

**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 "**Supplement**") is supplemental to and should be read in conjunction with the base prospectus dated 20 September 2010 (the "**Base Prospectus**") 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, have the same meaning when used in this 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 "**Prospectus Regulations**"). This Supplement has been approved by the Central Bank of Ireland (the "**Central Bank**") as 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 the regulated market of the Irish Stock Exchange Limited (the "**Irish Stock Exchange**") or other regulated markets 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 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 items 1.2 of annex XI to Commission Regulation (EC) No. 809/2004.

The date of this Supplement is 10 March 2011.

For the purposes of Part 6 of the Prospectus Regulations, Allied Irish Banks, p.l.c. accepts responsibility for the information contained or incorporated by reference in this Supplement relating to Allied Irish Banks, p.l.c. and the Group (but excluding information specifically relating to the Issuer and the Securities). To the best of the knowledge of Allied Irish Banks, p.l.c. (having taken all reasonable care to ensure that such is the case), such information (other than as aforesaid) is 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 XI to the EU Prospectus Regulation.

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 Prospectus Regulations.

To the extent that there is any inconsistency between (a) any statement in this Supplement or (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 20 September 2010, 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 31 August 2010.

Any person who may wish to exercise any right arising pursuant to article 16(2) of the Prospectus Directive, as implemented into Irish law pursuant to Regulation 52 of the Prospectus Regulations as a result of the publication of this Supplement must exercise that right within a period of not less than 2 working days after the publication of this Supplement.

AMENDMENTS TO THE BASE PROSPECTUS

1. At page 3 of the Base Prospectus, delete the 6th paragraph (beginning "Securities issued under the Programme are expected...") and replace it with the following:

"Securities issued under the Programme are expected on issue to be rated by Moody's Investors Service Limited ("**Moody's**"), by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies Inc. ("**Standard & Poor's**") and by Fitch Ratings Limited ("**Fitch**"), such rating(s) to be disclosed in the Final Terms for the Securities. The rating of Securities will not necessarily be the same as the rating applicable to the Issuer and/or AIB. However, the rating methodology employed by a rating agency with respect to Securities may link the rating applicable to the Securities with the rating applicable to AIB. Such a methodology may, for example, include a ceiling on 'notching up' so that the Securities may not be assigned a rating higher than a specified number of notches above the rating applicable to AIB. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. The rating methodology

employed by a rating agency when rating Securities is subject to change at any time at the discretion of that rating agency and may affect ratings attributed to Securities issued under the Programme.”

2. At page 5 of the Base Prospectus, under the heading “*Interpretation*”, delete the final paragraph and replace it with the following:

“Relevant parts of the Central Bank Reform Act 2010 came into operation on 1 October 2010 which, amongst other things, provide for the replacement of the Irish Financial Services Regulatory Authority (subject as set out below, the “**Financial Regulator**”) and the Central Bank and Financial Services Authority of Ireland (subject as set out below, the “**CBFSAI**”) with the ‘Central Bank of Ireland’. Accordingly, references in this Base Prospectus to the “Irish Financial Services Regulatory Authority”, the “Financial Regulator”, the “Central Bank and Financial Services Authority of Ireland” or the “CBFSAI” should be construed as including, since 1 October 2010, the Central Bank of Ireland (the “**Central Bank**”).

3. At pages 14 and 15 of the Base Prospectus, delete the paragraph opposite the heading “*Ratings*” and replace it with the following:

“Securities issued under the Programme are expected on issue to be rated by Moody's, by Standard & Poor's and by Fitch, such rating(s) to be disclosed in the Final Terms for the Securities. The rating of Securities will not necessarily be the same as the rating applicable to the Issuer and/or AIB. However, the rating methodology employed by a rating agency with respect to Securities may link the rating applicable to the Securities with the rating applicable to AIB. Such a methodology may, for example, include a ceiling on ‘notching up’ so that the Securities may not be assigned a rating higher than a specified number of notches above the rating applicable to AIB. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. The rating methodology employed by a rating agency when rating Securities is subject to change at any time at the discretion of that rating agency and may affect ratings attributed to Securities issued under the Programme.”

4. At page 17 of the Base Prospectus, opposite the heading “Asset Transfers involving the Issuer”, insert a new paragraph under the existing paragraph as follows:

“On 25 February 2011, AIB transferred substantially all of its mortgage intermediary originated Irish residential loans, related security and related business to the Issuer. The aggregate principal amount outstanding of, and accrued but unpaid interest on, the Irish residential loans transferred by AIB to the Issuer on 25 February 2011 was approximately €4.2 billion. The transfer was effected pursuant to the above mentioned statutory transfer mechanism provided for in the 2001 Act.”

5. At pages 24 and 25 of the Base Prospectus, delete the entire text of the risk factor (including the heading) headed *Deposits / Cover Assets Hedge Contracts with AIB* and replace with the following:

“Counterparties to Deposits / Cover Assets Hedge Contracts

The ACS Acts permit the inclusion in the Pool of substitution assets and cover assets hedge contracts subject to certain restrictions under the ACS Acts. At the date of the first supplement to this Base Prospectus (i.e. 10 March 2011), the substitution assets comprised in the Pool are deposits with one or more eligible financial institutions (see *Restrictions on the Activities of an Institution – Permitted business activities – (b) dealing in and holding substitution assets*) and the cover assets hedge contract comprised in the Pool (the “**Pool Hedge**”) has been entered into by the Issuer with AIB - see *Risk Management at the Issuer – Non-trading interest rate risk (market risk)*. In addition, the Issuer may from time to time hold deposits other than substitution assets comprised in the Pool, including any Pool Hedge Collateral posted in cash. Deposits or cover assets hedge contracts may be made by the Issuer with counterparties other than AIB, subject to the restrictions in the ACS Acts (see *Restrictions on the Activities of an Institution and Cover Assets Pool*). In addition, the Issuer may from time to time enter into arrangements (including banking and standby banking arrangements) with one or more counterparties for the transfer of deposits to, and/or the making of deposits with, such counterparties, including in circumstances where a counterparty with which the Issuer holds deposits would no longer (i) be a suitable counterparty in respect of deposits having regard to the requirements of the ACS Acts (see *Characteristics of the Pool/Overcollateralisation – Substitution Assets*) and/or (ii) meet the rating criteria of any rating agency appointed at the relevant time to provide credit ratings in respect of any of the Issuer’s then outstanding Securities.”

6. At page 31 of the Base Prospectus, insert the following new risk factors above the existing text headed “Other Risks”:

“Prudential Capital Assessment Review and Prudential Liquidity Assessment Review

The implementation of the Prudential Capital Assessment Review (“**PCAR**”) and the Prudential Liquidity Assessment Review (“**PLAR**”) (see *Description of the Group – Recent Developments*) in relation to AIB may have an impact on the Group’s business.

Special Resolution Regime

The introduction of a new special resolution regime for credit institutions may impact on the regulation of the Group and on its corporate structure. On 28 February 2011, the Central Bank and Credit Institutions (Resolution) Bill 2011 (the “**Resolution Bill**”) was published. The Resolution Bill provides that one of its purposes is to make provision for an effective and efficient resolution regime for

authorised credit institutions that are failing or likely to fail. The Resolution Bill provides that nothing in it affects the operation of the ACS Acts.

At the date of the first supplement to this Base Prospectus (i.e. 10 March 2011), the Resolution Bill has just been published. The Resolution Bill is untested and it cannot be said for certain what its implications, if enacted into law, might be for authorised credit institutions to which it applies. No assurance can be given as to the effect of the Resolution Bill if enacted into law on the Issuer, AIB or their respective businesses or operations or whether the Resolution Bill will be enacted as published, or amended prior to its enactment.

Recent Developments relating to Ireland

On 21 November 2010, the Irish Government announced that it had agreed to request financial support from the International Monetary Fund ("**IMF**"), the European Union and the euro-area Member States. On 28 November 2010, the Irish Government announced that it had agreed in principle to the provision of up to €85 billion of financial support to Ireland by Member States through the European Financial Stability Fund ("**EFSF**") and the European Financial Stability Mechanism ("**ESFM**"); bilateral loans from the UK, Sweden and Denmark; and the IMF's Extended Fund Facility ("**EFF**"), in each case on the basis of specified conditions. It was agreed that €17.5 billion of the €85 billion package would be contributed by Ireland. A central element of the support relates to further restructuring and the restoration of the long-term viability and financial health of the Irish banking system, including addressing the potential future capital needs of the banking sector. A separate statement from the European Union Economic and Financial Affairs Council ("**ECOFIN**") made on 21 November 2010 stated that a comprehensive range of measures – including deleveraging and restructuring of the banking sector in Ireland - will contribute to ensuring that the Irish banking system performs its role in the functioning of the economy.

Given the references to restructuring of the Irish banking sector in the statements referred to above and in the absence of any definite proposals, there is, as of the date of the first supplement to this Base Prospectus (i.e. 10 March 2011), uncertainty regarding the future structure of the Irish banking sector. A general restructuring of the banking sector could impact the Group and the Issuer in ways that cannot be predicted and such restructuring could adversely impact the Group's members (including AIB and the Issuer). Also, it is possible that AIB and/or the Issuer may become subject to further more stringent capital adequacy and liquidity ratio requirements. This could result in an increase in the level of involvement of the Minister for Finance, the Central Bank or other third parties in the management and/or affairs of AIB and/or the Issuer or impact in other ways that cannot be predicted or foreseen.

Changes in Irish government policy with respect to the Irish banking sector (including any changes arising from a change of government as

a result of the general election in Ireland on 25 February 2011) could impact the Group and the Issuer in ways that cannot be predicted or foreseen.

In addition, current and future budgetary policy in Ireland and taxation and other measures adopted by Ireland to deal with the economic situation in Ireland may have an adverse impact on borrowers' ability to repay their loans and hence the Issuer's business and the Issuer's ability to meet its obligations in respect of the Securities.

Credit Institutions (Stabilisation) Act 2010

The Credit Institutions (Stabilisation) Act 2010 (the "**Stabilisation Act**") was commenced by the Minister for Finance on 21 December 2010. The Stabilisation Act provides broad powers to the Minister for Finance (generally in consultation with the Governor of the Central Bank and subject to obtaining an order of the High Court) to act on financial stability grounds to effect the restructuring actions and recapitalisation measures envisaged in the joint EU-IMF programme for Ireland (**EU-IMF Programme**) (see *-Recent Developments relating to Ireland* above).

The Stabilisation Act applies to "relevant institutions", which are, for the most part, Irish banks who have received financial support from the Irish state (which would include AIB and the Issuer), Irish building societies and Irish credit unions and their holding companies and subsidiaries. The Stabilisation Act will cease to have effect on 31 December 2012, although this date may be extended by the Oireachtas. The cessation of the Stabilisation Act will not affect any order or requirement made under it. The Stabilisation Act is expected to be followed by an extensive special resolution regime that will provide for a comprehensive framework to facilitate the orderly management and resolution of distressed credit institutions. In that context, see - *Special Resolution Regime* above.

The Stabilisation Act provides that nothing in the Stabilisation Act affects the operation of the ACS Acts.

At the date of the first supplement to this Base Prospectus (i.e. 10 March 2011), the Stabilisation Act is relatively untested and it cannot be said for certain what its implications might be for relevant institutions. No assurance can be given as to the effect of the Stabilisation Act on the Issuer, AIB or their respective businesses or operations. For a description of the Stabilisation Act, see *Regulation of Banks and Residential Lending in Ireland – General Supervision and Regulation of Banks in Ireland – Credit Institutions (Stabilisation) Act 2010.*"

7. At page 37 of the Base Prospectus, in the 3rd paragraph (beginning "The Securities (as described herein)...") delete the words "**THE FINANCIAL REGULATOR**" and replace them with "**THE CENTRAL BANK**".
8. At page 37 of the Base Prospectus, in the 5th paragraph (beginning "Terms used herein...") delete the second sentence (beginning "The Financial Regulator...") and replace it with the following:

"The Central Bank of Ireland (the "**Central Bank**", reference to which includes, with respect to actions prior to the commencement of relevant sections of the Central Bank Reform Act 2010 on 1 October 2010, the Irish Financial Services Regulatory Authority, as part of the Central Bank and Financial Services Authority of Ireland) has approved the Base Prospectus under Part 7 of the Prospectus (Directive 2003/71/EC) Regulations 2005 (the "**Prospectus Regulations**") as having been drawn up in accordance with the Prospectus Regulations and Commission Regulation (EC) No. 809/2004 (the "**EU Prospectus Regulation**")."
9. At page 37 of the Base Prospectus, in the final line on that page, delete the words "on the website of the Financial Regulator" and replace them with "on the website of the Central Bank".
10. At page 38 of the Base Prospectus, in the first line on that page, delete the words "the Financial Regulator" and replace them with "the Central Bank".
11. At page 38 of the Base Prospectus, in the 3rd paragraph (beginning "Terms used herein...") delete the third line (beginning "The Financial Regulator...") and replace it with the following:

"The Central Bank of Ireland (the "**Central Bank**", reference to which includes, with respect to actions prior to the commencement of relevant sections of the Central Bank Reform Act 2010 on 1 October 2010, the Irish Financial Services Regulatory Authority, as part of the Central Bank and Financial Services Authority of Ireland) has approved the Base Prospectus under Part 7 of the Prospectus (Directive 2003/71/EC) Regulations 2005 (the "**Prospectus Regulations**") as having been drawn up in accordance with the Prospectus Regulations and Commission Regulation (EC) No. 809/2004 (the "**EU Prospectus Regulation**")."
12. At page 38 of the Base Prospectus, at the 3rd paragraph (beginning "Terms used herein..."), in the 4th sentence (beginning "Full information on the Issuer..."), delete the words "the Financial Regulator" and replace them with "the Central Bank".
13. At page 39 of the Base Prospectus, at paragraph 6, substitute the references to "€50,000" with "€100,000" and substitute the references to "€99,000" with "€199,000".
14. At page 52 of the Base Prospectus, at paragraph 31, substitute the references to "€50,000" with "€100,000".

15. At page 54 of the Base Prospectus, delete all of the existing text under the heading *Ratings* and replace it with the following:

“Ratings: [The Securities to be issued have been rated:]

[The following ratings reflect the ratings allocated to Securities of this type issued under the €20,000,000,000 Mortgage Covered Securities Programme generally:]

[Standard & Poor’s: [•]]

[Moody’s: [•]]

[Fitch: [•]]

[In accordance with Article 4(1) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, include a statement as to whether the rating(s) have been issued by a credit rating agency that is established in the European Community and registered under that Regulation. E.g.: “Credit ratings included or referred to in these Final Terms [and the Base Prospectus] have been issued by [Standard & Poor’s / Moody’s / Fitch], [each of] which is established in the European Union and [has applied to be (but at the date of these Final Terms, is not)]/[is] registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.]

(The above disclosure should reflect the rating allocated to Securities of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)”

16. At page 54 of the Base Prospectus, in the paragraph under the heading “Notification” delete the words “The Financial Regulator” and replace them with “The Central Bank”.

17. At page 86 of the Base Prospectus, delete the third paragraph and replace it with the following:

“The authorised share capital of the Issuer is €1,000,000,000 consisting of 1,000,000,000 ordinary shares of €1 each of which 790,000,000 ordinary shares of €1 each have been issued and are fully paid up as of the date of the first supplement to this Base Prospectus (i.e. 10 March 2011).”

18. At page 87 of the Base Prospectus, under the heading “Transfer of AIB Irish Residential Loan Book and Business to the Issuer” insert the following new paragraph under the existing paragraph:

“On 25 February 2011, AIB transferred substantially all of its mortgage intermediary originated Irish residential loans, related security and related business to the Issuer. The aggregate principal amount outstanding of, and accrued but unpaid interest on, the Irish residential loans transferred by AIB to the Issuer on 25 February 2011 was approximately €4.2 billion. The transfer was effected pursuant to the above mentioned statutory transfer mechanism provided for in the 2001 Act.”

19. At page 88 of the Base Prospectus, under the heading “Irish Home Mortgage Origination”, delete the second sentence of the first paragraph (beginning “In addition the Issuer originates...”) and the entire second paragraph (beginning (“On 13 February 2006...”) and replace them with the following:

“In addition the Issuer originates residential mortgage loans through Business and Private Banking, AIB Bank ROI and mortgage intermediaries.

On 13 February 2006, AIB transferred substantially all of its branch originated Irish residential mortgage book and related security to the Issuer. On 25 February 2011, AIB transferred to the Issuer approximately €4.2 billion Irish residential loans that had been originated through mortgage intermediaries together with related security and related business. See - *Transfer of AIB Irish Residential Loan Book and Business to the Issuer* above.”

20. At page 90 of the Base Prospectus, add the following text after the final sentence (beginning “In this regard, there are restrictions...”) of the existing paragraph:

“At the date of the first supplement to the Base Prospectus (i.e. 10 March 2011), the Issuer has or expects to transfer circa €270 million of residential mortgage assets and related security to NAMA. The assets transferred or to be transferred from the Issuer to NAMA are associated with customers who had borrowed for property development purposes from AIB and whose entire portfolio of Group borrowings (both performing and non-performing) were, or will be, required to be transferred from the Group to NAMA.”

21. At page 98 of the Base Prospectus, insert the following text below the final paragraph:

“Recent Developments

Prudential Capital Assessment Review

On 28 November 2010, the Central Bank announced that, following an update to its Prudential Capital Assessment Review (“**PCAR**”), it had set a new minimum target capital requirement for a number of Irish

credit institutions, including AIB, of 10.5 per cent. of core tier 1 capital and that it required certain credit institutions, including AIB, to raise sufficient capital to achieve a target capital ratio of at least 12 per cent. core tier 1 capital by 28 February 2011.

In order to achieve the target capital ratio of at least 12 per cent. core tier 1 capital, and taking into account the impact of additional potential transfers to NAMA also announced on 28 November 2010, the Central Bank required AIB to raise c. €13.1 billion of equivalent core tier 1 capital by 28 February 2011. This c. €13.1 billion is the total of the additional core tier 1 capital requirements prescribed for AIB in the Central Bank announcements dated 30 March 2010 (€4,865 million), 30 September 2010 (€3,000 million) and 28 November 2010 (€5,265 million).

After taking into account the equivalent core tier 1 capital generated by the M&T disposal (see - *Disposal of M&T Shares* below), the BZWBK disposal (see - *The Sale of AIB's Polish Interests* below), the December Capital Increase (see - *December Capital Increase* below), a liability management exercise undertaken in January 2011 and other capital-generating activities undertaken by AIB, AIB had a residual amount of equity capital to raise by 28 February 2011 in order to meet its regulatory capital requirement. However, on 9 February 2011 the Minister for Finance announced that the Irish government was postponing further capital injections into AIB and other Irish credit institutions. This postponement is pending the appointment of a new Irish government, following the general election in Ireland on 25 February 2011. This delay will also allow time to consider the outcomes of the PCAR, which is being undertaken by the Central Bank and is expected to be completed by the end of March 2011.

December Capital Increase

On 23 December 2010, AIB received notice that the High Court of Ireland (the "**High Court**") had issued a Direction Order (the "**Direction Order**") under the Stabilisation Act directing AIB to issue immediately approximately €3.8 billion (before taking account of fees) of new equity capital (the "**December Capital Increase**") to the NPRFC. Prior to receiving that notice, AIB had received a draft of the notice from the Minister, together with a request from the Minister to AIB to consent to the making of the High Court order. AIB consented to the making of that High Court order. The new shares issued to the NPRFC comprised 675,107,845 ordinary shares and 10,489,899,564 convertible non-voting shares ("**CNV shares**"), issued at a price of €0.3793 per new ordinary share and €0.3396 per new CNV share.

The Direction Order included a direction that AIB increase its authorised share capital, enter into a placing agreement with the Minister for Finance, the NTMA and the NPRFC and adopt amended articles of association in place of the then existing articles of association of AIB to give effect to the Capital Increase.

As part of December Capital Increase, the 2009 warrants granted to the NPRFC as part of the Government's 2009 €3.5 billion recapitalisation of AIB (see – *History* above) were cancelled, in consideration of the payment of €52.5 million by AIB to the NPRFC.

2009 Preference Shares

It is anticipated that, subject to receipt of appropriate authorities and the fulfilment of certain other conditions, the NPRFC may convert up to €3.5 billion of its existing 2009 Preference Shares into ordinary or CNV shares at a price of €0.342 per share.

Government Shareholding

As at 10 March 2011, the date of the first supplement to this Base Prospectus: (i) the NPRFC held 49.90 per cent. of AIB's Ordinary Shares, 10,489,899,564 CNV Shares and 3,500,000,000 2009 Preference Shares; and (ii) the NPRFC, if it converted all of the 10,489,899,564 CNV Shares issued to it in the December Capital Increase into ordinary shares, would hold 92.8 per cent. of the enlarged total issued ordinary shares and 3,500,000,000 2009 Preference Shares.

Delisting from the Official List and Main Market of the London Stock Exchange and Move to the Enterprise Securities Market of the Irish Stock Exchange

As directed by the High Court, AIB applied to (i) cancel its listing of ordinary shares on the Main Securities Market of the Irish Stock Exchange (the "**Irish Main Market Delisting**") and applied for admission to trading on the Enterprise Securities Market ("**ESM**") of the Irish Stock Exchange, and (ii) cancel the admission of its ordinary shares to the Official List maintained by the UK Financial Services Authority and to trading on the main market of the London Stock Exchange ("**LSE**") (the "**UK Delisting**"). Accordingly ordinary shares in AIB ceased trading on the Main Securities Market of the Irish Stock Exchange and the London Stock Exchange on 25 January 2011, but are now listed on the ESM of the Irish Stock Exchange, effective 26 January 2011.

The Sale of AIB's Polish Interests

In the Direction Order, the High Court directed AIB to complete the sale of its Polish interests to Banco Santander S.A. pursuant to the share purchase agreement dated 10 September 2010 when all the regulatory conditions other than the approval of AIB's shareholders have been satisfied, but not before the admission to trading on the ESM and the UK Delisting have occurred. On 18 February 2011, the Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*) announced that it has approved the BZWBK tender offer by Banco Santander S.A. On 24 February 2011, AIB announced that it had accepted the tender offer of Banco Santander S.A. for shares in BZWBK in respect of AIB's entire shareholding of 51,413,790 shares

representing 70.36% of the share capital of BZWBK. AIB expects that the transaction will be completed on 1 April 2011.

Disposal of M&T Shares

On 13 October 2010, AIB announced that it had completed a public offering in the United States of 26,700,000 contingent mandatorily exchangeable notes due 15 November 2010 at a price of US\$77.50 per note in connection with the proposed disposal of its approximately 22.4 per cent shareholding in M&T (the "**M&T Shares**"). The notes were exchangeable (subject to AIB shareholder approval and certain other conditions) for the M&T Shares. On 4 November 2010, AIB announced that, following receipt of shareholder approval at AIB's Extraordinary General Meeting on 1 November 2010, the 26,700,000 contingent mandatorily exchangeable notes were exchanged for the M&T Shares and the net proceeds of the notes offering were released to AIB, thereby completing AIB's disposal of the M&T Shares.

*Bank Recapitalisation and Restructuring Measures arising from joint EU-IMF Programme for Ireland (the "**EU-IMF Programme**")*

The Irish Government agreed on 28 November 2010 in principle to the provision of up to €85 billion of financial support to Ireland by Member States of the European Union through the European Financial Stability Fund ("**EFSF**") and the European Financial Stability Mechanism; bilateral loans from the UK, Sweden and Denmark; and the International Monetary Fund's Extended Fund Facility, in each case, on the basis of specified conditions. The EU-IMF Programme documents which set out the policy conditions for the provision of financial support to Ireland by EU member states and the International Monetary Fund were laid before the Houses of the Oireachtas on 1 December 2010.

The facility includes up to €35 billion to support the banking system; €10 billion for the immediate recapitalisation of relevant institutions (including AIB) and the remaining €25 billion will be provided on a contingency basis. The Irish Government has stated that the funds in the facility will be drawn down as necessary, although the amount will depend on the capital requirements of the financial system and NTMA bond issuances during the programme period.

The Irish Government stated that the proposed programme provides for a fundamental downsizing and re-organisation of the banking sector so that it is proportionate to the size of the economy, capitalised to the highest international standards, and in a position to return to normal market sources of funding.

PCAR / PLAR Update

PCAR

On 28 November 2010, the Central Bank announced that AIB, along with certain other Irish credit institutions, would be subjected to a

further Prudential Capital Assessment Review during the first quarter of 2011. AIB's capital will be assessed in a base and stressed scenario under economic conditions prescribed by the IMF and the Euro Banking Association. This PCAR will now include detailed reviews of asset quality and data quality in the participating credit institutions (including AIB), to be conducted by independent third parties.

Should the capital ratios in these scenarios fall below prescribed rates which have, as the date of the first supplement to this Base Prospectus (i.e. 10 March 2011), yet to be announced, AIB may be required to undertake further capital raising initiatives.

PLAR

On 28 November 2010, the Central Bank also announced that it would perform a Prudential Liquidity Assessment Review ("**PLAR**") for certain Irish credit institutions, including AIB, in the first quarter of 2011. In order to meet PLAR targets which include target loan to deposit ratios, the Central Bank will require AIB to put in place detailed asset disposal plans by 30 April 2011. AIB will be required to identify the measures it will take to dispose of non-core assets and/or securities or other assets in order to meet these PLAR targets. The Central Bank has stated that, if required, credit enhancement in relation to asset disposals may be provided by the Irish government.

NAMA Programme

By 31 December 2010, AIB had transferred €18.6 billion of assets to NAMA in return for the issue to it of €8.5 billion of NAMA bonds (including subordinated bonds), which represented a discount of approximately 54.5 per cent. to the gross value of the assets transferred. AIB expects that, by 31 March 2011, it will have transferred approximately €2.3 billion further assets to NAMA.

NAMA Additional Transfers

On 28 November 2010, the Central Bank announced that, with regard to AIB, the previously announced €20 million minimum threshold for eligible assets to transfer to NAMA would be removed. This change will require further legislation to be enacted for this proposal to be implemented. Accordingly, if a Bill, or similar legislation, is enacted, a significant additional amount of AIB's assets may be liable to be transferred to NAMA.

Transfer of business from Anglo Irish Bank to AIB

On 24 February 2011, AIB announced (i) the immediate transfer of certain deposits and senior NAMA bonds from Anglo Irish Bank Corporation Limited to AIB and (ii) the transfer of Anglo Irish Bank Corporation (International) PLC in the Isle of Man to AIB by way of a share sale. These transactions were agreed by AIB with the NTMA and they facilitate a transfer order under the Stabilisation Act made by the

High Court on 24 February 2011 following an application to the High Court by the Minister for Finance.

This transfer of business represents a step to improve AIB's liquidity and to reduce its loan to deposit ratio. The key elements of the transfer are:

- receipt of approximately €7.1 billion deposits in Ireland and the UK;
- purchase of senior NAMA bonds with a nominal value of €12.2 billion (at 98.5 per cent., for €12 billion);
- purchase of 100 per cent. of Anglo Irish Bank Corporation (International) PLC in the Isle of Man for €0.2 billion (as of 24 February 2011, this company had customer deposits of approximately €1.5 billion); and
- cash payment by AIB of €3.5 billion."

22. At page 108 of the Base Prospectus, delete the second paragraph (beginning "The Financial Regulator published...") and replace it with the following:

"On 6 December 2010, the Central Bank published a revised version of the Mortgage Arrears Code, which, with effect from 1 January 2011, replaced the previous version issued on 19 February 2010. In addition to applying to borrowers actually in arrears, the revised Mortgage Arrears Code also applies to borrowers who notify their lender that they are facing financial difficulties and may be at risk of mortgage arrears (known as 'pre-arrears cases'). Under the revised Mortgage Arrears Code, each lender is required to establish (i) a mortgage arrears resolution process ("**MARP**") as a framework for handling arrears and pre-arrears cases and where alternative repayment arrangements expire or are breached by a borrower and (ii) a centralised and dedicated Arrears Support Unit (ASU), which must be adequately staffed, to manage cases under the MARP."

23. At page 104 of the Base Prospectus, below the 2nd paragraph and above the heading "Material Legal Aspects of the Irish Residential Loans and the Related Security", insert the following:

"Corporate Governance Code for Credit Institutions and Insurance Undertaking

The Central Bank's Corporate Governance Code for Credit Institutions and Insurance Undertakings applies to existing directors and boards of credit institutions (including the Issuer) with effect from 1 January 2011, subject to a transitional period to 30 June 2011 to allow for changes to systems and structures and to an extended transitional period to 31 December 2011 where changes to the board of directors are necessary. The Code includes provisions on the membership of the board of directors, the role and responsibilities of the chairman and other directors and the operation of various board committees.

Code of Practice on Lending to Related Parties

The Central Bank's Code of Practice on Lending to Related Parties, which came into effect on 1 January 2011, prescribes requirements in respect of lending by a bank or a building society to a related party (a director, senior manager or significant shareholder of the credit institution or an entity in which the credit institution has a significant shareholding, as well as a connected person of any of these). Such lending is required to be on an arm's length basis and must be subject to appropriate management oversight and limits. The Code applies to every loan to related parties whether granted in Ireland or outside Ireland, including a loan that is outstanding and a lending commitment entered into prior 1 January 2011. Where a loan that is outstanding or a lending commitment entered into prior to that date is not consistent with the Code, a credit institution is required to take all steps possible to modify the loan or lending commitment so that it is consistent with the Code. The Central Bank has stated that it will require related party exposures to be disclosed to it on a quarterly basis. In addition, where there is an error of conduct in respect of the Code, the Central Bank must be informed of proposals to correct such errors within five business days.

Credit Institutions (Stabilisation) Act 2010

The Stabilisation Act provides the legislative basis for the reorganisation and restructuring of the Irish retail banking system as agreed in the joint EU-IMF Programme for Ireland. It confers powers on the Minister for Finance, generally to be exercised after consulting the Governor of the Central Bank and subject to obtaining an order of the High Court, to direct the affairs of and restructure certain credit institutions and their assets and liabilities.

The Stabilisation Act provides that nothing in the Stabilisation Act affects the operation of the ACS Acts.

The powers under the Stabilisation Act are subject to Ireland's obligations under the European Union and European Central Bank treaties and, in important respects, are not subject to Irish competition law (although EU competition law continues to apply fully). The Stabilisation Act applies by default to "relevant institutions", which would include AIB and the Issuer (as Irish banks to which financial support has been given by the Minister for Finance). The Minister for Finance may, subject to conditions, also designate a person as a relevant institution.

The Stabilisation Act will cease to have effect on 31 December 2012, although this date may be extended by the Oireachtas. The cessation of the Stabilisation Act will not affect any order or requirement made under it. The Stabilisation Act provides that reorganising and restructuring steps that are taken under its provisions can be reorganisation measures for the purposes of the Credit Institutions (Winding-Up) Directive 2001/24/EC. This means that those

reorganisation measures, taken in Ireland, will be fully effective in every Member State in accordance with that Directive.

The Stabilisation Act authorises the Minister for Finance, in each case after consulting with the Governor of the Central Bank, to petition the High Court to make any of the following orders:

- (a) direction order: The Minister for Finance may propose a “direction order” in respect of a relevant institution for any of the purposes of the Stabilisation Act (including to preserve or restore its financial position). In such an order, the High Court may direct the credit institution to do or refrain from taking any action;
- (b) special management order: The Minister for Finance may propose a “special management order” in respect of a relevant institution for any of the purposes of the Stabilisation Act (including to preserve or restore its financial position). In such an order, the High Court may appoint (for a period of six months, which is extendible) an appropriately qualified and experienced special manager to the institution to take over the management of its business and to carry on that business as a going concern with a view to preserving and restoring the financial position of the whole or of any part of its business;
- (c) subordinated liabilities order: In respect of a relevant institution to which Minister has provided or intends to provide financial support, the Stabilisation Act authorises the Minister for Finance to propose a “subordinated liabilities order” in respect of that relevant institution to provide for any of a number of matters in respect of those liabilities. The specified matters may include modifying rights to interest and the repayment of principal, events of default, timing of obligations, etc and may facilitate a debt for equity swap. The making of a proposed subordinated liabilities order by the High Court must be necessary for preserving or restoring the financial position of the relevant institution; and/or
- (d) transfer order: The Minister for Finance may propose a “transfer order” in respect of the assets and/or liabilities of a relevant institution for any of the purposes of the Stabilisation Act (including to preserve or restore its financial position). In such an order, the High Court may, despite any contrary law, agreement etc, transfer to another person (including another institution) such assets and liabilities of a relevant institution as are specified in the order, on the terms and conditions set out in the order. Special rules will apply in the case of certain foreign assets and liabilities that are subject to a law other than that of Ireland.

In relation to each of the foregoing, such orders proposed by the Minister for Finance will be given effect by an order of the High Court if it considers that the requirements of the Stabilisation Act have been

complied with and the opinion of the Minister to propose the relevant order was reasonable and was not vitiated by any error of law.

The Stabilisation Act authorises the Minister to impose certain requirements on a relevant institution by notice in writing and without having applied to the High Court for an order but only in circumstances that would not otherwise require the making of a direction order by the High Court.

Other important changes to the law and commercial agreements are also contained in the Stabilisation Act:

- (a) suspension of rights: The Stabilisation Act suspends or qualifies a range of rights and entitlements (statutory, contractual and otherwise) of persons with a relationship with the relevant institution while certain of the relevant orders described above are in force in respect of a relevant institution. These suspended or qualified rights and entitlements include (in respect of a relevant institution that is the subject of a subordinated liabilities order) certain enforcement rights under subordinated securities and (in respect of a relevant institution that is under special management) the entitlement to petition for the winding up of or appoint a receiver to that relevant institution.
- (b) events of default: Subject to variation of the position by the Minister for Finance, the Stabilisation Act regulates the occurrence of certain events of default under agreements relating to a relevant institution. It states that none of a range of specified consequences (such as the suspension or extinction of a right or liability or the creation of an obligation or a liability) is or has been triggered by, amongst other things, (i) the publication of the Credit Institutions (Stabilisation) Bill 2010 or by its enactment (as the Stabilisation Act) or by the making of any statement by the Minister or the Governor of the Central Bank in relation to them or (ii) the making of, or acts taken in compliance with, any order or requirement under the Stabilisation Act.
- (c) compliance and registration: The Stabilisation Act modifies the need for compliance with any of a range of Irish legal, regulatory, procedural and registration requirements (including under the Companies Acts 1963 to 2009) when key powers under the Stabilisation Act are being exercised in respect of a relevant institution.
- (d) duties of a director: The Stabilisation Act modifies the duties of a director of a relevant institution in a fundamental way, so that such a director owes a number of new duties – in priority to every other of his or her duties – including to have regard to the need to protect the interests of taxpayers, to facilitate the availability of credit in the economy of the State and to restore confidence in the banking sector. The modified duties apply by

default, i.e. whether or not any order under the Stabilisation Act is made in respect of a particular institution. The Minister for Finance is expected to issue guidelines to directors regarding their compliance with this obligation.

- (e) judicial review and appeals: The Stabilisation Act restricts significantly the entitlements of a person both to seek judicial review of a decision under the Stabilisation Act and to appeal any ruling on such a judicial review."

- 24. At page 111 of the Base Prospectus, under the heading "Board of Directors", delete the first four sentences of the first paragraph and replace them with the following:

"As of the date of the first supplement to this Base Prospectus (i.e. 10 March 2011), there are six members of the Board of Directors as set out below. Five members of the Board of Directors of the Issuer are currently employees of Group members. One member of the Board of Directors is not at the date of this Base Prospectus and never has been an employee of any Group member but is a non executive director of other members of the Group. Four of the six members of the Board of Directors of the Issuer are executive directors and the remaining two members of the Board of Directors are non-executive directors of the Issuer."

- 25. At page 111 of the Base Prospectus, in the table of members of the Board of Directors of the Issuer, delete the following:

"Maeliosa Ó hOgartaigh (Deputy Chairman) Bankcentre, Ballsbridge, Dublin 4, Ireland	Head of Corporate Development and Government Relations, AIB
David Kelly (Managing Director) Bankcentre, Ballsbridge, Dublin 4, Ireland	General Manager Operations, AIB Bank ROI"

- 26. At page 112 of the Base Prospectus, insert the following text as a new paragraph after the second paragraph (beginning "As far as is known to the Issuer..."):

"At the date of the first supplement to this Base Prospectus (i.e. 10 March 2011), three new non-executive directors are proposed to be appointed to the Board of Directors of the Issuer. Their appointment is subject to (i) approval by the Central Bank under its fitness and probity regime (see *Regulation of Banks and Residential Lending in Ireland – Regulation of the Irish Residential Market – Fitness and Probity*) and (ii) the requirements of the Central Bank's Corporate Governance Code for Credit Institutions and Insurance Undertakings (see *Regulation of Banks and Residential Lending in Ireland – General Supervision and Regulation of Banks in Ireland - Corporate Governance Code for Credit Institutions and Insurance Undertaking*)."

27. At page 114 of the Base Prospectus, delete the last paragraph and on page 115 of the Base Prospectus, delete the first two paragraphs (a) and (b) and replace them with the following:

“The Asset Covered Securities Act 2001 Regulatory Notice (Section 35(9B)) 2010 (the “**Substitution Asset Pool Eligibility Notice**”) made by the Central Bank (which came into operation on 4 February 2011) provides that the creditworthiness standards and criteria for inclusion of a substitution asset in a Pool are that the substitution asset concerned must have from an eligible external credit assessment institution (“**ECAI**”):

- (a) a credit quality assessment of Credit Quality Step 1 (within the meaning of the Irish CRD Code); or
- (b) for exposures within the EEA with maturity not exceeding 100 days, a minimum long or short term credit quality assessment of Credit Quality Step 2 (within the meaning of the Irish CRD Code).

The Substitution Asset Pool Eligibility Notice repeals the Asset Covered Securities Act 2001 Regulatory Notice (Section 35(9B)) 2007 made by the Financial Regulator.”

28. At page 115 of the Base Prospectus, delete the 4th, 5th, 6th, 7th and 8th paragraphs (beginning “It is the policy of the Issuer...” and ending “...rated at the Minimum SA Rating Levels”) and replace them with the following:

“It is the policy of the Issuer in respect of the maintenance of substitution assets comprised in the Pool that, in each case for so long as S&P, Fitch or, as applicable, Moody’s is appointed by the Issuer to provide credit ratings in respect of outstanding Securities issued by the Issuer under the Programme, at least one of the below criteria must remain accurate with respect to the eligible financial institution (“**EFI**”) with which the Issuer holds those substitution assets:

- (i) the EFI has a Minimum SA Rating (defined below) from S&P, Fitch or, as applicable, Moody’s; or
- (ii) the obligations of the EFI in respect of each relevant deposit are guaranteed by a guarantor who has a Minimum SA Rating (defined below) from S&P, Fitch or, as applicable, Moody’s; or
- (iii) if none of (i) or (ii) above apply, the EFI has such other rating, or whose obligations in respect of each relevant deposit are guaranteed by a guarantor who has such other rating, as may be confirmed by S&P, Fitch or, as applicable, Moody’s will not result in any credit rating then applying at the relevant time to the Issuer’s outstanding Securities being reduced, removed, suspended or placed on credit watch.

It is the policy of the Issuer that, if the Issuer becomes aware at any time that the relevant criteria set out in (i), (ii) or (iii) above are no

longer satisfied in relation to the EFI and the Issuer continues, at the relevant time, to appoint S&P, Fitch or, as applicable, Moody's to rate any of its outstanding Securities, the Issuer will give notice thereof to S&P, Fitch or, as applicable, Moody's and, unless otherwise confirmed by S&P, Fitch or, as applicable, Moody's, the Issuer will, as soon as practicable, but in any event within 21 calendar days of such notice (in the case of a notice to S&P and Fitch) or, as applicable, 30 calendar days (in the case of a notice to Moody's) procure a suitable replacement EFI. For such purpose, it is the policy of the Issuer to select a replacement EFI in respect of which at least one of the criteria set out in (i), (ii) or (iii) above is satisfied or, in the event that such criteria are not satisfied by any available EFI, in respect of which such criteria (in the opinion of S&P, Fitch or, as applicable, Moody's, failing which the Issuer) are closest to being satisfied.

For the purposes of the above description of the Issuer's policy in respect of the maintenance of substitution assets comprised in the Pool, the term "**Minimum SA Rating**", with respect to a person, means that the short term unsecured, unguaranteed and non-subordinated securities or debt of that person have a credit rating of at least:

- in the case of a rating from S&P, A-1 (short term) or, in the absence of any short term rating from S&P, A+ (long term);
- in the case of a rating from Fitch, F1 (short term) and A (long term); or, as applicable,
- in the case of a rating from Moody's, P-1 (short term) or, in the absence of any short term rating from Moody's, A3 long term."

29. At page 121 of the Base Prospectus, under the 5th paragraph (beginning "Under the 2007 Amendment Act..."), insert the following new paragraph:

"The Issuer may from time to time maintain a higher level of overcollateralisation in the Pool in excess of the minimum levels required to satisfy the Issuer's obligations in respect of Regulatory Overcollateralisation or Contractual Overcollateralisation. In determining the level of any such overcollateralisation at the relevant time, the Issuer may, in particular, have regard to the criteria of the rating agencies and the level of overcollateralisation necessary to ensure that the outstanding Mortgage Covered Securities maintain the current ratings then assigned to them by each of Fitch, S&P and Moody's (in each case, for so long as such rating agency is appointed by the Issuer to rate the Mortgage Covered Securities). The Issuer may from time to time publish statements, in the form of a voluntary public commitment, on the Group website (www.aibgroup.ie) in respect of any such overcollateralisation."

30. At page 122 of the Base Prospectus, under the heading "Introduction", delete the first two paragraphs and replace them with the following:

"On 13 February 2006, AIB transferred approximately €13.6 billion of Irish residential loans and related security held by it to the Issuer. Those Irish residential loans were originated by AIB prior to 13 February 2006. They were transferred by AIB to the Issuer on 13 February 2006 pursuant to a scheme made under the 2001 Act and the provisions of the 2001 Act. On 25 February 2011, pursuant to that scheme and the provisions of the 2001 Act, AIB transferred to the Issuer approximately €4.2 billion Irish residential loans and related security that had been originated through mortgage intermediaries. See *Description of the Issuer – Transfer of AIB Irish Residential Loan Book and Business to the Issuer*.

Since 13 February 2006 the Issuer has originated Irish residential loans which, subject to the requirements of the ACS Acts, may be included in the Pool. The Group's policy is to originate through the Issuer Irish residential loans which (i) before 13 February 2006 would have been originated by AIB through the AIB branch network and (ii) before 25 February 2011 would have been originated by AIB (or another Group member other than the Issuer) through mortgage intermediaries.

The mortgage intermediary-originated loans and related security transferred by AIB to the Issuer on 25 February 2011 had been originated by AIB (or another Group member other than the Issuer) prior to 25 February 2011 on the basis of substantially the same lending criteria applicable to Irish residential loans originated through the AIB branch network by AIB (up to 13 February 2006) or, as applicable, by the Issuer (since 13 February 2006).

The lending criteria described below (see – *Lending Criteria*) apply to all of the Issuer's current Irish residential mortgage lending, whether through the AIB branch network or through mortgage intermediaries. Also, the enforcement procedures (see – *Enforcement Procedures*) and mortgage servicing arrangements (see – *Mortgage Servicing*) described below apply to all of the Irish residential loans and related security held by the Issuer, whether or not they were originated through the AIB branch network or through mortgage intermediaries."

31. At page 130 of the Base Prospectus, under the heading "Funding", delete the existing paragraph (c) and replace it with the following:

"(c) borrowing from the Central Bank under facilities, including, a Mortgage-Backed Promissory note (short term) facility ("**MBPN Facility**"), which may be available to the Issuer from time to time."

32. At page 137 of the Base Prospectus, delete the 9th paragraph (beginning "(b) for exposures within the EEA...") and replace it with the following:

- “(b) for exposures within the EEA with maturity not exceeding 100 days, a minimum long or short term credit quality assessment of Credit Quality Step 2 (within the meaning of the Irish CRD Code).”
33. At page 142 of the Base Prospectus, delete the first line of the 10th paragraph (beginning “The Financial Regulator has...”) and replace it with the following:
- “The Central Bank has under the Substitution Asset Pool Eligibility Notice imposed creditworthiness standards and criteria in respect of substitution assets which may be comprised in the Pool.”
34. At page 152 of the Base Prospectus, delete the second sentence of the 6th paragraph (beginning “The Substitution Asset Pool Eligibility Notice...” and including paragraphs (i) and (ii)) and replace it with the following:
- “The Substitution Asset Pool Eligibility Notice made by the Central Bank provides that the creditworthiness standards and criteria for inclusion of a substitution asset in a Pool are that the substitution asset concerned must have from an ECAI:
- (a) a credit quality assessment of Credit Quality Step 1 (within the meaning of the Irish CRD Code); or
- (b) for exposures within the EEA with maturity not exceeding 100 days, a minimum long or short term credit quality assessment of Credit Quality Step 2 (within the meaning of the Irish CRD Code).”
35. At page 181 of the Base Prospectus, insert a new paragraph under the existing paragraph as follows:
- “On 25 February 2011, AIB transferred substantially all of its mortgage intermediary originated Irish residential loans, related security and related business to the Issuer. The aggregate principal amount outstanding of, and accrued but unpaid interest on, the Irish residential loans transferred by AIB to the Issuer on 25 February 2011 was approximately €4.2 billion. The transfer was effected pursuant to the above mentioned statutory transfer mechanism provided for in the 2001 Act.”
36. At page 187 of the Base Prospectus, delete the first sentence under the heading “Deposit Interest Retention Tax (“**DIRT**”)”, and replace it with the following:
- “A relevant deposit taker (as defined by section 256 of the TCA) such as the Issuer is obliged to withhold tax at a rate of 27 per cent. (or where the interest, discount or premium, as the case may be, is not paid annually or more frequently and cannot be determined until the date of payment of such interest at a rate of 30 per cent.) from certain interest payments or other returns on a relevant deposit.”