



AIB MORTGAGE BANK

(a public unlimited company incorporated under the laws of Ireland with registration number 404926)

€20,000,000,000

MORTGAGE COVERED SECURITIES PROGRAMME

This prospectus supplement (the “**Second Supplement**”) is supplemental to and should be read in conjunction with the base prospectus dated 18 December 2014 (the “**Base Prospectus**”), as amended by the first supplement to the Base Prospectus dated 9 April 2015 (the “**First Supplement**”), issued for the purposes of giving information with regard to the issue of mortgage covered securities (the “**Securities**”) by AIB Mortgage Bank (the “**Issuer**”) under the Issuer’s €20,000,000,000 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 Second Supplement, have the same meaning when used in this Second Supplement. Words and expressions defined in this Second Supplement and also defined in the Base Prospectus shall have the meaning given to them in this Second Supplement. This document constitutes a supplement to the Base Prospectus for the purposes of Directive 2003/71/EC (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 Second Supplement has been approved by the Central Bank of Ireland as the competent authority under the Prospectus Directive. The Central Bank only approves this Second 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 Second Supplement. The Issuer declares that, having taken all reasonable care to ensure that such is the case, the information in this Second 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 Second Supplement in compliance with item 1.2 of annex IX to Commission Regulation (EC) No. 809/2004.

Upon approval of this Second Supplement by the Central Bank of Ireland, this Second 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 Second Supplement, (b) any statement in, or incorporated by reference in, the Base Prospectus, and (c) any statement in, or incorporated by reference to the First Supplement, the statement in (a) will prevail.

Save as disclosed in this Second Supplement, there has been no significant change in the information contained in the Base Prospectus (as supplemented by the First Supplement) and no significant new matter has arisen in relation to the Issuer since 9 April 2015, the date of publication of the First Supplement, relevant to Securities to be issued under the Programme.

The issue of this Second Supplement was authorised in accordance with resolutions of the Board of Directors of the Issuer on 4 December 2014.

The date of this Second Supplement is 22 June 2015.

AMENDMENTS TO THE BASE PROSPECTUS

1. At page 17 of the Base Prospectus, immediately above the heading “*Contagion risks could disrupt the markets and adversely affect the Group’s financial condition*”, 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.”

2. At page 20 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 “*Regulatory LTV/Regulatory LTI restrictions on residential mortgage lending*” (as inserted by paragraph 3 of the First Supplement)) 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 ("**ECB CA**"), 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."

3. At page 21 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:

"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."

4. On page 29 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."

5. At page 36 of the Base Prospectus, replace the existing text below the heading "*Banking Inquiry*", up to (but excluding the next heading, with 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."

6. At page 96, immediately before the heading "*Cross-Border Banks*", insert the following:

"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."

7. At page 96, under the heading "*Role of the Central Bank*", delete the first sentence of the final paragraph on that page and, at the end of the third paragraph on that page, insert the following:

"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."

8. At page 114, 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."

9. At page 187 of the Base Prospectus, at paragraph 5 (as amended by paragraph 8 of the First Supplement), delete the existing sentence and replace with the following:

"Save as otherwise disclosed in the supplement dated 22 June 2015 to this Base Prospectus (as supplemented by the supplement dated 9 April 2015), 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."