless the total value of its assets is less than €5 billion;
- the ECB (either on its own initiative or on the recommendation of the relevant national authorities) decides that the credit institution is significant;
- the credit institution is one of the three most significant credit institutions operating in the relevant Member State; or

- the credit institution has received financial support from the European Stability Mechanism or the European Financial Stability Facility.

In Ireland, a Significant Bank for the purposes of the SSM includes the following members of the Group: AIB, the Issuer, EBS Limited and AIB Mortgage Bank.

A credit institution that is not a Significant Bank for the purposes of the SSM is referred to below as an “**Other Bank**”.

Powers of the ECB

In performing its prudential supervisory role in respect of every credit institution in the Eurozone and in any other Member State that participates in the Banking Union, the ECB has two principal functions:

- to authorise, and withdraw the authorisation of, credit institutions; and
- to assess applications for approval of the acquisition and disposal of qualifying holdings in credit institutions.

In respect of Significant Banks, the ECB is also empowered to (among other functions):

- impose prudential requirements on the Significant Bank, including in respect of own funds, large exposures, liquidity requirements and other prudential regulatory matters;
- assess 'passport' applications by the Significant Bank, i.e. to provide services on a cross-border basis or to establish a branch, in a Member State that is outside the Banking Union;
- carry out supervisory reviews, including stress tests; and
- impose and assess compliance with governance and probity requirements, including 'fit and proper' tests.

The ECB is invested under the SSM Regulation and the SSM Framework Regulation with a range of supervisory and investigatory powers for these purposes, including in respect of on-site inspections. It is also empowered to impose administrative penalties on credit institutions.

The Role of National Supervisory Authorities

Although every credit institution in the Eurozone is subject to the SSM, national supervisory authorities (which include the Central Bank of Ireland) are responsible for day-to-day supervision of Other Banks; the ECB in turn monitors the supervision of Other Banks by those national supervisory authorities. The ECB may issue general and specific instructions to national supervisory authorities and a national supervisory authority must notify the ECB of any supervisory decision at national level that has material consequences.

Further, national supervisory authorities retain responsibility for every supervisory function that is not transferred specifically to the ECB. Therefore the national supervisory authorities retain certain functions including those relating to:

- consumer protection;
- the imposition of a sanction for a breach of EU law (other than in respect of an ECB act);
- the supervision of payment services;

- combatting money laundering; and
- the supervision of non-EEA credit institutions that establish a branch in the EEA or provide services into the EEA on a cross-border basis.

In addition, national supervisory authorities have a role in relation to certain macro-prudential tasks and tools including setting requirements in respect of capital buffers for CRD IV purposes, such as the other systemically important institutions buffer and countercyclical buffer, subject to the power of the ECB under the SSM Regulation to apply higher requirements the ECB it deems necessary.

Cross-Border Banks

The ECB acts as the host state supervisor for any credit institution that is established in a Member State that is not participating in the Banking Union and which (through a branch or on a cross-border basis) provides banking services in a Member State that is participating in the Banking Union.

Functional Separation within the European Central Bank

To address the same tension that could emerge in many national supervisory authorities with responsibility for both monetary policy and prudential supervision, the ECB in accordance with the SSM Regulation and the SSM Framework Regulation operates according to a number of organisational principles to ensure that there is a clear separation between its supervisory functions and its monetary policy functions. The internal separation is both organisational (in terms of governance) and practical.

Role of the European Banking Authority

The role and responsibilities of the European Banking Authority (the “EBA”) is largely unaffected by the SSM. The EBA will continue to develop the single rulebook that is to apply in all participating Member States and to enhance convergence in supervisory practices in the EU. As a consequence of the SSM, the EBA has also been tasked to develop a single supervisory handbook to complement the single rulebook, in the expectation that this will ensure greater consistency in regulatory practices at national level.”

14. At pages 128 and 129 of the Base Prospectus, on page 128 from (and including) the first paragraph under the heading “*Role of the Central Bank*” to (and including) the first sentence of the fourth paragraph on page 129, replace the relevant text in the Base Prospectus with the following:

“The role of the Central Bank of Ireland with respect to the regulation of banking in Ireland is subject to the role of the ECB under the SSM outlined under ‘*New role of the ECB under the SSM*’ above.

The Central Bank is responsible for regulating and supervising a range of banking and financial services entities in Ireland including credit institutions and operates on the basis of the principle of consolidated regulation. Pursuant to this power, the Central Bank carries out regular review meetings and periodically inspects licensed banks. The Central Bank is also empowered by law to carry out inspections of the books and records of licence holders and to obtain information from licence holders about their banking and bank-related business. The Central Bank has a wide range of statutory powers to enable it to effectively regulate and supervise the activities of financial institutions in Ireland. Features include prudential regulation, codes of conduct and restrictions on acquiring transactions, each of which is addressed in more detail below.

The Central Bank also has wide ranging powers of inspection; inspectors appointed by the Central Bank can enter the relevant premises, take documents or copies thereof, require persons employed in the business to provide information, and produce documents. In cases of extreme concern, the Central Bank may direct a licence holder to suspend its

business activity for a specified period and may also intervene in the management or operation of an entity. The Central Bank must also approve appointments to senior and influential positions in licensed entities and has the power under the Central Bank Acts to impose administrative sanctions directly on financial institutions for failure to comply with regulatory requirements, subject in the case of acts by the Central Bank of Ireland to a right of appeal to the Irish Financial Services Appeals Tribunal and in the case of acts by the ECB to a right of appeal to the Administrative Board of Review. The ECB also has broad investigatory powers, right to information, right to carry out on-site inspections and the power to impose sanctions on supervised entities in the form of heavy financial penalties under the SSM. The SSM Framework Regulation sets out the procedural rules to be applied by the ECB when imposing sanctions.

The Central Bank may also prescribe ratios to be maintained between, and requirements as to the composition of, the assets and liabilities of licensed banks and make a range of regulations for the prudent and orderly conduct of banking business of such banks."

15. At page 143 of the Base Prospectus, above the heading "*Personal Insolvency Act*", insert the following:

"Regulatory LTV/Regulatory LTI restrictions on residential mortgage lending

The LTV/LTI Regulations impose restrictions on Irish residential mortgage lending by lenders which are regulated by the Central Bank (such as the Issuer). The restrictions impose limits on housing loans (as defined in the LTV/LTI Regulations) by reference to ceilings in respect of Regulatory LTV and Regulatory LTI. In relation to Regulatory LTV restrictions and a PDH Loan, under the LTV/LTI Regulations the Issuer is required to restrict lending to the PDH Ceiling in the case of borrowers who are (i) not first time buyers with a PDH Loan having a Regulatory LTV above 80 per cent. and (ii) first time buyers of a principal home having a value (I) of up to €220,000, with a PDH Loan having a Regulatory LTV above 90 per cent., and (II) in excess of €220,000, with a PDH Loan having a Regulatory LTV exceeding the sum of (A) 90 per cent. on the first €220,000 in value and (B) 80 per cent. on the excess of €220,000 in value. In the case of housing loans other than PDH Loans (such as for purchasing buy-to-let properties), the LTV/LTI Regulations restrict lending by the Issuer above a Regulatory LTV of 70 per cent. to 10 per cent. of the total aggregate monetary amounts advanced to borrowers under such housing loans in the Relevant Lending Period. In relation to Regulatory LTI restrictions and PDH Loans, under the LTV/LTI Regulations the Issuer is required to restrict making advances under housing loans with a LTI above 3.5 times to no more than 20 per cent. of the total monetary amounts advanced to borrowers under PDH Loans in the Relevant Lending Period. The Issuer does not itself advance housing loans but rather acquires housing loans from EBS after the relevant housing loans have been originated and advanced by EBS. Accordingly, the LTV/LTI Regulations apply, with respect to the Issuer, to housing loans advanced by EBS on or after 9 February 2015 which are acquired by the Issuer."

16. At page 145, immediately before the heading "*Bankruptcy*", insert the following:

"On 13 May 2015, the Irish Government announced its intention to amend the Personal Insolvency Act so as to give the courts the power to review and, where appropriate, approve a PIA which has been rejected by a bank or other secured creditor. It is anticipated that any such amendment will be made by amendments to the Personal Insolvency (Amendment) Bill 2014 which has already been initiated in the Oireachtas (Irish parliament) and contains proposals to amend the Personal Insolvency Act in relation to procedures for the approval of DSAs and PIAs and related matters."

17. At page 154 of the Base Prospectus, immediately before the heading "*Surplus Cover Assets need not meet certain requirements of the ACS Acts*", insert the following:

"For the purposes of the LCR Commission Regulation (as defined below), the Issuer will ensure that, in accordance with the principles set out in section 32(17) of the 2001 Act, the prudent market value (determined in accordance with the 2001 Act) of mortgage credit assets and substitution assets comprised at any time in the Pool (maintained by the Issuer

and on which Securities will be secured under the 2001 Act) expressed as a percentage of the total nominal or principal amounts of the Mortgage Covered Securities in issue and secured under the 2001 Act on that Pool at the relevant time, will not be less than the applicable LCR Overcollateralisation Percentage after taking into account the effect of any cover assets hedge contract comprised in that Pool. The commitment of the Issuer set out in this paragraph (including the definitions set out below) may at the Issuer's sole initiative be amended, varied or replaced at any time to take account of any amendment to, or variation or replacement of, the provisions of the CRR or the LCR Commission Regulation applicable to level 1 assets or level 2A assets for the purposes of the LCR Commission Regulation or any amendment thereof or replacement thereto. Any such amendment to or variation or replacement of, such commitment will be published in a supplement to this Base Prospectus or in another prospectus in respect of the Programme.

For the above purposes:

"LCR Commission Regulation" means Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) 575/2013 with regard to liquidity coverage requirement for Credit Institutions;

"LCR Overcollateralisation Percentage" means, subject to any higher percentage specified in section 32(17) of the 2001 Act:

- (a) for so long as Mortgage Covered Securities issued under the Programme have a credit quality step 2 for the purposes of article 129(4) of the CRR (or the equivalent credit quality step in the event of a short term credit commitment), 107 per cent.; or
- (b) if Mortgage Covered Securities issued under the Programme have a credit quality step 1 for the purposes of article 129(4) of the CRR (or the equivalent credit quality step in the event of a short term assessment), 102 per cent."

18. At page 210 of the Base Prospectus, delete the existing paragraphs 2(b) and 2(c) and replace with the following:

- "(b) the audited financial statements of the Issuer for the financial year ended 31 December 2014 and the auditor's report dated 26 March 2015 by Deloitte & Touche thereon;
- (c) the audited financial statements of the Issuer for the financial year ended 31 December 2013 and the auditor's report dated 12 March 2014 by Deloitte & Touche thereon;"

19. At page 211 of the Base Prospectus, at paragraph 5, delete the existing sentence and replace with the following:

"Save as otherwise disclosed in the supplement dated 9 June 2015 to this Base Prospectus, there has been no significant adverse change in the financial or trading position and no material adverse change in the prospects of the Issuer since 31 December 2014, the date of the Issuer's last published audited financial statements."

20. At page 211 of the Base Prospectus, at paragraph 7, delete the existing sentence and replace with the following:

"No website referred to in this Base Prospectus forms part of this Base Prospectus, other than those website links at which the documents incorporated by reference in this Base Prospectus or the supplement dated 9 June 2015 to this Base Prospectus, are stated to be available."