



## **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**

AIB Mortgage Bank (the "**Issuer**") is a designated mortgage credit institution for the purposes of the Asset Covered Securities Acts 2001 and 2007 of Ireland (as amended, the "**ACS Acts**"). The Securities will constitute mortgage covered securities for the purposes, and with the benefit, of the ACS Acts.

Under this €20,000,000,000 Mortgage Covered Securities Programme (the "**Programme**"), the Issuer may from time to time issue mortgage covered securities (the "**Securities**") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Securities may be issued in bearer or registered form (respectively, Bearer Securities and Registered Securities). The maximum aggregate nominal amount of all Securities from time to time outstanding under the Programme will not exceed €20,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

Securities may be issued on a continuing basis to one or more of the Dealers specified under Summary of the Programme and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the relevant Dealer shall, in the case of an issue of Securities being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Securities.

See Risk Factors for a discussion of certain risk factors to be considered in connection with an investment in Securities.

This document constitutes a base prospectus ("**Base Prospectus**") for the purposes of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (the "**Prospectus Directive**") and relevant Irish laws for giving information with regard to the issue of Securities of the Issuer under the Programme during the period of twelve months after the date of this Base Prospectus. The Base Prospectus has been approved by the Irish Financial Services Regulatory Authority (the "**Financial Regulator**"), as competent authority under the Prospectus Directive. The Financial Regulator only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Securities which are to be admitted to trading on the regulated market of the Irish Stock Exchange (the "**Irish Stock Exchange**") or other regulated markets for the purposes of Directive 2004/39/EC ("**regulated market**") or which are to be offered to the public in any Member State of the European Economic Area ("**EEA**"). This Base Prospectus has also been approved by the Financial Regulator for the purposes of any local offer within the meaning of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 of Ireland (as amended). In relation to such local offers, such approval has been given by the Financial Regulator pursuant to regulation 8(5) of the Prospectus (Directive 2003/71/EC) Regulations 2005 of Ireland (the "**Prospectus Regulations**").

Application has been made to the Irish Stock Exchange for the Securities issued under the Programme to be admitted to the Official List and trading on its regulated market. The Programme provides that Securities may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or markets (including regulated markets) as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Securities and/or Securities not admitted to trading on any market.

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Allied Irish Banks, p.l.c.

#### **Arrangers**

Barclays Capital

Deutsche Bank

#### **Dealers**

Morgan Stanley

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The date of this Base Prospectus is 14 September 2009

For the purposes of part 6 of the Prospectus Regulations, the Issuer accepts responsibility for the information contained or incorporated by reference, in this Base Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case), such information contained or incorporated by reference, in this Base Prospectus 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 Base Prospectus in compliance with item 1.2 of annex XI to Commission Regulation (EC) No 809/2004 of 29 April 2004 (the "**EU Prospectus Regulation**").

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 Base Prospectus 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 Base Prospectus in compliance with item 1.2 of annex XI to the EU Prospectus Regulation.

Upon approval of this Base Prospectus by the Financial Regulator, this Base Prospectus will be filed with the Registrar of Companies in Ireland in accordance with regulation 38(1)(b) of the Prospectus Regulations.

No person is or has been authorised by the Issuer, the Arrangers or the Dealers to give any information or to make any representation other than those contained in this Base Prospectus or which are incorporated by reference in this Base Prospectus and referred to below under *Documents Incorporated by Reference* and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Arrangers or any of the Dealers.

None of the Dealers or the Arrangers has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arrangers or the Dealers or any of them as to the accuracy or completeness of the information contained or incorporated by reference, in this Base Prospectus or any other information provided by the Issuer or Allied Irish Banks, p.l.c. in connection with the Programme, any Securities or the distribution of any Securities. No Dealer or Arranger accepts liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer or Allied Irish Banks, p.l.c. in connection with the Programme.

See also section headed *Persons Responsible* under *Annex XVI Disclosures*.

Securities issued under the Programme will be liabilities only of the Issuer and not any other person, including the Dealers and the Arrangers. The Securities will not be guaranteed by Allied Irish Banks, p.l.c., the Dealers or the Arrangers, but see *Annex XVI Disclosures*.

Notice of the aggregate nominal amount of Securities, interest (if any) payable in respect of Securities, the issue price of Securities and any other terms and conditions not contained or incorporated by reference in this Base Prospectus which are applicable to each Tranche (as defined under *Terms and Conditions of the Securities*) of Securities will be set out in the final terms applicable to such Tranche (the "**Final Terms**") which, with respect to Securities to be listed on the Official List of the Irish Stock Exchange and to be admitted to trading on the regulated market of the Irish Stock Exchange or the subject of a public offer in Ireland, will be delivered to the Irish Stock Exchange.

The Securities have not been and will not be registered under the US Securities Act of 1933, as amended, (the "**Securities Act**") and may not be offered or sold in the United States or to, or for the benefit of, US persons unless an exemption from the registration requirements of the Securities Act is available or in a transaction not subject to the registration requirements of the Securities Act. Accordingly, the Securities are being offered and sold only outside the United States in reliance upon Regulation S of the Securities Act. The Securities are also subject to US tax law requirements. See *Form of the Securities, Issue Procedures and Clearing Systems* for a description of the manner in which Securities will be issued. Registered Securities are subject to certain restrictions on transfer, see *Subscription and Sale, Transfer and Selling Restrictions and Secondary Market Arrangements*.

Securities in bearer form are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by US tax regulations. Terms used in this paragraph have the meanings given to them by the US Internal Revenue Code and the regulations promulgated thereunder.

The Issuer may agree with one or more Dealers that Securities may be issued in a form not contemplated by the Terms and Conditions of the Securities as set out herein, in which event, a supplementary base prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Securities.

Securities issued under the Programme are expected on issue to be rated Aaa by Moody's Investors Service Limited ("**Moody's**"), AAA by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies Inc. ("**Standard & Poor's**") and AAA by Fitch Ratings Limited ("**Fitch**"). The rating of Securities will not necessarily be the same as the rating applicable to the Issuer. 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.

This Base Prospectus may only be used for the purposes for which it has been published. This Base Prospectus supersedes the base prospectus dated 30 June 2008 issued by the Issuer in connection with the Programme.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Securities (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, the Arrangers or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Securities should purchase any Securities. Each investor contemplating purchasing any Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Securities constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers or the Arrangers to any person to subscribe for or to purchase any Securities.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Securities shall in any circumstances imply that the information contained herein concerning the Issuer and/or Allied Irish Banks, p.l.c. is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers and the Arrangers expressly do not undertake to review the financial condition or affairs of the Issuer or Allied Irish Banks, p.l.c. during the life of the Programme or to advise any investor in the Securities of any information coming to their attention.

This Base Prospectus or any Final Terms does not constitute an offer to sell or a solicitation of an offer to buy any securities other than Securities or an offer to sell or a solicitation of any offer to buy any Securities in any circumstances in which such offer or solicitation is not authorised or is unlawful. The distribution of this Base Prospectus and the offer or sale of Securities may be restricted by law in certain jurisdictions. The Issuer, the Arrangers and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Securities may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, save as indicated in the next sentence, no action has been taken by the Issuer, the Arrangers or the Dealers which would permit a public offering of any Securities outside the EEA or distribution of this document in any jurisdiction where action for that purpose is required. Application has been made for approval of this document by the Financial Regulator (as the competent authority in Ireland for the purposes of the Prospectus Directive and relevant Irish laws) as a base prospectus compliant with the Prospectus Directive and relevant Irish laws and application has been made to the Irish Stock Exchange for approval for Securities to be admitted to its regulated market. Accordingly, no Securities may be offered or sold, directly or distributed or published in any jurisdiction and neither this Base Prospectus nor any advertisement or other offering material may be distributed in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Securities may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Securities. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Securities in the United States, the United Kingdom, the EEA, Japan, Republic of Italy, and Ireland. See *Subscription and Sale, Transfer and Selling Restrictions and Secondary Market Arrangements*.

None of the Dealers, the Arrangers, the Issuer or Allied Irish Banks, p.l.c. makes any representation to any investor in the Securities regarding the legality of its investment under any applicable laws. Any investor in the Securities should be able to bear the economic risk of an investment in the Securities for an indefinite period of time.

In the case of any Securities that are not listed on any recognised stock exchange and that do not mature within two years, the Issuer will not sell such Securities to Irish residents and the Issuer will not offer any such Securities in Ireland.

Any person (an "**Investor**") intending to acquire or acquiring any Securities from any person (an "**Offeror**") should be aware that, in the context of an offer to the public as defined in the Prospectus Directive, the Issuer may be responsible to the Investor for the Base Prospectus only if the Issuer is acting in association with that Offeror to make the offer to the Investor. Each Investor should therefore verify with the Offeror whether or not the Offeror is acting in association with the Issuer. If the Offeror is not acting in association with the Issuer, the Investor should check with the Offeror whether anyone is responsible for the Base Prospectus for the purposes of article 6 of the Prospectus Directive as implemented by the national legislation of each relevant EEA Member State in the context of the offer to the public for the purposes of the Prospectus Directive as so implemented, and, if so, who that person is. If the Investor is in any doubt about whether it can rely on the Base Prospectus and/or who is responsible for its contents it should take relevant legal advice.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Securities to be issued under the Programme, prepare a supplement to this Base Prospectus or publish a new base prospectus for use in connection with any subsequent issue of Securities.

In this Base Prospectus (with the exception of the section headed *Annex XVI Disclosures*), unless the context otherwise requires, a reference to the "**Act**" is to the Asset Covered Securities Act 2001, as amended. In the section of this Base Prospectus headed *Annex XVI Disclosures* a reference to the "**Act**" is to the Credit Institutions (Financial Support) Act 2008.

In this Base Prospectus, references to "**€**" or "**euro**" are to the common currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community (as amended), to "**£**" or "**GBP**" or "**Sterling**" are to pounds sterling, the lawful currency of the United Kingdom and to "**\$**", "**USD**" or "**US dollars**" are to United States dollars, the lawful currency of the United States of America.

Unless the context otherwise requires, references in this Base Prospectus to "**AIB**" are to Allied Irish Banks, p.l.c. and to the "**Group**" or the "**AIB Group**" are to Allied Irish Banks, p.l.c. together with its consolidated subsidiaries, including the Issuer.

Unless the contrary intention otherwise requires, in this Base Prospectus, a reference to a provision of a law is a reference to that provision as extended, amended or re-enacted and includes any provision that is to be read as one therewith, in each case, as of the date of this Base Prospectus or to any other date indicated.

Unless the context otherwise requires, in this Base Prospectus references to the "**State**" are to Ireland and references to Ireland and Irish exclude Northern Ireland and Northern Irish, respectively.

## **SUPPLEMENT TO THIS BASE PROSPECTUS**

If at any time the Issuer shall be required to prepare a supplement to this Base Prospectus pursuant to regulation 51 of the Prospectus Regulations, the Issuer will prepare and make available an appropriate supplement to this Base Prospectus or a further prospectus shall constitute a supplementary prospectus as required by the Financial Regulator and such regulation 51.

The Issuer has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to the information contained in this Base Prospectus which is capable of affecting the assessment of any Securities and whose inclusion in or removal from this Base Prospectus is necessary, for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, and the rights attaching to the Securities, the Issuer shall prepare a supplement to this Base Prospectus or prepare a replacement prospectus for use in connection with any subsequent offering of the Securities.

## **ASSET COVERED SECURITIES (AMENDMENT ACT) 2007**

The Asset Covered Securities (Amendment) Act 2007 (the "**2007 Amendment Act**") amends the Asset Covered Securities Act 2001 (the "**2001 Act**"). The provisions of the 2007 Amendment Act (other than section 30) came into operation on 31 August 2007 pursuant to an order of the Minister for Finance of Ireland. Section 30 of the 2007 Amendment Act, which relates to the issue of asset covered securities by designated commercial mortgage credit institutions, came into operation on 6 May 2008, also pursuant to an order of the Minister for Finance of Ireland.

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In connection with the issue and distribution of any Tranche of Securities, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Securities (provided that, in the case of any Tranche of Securities to be listed on or admitted to trade on the regulated market of the Irish Stock Exchange or any other regulated market in the EEA, the aggregate principal amount of Securities allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche) or effect transactions with a view to supporting the market price of the Securities at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche of Securities is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Securities and 60 days after the date of the allotment of the relevant Tranche of Securities.

## GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Securities denominated in any currency, subject as set out herein. A summary of the terms and conditions of the Programme and the Securities appears under *Summary of the Programme* below. The applicable terms of any Securities will be agreed between the Issuer and the relevant Dealer prior to the issue of those Securities and will be set out in the Terms and Conditions of the Securities endorsed on or attached to, the Securities as modified and supplemented by the applicable Final Terms attached to, or endorsed on, such Securities, as more fully described under *Final Terms for Securities* below.

In respect of Securities to be listed on the Official List of the Irish Stock Exchange and admitted to trading on its regulated market, this Base Prospectus will only be valid for such listing and admitting to trading during the period of 12 months from the date of this Base Prospectus in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding on all Securities previously or simultaneously issued under the Programme, does not exceed €20,000,000,000 (subject to increase in accordance with the Programme Agreement (as defined below)) or its equivalent in other currencies. For the purpose of calculating the euro equivalent of the aggregate nominal amount of Securities issued under the Programme from time to time:

- (a) the euro equivalent of Securities denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the Securities, described under *Final Terms for Securities*) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Securities or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case, on the basis of the spot rate for the sale of the euro against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation; and
- (b) the euro equivalent of Zero Coupon Securities (as specified in the applicable Final Terms in relation to the Securities, described under *Final Terms for Securities*) and other Securities issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.



## SUMMARY OF THE PROGRAMME

*This summary must be read as an introduction to this Base Prospectus and any decision to invest in any Securities should be based on a consideration of this Base Prospectus as a whole including the documents incorporated by reference.*

*Following the implementation of the relevant provisions of the Prospectus Directive in each member state of the EEA, civil liability attaches to the persons who have responsibility for this summary in any such member state in respect of this summary, including any translation hereof by those persons, but only if it is misleading, inaccurate or inconsistent when read together with the other parts of this Base Prospectus. Where a claim relating to information contained in this Base Prospectus is brought before a court in a member state of the EEA, the plaintiff investor might, under the national legislation of the member state where the claim is brought, be required to bear the costs of translating this Base Prospectus before the legal proceedings are initiated.*

*This summary is qualified in its entirety by the rest of this Base Prospectus.*

*Capitalised terms used in this summary and not otherwise defined below have the respective meanings given to those terms elsewhere in this Base Prospectus.*

**Issuer:** AIB Mortgage Bank. The Issuer was incorporated in Ireland under the Companies Acts 1963 to 2005 (as amended) on 11 July 2005 as a public limited company under the name AIB Mortgage Bank p.l.c. with registration number 404926. It was subsequently re-registered on 19 December 2005 as a public unlimited company under the name AIB Mortgage Bank. The Issuer obtained an Irish banking licence under the Irish Central Bank Act 1971 (as amended) and was registered as a designated mortgage credit institution under the 2001 Act, on 8 February 2006.

The Issuer's principal purpose is to issue Mortgage Covered Securities (as defined below) for the purpose of financing loans secured on residential property or commercial property in accordance with the ACS Acts (see *Risk Factors*). Such loans may be made directly by the Issuer or may be purchased from Allied Irish Banks, p.l.c. and other members of the Group or third parties. The Issuer's principal executive and registered offices are located at Bankcentre, Ballsbridge, Dublin 4, Ireland.

**Allied Irish Banks, p.l.c.:** The Issuer is a wholly-owned subsidiary of Allied Irish Banks, p.l.c. ("**AIB**"). AIB was established on 21 September 1966. AIB and its consolidated subsidiaries (collectively, the "**Group**") is one of the largest financial services groups in Ireland with total assets of approximately €180 billion at 30 June 2009. The Group provides an extensive range of banking and other financial services. The address of the principal executive offices of the Group is Bankcentre, Ballsbridge, Dublin 4, Ireland. See *Description of the Group*.

**Programme Description:** Mortgage Covered Securities Programme.

<b>Risk Factors:</b>	There are risk factors that may affect the Issuer's ability to fulfil its obligations under Securities issued under the Programme. In addition, there are risk factors which are material for the purpose of assessing the other risks associated with Securities issued under the Programme. See <i>Risk Factors</i> .
<b>Arrangers:</b>	AIB and Barclays Bank PLC.
<b>Dealers:</b>	AIB, Barclays Bank PLC, Deutsche Bank Aktiengesellschaft, Morgan Stanley & Co. International plc and any other Dealers appointed in accordance with the Programme Agreement.
<b>Certain Restrictions:</b>	Each issue of Securities denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see <i>Subscription and Sale, Transfer and Selling Restrictions and Secondary Market Arrangements</i> ).
<b>Principal Paying Agent, Issuing Agent and (if applicable) Calculation Agent:</b>	The Bank of New York Mellon.
<b>Irish Paying Agent and Transfer Agent:</b>	The Bank of New York Mellon (Ireland) Limited.
<b>Registrar and Transfer Agent:</b>	The Bank of New York Mellon.
<b>Cover-Assets Monitor:</b>	Mazars. See <i>Cover-Assets Monitor</i> .
<b>Irish Listing Agent:</b>	Goodbody Stockbrokers.
<b>Programme Size:</b>	Up to €20,000,000,000 (or its equivalent in other currencies calculated as described under <i>General Description of the Programme</i> ) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
<b>Distribution:</b>	Securities may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis. Securities will be issued only outside the United States in reliance on Regulation S under the Securities Act (" <b>Regulation S</b> "). See <i>Subscription and Sale, Transfer and Selling Restrictions and Secondary Market Arrangements</i> .
<b>Currencies:</b>	euro, Sterling, US dollars, Japanese Yen and, subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant

Dealer(s) (as set out in the applicable Final Terms).

**Redenomination:**

The applicable Final Terms may provide that certain Securities not denominated in euro on issue may be redenominated in euro.

**Maturities:**

Such maturities as may be agreed between the Issuer and the relevant Dealer(s) and as set out in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency and subject also to the Maturity Date not being on or before the termination date of the Credit Institutions (Financial Support) Scheme 2008 (the "**Financial Support Scheme**") (i.e. 29 September 2010) for so long as the Issuer is a covered institution within the meaning of the Financial Support Scheme. See also *Extended Maturity Date*.

**Issue Price:**

Securities will be issued on a fully-paid basis and may be issued at an issue price which is at par or at a discount to, or premium over, par.

**Form of Securities, Issue Procedures and Clearing Systems:**

The Securities will be issued in bearer or registered form as described in *Form of the Securities, Issue Procedures and Clearing Systems*. Registered Securities will not be exchangeable for Bearer Securities and vice versa.

**Fixed Rate Securities:**

Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).

**Floating Rate Securities:**

Floating Rate Securities will bear interest at a rate determined:

- (i) the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc. ("**ISDA**") and as amended and updated as at the Issue Date of the first Tranche of the Securities of the relevant Series); or
- (ii) the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (iii) on such other basis as may be agreed between

the Issuer and the relevant Dealer(s).

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each Series of Floating Rate Securities as set out in the applicable Final Terms.

**Zero Coupon Securities:**

Zero Coupon Securities will be offered and sold at a discount to their nominal amount and will not bear interest.

**Redemption:**

The applicable Final Terms relating to each Tranche of Securities will indicate either that the relevant Securities cannot be redeemed prior to their stated maturity or that such Securities will be redeemable at the option of the Issuer and/or the holders of the Securities upon giving notice to the holders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer(s). The applicable Final Terms may provide that Securities may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms. See also *Extended Maturity Date* below.

**Extended Maturity Date:**

Unless the rating agencies appointed by the Issuer at the relevant time in respect of the Programme agree otherwise, the applicable Final Terms will also provide that an Extended Maturity Date applies to each Series of the Securities.

For so long as the Issuer is a covered institution within the meaning of the Financial Support Scheme, the Extended Maturity Date of the Securities as set out in the Final Terms will not fall on or before the termination date of the Financial Support Scheme (i.e. 29 September 2010). See also *Maturities*.

As regards redemption of Securities to which an Extended Maturity Date so applies, if the Issuer fails to redeem the relevant Securities in full on the Maturity Date (or within two Business Days thereafter), the maturity of the principal amount outstanding of the Securities not redeemed will automatically extend on a monthly basis up to but, no later than, the Extended Maturity Date, subject as otherwise provided for in the applicable Final Terms. In that event the Issuer may redeem all or any part of the principal amount outstanding of the Securities on an Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date or as otherwise provided for in the applicable Final Terms.

As regards interest on Securities to which an Extended Maturity Date so applies, if the Issuer fails to redeem the relevant Securities in full on the Maturity Date (or

within two Business Days thereafter), the Securities will bear interest on the principal amount outstanding of the Securities from (and including) the Maturity Date to (but excluding) the earlier of the Interest Payment Date after the Maturity Date on which the Securities are redeemed in full or the Extended Maturity Date and will be payable in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date in arrear or as otherwise provided for in the applicable Final Terms on each Interest Payment Date after the Maturity Date at the rate provided for in the applicable Final Terms.

In the case of a Series of Securities to which an Extended Maturity Date so applies, those Securities may for the purposes of the Programme be:

- (a) Fixed Interest Securities, Zero Coupon Securities or Floating Rate Securities in respect of the period from the Issue Date to (and including) the Maturity Date;
- (b) Fixed Interest Securities or Floating Rate Securities in respect of the period from (but excluding) the Maturity Date to (and including) the Extended Maturity Date,

as set out in the applicable Final Terms.

In the case of Securities which are Zero Coupon Securities up to (and including) the Maturity Date and for which an Extended Maturity Date applies, the initial outstanding principal amount on the Maturity Date for the above purposes will be the total amount otherwise payable by the Issuer but unpaid on the relevant Securities on the Maturity Date.

**Denomination of Securities:** Securities will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) save that the minimum denomination of each Security to be admitted to trading on a regulated market for the purposes of the Prospectus Directive or offered to the public in a member state of the EEA will be €1,000 (or other currency equivalent) or such higher denomination as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency or as may be required in order to avail of any applicable tax exemptions.

In the case of Securities that are not listed on a recognised stock exchange (including the Irish Stock Exchange), the minimum denomination of such Securities will be €500,000 if the relevant Securities are denominated in euro, US\$500,000 if the relevant Securities are denominated in US dollars, or if the relevant Securities are denominated in a currency other

than euro or US dollars, the equivalent of €500,000 at the date that the Programme was first publicised.

**Taxation:** All payments in respect of the Securities will be made without deduction for, or on account of, withholding taxes imposed by any jurisdiction, unless the Issuer shall be obliged by law to make such deduction or withholding. The Issuer will not be obliged to make any additional payments in respect of any such withholding or deduction imposed. See *Taxation*.

**Credit Institutions (Financial Support) Scheme 2008:** For information in relation to the Credit Institutions (Financial Support) Scheme 2008 (Statutory Instrument No. 411 of 2008) and the Guarantor thereunder, see *Annex XVI Disclosures*.

**Events of Default:** None.

**Negative Pledge:** None.

**Cross Default:** None.

**Status of the Securities:** The Securities will constitute direct, unconditional and senior obligations of the Issuer and will rank *pari passu* among themselves. The Securities will be mortgage covered securities issued in accordance with the ACS Acts, will be secured on cover assets that comprise a cover assets pool maintained by the Issuer in accordance with the terms of the ACS Acts, and will rank *pari passu* with all other obligations of the Issuer under mortgage covered securities issued or to be issued by the Issuer pursuant to the ACS Acts See *Irish Mortgage Covered Securities*.

**Listing and Admission to Trading:** Application will be made for Securities issued under the Programme during the period of twelve months from the date of this Base Prospectus to be listed on the Official List of the Irish Stock Exchange and to be admitted to trading on the regulated market of the Irish Stock Exchange. The Securities may also be listed on such other or further stock exchange(s) and/or admitted to trading on such other/further markets (including regulated markets) as may be agreed between the Issuer and the relevant Dealer(s) in relation to each Series.

Unlisted Securities and those not admitted to trading on a regulated market for the purposes of the Prospectus Directive may also be issued.

The applicable Final Terms will state whether or not the relevant Securities are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or regulated market(s).

**Ratings:** Securities issued under the Programme are expected on issue to be rated Aaa by Moody's, AAA by Standard &

Poor's and AAA by Fitch. The rating of Securities will not necessarily be the same as the rating applicable to the Issuer. 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. A credit rating organisation may from time to time alter the methodology employed by it when rating Securities and such alteration may affect ratings attributed to Securities issued under the Programme.

**Governing Law:**

The Securities will be governed by, and construed in accordance with, Irish law.

**Selling Restrictions:**

There are restrictions on the offer, sale and transfer of the Securities in the United States, the United Kingdom, the EEA, Japan, Italy and Ireland and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Securities, see *Subscription and Sale, Transfer and Selling Restrictions and Secondary Market Arrangements*.

**United States Selling Restrictions:**

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold in the United States or to, or for the benefit of, US persons unless an exemption from the registration requirements of the Securities Act is available or in a transaction not subject to the registration requirements of the Securities Act. Accordingly, the Securities are being offered and sold only outside the United States in reliance upon Regulation S under the Securities Act. There are also restrictions under United States tax laws on the offer or sale of Bearer Securities to U.S. persons; Bearer Securities may not be sold to U.S. persons except in accordance with United States treasury regulations as set forth in the applicable Final Terms – see *Subscription and Sale, Transfer and Selling Restrictions and Secondary Market Arrangements*.

**Use of Proceeds:**

Proceeds from the issue of Securities will be used to support the business of the Issuer permitted by the ACS Acts.

**Irish Mortgage Covered Securities:**

The 2001 Act introduced into Irish law a framework for the issuance of asset covered securities. The 2001 Act was amended by the 2007 Amendment Act. The provisions of the 2007 Amendment Act relevant to Institutions (as defined below) came into operation by order of the Minister for Finance of Ireland on 31 August 2007. Asset covered securities can only be issued by Irish credit institutions that are registered under the ACS Acts and restrict their principal activities to public sector or property financing. Those credit institutions, such as the Issuer, that are registered under the ACS Acts and restrict their principal activities for the main part to residential property sector financing, are called designated mortgage credit

institutions ("**Institutions**").

The 2007 Amendment Act makes provision for a new third type of designated credit institution, namely, a designated commercial mortgage credit institution. Designated commercial mortgage credit institution activities are focused on mortgage credit assets secured on commercial property as opposed to residential property. The ACS Acts provide, among other things, for the registration of eligible credit institutions as Institutions, the maintenance by Institutions of a defined pool of prescribed mortgage credit assets (including mortgage credit assets in securitised form) and limited classes of other assets, known as a cover assets pool ("**Pool**") and the issuance by Institutions of certain asset covered securities secured by a statutory preference under the ACS Acts on the assets ("**Cover Assets**") comprised in the Pool. Asset covered securities issued by Institutions in accordance with the ACS Acts are called mortgage covered securities ("**Mortgage Covered Securities**").

The ACS Acts also make provision for the inclusion in the Pool as Cover Assets of certain hedging contracts which are called cover assets hedge contracts. The 2007 Amendment Act makes provision for collateral posted with an Institution under cover assets hedge contracts ("**Pool Hedge Collateral**") and the maintenance by Institutions of a register in respect of Pool Hedge Collateral. The ACS Acts also vary the general provisions of Irish insolvency law which would otherwise apply with respect to an Institution, Cover Assets, cover assets hedge contracts, Pool Hedge Collateral and Mortgage Covered Securities on the insolvency of the Institution and replaces them with a special insolvency regime applicable to Institutions.

The ACS Acts further provide for the supervision and regulation of Institutions by the Irish Financial Services Regulatory Authority (the "**Financial Regulator**"), for the role of a cover-assets monitor (the "**Monitor**") in respect of each Institution and the Pool maintained by it, for restrictions on the types and status of Cover Assets which may be included in the Pool (including loan to value restrictions and duration restrictions), for asset/liability management between the Pool and Mortgage Covered Securities, for overcollateralisation of the Pool with respect to Mortgage Covered Securities, for transfers between an Institution and other credit institutions (including another Institution) of assets and/or business, and, in certain circumstances, for the role with respect to an Institution, and its Pool and Mortgage Covered Securities of the National Treasury Management Agency or a manager appointed by the Financial Regulator.

See *Cover Assets Pool, The Cover-Assets Monitor,*



*Insolvency of Institutions, Supervision and Regulation of Institutions/Managers, Transfers of a Business or Assets under the ACS Acts involving an Institution and Registration of Institutions/Revocation of Registration.*

The Securities will qualify as Mortgage Covered Securities for the purposes of the ACS Acts. The Securities are senior obligations of the Issuer and rank equally with all other Mortgage Covered Securities which may be issued by the Issuer. In the event of an insolvency of an Institution, the holders of Mortgage Covered Securities issued by an Institution together with limited categories of other preferred and super-preferred creditors have recourse under the ACS Acts to Cover Assets included in the Pool in priority to other creditors (whether secured or unsecured) of the Institution who are not preferred under the ACS Acts.

See *Insolvency of Institutions – Effect under the ACS Acts of insolvency, potential insolvency or insolvency process with respect to an Institution* for further information.

**Asset Transfers involving the Issuer:** On 13 February 2006, AIB transferred to the Issuer the Irish residential loans and related security held by its home mortgage department and the home mortgage business related to that department of AIB. The aggregate principal amount outstanding of and accrued but unpaid interest on, the Irish residential loans transferred by AIB to the Issuer on 13 February 2006 was approximately €13.6 billion. The transfer was effected pursuant to a statutory transfer mechanism provided for in the 2001 Act. This statutory mechanism involved the putting in place of a scheme in accordance with the 2001 Act between AIB and the Issuer on 8 February 2006 which permits the transfer of Irish residential loans and related security and/or Irish residential loan business between AIB and the Issuer. Transfers under that scheme were approved by order of the Financial Regulator on 8 February 2006 as required by the 2001 Act. The scheme permits further transfers from AIB to the Issuer or from the Issuer to AIB in the future. See *Transfers of a Business or Assets under the ACS Acts involving an Institution*.

**Representation of holders of Securities:** There is no provision for representation of holders of Securities.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Base Prospectus and have been approved by the Financial Regulator or filed with it (or in the case of the audited financial statements, referred to at (a) and (b) below and the information memorandum referred to at (f) below, filed with the Irish Stock Exchange) are incorporated in, and form part of, this Base Prospectus:

- (a) the audited financial statements of the Issuer for the financial year ended 31 December 2007 and the auditor's report dated 31 March 2008 by KPMG thereon; and
- (b) the audited financial statements of the Issuer for the financial year ended 31 December 2008 and the auditor's report dated 27 March 2009 by KPMG thereon;
- (c) terms and conditions of the Securities as contained in the base prospectus dated 23 March 2006 in respect of the Programme;
- (d) terms and conditions of the Securities as contained in the base prospectus dated 18 June 2007 in respect of the Programme;
- (e) terms and conditions of the Securities as contained in the base prospectus dated 30 June 2008 in respect of the Programme; and
- (f) "*Ireland-Information Memorandum April 2009*", issued by the National Treasury Management Agency,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained in any subsequent document which is deemed to be incorporated by reference herein by virtue of any supplement to this 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 this Base Prospectus. Where documents incorporated by reference in this Base Prospectus contain information which is incorporated by reference in those documents, but are not expressly incorporated by reference in this Base Prospectus, that information does not form part of this Base Prospectus.

The Issuer will provide, without charge, to each person to whom a copy of this Base Prospectus has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its office set out at the end of this Base Prospectus. In addition, such documents will be available free of charge from the specified office of the Irish Paying Agent.

As regards information contained in the base prospectuses dated 23 March 2006, 18 June 2007 and 30 June 2008 which is not incorporated by reference in this Base Prospectus, such information is not relevant to investors in Securities to be issued on or after the date of this Base Prospectus or is covered elsewhere in this Base Prospectus.

## **RISK FACTORS**

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under Securities issued under the Programme. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

*In addition, factors which are material for the purpose of assessing the market risks associated with Securities issued under the Programme are also described below.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in Securities issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Securities may occur for other reasons which may not be considered significant risks by the Issuer based on information available to the Issuer at the date of this Base Prospectus or which the Issuer may not at the date of this Base Prospectus be able to anticipate or be aware and the Issuer does not represent that the statements below regarding the risks of holding any Securities are exhaustive.*

*Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus, including any document incorporated by reference and reach their own views prior to making any investment decision.*

### **Securities are obligations of the Issuer**

Securities will constitute unsubordinated obligations of the Issuer secured by a statutory preference under the ACS Acts on the Pool maintained by the Issuer. An investment in Securities involves a reliance on the creditworthiness of the Issuer. The Securities are not guaranteed by AIB.

In addition, an investment in Securities involves the risk that subsequent changes in the actual or perceived creditworthiness of the Issuer may adversely affect the market value of the relevant Securities.

See also *Annex XVI Disclosures*.

### **The Issuer's business is subject to the general economic conditions of the markets in which it operates**

The Issuer's Irish residential mortgage lending activities depend on the level of finance required by residential borrowers in Ireland. In particular, levels of borrowing depend on residential property prices, economic conditions, employment levels, interest rates and other factors that affect the Irish economy. The Issuer's business, results of operations and financial condition could be adversely affected by a further worsening of general economic conditions, higher unemployment, any continued deterioration in residential property prices in Ireland, higher interest rates and regulatory changes.

### **Competition**

The Issuer faces strong competition across all of its markets from local and international financial institutions, including banks and building societies. While the Issuer believes it is positioned to compete effectively with these competitors, there can be no assurance that existing or increased competition will not adversely affect the Issuer in one or more of the markets in which it operates.

## **The Issuer's risk management strategies and techniques may leave it exposed to unidentified or unanticipated risks**

Like other banks, the Issuer faces risk in the conduct of its business, such as (1) credit risk, (2) liquidity risk, (3) operational risk, (4) regulatory compliance risk and (5) market risk (including non-trading interest rate risk). In order to minimise these risks, the Issuer has (in conjunction with the Group – see further *Risk Management at the Issuer*) implemented comprehensive risk management strategies, including the use of derivatives. Although the Issuer invests substantial time and effort in its risk management strategies and techniques, such risk management may nonetheless fail under some circumstances, particularly when confronted with risks that are not identified or anticipated. Some of the Issuer's methods for managing risk are based upon observation of historical market behaviour. The Issuer applies statistical techniques to these observations to quantify its risk exposures. If circumstances arise that the Issuer did not identify or anticipate in developing its models, the Issuer's losses could be greater than the Issuer would expect. Furthermore, the Issuer's quantifications do not take all risks into account. If the Issuer's measures to assess and mitigate risk prove insufficient, the Issuer may experience material unexpected losses.

In addition, the Issuer may be exposed to systemic risk. Systemic risk refers to concerns about, or a default by, one institution which could lead to liquidity problems or losses or defaults by other institutions because the commercial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships between institutions. Systemic risk may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks and securities firms and exchanges with which the Issuer interacts and therefore could adversely affect the Issuer.

## **Irish Mortgage Covered Securities Legislation Untested**

The 2001 Act was passed in 2001 and came into effect on 22 March 2002. The provisions of the 2007 Amendment Act (other than section 30 which relates to the issue of asset covered securities by designated commercial mortgage credit institutions) came into operation on 31 August 2007. Section 30 of the 2007 Amendment Act came into operation on 6 May 2008. The Issuer is at the date of this Base Prospectus only one of three designated mortgage credit institutions registered under the ACS Acts. The protection afforded to the Security holders by means of a preference on the Cover Assets included in the Issuer's Pool is based only on the ACS Acts. The first issue of Mortgage Covered Securities under the 2001 Act was made in September 2004 and the Issuer issued its first Mortgage Covered Securities in April 2006. Accordingly, there is limited experience of Institutions operating under the 2007 Amendment Act and only a relatively limited track record for Mortgage Covered Securities issued in accordance with the ACS Acts or in relation to the operation of the ACS Acts with respect to the Issuer or other Institutions. See *Insolvency of Institutions*.

## **Issuer's Short Business History**

The Issuer was incorporated in Ireland on 11 July 2005 and only commenced its business operations on 13 February 2006. Accordingly, the Issuer does not have a long established business history. However, AIB which has a long established business history, transferred on 13 February 2006 substantially all of its Irish residential loan business to the Issuer (see *Summary – Transfer of AIB's Irish Residential Loan Book and Business to the Issuer*). AIB also provides agency and other services to the Issuer (see *Board of Directors and Management and Administration of the Issuer – Servicing and Agency arrangements with AIB*).

## **Issuer's dependence on the Group**

The Issuer, as an integral member of the Group, is dependent to a large extent on AIB (and through it other members of the Group) in relation to the origination and servicing of Irish residential loans, administration and accounting services, treasury services, hedging arrangements, debt financing other than Mortgage Covered Securities, equity and regulatory capital and services relating to the issuance of Mortgage Covered Securities.

### *Uncertain economic conditions/current market conditions*

AIB's businesses, earnings and financial condition have been and will continue to be affected by the current crisis in the global financial markets and the deterioration in the global economic outlook.

The global financial system has been experiencing difficulties since August 2007 and the financial markets have deteriorated dramatically since the bankruptcy filing by Lehman Brothers in September 2008. This has led to the severe dislocation of financial markets around the world and unprecedented levels of illiquidity, resulting in the development of significant problems at a number of the world's largest commercial banks, investment banks and insurance companies, many of which are AIB's counterparties in the ordinary course of its business. In response to market instability and illiquidity, a number of governments have intervened in order to inject liquidity and capital into, and to stabilise, financial markets, and, in some cases, to prevent the failure of these financial institutions.

Despite such measures, the volatility and disruption of the capital and credit markets have continued at unprecedented levels. In addition, recessionary conditions are present in Ireland, the United Kingdom and the United States, as well as in some other countries where AIB operates. These conditions have adversely impacted the availability and cost of credit for financial institutions, including AIB, and other corporations, and have had a negative effect on AIB's business activities, which are dependent on the level of banking, finance and financial services required by its customers, and on the overall economic and business environment in the markets in which it operates. In particular, levels of borrowing are heavily dependent on customer confidence, market interest rates and other factors that affect the economy. The profitability of AIB has been adversely affected by the worsening of general economic conditions in its markets, as well as by ongoing financial market volatility. Demand for housing and commercial and other property has also fallen considerably. Any continued deterioration in property prices in Ireland and/or the United Kingdom could further adversely affect AIB's financial condition and the results of its operations.

AIB is exposed to increased counterparty risk as a result of recent financial institution failures and will continue to be exposed to the risk of loss if counterparty financial institutions or corporate borrowers fail or are otherwise unable to meet their obligations. Furthermore, AIB's performance may be affected by future recovery rates on assets and the historical assumptions underlying asset recovery rates, which may no longer be accurate given the unprecedented market disruption. Moreover, even if the current market disruption and volatility abates, a global recession or an ongoing recession in one or more countries significant to AIB's business will further adversely affect AIB's earnings and financial condition. The precise nature of all the risks and uncertainties AIB faces as a result of the current global financial crisis and global economic outlook cannot be predicted and many of these risks are outside AIB's control.

On 8 April 2009, the Minister for Finance announced that a National Assets Management Agency ("**NAMA**") would be established on a statutory basis under the aegis of the National Treasury Management Agency. ("**NTMA**"). It is expected that assets, principally

land and development loans, will be transferred from covered institutions as appropriate, including AIB Group, to NAMA, with the purpose of strengthening the Irish financial system as a whole. The draft legislation for the establishment of NAMA was published on 30 July 2009 and is expected to be enacted in October 2009.

Notwithstanding publication of the draft legislation, significant uncertainty still surrounds the establishment of NAMA, in particular around the timing of the transfer of assets and critically on the level of haircut/discount to book value applied. The size of the discount could have a material impact on AIB's capital position. The transfer of assets to NAMA will also affect the credit, funding and liquidity and business and strategic risk position of the AIB Group.

### **Secondary Market for Mortgage Covered Securities**

As indicated above, the first issue of Mortgage Covered Securities in accordance with the 2001 Act took place in September 2004 and the Issuer first issued Mortgage Covered Securities in April 2006. No assurance can be given as to the existence, continuation or effectiveness of any market-making activity or as to whether any secondary market or liquidity may develop with respect to the Securities.

Although application has been made to list the Securities on the Official List of the Irish Stock Exchange and to admit the Securities to trading on the regulated market of the Irish Stock Exchange, Securities may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Securities that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Securities generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Securities.

At the date of this Base Prospectus, there is not an active and liquid secondary market for the Securities, and no assurance is provided that a secondary market for the Securities will develop. To the extent that a secondary market develops, it may not continue for the life of the Securities or it may not provide holders of the Securities with liquidity of investment with the result that a holder of the Securities may not be able to find a buyer to buy its Securities readily or at prices that will enable the holder of the Securities to realise a desired yield.

In addition, investors in the Securities should be aware of the prevailing and widely reported global credit market conditions (which continue at the date of this Base Prospectus), whereby there is a general lack of liquidity in the secondary market for instruments similar to the Securities. As a result of the current liquidity crisis, there exist significant additional risks to the Issuer and the investors which may affect the returns on the Securities to investors.

Moreover, the current liquidity crisis has stalled or adversely affected in material respects the primary market for a number of financial products, including instruments similar to the Securities. While it is possible that the current liquidity crisis may soon alleviate for certain sectors of the global credit markets, there can be no assurance that the market for Mortgage Covered Securities or other securities similar to the Securities will recover at the same time or to the same degree as such other recovering global credit market sectors.

## **Obligations under the Securities**

The Securities will not represent an obligation or be the responsibility of any of the Arrangers or the Dealers or any person other than the Issuer. The Issuer will be liable solely in its corporate capacity for its obligations in respect of the Securities and such obligations will not be the obligations of its officers, members, directors, employees, security holders or incorporators. Although the Issuer is an unlimited company and AIB is a member of the Issuer, AIB will not be acting as a guarantor and Security holders will have no right of recourse against AIB. Only the liquidator of the Issuer or the courts may proceed against AIB to require it as a member of an unlimited company to make a contribution on the winding-up of the Issuer.

## **Extended Maturity of the Securities**

Unless the rating agencies then appointed by the Issuer to provide credit ratings in respect of the Securities agree otherwise, an Extended Maturity Date will apply to each Series of Securities issued under the Programme. If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Securities and the Issuer fails to redeem at par all of those Securities in full on the Maturity Date, the maturity of the principal amount outstanding of the Securities will automatically be extended on a monthly basis for up to one year to the Extended Maturity Date, subject as otherwise provided in the applicable Final Terms. In that event, the Issuer may redeem at par all or part of the principal amount outstanding of those Securities on an Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date, subject as otherwise provided in the applicable Final Terms. In that event also, the interest payable on the principal amount outstanding of those Securities will change as provided in the applicable Final Terms and such interest may apply on a fixed or floating basis. The extension of the maturity of the principal amount outstanding of those Securities from the Maturity Date up to the Extended Maturity Date will not result in any right of Security holders to accelerate payments on those Securities or constitute an event of default for any purpose and no payment will be payable to the Security holders in that event other than as set out in the Terms and Conditions of the Securities (see *Terms and Conditions of the Securities*) as amended by the applicable Final Terms.

## **Sharing of Pool**

The Cover Assets included in the Pool benefit not only the holders of the Securities but also other preferred creditors of the Issuer. These preferred creditors are all other holders of the Issuer's Mortgage Covered Securities whether outstanding now or in the future, counterparties under cover assets hedge contracts now and in the future (provided that such counterparties fulfil their financial obligations under the relevant cover assets hedge contracts), the Monitor, any manager appointed to the Issuer and, under the 2007 Amendment Act, a Pool security trustee appointed by the Issuer, whether now or in the future. None of the Cover Assets in the Pool are or will be exclusively available to meet the claims of the holders of the Securities ahead of such other preferred creditors of the Issuer now or in the future. In addition, the claims of super-preferred creditors of the Issuer (being the Monitor, any such Pool security trustee and any manager appointed to the Issuer) rank ahead of those of other preferred creditors.

## **Dynamic Nature of the Pool**

The Pool may contain mortgage credit assets, substitution assets and cover assets hedge contracts, subject to the limitations provided for in the ACS Acts. At the date of this Base Prospectus, the Pool contains mortgage credit assets, substitution assets and cover assets hedge contracts in accordance with the ACS Acts. The ACS Acts permit the

composition of the Pool to be dynamic and do not require it to be static. Accordingly, the composition of mortgage credit assets (and other permitted assets) comprised in the Pool will change from time to time in accordance with the ACS Acts. A mortgage credit asset or substitution asset may only be included in or removed from the Pool if the Monitor agrees to its inclusion or removal and it is permitted by the ACS Acts. Accordingly, any alterations to mortgage credit assets or substitution assets comprised in the Pool from time to time will require the Monitor's approval. See *Cover Assets Pool*.

### **Types of mortgage credit assets that may be included in the Pool**

A mortgage credit asset includes a loan secured over commercial property as well as one secured over residential property. Under the 2007 Amendment Act, a mortgage credit asset also includes a mortgage credit asset in securitised form ("**securitised mortgage credit assets**"); namely, residential mortgage backed securities ("**RMBS**") or commercial mortgage backed securities ("**CMBS**"). Accordingly, subject to the limits set out in the ACS Acts, the Pool may include mortgage credit assets the related loans under which are secured over commercial property or CMBS or RMBS. At the date of this Base Prospectus, the Issuer has not included and does not propose to include CMBS or RMBS in the Pool or to acquire or make loans which are primarily secured over commercial property or accordingly, to include mortgage credit assets comprising such loans in the Pool, as permitted by the ACS Acts. However, that position may change and no restrictions will apply to the Issuer acquiring or making mortgage credit assets the related loans under which are secured on commercial property or to the inclusion of those mortgage credit assets or CMBS or RMBS in the Pool, other than restrictions which apply under the ACS Acts. See *Restrictions on the Activities of an Institution, Cover Assets Pool and Characteristics of the Pool/Overcollateralisation – Introduction*.

### **Location of Property related to mortgage credit assets**

The ACS Acts permit the inclusion in the Pool of mortgage credit assets and substitution assets which are located for the purposes of the ACS Acts outside of Ireland subject to certain restrictions provided for in the ACS Acts. At the date of this Base Prospectus, the Pool includes mortgage credit assets the related residential properties under which are all situated in Ireland. The location (for the purposes of the ACS Acts) of mortgage credit assets which are included in the Pool may change and no restriction will apply to the Issuer acquiring or making mortgage credit assets the related properties under which may be situated outside Ireland or to the inclusion of relevant mortgage credit assets in the Pool, other than those restrictions which apply under the ACS Acts (see *Restrictions on the Activities of an Institution and Cover Assets Pool*).

### **Substitution Assets/Cover Assets Hedge Contracts with AIB**

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 this Base Prospectus, the substitution assets comprised in the Pool are deposits with AIB in Dublin 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)*. The Issuer expects that position to continue. However, that position may change and substitution assets 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*).

### **Cover Assets Hedge Contracts**

At the date of this Base Prospectus, the Pool Hedge only hedges the interest rate exposure with respect to mortgage credit assets located in Ireland for the purposes of



the ACS Acts and which are secured on Irish residential property, denominated in euro and included in the Pool and with respect to Mortgage Covered Securities which are denominated in euro. If the Issuer includes in the Pool mortgage credit assets which are secured on commercial property, mortgage credit assets (whether secured on residential property or commercial property) which are located outside of Ireland for the purposes of the ACS Acts, mortgage credit assets not denominated in euro, RMBS or CMBS or issues Mortgage Covered Securities not denominated in euro, the Pool Hedge does not hedge any interest rate risk and/or, as applicable, currency risk, associated with those assets or as applicable, Mortgage Covered Securities unless further transactions are entered into under the Pool Hedge - see *Risk Management at the Issuer – Non-trading interest rate risk (market risk)*. The Issuer is entitled but not required under the ACS Acts to enter into cover assets hedge contracts.

### **Default of Issuer's Assets**

Default of the Issuer's assets (in particular of Cover Assets comprised in its Pool) could jeopardise the Issuer's ability to make payments in full or on a timely basis on the Securities. Risks attaching to the Securities as a result of default of Cover Assets in the Issuer's Pool are reduced by a number of features of the ACS Acts, including overcollateralisation of the Pool and the Issuer's ability to substitute assets to and from its Pool. However, if a material amount of Cover Assets in the Issuer's Pool were to default, there is no guarantee that the required level of overcollateralisation could be maintained or that the Issuer would be in a position to substitute non-defaulting assets for the defaulting assets.

### **Collection of Residential Loans**

The Cover Assets which will secure the Securities comprise and will continue to comprise to a large extent loans secured on residential property. These residential loans may be loans originally made to a borrower for the purpose of that borrower buying, constructing, altering or refinancing a residential property in which that borrower then or subsequently resides or may be loans made to a borrower for the purchase of that residential property for investment, rental or other purposes. A borrower under a residential loan may default on its obligation under that residential loan. Defaults under residential loans are subject to credit, liquidity and interest rate risks and rental yield reduction (in the case of investment residential properties) and are often connected with negative changes in market interest rates, international, national or local economic conditions, the financial standing of borrowers or property values or with unemployment, death, illness or relationship breakdown affecting borrowers or similar factors to the above factors.

### **No Due Diligence**

None of the Arrangers or the Dealers have or will undertake any investigations, searches or other actions in respect of any Cover Assets contained or to be contained in the Pool but will instead rely on representations and warranties provided by the Issuer in the Programme Agreement (see *Subscription and Sale, Transfer and Selling Restrictions and Secondary Market Arrangements*).

### **Value of Security over Residential Property**

The security for a residential loan included in the Pool consists of, amongst other things, the Issuer's interest in security over a residential property. The value of this security and accordingly, the level of recoveries on an enforcement of the security, may be affected by, among other things, a decline in the value of residential property and priority of the security. No assurance can be given that the values of relevant residential properties will not decline or since origination have not declined or whether other creditors may have a

security interest senior to the Issuer's. Where the Issuer enforces security over a residential property, realisation of that security is likely to involve sale of that residential property with vacant possession. The ability of the Issuer to dispose of a residential property without the consent of the borrower will depend on a court granting vacant possession, the relevant property market conditions at the relevant time and the availability of buyers for the relevant residential property.

## **RMBS/CMBS**

The financial performance and market value of any RMBS or CMBS comprised in the Pool may be adversely affected by, amongst other things, (i) financial deterioration of or other adverse factors affecting the originator, servicer or underlying borrowers, (ii) transactions being downgraded or placed on credit watch by rating agencies, (iii) adverse economic, environmental, climatic or other events in the countries, regions or areas where the underlying properties are situated, (iv) adverse changes in underlying property values, (v) adverse regulatory changes affecting investors or (vi) adverse conditions in the capital markets relating to the availability of credit, liquidity or otherwise. The ACS Acts do not require members of the Group to be the originator in respect of any RMBS or CMBS comprised in the Pool.

## **Concentration of location of Residential Properties**

At the date of this Base Prospectus, the Pool consists of residential loans secured on residential properties in Ireland. The ACS Acts permit (and the Terms and Conditions of the Securities do not prohibit) the inclusion by the Issuer in the Pool of mortgage credit assets located in any member state of the EEA and subject to certain limits and criteria, in the United States of America, Canada, Switzerland, Japan, Australia and New Zealand. See *Cover Assets Pool*.

## **Valuation of Irish residential property assets, Irish residential loans and relevant securitised mortgage credit assets/Prudent Market Discount**

The Asset Covered Securities Act 2001 Regulatory Notice (Sections 41(1) and 41A(7)) 2007 (the "**MCA Valuation Notice**") made by the Financial Regulator (which came into operation on 31 August 2007) lays down requirements in relation to the valuation basis and methodology, time of valuation and other matters related to determining the prudent market value of:

- (a) a property asset which is residential property situated in Ireland and which secures a mortgage credit asset (other than a securitised mortgage credit asset) held by an Institution (an "**Irish Residential Property Asset**");
- (b) a mortgage credit asset (other than a securitised mortgage credit asset) which is secured on an Irish Residential Property Asset (an "**Irish Residential Loan**"); and
- (c) a securitised mortgage credit asset the related property assets of which indirectly comprise (in whole or in part) residential property (whether or not located in Ireland) (a "**Relevant Securitised Mortgage Credit Asset**"),

and also specifies requirements and criteria with respect to certain matters required when determining the prudent market value of Relevant Securitised Mortgage Credit Assets. The Financial Regulator has, at the date of this Base Prospectus, not published valuation requirements under the ACS Acts which apply to other types of mortgage credit assets (and related property assets) permitted by the ACS Acts to be comprised in a Pool maintained by an Institution.

The MCA Valuation Notice repealed and replaced the Asset Covered Securities Act 2001 Regulatory Notice (Section 41(1)) 2004 Irish Residential Property Assets/Mortgage Credit Assets (the “**Former Irish Residential Loan/Property Valuation Notice**”) with effect from 31 August 2007.

The prudent market discount which the Issuer has adopted and published for the purposes of the MCA Valuation Notice and the Asset Covered Securities Act 2001 (Sections 61(1), 61(2) and 61(3)) [Prudent Market Discount] Regulation 2004 (the “**Prudent Market Discount Regulation**”) (see Condition 11(d) in Terms and Conditions of the Securities) is only applicable to residential property in Ireland and not any other property assets related to mortgage credit assets permitted by the ACS Acts or to RMBS or CMBS. With respect to the MCA Valuation Notice and the Prudent Market Discount Regulation, see further *Cover Assets Pool – Valuation of Assets held by an Institution*.

### **Amortisation of mortgage credit assets**

Loans comprised in mortgage credit assets which are included from time to time in the Pool are and will generally be subject to amortisation of principal on a monthly or other periodic basis. They are also subject to early repayment of principal at any time in whole or part by the relevant borrowers, subject in the case of loans carrying a fixed interest rate to the payment by the borrower of compensation related to the fixed interest rate. In addition, loans comprised in mortgage credit assets which are included in the Pool will generally have interest payable on a monthly basis. Payments of principal on mortgage credit assets as set out above results in the Issuer requiring to include further mortgage credit assets and/or substitution assets in the Pool on a regular and ongoing basis in order for the Issuer to comply with the financial matching and regulatory overcollateralisation requirements under the ACS Acts and with contractual undertakings in respect of overcollateralisation (see *Cover Assets Pool*).

### **The Securities may not be a suitable investment for all investors**

Each potential investor in the Securities must determine the suitability of that investment in light of its, his or her own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained in this Base Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its, his or her particular financial situation, an investment in the Securities and the impact the Securities will have on its, his or her overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities including Securities with principal or interest payable in one or more currencies or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Securities and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its, his or her investment and its, his or her ability to bear the applicable risks.

## **Risks related to the structure of a particular issue of Securities**

A wide range of Securities may be issued under the Programme. Potential investors should consider the terms of Securities before investing.

### **EU Savings Directive**

Under EC Council Directive 2003/48/EC on taxation of savings income, member states of the European Union (“**EU**”) are required, from 1 July 2005, to provide to the tax authorities of another member state details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other member state. However, for a transitional period, Belgium, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate instead a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories, including Switzerland, have adopted similar measures (a withholding system in the case of Switzerland, with the option of information exchange and consequent reporting where authorised by the recipient of the interest) with effect from the same date. If a payment were to be made or collected through a member state of the EU which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Securities as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent the Issuer will be required to maintain a Paying Agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to that Directive.

### **Change of Law**

The Securities are governed by Irish law and the security in the Pool conferred on the Securities relies, on the date of this Base Prospectus, exclusively on the ACS Acts. Relevant provisions of the 2007 Amendment Act came into force, together with new secondary legislation under the ACS Acts, on 31 August 2007. No assurance can be given as to the impact of any possible judicial decision or change to Irish law (including in connection with the ACS Acts) or administrative practice after the date of this Base Prospectus.

### **Interest rate risks**

Investment in Fixed Rate Securities involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Securities.

### **Credit ratings may not reflect all risks**

One or more independent credit rating agencies will assign credit ratings to the Securities. These ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Securities. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. A rating agency may lower or withdraw its rating of the Securities and that action may reduce the market value of the Securities. A credit rating agency may from time to time alter the methodology employed by it when rating Securities and such alteration may affect ratings attributed to Securities issued under the Programme.

## **Legal investment considerations may restrict certain investments**

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Securities are legal investments for it, him or her (2) Securities can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Securities under any applicable risk-based capital or similar rules.

## **Basel Capital Requirements/Capital Requirements Directive**

The Basel Committee has issued proposals for reform of the 1988 Basel Capital Accord and has proposed a framework, which places enhanced emphasis on market discipline and sensitivity to risk ("**Basel II**"). The EU has implemented Basel II type standards for banks and other credit institutions in the EU in Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast) (the "**Capital Requirements Directive**" or "**CRD**") and the related Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast) (the "**CAD Recast Directive**"). In Ireland the legislation implementing the CRD/CAD Recast Directive has come into force. The Group has received permission from the Central Bank and Financial Services Authority of Ireland ("**CBFSAI**") to use the Basel II Foundation Internal Ratings Based Approach in respect of its residential mortgage portfolios to determine regulatory capital requirements. Prospective investors in the Securities should consult their own advisers as to the consequences for them of the potential application of the Basel II proposals and CRD/CAD Recast Directive measures.

## **Because the Global Securities are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on the clearing system procedures for transfers, payments and communication with the Issuer.**

Securities issued under the Programme may be represented by one or more Global Securities. Such Global Securities will be deposited with a common depository for, or, as applicable, as common safekeeper, with Euroclear and Clearstream, Luxembourg (the "**Clearing Systems**"). Except in the circumstances described in the relevant Global Security, investors will not be entitled to receive Securities in definitive form. The Clearing Systems will maintain records of the beneficial interests in the Global Securities. While Securities are represented by one or more Global Securities, investors will be able to trade their beneficial interests only through the Clearing Systems.

## **Trading in the Clearing Systems**

In relation to any issue of Securities issued in global form which have a minimum denomination and are tradeable in the Clearing Systems in amounts above that minimum denomination, but those tradeable amounts are not integral multiples of that minimum denomination, those Securities may be traded in principal amounts which are not integral multiples of that minimum denomination. If those Securities are required to be exchanged into Securities in definitive form, a holder of Securities who, as a result of trading such amounts, holds a principal amount of Securities which is not an integral multiple of the minimum denomination will not receive a Security in definitive form in respect of the principal amount of Securities in excess of the principal amount equal to the nearest integral multiple of the minimum denomination held by that holder, unless that holder purchases a further principal amount of Securities such that the aggregate principal amount of its holding then becomes an integral multiple of the minimum

denomination. The Issuer does not authorise in any circumstances the trading of Securities in a principal or nominal amount less than the applicable minimum denomination specified in the applicable Final Terms.

### **Interests of the Dealers**

Certain of the Dealers and their affiliates have engaged, and may in the future, engage in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business.

### **New Global Form Securities**

Though the New Global Note form has been introduced to allow for the possibility of Securities being issued and held in a manner which will permit them to be recognised as eligible collateral for monetary policy of the central banking system for Eurosystem and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life, in any particular case such recognition will depend upon satisfaction of the Eurosystem eligibility criteria at the relevant time.

### **Credit Institutions (Financial Support) Act 2008**

Under the Credit Institutions (Financial Support) Act 2008, the Minister for Finance of Ireland (the "**Minister**") has been given certain functions in relation to financial support for certain credit institutions and their subsidiaries (such as the Issuer). The functions can be exercised in certain circumstances namely where: (i) there is a serious threat to the stability of credit institutions in the State generally, or would be such a threat if those functions were not performed; (ii) the performance of those functions is necessary, in the public interest, for maintaining the stability of the financial system in the State; and (iii) the performance of those functions is necessary to remedy a serious disturbance in the economy of the State. The functions are wide ranging and may entail the Minister subscribing for, taking an allotment of or purchasing shares and any other securities in a credit institution or subsidiary to which financial support is provided on such terms as the Minister sees fit. If the Minister were to exercise such a function it could have a material impact on the Issuer and its business.

### **Other Risks**

The past performance of Securities or other Mortgage Covered Securities issued by the Issuer may not be a reliable guide to future performance of Securities.

The Securities may fall as well as rise in value.

Income or gains from Securities may fluctuate in accordance with market conditions and taxation arrangements.

Where Securities are denominated in a currency other than the reference currency used by the investor, changes in currency exchange rates may have an adverse effect on the value, price or income of the Securities.

It may be difficult for investors in Securities to sell or realise the Securities and/or obtain reliable information about their value or the extent of the risks to which they are exposed (other than as set out in this Base Prospectus).

## FORM OF THE SECURITIES, ISSUE PROCEDURES AND CLEARING SYSTEMS

The Securities of each Series will be in bearer form ("**Bearer Securities**"), with or without interest coupons attached or registered form ("**Registered Securities**"), without interest coupons attached. The Securities have not been and will not be registered under the Securities Act and may not be offered or sold in the United States or to, or for the benefit of, US persons unless an exemption from the registration requirements of the Securities Act is available or in a transaction not subject to the registration requirements of the Securities Act (see *Subscription and Sale, Transfer and Selling Restrictions and Secondary Market Arrangements*). Accordingly, the Securities will only be issued outside the United States in reliance upon Regulation S under the Securities Act.

### **Bearer Securities**

Each Tranche of Bearer Securities will be issued in the form of either a temporary bearer global security (a "**Temporary Bearer Global Security**") or a permanent bearer global security (a "**Permanent Bearer Global Security**") (each of which, along with a Registered Global Security (defined under Registered Securities below), is a "**Global Security**") as indicated in the applicable Final Terms, which, in either case, will:

- (a) if the Bearer Securities are intended to be issued in new global note ("**NGN**") form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safe-keeper (the "**Common Safekeeper**") for Euroclear Bank S.A./N.V. (Euroclear) and Clearstream Banking, S.A. (Clearstream, Luxembourg); and
- (b) if the Bearer Securities are not intended to be issued in NGN form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common depository (the "**Common Depository**") for Euroclear and Clearstream, Luxembourg.

Whilst any Bearer Security is represented by a Temporary Bearer Global Security, payment of principal, interest (if any) and any other amount payable in respect of such Security due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Bearer Global Security if the Temporary Bearer Global Security is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Security are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, have been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On or after the date (the "**Exchange Date**") which is 40 days after a Temporary Bearer Global Security is issued, interests in such Temporary Bearer Global Security will be exchangeable (free of charge) as described therein for interests in a Permanent Bearer Global Security of the same Series against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Bearer Global Security will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Security for an interest in a Permanent Bearer Global Security is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Security will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender, as the case may be, of the Permanent Bearer Global

Security if the Permanent Bearer Global Security is not intended to be issued in NGN form) without any requirement for certification.

Interests in a Permanent Bearer Global Security will be exchangeable (free of charge), in whole but not in part, for definitive Securities in bearer form with, where applicable, receipts, interest coupons and talons attached only upon the occurrence of an Exchange Event.

For these purposes, “**Exchange Event**” means that the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available.

The Issuer will promptly give notice to holders of Securities in accordance with Condition 13 of the Terms and Conditions of the Securities, if an Exchange Event occurs. In the event of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Security or the Issuer) may give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Securities which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Securities.

**“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”**

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Securities, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of Securities, receipts or interest coupons.

Securities in global form will be transferable only in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

### **Registered Securities**

The Registered Securities may be represented by a global security in registered form (a “**Registered Global Security**”). Prior to the expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Securities, beneficial interests in a Registered Global Security may not be offered or sold within the United States or to, or for the account or benefit of, a U.S. person and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Registered Global Security will bear a legend regarding such restrictions on transfer.

In addition, Securities in definitive registered form may be privately placed to non-US persons outside the United States on a non-syndicated basis with professional investors only in reliance on Regulation S. Any such issue of Securities will be evidenced by a single security registered in the name of the holder thereof.

Registered Global Securities will be deposited with a common depository for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg. Persons holding beneficial interests in Registered Global Securities will be



required, under the circumstances described below, to receive delivery of definitive Securities in registered form.

Payments of principal, interest and any other amount in respect of the Registered Global Securities will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 5 of the Terms and Conditions of the Securities) as the registered holder of the Registered Global Securities. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Securities or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Securities in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 5 of the Terms and Conditions of the Securities) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Security will be exchangeable (free of charge), in whole but not in part, for definitive Registered Securities without interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available. The Issuer will promptly give notice to Security holders in accordance with Condition 13 of the Terms and Conditions of the Securities if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Registered Global Security or the Issuer) may give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

### **Transfer of Interests in Global Securities**

Interests in a Global Security may, subject to compliance with all applicable restrictions and requirements, be transferred to a person who wishes to hold such interest in a Global Security. No beneficial owner of an interest in a Global Security will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. **Registered Securities are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see *Subscription and Sale, Transfer and Selling Restrictions and Secondary Market Arrangements*.**

### **Clearing Systems**

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream, Luxembourg (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer, the Arrangers or any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Arrangers or any of the Dealers will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, interests in the Securities held through the facilities*

*of any Clearing System or for maintaining, supervising or reviewing any records relating to such interests.*

Euroclear and Clearstream, Luxembourg each holds securities for its participants and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective participants. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg participants are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions and persons that directly or indirectly through other institutions clear through or maintain a custodial relationship with a participant of either system.

The name and address of the Common Depository for Securities issued under the Programme is The Bank of New York Mellon, One Canada Square, London E14 5AL, United Kingdom.

The address of Euroclear is 1 Boulevard Du Roi Albert II, 1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, 1855 Luxembourg, Luxembourg. The Common Safekeeper for Securities issued under the Programme in NGN form is Clearstream, Luxembourg.

### **Transfers of Securities Represented by Global Securities**

Interests in a Global Security may, subject to compliance with all applicable restrictions and requirements, be transferred to a person who wishes to hold such interest in a Global Security. No beneficial owner of an interest in a Global Security will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. Registered Securities are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see *Subscription and Sale, Transfer and Selling Restrictions and Secondary Market Arrangements*.

Transfers of any interests in Securities represented by a Global Security within Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system.

Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of interests in Global Securities among participants and accountholders of Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Arrangers or any Dealer will be responsible for any performance by Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of interests in the Securities represented by Global Securities or for maintaining, supervising or reviewing any records relating to such interests.

## General

Pursuant to the Agency Agreement (as defined under *Terms and Conditions of the Securities*), the Principal Paying Agent shall arrange that, where a further Tranche of Securities is issued which is intended to form a single Series with an existing Tranche of Securities, the Securities of such further Tranche shall be assigned a common code and ISIN number which are different from the common code assigned to Securities of any other Tranches of the same Series until at least the expiry of the distribution compliance period applicable to the Securities of such Tranche.

For so long as any of the Securities is represented by a Global Security held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular nominal amount of such Securities (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Securities standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error or proven error) shall be treated by the Issuer and its agents as the holder of such nominal amount of such Securities for all purposes other than with respect to the payment of principal or interest on such nominal amount of Securities, for which purposes the bearer of the relevant Securities in bearer form or, as applicable, the registered holder of the relevant Securities in registered form shall be treated by the Issuer and its agents as the holder of such nominal amount of such Securities in accordance with and subject to the terms of the relevant Global Securities and the expressions "**Security holder**" and "**holder of Securities**" and related expressions shall be construed accordingly.

Any reference herein to Euroclear or Clearstream, Luxembourg shall, wherever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

Where any Security is represented by a Global Security and the Global Security (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Securities and payment in full of the amount due has not been made in accordance with the provisions of the Global Security, then holders of interests in such Global Security credited to their accounts with Euroclear or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear or Clearstream, Luxembourg on and subject to the terms of the Securities.

## FINAL TERMS FOR SECURITIES

*Set out below is the form of Final Terms which will be completed for each Tranche of Securities issued under the Programme.*

### AIB MORTGAGE BANK

**Issue of [Aggregate Nominal Amount of Tranche] [[ • ] per cent./Floating Rate/Zero Coupon] Mortgage Covered Securities due [ • ] under the €20,000,000,000 Mortgage Covered Securities Programme**

**THE SECURITIES (AS DESCRIBED HEREIN) ARE MORTGAGE COVERED SECURITIES ISSUED IN ACCORDANCE WITH THE ASSET COVERED SECURITIES ACT 2001 (AS AMENDED) OF IRELAND (THE "ACT"). THE ISSUER HAS BEEN REGISTERED BY THE IRISH FINANCIAL SERVICES REGULATORY AUTHORITY (AS PART OF THE CENTRAL BANK AND FINANCIAL SERVICES AUTHORITY OF IRELAND) AS A DESIGNATED MORTGAGE CREDIT INSTITUTION PURSUANT TO THE ACT. THE FINANCIAL OBLIGATIONS OF THE ISSUER UNDER THE SECURITIES ARE SECURED ON THE COVER ASSETS THAT COMPRISE A COVER ASSETS POOL MAINTAINED BY THE ISSUER IN ACCORDANCE WITH THE ACT.**

This document constitutes the Final Terms relating to the issue of Securities described herein.

### **PART A – CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Securities (the "**Conditions**") set forth in the Base Prospectus dated 14 September 2009 (the "**Base Prospectus**") [and the supplemental base prospectus dated [ • ]<sup>1</sup> which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (the "**Prospectus Directive**") and relevant Irish laws. The Irish Financial Services Regulatory Authority (the "**Financial Regulator**") 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**"). This document ("**Final Terms**") constitutes the final terms of the Securities described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus [as so supplemented].<sup>2</sup> Full information on the Issuer and the offer of the Securities is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus [and the supplemental base prospectus]<sup>3</sup> [is][are] available for viewing during normal business hours at [address] [and at] [www.aibgroup.com] and copies may be obtained from Bankcentre, Ballsbridge, Dublin 4, Ireland.

[The following alternative language applies if the first Tranche of an issue which is being increased was issued under a base prospectus with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Securities (the "**Conditions**") incorporated by reference into the Base Prospectus dated 14 September 2009 (the "**Base Prospectus**") from the base

<sup>1</sup> Delete unless Base Prospectus has been supplemented by a Prospectus in which the Terms and Conditions of the Securities have been amended for the purposes of all future issues under the Programme.

<sup>2</sup> Delete unless Base Prospectus has been supplemented by a Prospectus in which the Terms and Conditions of the Securities have been amended for the purposes of all future issues under the Programme.

<sup>3</sup> Delete unless Base Prospectus has been supplemented by a prospectus in which the Terms and Conditions of the Securities have been amended for the purposes of all future issues under the Programme.

prospectus dated [23 March 2006]/[18 June 2007]/[30 June 2008]. This document ("**Final Terms**") constitutes the final terms of the Securities described herein for the purposes of Article 5.4 of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (the "**Prospectus Directive**") and relevant Irish laws and must be read in conjunction with the Base Prospectus dated 14 September 2009 [and the supplemental base prospectus dated [ • ]]<sup>4</sup>, which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive and relevant Irish laws, save in respect of the Conditions which are incorporated by reference extracted from the base prospectus dated [23 March 2006]/[18 June 2007]/[30 June 2008] [and the supplemental base prospectus dated [ • ]]<sup>5</sup> and are attached hereto. The Irish Financial Services Regulatory Authority (the "**Financial Regulator**") 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**"). Full information on the Issuer and the offer of the Securities is only available on the basis of the combination of these Final Terms and the Conditions [and the supplemental base prospectus dated [ • ]]<sup>6</sup> and the Base Prospectus dated 14 September 2009. [The Conditions and the Base Prospectus dated 14 September 2009 [and the supplemental base prospectus] are available for viewing during normal business hours at [address] and at www.aibgroup.com and copies may be obtained from Bankcentre, Ballsbridge, Dublin 4, Ireland.]

*[Include whichever of the following apply or specify as **Not Applicable** ("N/A"). Note that the numbering should remain as set out below, even if **Not Applicable** is indicated for individual paragraphs or subparagraphs. Italics denote and footnotes contain directions for completing the Final Terms].*

*[When completing any final terms, or adding any other final terms or information, consideration should be given as to whether such terms or information constitute "**significant new factors**" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive].*

- |    |     |            |   |
|----|-----|------------|---|
| 1. | (a) | Issuer:    | AIB Mortgage Bank                               |
|    | (b) | Guarantor: | [None]<br><br>[Minister for Finance of Ireland] |
- No call can be made under the guarantee after 29 September 2010. Because Securities must have a Maturity Date falling after 29 September 2010, the Securities have no contractual events of default and the Asset Covered Securities Act 2001 provides as a matter of general law that there is no acceleration of the Securities on an insolvency of the Issuer, the guarantee will only extend to interest falling due and payable on the Securities*

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<sup>4</sup> Delete unless Base Prospectus has been supplemented by a Prospectus in which the Terms and Conditions of the Securities have been amended for the purposes of all future issues under the Programme.  
<sup>5</sup> Delete unless Base Prospectus has been supplemented by a Prospectus in which the Terms and Conditions of the Securities have been amended for the purposes of all future issues under the Programme.  
<sup>6</sup> Delete unless Base Prospectus has been supplemented by a Prospectus in which the Terms and Conditions of the Securities have been amended for the purposes of all future issues under the Programme.  
<sup>7</sup> Applicable only for Securities that are 'covered liabilities' for the purpose of the Credit Institutions (Financial Support) Scheme 2008; otherwise state: 'None'.

on or before 29 September 2010.]<sup>7</sup>

2. (a) Series Number: [ • ]
- (b) Tranche Number: [ • ]  
*(If fungible with an existing Series, details of that Series, including the date on which the Securities become fungible)*
3. Specified Currency or Currencies: [ • ]
4. (a) Aggregate Nominal Amount of Securities:
- (i) Series: [ • ]
- (ii) Tranche: [ • ]
- (b) Specify whether Securities to be admitted to trading: [Yes – if so specify which Series/Tranche/No]
5. (a) Issue Price: [ • ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] *(in the case of fungible issues only, if applicable)*
- (b) [Net proceeds (Required only for listed issues): [ • ]]
- (c) Specify whether expenses or taxes will be charged to investors: [Yes – if so specify which expenses/taxes/No]
6. Specified Denominations: [ • ]  
*(In the case of Registered Securities, this means the minimum integral amount in which transfers can be made)*  
*If the specified denomination is expressed to be €50,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording as follows: "€50,000 and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No Securities in definitive form will be issued with a denomination above [€99,000]."*
7. Issue Date: [ • ]
8. Maturity Date: [Fixed Rate/Zero Coupon – specify date/Floating Rate – Interest Payment Date falling in or nearest to [specify month and year]]<sup>8</sup>

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<sup>8</sup> For so long as the Issuer is a covered institution within the meaning of the Credit Institutions (Financial Support) Scheme 2008, the Maturity Date of the Securities should not fall on or before the termination date of the Scheme (i.e. 29 September 2010).

9. Extended Maturity Date: [Applicable/Not Applicable]  
[insert date]<sup>9</sup>  
*Extended Maturity Date must be Applicable to all issues of Securities, unless, the rating agencies which at the relevant time provide credit ratings for the Programme agree that Extended Maturity Date may be Not Applicable*  
[The Extended Maturity Date is [ • ]<sup>10</sup>.  
In accordance with the Conditions and these Final Terms, if the Issuer fails to redeem the Securities in full on the Maturity Date or within two Business Days thereafter, the maturity of the principal amount outstanding of the Securities will automatically be extended on a monthly basis for up to one year to the Extended Maturity Date without constituting an event of default or giving holders of the Securities any right to accelerate payments on the Securities. In that event, the interest rate payable on and the interest periods and Interest Payment Dates, in respect of, the Securities, will change from those that applied up to the Maturity Date and the Issuer may redeem all or part of the principal amount outstanding of those Securities on an Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date, all in accordance with the Conditions and these Final Terms. See *Conditions 4(d) and 6(h).*]
10. Interest Commencement Date:
- (i) Period to Maturity Date: [Specify date/Not Applicable]
- (ii) Period from Maturity Date up to Extended Maturity Date: [Not Applicable]  
[Maturity Date]<sup>11</sup>
11. Interest Basis:
- (i) Period to Maturity Date: [[ • ] per cent Fixed Rate]  
[[LIBOR/EURIBOR/or other] +/- [ • ] per cent. Floating Rate]  
[Zero Coupon]

<sup>9</sup> If applicable, the date should be that falling one year after the Maturity date. If not applicable, insert 'Not Applicable'. For so long as the Issuer is a covered institution within the meaning of the Credit Institutions (Financial Support) Scheme 2008, the Extended Maturity Date of the Securities as set out in the Final Terms should not fall on or before the termination date of the Financial Support Scheme (i.e. 29 September 2010).

<sup>10</sup> If Extended Maturity Date is applicable, insert the Maturity Date. If Extended maturity Date is not applicable, insert 'Not Applicable'.

<sup>11</sup> Insert 'Not Applicable' only if Extended Maturity Date does not apply.

(further particulars specified below)

- (ii) Period from Maturity Date up to Extended Maturity Date: [Not Applicable]/[[ • ] per cent Fixed Rate]  
[[LIBOR/EURIBOR/other] +/- [ • ] per cent. Floating Rate]  
(further particulars specified below)<sup>12</sup>
12. Redemption/Payment Basis: [Redemption at par]  
[Instalment] [other (specify)]
13. Change of Interest or Redemption/Payment Basis: *[Specify details of any provision for convertibility of Securities into another Interest or Redemption/Payment Basis]*
14. Put/Call Options: [Investor Put]  
[Issuer Call]  
[(further particulars specified below)]
15. Status of the Securities: The Securities will be direct, unconditional and senior obligations of the Issuer and rank equally with all other mortgage covered securities issued or to be issued by the Issuer. The Securities will qualify as mortgage covered securities for the purposes of the Asset Covered Securities Act 2001 (as amended) of Ireland.
16. Listing/Admission to Regulated Market: [Admission to the Official List of the Irish Stock Exchange and to trading on its regulated market/specify other/None]
17. Method of Distribution: [Syndicated/Non-Syndicated]

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

18. Fixed Rate Security Provisions:
- (i) To Maturity Date: [Applicable/Not Applicable]  
*(If not applicable, state "**Not Applicable**" in the relevant subparagraphs below of this paragraph)*
- (ii) From Maturity Date up to Extended Maturity Date: [Applicable/Not Applicable]  
*(If sub-paragraphs (i) and (ii) not applicable, delete the remaining subparagraphs of this paragraph)*<sup>13</sup>

<sup>12</sup> State 'Not Applicable' unless Extended Maturity Date applies and the Securities are Fixed Rate Securities after the Maturity Date.

<sup>13</sup> State 'Not Applicable' unless Extended Maturity Date applies and the Securities are Fixed Rate Securities after the Maturity Date.



- (a) Rate(s) of Interest:
- (i) To Maturity Date: [ • ] per cent per annum  
[payable[annually/semi  
annually/quarterly/monthly] in arrear]  
*(If payable other than annually,  
consider amending Condition 4)*
- (ii) From Maturity Date up to Extended Maturity Date: [Not Applicable]/[ • ] per cent per annum. [payable[annually/semi  
annually/quarterly/monthly] in arrear]  
*(If payable other than annually,  
consider amending Condition 4)<sup>14</sup>*
- (b) Interest Payment Date(s):
- (i) To Maturity Date: [[ • ] in each year up to and including the Maturity Date] [adjusted in accordance with [specify Business Day Convention and applicable Business Centre(s) for the definition of "**Business Day**"/not adjusted]/[specify other]  
*(NB – this will need to be amended in the case of long or short coupons)*
- (ii) From Maturity Date up to Extended Maturity Date: [Not Applicable]<sup>15</sup>/[[ • ] in each month up to and including the Extended Maturity Date]/[specify other]  
*(NB – this will need to be amended in the case of coupons which are not on a monthly basis – also consider amending Condition 4)*
- (c) Fixed Coupon Amount(s):
- (i) To Maturity Date: [ • ] per [ • ] in nominal amount
- (ii) From Maturity Date up to Extended Maturity Date: [Not Applicable]<sup>16</sup>/[ • ] per [ • ] in nominal amount
- (d) Broken Amount(s):
- (i) To Maturity Date: *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount(s)]*
- (ii) From Maturity Date up to Extended Maturity Date: [Not Applicable]<sup>17</sup>/[Insert particulars of any initial or final broken interest

<sup>14</sup> State 'Not Applicable' unless Extended Maturity Date applies and the Securities are Fixed Rate Securities after the Maturity Date.

<sup>15</sup> State 'Not Applicable' unless Extended Maturity Date applies and the Securities are Fixed Rate Securities after the Maturity Date.

<sup>16</sup> State 'Not Applicable' unless Extended Maturity Date applies and the Securities are Fixed Rate Securities after the Maturity Date.

- Maturity Date: amounts which do not correspond with the Fixed Coupon Amount(s)]
- (e) Day Count Fraction:
- (i) To Maturity Date: [30/360 or Actual/Actual (ICMA) or *[specify other]*]
- (ii) From Maturity Date up to Extended Maturity Date: [Not Applicable] [30/360 or Actual/Actual (ICMA) or *[specify other]*]<sup>18</sup>
- (f) Determination Date(s):
- (i) To Maturity Date: [ • ] in each year *[Insert regular interest payment dates, ignoring Issue Date or Maturity Date in the case of a long or short first or last Coupon NB – This will need to be amended in the case of regular interest periods which are not of equal duration NB – Only relevant where Day Count Fraction is Actual/Actual (ICMA)]*
- (ii) From Maturity Date up to Extended Maturity Date: [Not Applicable]/[ • ] in each year *[Insert regular interest payment dates, ignoring Issue Date or Maturity Date in the case of a long or short first or last Coupon NB – This will need to be amended in the case of regular interest periods which are not of equal duration NB – Only relevant where Day Count Fraction is Actual/Actual (ICMA)]<sup>19</sup>*
- (g) Other terms relating to the method of calculating interest for Fixed Rate Securities: [None/give details]

19. Floating Rate Security Provisions:

- (i) To Maturity Date: [Applicable/Not Applicable] *(If not applicable, state "**Not Applicable**" in the relevant subparagraphs below of this paragraph)*
- (ii) From Maturity Date up to [Applicable/Not Applicable] *(If sub-paragraphs (i) and (ii) not*

<sup>17</sup> State 'Not Applicable' unless Extended Maturity Date applies and the Securities are Fixed Rate Securities after the Maturity Date.

<sup>18</sup> State 'Not Applicable' unless Extended Maturity Date applies and the Securities are Fixed Rate Securities after the Maturity Date.

<sup>19</sup> State 'Not Applicable' unless Extended Maturity Date applies and the Securities are Fixed Rate Securities after the Maturity Date.

Extended Maturity Date: *applicable, delete the remaining subparagraphs of this paragraph*<sup>20</sup>

(a) Interest  
Period(s)/Specified  
Interest Payment Dates:

(i) To Maturity Date: [Interest Periods: [ • ]  
Specified Interest Payment Dates:  
[ • ]]

(ii) From Maturity Date up to Extended  
Maturity Date: [Not Applicable]<sup>21</sup> [ • ]  
[Interest Periods: [ • ]  
Specified Interest Payment Dates:  
[ • ]]

(b) Business Day Convention:

(i) To Maturity Date: [Floating Rate Convention/Following  
Business Day Convention/Modified  
Following Business Day  
Convention/Preceding Business Day  
Convention/[specify other]]

(ii) From Maturity Date up to Extended  
Maturity Date: [Not Applicable]/[Floating Rate  
Convention/Following Business Day  
Convention/Modified Following Business  
Day Convention/Preceding Business  
Day Convention/[specify other]]<sup>22</sup>

(c) Additional Business  
Centre(s):

(i) To Maturity Date: [ • ]

(ii) From Maturity Date up to Extended  
Maturity Date: [Not Applicable] [ • ]<sup>23</sup>

(d) Manner in which the  
Rate(s) of interest and  
Interest Amount(s) is to  
be determined:

(i) To Maturity Date: [Screen Rate Determination/ISDA  
Determination/specify other]

(ii) From Maturity Date up to Extended  
Maturity Date: [Not Applicable]/[Screen Rate  
Determination/ISDA]

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<sup>20</sup> State 'Not Applicable' unless Extended Maturity Date applies and the Securities are Floating Rate Securities after the Maturity Date.

<sup>21</sup> State 'Not Applicable' unless Extended Maturity Date applies and the Securities are Floating Rate Securities after the Maturity Date.

<sup>22</sup> State 'Not Applicable' unless Extended Maturity Date applies and the Securities are Floating Rate Securities after the Maturity Date.

<sup>23</sup> State 'Not Applicable' unless Extended Maturity Date applies and the Securities are Floating Rate Securities after the Maturity Date.

- Maturity Date:                      Determination/specify other]<sup>24</sup>
- (e) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Principal Paying Agent):
- (i) To Maturity Date:                      [ • ]
- (ii) From Maturity Date up to Extended Maturity Date:                      [Not Applicable]/[ • ]<sup>25</sup>
- (f) Screen Rate Determination:
- (i) To Maturity Date:
- Reference Rate:                      [ • ] (*either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement*)
- Interest Determination Date(s):                      [ • ] (Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
- Relevant Screen Page:                      [ • ] (*In the case of EURIBOR, if not Telerate page 248 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
- (ii) From Maturity Date up to Extended Maturity Date:                      [Not Applicable]<sup>26</sup>
- Reference Rate:                      [ • ] (*either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement*)
- Interest Determination Date(s):                      [ • ] (Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or

<sup>24</sup> State 'Not Applicable' unless Extended Maturity Date applies and the Securities are Floating Rate Securities after the Maturity Date.

<sup>25</sup> State 'Not Applicable' unless Extended Maturity Date applies and the Securities are Floating Rate Securities after the Maturity Date.

<sup>26</sup> State 'Not Applicable' unless Extended Maturity Date applies and the Securities are Floating Rate Securities after the Maturity Date.

- Date(s): euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
- Relevant Screen Page: [ • ](In the case of EURIBOR, if not Telerate page 248 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (g) ISDA Determination:
- (i) To Maturity Date:
- Floating Rate Option: [ • ]
- Designated Maturity: [ • ]
- Reset Date: [ • ]
- (ii) From Maturity Date up to Extended Maturity Date: [Not Applicable]<sup>27</sup>
- Floating Rate Option: [ • ]
- Designated Maturity: [ • ]
- Reset Date: [ • ]
- (h) Margin(s):
- (i) To Maturity Date: [+/-] [ • ] per cent per annum
- (ii) From Maturity Date up to Extended Maturity Date: [Not Applicable]<sup>28</sup> [ • ] [ • ] per cent per annum
- (i) Minimum Rate of Interest:
- (i) To Maturity Date: [ • ] per cent per annum
- (ii) From Maturity Date up to Extended Maturity Date: [Not Applicable]<sup>29</sup> [ • ] per cent per annum

<sup>27</sup> State 'Not Applicable' unless Extended Maturity Date applies and the Securities are Floating Rate Securities after the Maturity Date.

<sup>28</sup> State 'Not Applicable' unless Extended Maturity Date applies and the Securities are Floating Rate Securities after the Maturity Date.

- (j) Maximum Rate of Interest:
- (i) To Maturity Date: [ • ] per cent per annum
- (ii) From Maturity Date up to Extended Maturity Date: [Not Applicable]<sup>30</sup> [ • ] per cent per annum
- (k) Day Count Fraction:
- (i) To Maturity Date: [Actual/365  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
30E/360  
Other]  
(see Condition 4 for alternatives)
- (ii) From Maturity Date up to Extended Maturity Date: [Not Applicable]<sup>31</sup>  
[Actual/365  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
30E/360  
Other]  
(see Condition 4 for alternatives)
- (l) Fallback provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Securities, if different from those set in the Conditions:
- (i) To Maturity Date: [ • ]
- (ii) From Maturity Date up to Extended Maturity Date: [Not Applicable]<sup>32</sup> [ • ]

<sup>29</sup> State 'Not Applicable' unless Extended Maturity Date applies and the Securities are Floating Rate Securities after the Maturity Date.

<sup>30</sup> State 'Not Applicable' unless Extended Maturity Date applies and the Securities are Floating Rate Securities after the Maturity Date.

<sup>31</sup> State 'Not Applicable' unless Extended Maturity Date applies and the Securities are Floating Rate Securities after the Maturity Date.

<sup>32</sup> State 'Not Applicable' unless Extended Maturity Date applies and the Securities are Floating Rate Securities after the Maturity Date.

20. Zero Coupon Security Provisions: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Accrual Yield: [ • ] per cent per annum
- (b) Reference Price: [ • ]
- (c) Any other formula/basis of determining amount payable: [ • ]
- (d) Day Count Fraction in relation to late payment: [Condition 6(g) applies/specify other]  
*(consider applicable day count fraction if not U.S. dollar denominated)*

**PROVISIONS RELATING TO REDEMPTION**

21. Issuer Call: [Applicable/Not Applicable]  
*(if not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Redemption Date(s): [ • ]
- (b) Optional Redemption Amount of each Security and method, if any, of calculation of such amounts(s): [ • ] per Security of [ • ] Specified Denomination
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: [ • ]
- (ii) Maximum Redemption Amount: [ • ]
- (d) Notice period (if other than as set out in the Conditions): [ • ]  
*(NB – If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent)*
22. Investor Put: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Redemption Date(s): [ • ]
- (b) Optional Redemption Amount of

each Security and method, if any,  
of calculation of such amount(s): [ • ] per Security of [ • ] Specified  
Denomination

- (c) Notice period (if other than as set  
out in the Conditions): [ • ]  
*(NB – If setting notice periods which  
are different to those provided in the  
Conditions, the Issuer is advised to  
consider the practicalities of  
distribution of information through  
intermediaries, for example, clearing  
systems and custodians, as well as any  
other notice requirements which may  
apply, for example, as between the  
Issuer and the Principal Paying Agent)*

23. Final Redemption Amount of each  
Security: [ • ] per Security of [ • ] Specified  
Denomination

#### **GENERAL PROVISIONS APPLICABLE TO THE SECURITIES**

24. Form of Securities, Issue Procedures and  
Clearing Systems:

**[Bearer Securities:**

[Temporary Bearer Global Security  
exchangeable for a Permanent Bearer  
Global Security which is exchangeable  
for Definitive Bearer Securities only  
upon an Exchange Event]

[Permanent Bearer Global Security  
exchangeable for Definitive Bearer  
Securities only upon an Exchange  
Event]]

**[Registered Securities:**

[Registered Global Security ([ • ]  
nominal amount) registered in the  
name of a nominee of, and deposited  
with a common depository for,  
Euroclear and Clearstream,  
Luxembourg (*specify nominal  
amounts*)] which is exchangeable for  
definitive Registered Securities only  
upon an Exchange Event.]

[Registered Securities in definitive  
form]  
(*Specify nominal amounts*)]



25. New Global Note: Yes/No
26. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details] *(note that this item relates to the place of payment and not Interest Period end dates to which item 19(c) relates)*
27. Talons for future Coupons or Receipts to be attached to Definitive Bearer Securities (and dates on which such Talons mature): [Yes/No *If yes, give details*]
28. Details relating to Instalment Securities:
- (i) Instalment Amount(s): [Not Applicable/give details]
- (ii) Instalment Date(s): [Not Applicable/give details]
29. Redenomination applicable: [Applicable/Not Applicable] *(if Redenomination is applicable, specify the terms of the redenomination in an Annex to the Final Terms)*
30. Whether Condition 5(h) applies: [Condition 5(h) applicable/Condition 5(h) not applicable] *(Condition 5(h) relates to Registered Securities in definitive form only)*
31. Other final terms or conditions: [Not applicable/give details]<sup>33</sup>
- [Notwithstanding paragraph 6 above, if in respect of the Securities definitive Bearer Securities are required to be issued at any time in exchange for a Global Security, definitive Bearer Securities will only be printed and issued in a denomination of €50,000. Under no circumstances will definitive Bearer Securities be printed or issued in respect of a nominal amount of Securities which is less than €50,000 and any holder of Securities, which on the date on which such an exchange is effected on the occurrence of an Exchange Event, holds Securities having a nominal amount which cannot be represented by a definitive Bearer Security with a denomination of at least €50,000 will not be entitled to receive a definitive Bearer Security. The Issuer does not authorise in any circumstances the trading of Securities in a principal or nominal amount of less

<sup>33</sup> When adding on any other final terms or conditions consideration should be given as to whether such terms of conditions constitute a 'significant new factor' and consequently trigger the need for a supplement to the Base Prospectus under article 16 of the Prospectus Directive.

than €50,000.]

## **DISTRIBUTION**

32. (a) If syndicated, names of Dealers: [Not applicable/give names, addresses and underwriting commitments and, if the relevant Dealer is not also a permanent Dealer under the Programme, addresses and descriptions (for example, Financial Institution)]
- (b) Date of Subscription Agreement: [Not Applicable/[ • ]]
- (c) Stabilising Dealer(s) (if any): [Not applicable/give name]
33. If non-syndicated, name of relevant Dealer: [ • ] (if relevant Dealer is not also a permanent Dealer under the Programme, include its address and description)
- [34. Commission Payable/Selling Concession: [ • ]]
- [35. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA C/TEFRA not applicable]]
36. Additional selling restrictions: [Not applicable/give details]

## **[LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required to list the issue of Securities described herein pursuant to the €20,000,000,000 Mortgage Covered Securities Programme of AIB Mortgage Bank.]

## **RESPONSIBILITY**

The Issuer accepts the responsibility for the information contained in these Final Terms. [[ • ] has been extracted from [ • ]. The Issuer confirms that such additional information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ • ], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of the Issuer:

\_\_\_\_\_  
Duly authorised

\_\_\_\_\_  
Duly authorised

## **PART B – OTHER INFORMATION**

### **1. LISTING**

- (i) Listing: [Irish Stock Exchange/other  
(*specify*)/None]
- (ii) Admission to trading: [Application has been made for the  
Securities to be admitted to trading on  
[ • ] with effect from [ • ].] [Not  
Applicable.]
- (iii) Estimate of total expenses  
related to admission to trading: [ • ]

### **2. RATINGS**

- 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 & Poors: [AAA]]  
[Moody's: [Aaa]]  
[Fitch: [AAA]]  
*(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.)*

### **3. NOTIFICATION**

[The Financial Regulator [has been requested to provide/has provided – include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [names of competent authorities of host member states of the EEA] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.]

### **4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**

[Save for any fees payable to the Dealers, so far as the Issuer is aware, no person involved in the issue of the Securities has an interest material to the offer. – Amend as appropriate if there are other interests including conflicting ones that are material to the issue, detailing the person involved and the nature of the interest. Consider whether such matters constitute “**significant new factors**” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

5. **REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

[(i) Reasons for the offer: [ • ]

*(See [**“Use of Proceeds”**] wording in Base Prospectus – if reasons for offer different from making profit and/or hedging certain risks exist, will need to include those reasons here.)*

[(ii) Estimated net proceeds: [ • ]

*(If proceeds are intended for more than one use – will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses – state amount and sources of other funding.)*

[(iii)] Estimated total expenses: [ • ]

6. **YIELD** *(Fixed Rate Notes only)*

Indication of yield: [ • ]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

7. **OPERATIONAL INFORMATION**

(i) ISIN Code: [ • ]

(ii) Common Code: [ • ]

(iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking S.A. and the relevant identification number(s):

*[Not Applicable/give name(s) and number(s)]*

(iv) Delivery: Delivery [against/free of] payment

(v) Name(s) and address(es) of initial Paying Agent(s): [ • ]

(vi) Names and addresses of additional Paying Agent(s) (if any): [ • ]

(vii) Intended to be held in a manner which would allow [Yes/No]  
[Note that the designation “**yes**” simply means that the Securities are intended

Eurosystem eligibility:

upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Securities will be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem's eligibility criteria] *[Include this text if yes selected in which case the Securities, if Bearer Securities in global form, must be issued in NGN form].*

8. **SECONDARY MARKET ARRANGEMENTS**

*[Insert details of any secondary market arrangements, providing liquidity through bid and offer rates agreed with the Dealers or other persons, including a description of the main terms of their commitment]*

[Names and addresses of Dealers or other persons with whom secondary market arrangements have been made:]

## TERMS AND CONDITIONS OF THE SECURITIES

*The following are the Terms and Conditions of the Securities which will be incorporated by reference into each Global Security (as defined below) and each definitive Security, in the latter case only if permitted by the relevant stock exchange (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Security will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Securities may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Securities. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Security and definitive Security. Reference should be made to "**Final Terms for Securities**" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Securities.*

**THE SECURITIES (AS DEFINED IN THESE TERMS AND CONDITIONS) ARE MORTGAGE COVERED SECURITIES ISSUED IN ACCORDANCE WITH THE ASSET COVERED SECURITIES ACT 2001 (AS AMENDED) OF IRELAND (THE "ACT"). THE ISSUER (AS DEFINED IN THESE TERMS AND CONDITIONS) HAS BEEN REGISTERED BY THE IRISH FINANCIAL SERVICES REGULATORY AUTHORITY (AS PART OF THE CENTRAL BANK AND FINANCIAL SERVICES AUTHORITY OF IRELAND) AS A DESIGNATED MORTGAGE CREDIT INSTITUTION PURSUANT TO THE ACT. THE FINANCIAL OBLIGATIONS OF THE ISSUER UNDER THE SECURITIES ARE SECURED ON THE COVER ASSETS THAT COMPRISE A COVER ASSETS POOL MAINTAINED BY THE ISSUER IN ACCORDANCE WITH THE ACT.**

This Security is one of a Series (as defined below) of mortgage covered securities issued by AIB Mortgage Bank (the "**Issuer**") pursuant to the Agency Agreement (as defined below).

References herein to the "**Securities**" shall be references to the Securities of this Series and shall mean:

- (i) in relation to any Securities represented by a global Security (a "**Global Security**"), units of the lowest Specified Denomination in the Specified Currency;
- (ii) any Global Security;
- (iii) any definitive Securities in bearer form ("**Bearer Securities**") issued in exchange for a Global Security in bearer form; and
- (iv) any definitive Securities in registered form ("**Registered Securities**") (whether or not issued in exchange for a Global Security in registered form).

The Securities and the Coupons (as defined below) have the benefit of an amended and restated agency agreement (such agency agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") dated 14 September 2009 and made between the Issuer, The Bank of New York Mellon as issuing agent and principal paying agent, transfer agent and (if applicable) calculation agent (the "**Principal Paying Agent**", which expression shall include any successor), The Bank of New York Mellon (Ireland) Limited as paying and transfer agent (together with the Principal Paying Agent, the "**Paying Agents**" and the "**Transfer Agents**", respectively, which expressions shall include any additional or successor paying and transfer agents), and The Bank of New York Mellon as registrar (the "**Registrar**", which expression shall include any successor).

Interest bearing definitive Bearer Securities have interest coupons ("**Coupons**") and, if indicated in the applicable Final Terms, talons for further Coupons ("**Talon**") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Securities repayable in instalments have receipts ("**Receipts**") for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Securities and Global Securities do not have Coupons, Receipts or Talons attached on issue.

The Final Terms for this Security (or the relevant provisions thereof) is attached to or endorsed on this Security and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Security. References to the "**applicable Final Terms**" are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Security.

Any reference to "**Security holders**" or "**holders**" in relation to any Securities shall mean (in the case of Bearer Securities) the holders of the Securities and (in the case of Registered Securities) the persons in whose name the Securities are registered and shall, in relation to any Securities represented by a Global Security, be construed as provided below. Any reference herein to "**Receiptholders**" shall mean the holders of Receipts. Any reference herein to "**Couponholders**" shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, "**Tranche**" means Securities which are identical in all respects (including as to listing) and "**Series**" means a Tranche of Securities together with any further Tranche or Tranches of Securities which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Security holders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (the "**Deed of Covenant**") dated 14 September 2009 and made by the Issuer. The original of the Deed of Covenant is held by the common depositary or, as the case may be, the common service provider, for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents and the Registrar (such Paying Agents and the Registrar being together referred to as the "**Agents**"). Copies of the applicable Final Terms are obtainable during normal business hours at the specified office of each of the Agents save that, if this Security is an unlisted Security of any Series, the applicable Final Terms will only be obtainable by a Security holder holding one or more unlisted Securities of that Series and such Security holder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Securities and identity. The Security holders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event

of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

As used herein, "**outstanding**" means in relation to the Securities all the Securities issued other than:

- (a) those Securities which have been redeemed and cancelled pursuant to these Terms and Conditions;
- (b) those Securities in respect of which the date for redemption under these Terms and Conditions has occurred and the redemption moneys (including all interest (if any) accrued to the date for redemption and any interest (if any) payable under these Terms and Conditions after that date) have been duly paid to or to the order of the Principal Paying Agent in the manner provided in the Agency Agreement (and, where appropriate, notice to that effect has been given to the Security holders in accordance with these Terms and Conditions) and remain available for payment against presentation of the relevant Securities and/or Receipts and/or Coupons as applicable;
- (c) those Securities which have been purchased and cancelled under these Terms and Conditions;
- (d) those Securities which have become prescribed under these Terms and Conditions;
- (e) those mutilated or defaced Securities which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to these Terms and Conditions;
- (f) (for the purpose only of ascertaining the principal amount of the Securities outstanding and without prejudice to the status for any other purpose of the relevant Securities) those Securities which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued under these Terms and Conditions;
- (g) a Temporary Global Security to the extent that it has been duly exchanged for the relevant Permanent Global Security and a Permanent Global Security to the extent that it has been exchanged for the Definitive Bearer Securities in each case under its provisions; and
- (h) any Registered Global Security to the extent that it has been exchanged for definitive Registered Securities and any definitive Registered Security to the extent that it has been exchanged for an interest in a Registered Global Security.

#### 1. **FORM, DENOMINATION AND TITLE**

The Securities are in bearer form or in registered form as specified in the applicable Final Terms and, in the case of definitive Securities, serially numbered, in the Specified Currency and the Specified Denomination(s). Securities of one Specified Denomination may not be exchanged for Securities of another Specified Denomination and Bearer Securities may not be exchanged for Registered Securities and vice versa.

Interests in a Permanent Bearer Global Security will be exchangeable (free of charge), in whole but not in part, for definitive Securities in bearer form with, where applicable, receipts, interest coupons and talons attached only upon the occurrence of an Exchange Event (as defined below). Interests in a Registered



Global Security will be exchangeable (free of charge), in whole but not in part, for definitive Registered Securities without interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, “**Exchange Event**” means that the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available.

In the case of a Security that is a Permanent Bearer Global Security, the Issuer will promptly give notice to holders of Securities in accordance with Condition 13 of the Terms and Conditions of the Securities if an Exchange Event occurs and Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Security or the Issuer) may give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

In the case of a Security that is a Registered Global Security, the Issuer will promptly give notice to holders of Securities in accordance with Condition 13 of the Terms and Conditions of the Securities if an Exchange Event occurs and Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Registered Global Security or the Issuer) may give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Where the Securities are initially issued as Global Securities which have a minimum Specified Denomination (as specified in the applicable Final Terms) and are available in amounts above that minimum Specified Denomination (as specified in the applicable Final Terms) for trading in the Clearing Systems but those amounts are not integral multiples of that minimum Specified Denomination and those Securities are required to be exchanged into Securities in definitive form upon the occurrence of an Exchange Event, a holder of Securities who, as a result of holding such amounts holds on the relevant date for exchange a principal or nominal amount of the Securities which is not an integral multiple of the minimum Specified Denomination, shall not be entitled to receive a Security in definitive form in respect of the principal or nominal amount of Securities in excess of the principal or nominal amount equal to the nearest integral multiple of the minimum Specified Denomination held by that holder.

This Security may be a Fixed Rate Security, a Floating Rate Security, a Zero Coupon Security or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

Where the applicable Final Terms specifies that an Extended Maturity Date applies to a Series of Securities, those Securities may be Fixed Rate Securities or Floating Rate Securities in respect of the period from the Issue Date up to and including the Maturity Date and Fixed Rate Securities or Floating Rate Securities in respect of the period from the Maturity Date up to and including the Extended Maturity Date, subject as specified in the applicable Final Terms.

This Security may be an Instalment Security depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

Definitive Bearer Securities are issued with Coupons attached, unless they are Zero Coupon Securities and an Extended Maturity Date is not specified in the

applicable Final Terms to the relevant Series of Securities, in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Bearer Securities, Receipts and Coupons will pass by delivery and title to the Registered Securities will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Security, Receipt or Coupon and the registered holder of any Registered Security as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Security, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Securities is represented by a Global Security held on behalf of Euroclear Bank S.A./N.V. ("**Euroclear**") and/or Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Securities (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Securities standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest or proven error) shall be treated by the Issuer and the Agents as the holder of such nominal amount of such Securities for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Securities, for which purpose the bearer of the relevant Bearer Global Security or the registered holder of the relevant Registered Global Security shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Securities in accordance with and subject to the terms of the relevant Global Security and the expressions "**Security holder**" and "**holder of Securities**" and related expressions shall be construed accordingly.

Securities which are represented by a Global Security will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

## 2. **TRANSFERS OF REGISTERED SECURITIES**

### (a) *Transfers of interests in Registered Global Securities*

Transfers of beneficial interests in Registered Global Securities will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Security will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Securities in definitive form or for a beneficial interest in another Registered Global Security only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be, and in

accordance with the terms and conditions specified in the Agency Agreement.

(b) *Transfers of Registered Securities in definitive form*

Subject as provided in paragraphs (e) and (f) below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Security in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer (i) the holder or holders must (A) surrender the Registered Security for registration of the transfer of the Registered Security (or the relevant part of the Registered Security) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof and the transferee or transferees thereof or, in either case, his or their attorney or attorneys duly authorised in writing and (B) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in schedule 7 to the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Security in definitive form of a like aggregate nominal amount to the Registered Security (or the relevant part of the Registered Security) transferred. In the case of the transfer of part only of a Registered Security in definitive form, a new Registered Security in definitive form in respect of the balance of the Registered Security not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

(c) *Registration of transfer upon partial redemption*

In the event of a partial redemption of Securities under Condition 6, the Issuer shall not be required to register the transfer of any Registered Security, or part of a Registered Security, called for partial redemption.

(d) *Costs of registration*

Security holders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

(e) *Transfers of interests in Registered Global Securities*

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Registered Global Security may not be made to a transferee in the United States or who is a U.S. person.

(f) *Exchanges and transfers of Registered Securities generally*

Holders of Registered Securities in definitive form may exchange such Securities for interests in a Registered Global Security of the same type at any time.

(g) *Definitions*

In this Condition, the following expressions shall have the following meanings:

**"Distribution Compliance Period"** means the period that ends 40 days after the completion of the distribution of each Tranche of Securities, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Dealer (in the case of a syndicated issue);

**"Regulation S"** means Regulation S under the Securities Act;

**"Registered Global Security"** means a Global Security in registered form representing Securities sold outside the United States in reliance on Regulation S; and

**"Securities Act"** means the United States Securities Act of 1933, as amended.

3. **STATUS OF THE SECURITIES**

The Securities and any related Coupons constitute the direct, unconditional and senior obligations of the Issuer and rank *pari passu* among themselves. The Securities are mortgage covered securities issued in accordance with the Asset Covered Securities Act 2001 (as amended) of Ireland, (the "**Act**"), are secured on cover assets that comprise a cover assets pool maintained by the Issuer in accordance with the terms of the Act, and rank *pari passu* with all other obligations of the Issuer under mortgage covered securities issued or to be issued by the Issuer pursuant to the Act.

4. **INTEREST**

(a) *Interest on Fixed Rate Securities*

Each Fixed Rate Security bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Subject as provided in Condition 4(d), interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will,

if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in these Terms and Conditions, "**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest, in accordance with this Condition 4(a):

- (i) if "**Actual/Actual (ICMA)**" is specified in the applicable Final Terms:
  - (a) in the case of Securities where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (b) in the case of Securities where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
    - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if "**30/360**" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Terms and Conditions:

**“Determination Period”** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

**“sub-unit”** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

(b) *Interest on Floating Rate Securities*

(i) Interest Payment Dates

Each Floating Rate Security bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **“Interest Payment Date”**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 4(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the

last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, Business Day means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the Additional Business Centre(s) specified in the applicable Final Terms; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than any Additional Business Centre(s) and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer payments system which utilises a single shared platform and which was launched on 19 November 2007 (the "**TARGET2 System**") is open.

(ii) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Securities will be determined in the manner specified in the applicable Final Terms.

(A) *ISDA Determination for Floating Rate Securities*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), "**ISDA Rate**"

for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Securities (the "**ISDA Definitions**") and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (LIBOR) or on the Euro-zone inter-bank offered rate (EURIBOR), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity and Reset Date have the meanings given to those terms in the ISDA Definitions.

*(B) Screen Rate Determination for Floating Rate Securities*

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Principal Paying Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) or, as



applicable the relevant Calculation Agent of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Securities is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Securities will be determined as provided in the applicable Final Terms.

(iii) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) Determination of Rate of Interest and calculation of Interest Amounts

The Principal Paying Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Principal Paying Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified will calculate the amount of interest (the "**Interest Amount**") payable on the Floating Rate Securities in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 4(b):

- (i) if "**Actual/365**" or "**Actual/Actual**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
  - (ii) if "**Actual/365 (Fixed)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
  - (iii) if "**Actual/365 (Sterling)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
  - (iv) if "**Actual/360**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
  - (v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
  - (vi) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).
- (v) Notification of Rate of Interest and Interest Amounts

The Principal Paying Agent, or where the applicable Final Terms specifies a Calculation Agent for this purpose, the Calculation Agent so specified will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any competent listing authority or stock exchange on which the relevant Floating Rate Securities are for the time being listed and notice thereof to be published in accordance with Condition 13 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest

Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each competent listing authority or stock exchange on which the relevant Floating Rate Securities are for the time being listed and to the Security holders in accordance with Condition 13. For the purposes of this paragraph, the expression "**London Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(vi) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(b), by the Principal Paying Agent or the Calculation Agent (if applicable) shall (in the absence of wilful default, bad faith or manifest or proven error) be binding on the Issuer, the Principal Paying Agent, any Calculation Agent, the other Agents and all Security holders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Security holders or the Couponholders shall attach to the Principal Paying Agent or any Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Accrual of interest*

Subject as provided in Condition 4(d), each Security (or in the case of the redemption of part only of a Security, that part only of such Security) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (1) the date on which all amounts due in respect of such Security have been paid; and
- (2) five days after the date on which the full amount of the moneys payable in respect of such Security has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Security holders in accordance with Condition 13.

(d) *Interest Rate and Payments from the Maturity Date in the event of extension of maturity of the Securities up to the Extended Maturity Date*

- (i) If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Securities and the maturity of those Securities is extended beyond the Maturity Date in accordance with Condition 6(h), the Securities shall bear interest from (and including) the Maturity Date to (but excluding) the earlier of the relevant Interest Payment Date after the Maturity Date on which the Securities are redeemed in full or the Extended Maturity Date, subject to Condition 4(c). In that event, interest

shall be payable on those Securities at the rate determined in accordance with Condition 4(d) (ii) on the principal amount outstanding of the Securities in arrear on the Interest Payment Date in each month after the Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date, subject as otherwise provided in the applicable Final Terms. The final Interest Payment Date shall fall no later than the Extended Maturity Date.

- (ii) If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Securities and the maturity of those Securities is extended beyond the Maturity Date in accordance with Condition 6(h), the rate of interest payable from time to time in respect of the principal amount outstanding of the Securities on each Interest Payment Date after the Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date will be as specified in the applicable Final Terms and, where applicable, determined by the Principal Paying Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified, two Business Days after the Maturity Date in respect of the first such Interest Period and thereafter as specified in the applicable Final Terms.
- (iii) In the case of Securities which are Zero Coupon Securities up to (and including) the Maturity Date and for which an Extended Maturity Date is specified under the applicable Final Terms, for the purposes of this Condition 4(d) the principal amount outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Conditions.
- (iv) This Condition 4(d) shall only apply to Securities to which an Extended Maturity Date is specified in the applicable Final Terms and if the Issuer fails to redeem those Securities (in full) on the Maturity Date (or within two Business Days thereafter) and the maturity of those Securities is automatically extended up to the Extended Maturity Date in accordance with Condition 6(h).

## 5. **PAYMENTS**

### (a) *Method of payment*

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively);
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or

transferred) specified by the payee or, at the option of the payee, by a euro cheque; and

- (iii) payments in US dollars will be made by a transfer to a US dollar account maintained by the payee with a bank outside the United States (which expression as used in this Condition 5, means the United States of America including the State, and District of Columbia, its territories, its possessions and other areas subject to its jurisdiction) or by cheque drawn on a US bank. In no event will payment be made by a cheque mailed to an address in the United States. All payments of interest will be made to accounts outside the United States except as may be permitted by United States tax law in effect at the time of such payment without detriment to the Issuer.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7.

(b) *Presentation of definitive Bearer Securities and Coupons*

Payments of principal in respect of definitive Bearer Securities will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Securities, and payments of interest in respect of definitive Bearer Securities will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of definitive Bearer Securities, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Security in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Bearer Security to which it appertains. Receipts presented without the definitive Bearer Security to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Bearer Security becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Securities in definitive bearer form (other than Long Maturity Securities (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured

Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 12 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8).

Upon the date on which any Fixed Rate Security in definitive bearer form becomes due and repayable, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Security or Long Maturity Security in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "**Long Maturity Security**" is a Fixed Rate Security (other than a Fixed Rate Security which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Security shall cease to be a Long Maturity Security on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Security.

If the due date for redemption of any definitive Bearer Security is not an Interest Payment Date, interest (if any) accrued in respect of such Security from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Security.

(c) *Payments in respect of Bearer Global Securities*

Payments of principal and interest (if any) in respect of Securities represented by any Global Security in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Securities and otherwise in the manner specified in the relevant Global Security against presentation or surrender, as the case may be, of such Global Security at the specified office of any Paying Agent outside the United States. On the occasion of each payment:

- (i) in the case of any Global Security in bearer form which is not issued in new global note ("**NGN**") form (as specified in the applicable Final Terms), a record of such payment made against presentation or surrender of such Global Security in bearer form, distinguishing between any payment of principal and any payment of interest, will be made on such Global Security by the Paying Agent to which it was presented and such record shall be prima facie evidence that the payment in question has been made; and
- (ii) in the case of any Global Security in bearer form which is issued in NGN form (as specified in the applicable Final Terms), the Principal Paying Agent shall instruct Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such payment.

(d) *Payments in respect of Registered Securities*

Payments of principal in respect of each Registered Security (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Security at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Security appearing in the register of holders of the Registered Securities maintained by the Registrar (the "**Register**") at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Securities held by a holder is less than euro €250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "**Designated Account**" means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and "**Designated Bank**" means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest in respect of each Registered Security (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Security appearing in the Register at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the "**Record Date**") at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Security, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Registered Securities which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Security on redemption will be made in the same manner as payment of the principal amount of such Registered Security.

Holders of Registered Securities will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Security as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Securities.

None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Securities or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(e) *General provisions applicable to payments*

The holder of a Global Security shall be the only person entitled to receive payments in respect of Securities represented by such Global Security and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Security in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Securities represented by such Global Security must look solely to Euroclear or Clearstream, Luxembourg as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Security.

(f) *Payment Day*

If the date for payment of any amount in respect of any Security or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "**Payment Day**" means any day which (subject to Condition 8) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (A) the relevant place of presentation; or
  - (B) any Additional Financial Centre specified in the applicable Final Terms; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

(g) *Interpretation of principal and interest*

Any reference in these Terms and Conditions to principal in respect of the Securities shall be deemed to include, as applicable:

- (i) the Final Redemption Amount of the Securities;
- (ii) the Optional Redemption Amount(s) (if any) of the Securities;



- (iii) in relation to Securities redeemable in instalments, the Instalment Amounts (as specified in the applicable Final Terms); and
- (iv) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Securities.

(h) *Payments on Registered Securities in definitive form*

In respect of payments on Registered Securities in definitive form, whether made or falling due before or during any insolvency or composition proceedings to which the Issuer may be subject, the Issuer, to the extent permitted by applicable law and if Condition 5(h) is specified to apply in the applicable Final Terms, hereby waives any right of set-off to which it may be entitled as well as the exercise of any pledge, right of retention or other rights through which the claims of the Security holder could be prejudiced to the extent that such rights belong to the reserved assets (gebundenes Vermögen) of an insurer within the meaning of § 54 Insurance Supervisory Act (Vericherungsaufsichtsgesetz) of the Federal Republic of Germany in connection with the Ordinance Relating to the Investment of the Committed Assets of Insurance Companies (Verordnung über die Anlage des gebunden Vermögen von Versicherungsunternehmen) of the Federal Republic of Germany or belong to funds covering the debt securities (Deckungsmasse für Schuldverschreibungen) of such insurer established pursuant to German law.

**6. REDEMPTION AND PURCHASE**

(a) *Redemption at maturity*

Subject to Condition 6(h), unless previously redeemed or purchased and cancelled or extended as specified below, each Security will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

(b) *Redemption at the option of the Issuer (Issuer Call)*

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Security holders in accordance with Condition 13; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Principal Paying Agent and, in the case of a redemption of Registered Securities, the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem, as specified in the applicable Final Terms, all or some only of the Securities then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be

specified in the applicable Final Terms. In the case of a partial redemption of Securities, the Securities to be redeemed ("**Redeemed Securities**") will be selected individually by lot, in the case of Redeemed Securities represented by definitive Securities, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), in the case of Redeemed Securities represented by a Global Security, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Securities represented by definitive Securities, a list of the serial numbers of such Redeemed Securities will be published in accordance with Condition 13 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Securities represented by definitive Securities shall bear the same proportion to the aggregate nominal amount of all Redeemed Securities as the aggregate nominal amount of definitive Securities outstanding bears to the aggregate nominal amount of the Securities outstanding, in each case on the Selection Date, provided that, such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination and the aggregate nominal amount of Redeemed Securities represented by a Global Security shall be equal to the balance of the Redeemed Securities. No exchange of the relevant Global Security will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph (b) and notice to that effect shall be given by the Issuer to the Security holders in accordance with Condition 13 at least five days prior to the Selection Date.

(c) *Redemption at the option of the Security holders (Investor Put)*

If Investor Put is specified in the applicable Final Terms, upon the holder of any Security giving to the Issuer in accordance with Condition 13 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Security on the Optional Redemption Date and at the Optional Redemption Amount as specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Securities may be redeemed under this Condition 6(c) in any multiple of their lowest Specified Denomination.

To exercise the right to require redemption of this Security the holder of this Security must deliver, at the specified office of any Paying Agent (in the case of Bearer Securities) or the Registrar (in the case of Registered Securities) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a "**Put Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition and, in the case of Registered Securities, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Securities so surrendered is to be redeemed, an address to which a new Registered Security in respect of the balance of such Registered Securities is to be sent subject to and in accordance with the

provisions of Condition 2(b). If this Security is in definitive form, the Put Notice must be accompanied by this Security or evidence satisfactory to the Paying Agent concerned that this Security will, following delivery of the Put Notice, be held to its order or under its control. If this Security is represented by a Global Security or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Security the holder of this Security must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary or, as the case may be, the common service provider, for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Security is represented by a Global Security, at the same time present or procure the presentation of the relevant Global Security to the Principal Paying Agent for notation accordingly.

Any Put Notice given by a holder of any Security pursuant to this paragraph shall be irrevocable.

(d) *Instalments*

Instalment Securities will be redeemed in the Instalment Amounts and on the Instalment Dates.

(e) *Purchases*

The Issuer may at any time purchase or otherwise acquire Securities (provided that, in the case of definitive Securities, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price and in any manner in the open market or otherwise. Such Securities may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or the Registrar for cancellation.

(f) *Cancellation*

All Securities which are redeemed will forthwith be cancelled (together with all unmatured Coupons, Receipts and Talons attached thereto or surrendered therewith at the time of redemption). All Securities so cancelled and any Securities purchased and surrendered for cancellation pursuant to paragraph (e) above (together with all unmatured Coupons, Receipts and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

(g) *Late payment on Zero Coupon Securities*

If the amount payable in respect of any Zero Coupon Security to which Condition 6(h) does not apply, upon redemption of such Zero Coupon Security pursuant to paragraph (a), (b) or (c) above is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Security shall be the amount calculated in accordance with the following formula:

$$RP \times (1 + AY)^y$$

where:

"**RP**" means the Reference Price; and

"**AY**" means the Accrual Yield expressed as a decimal; and

"**y**" is a fraction, the denominator of which is 360 and the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Securities to (but excluding) the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Security have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Securities has been received by the Principal Paying Agent or the Registrar and notice to that effect has been given to the Security holders in accordance with Condition 13.

(h) *Extension of Maturity up to Extended Maturity Date*

- (i) An Extended Maturity Date shall be specified in the applicable Final Terms as applying to each Series of Securities unless the rating agencies appointed at the relevant time by the Issuer to provide credit ratings in respect of the relevant Series of Securities agree that an Extended Maturity Date will not apply to such Series of Securities.
- (ii) If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Securities and the Issuer fails to redeem all of those Securities in full on the Maturity Date or within two Business Days thereafter, the maturity of the Securities and the date on which such Securities will be due and repayable for the purposes of the Conditions will be automatically extended up to but no later than the Extended Maturity Date, subject as otherwise provided for in the applicable Final Terms. In that event, the Issuer may redeem all or any part of the principal amount outstanding of the Securities on an Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date or as otherwise provided for in the applicable Final Terms. The Issuer shall give to the Security holders (in accordance with Condition 13), the Principal Paying Agent and the other Paying Agents, notice of its intention to redeem all or any of the principal amount outstanding of the Securities in full at least five Business Days prior to the relevant Interest Payment Date or, as applicable, the Extended Maturity Date. Any failure by the Issuer to notify such persons shall not affect the validity or effectiveness of any redemption by the Issuer on the relevant Interest Payment Date or as applicable, the Extended Maturity Date or give rise to rights in any such person.
- (iii) In the case of Securities which are Zero Coupon Securities up to (and including) the Maturity Date to which an Extended Maturity Date is specified under the applicable Final Terms, for the purposes of this Condition 6(h) the principal amount outstanding shall be the

total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Conditions.

- (iv) Any extension of the maturity of Securities under this Condition 6(h) shall be irrevocable. Where this Condition 6(h) applies, any failure to redeem the Securities on the Maturity Date or any extension of the maturity of Securities under this Condition 6(h) shall not constitute an event of default for any purpose or give any Security holder any right to receive any payment of interest, principal or otherwise on the relevant Securities other than as expressly set out in these Terms and Conditions.
- (v) In the event of the extension of the maturity of Securities under this Condition 6(h), interest rates, interest periods and interest payment dates on the Securities from (and including) the Maturity Date to (but excluding) the Extended Maturity Date shall be determined and made in accordance with the applicable Final Terms and Condition 4(d).
- (vi) If the Issuer redeems part and not all of the principal amount outstanding of Securities on an Interest Payment Date falling in any month after the Maturity Date, the redemption proceeds shall be applied rateably across the Securities and the principal amount outstanding on the Securities shall be reduced by the level of that redemption.
- (vii) If the maturity of any Securities is extended up to the Extended Maturity Date in accordance with this Condition 6(h), subject to otherwise provided for in the applicable Final Terms, for so long as any of those Securities remains in issue, the Issuer shall not issue any further mortgage covered securities, unless the proceeds of issue of such further mortgage covered securities are applied by the Issuer on issue in redeeming in whole or in part the relevant Securities in accordance with the terms hereof.
- (viii) This Condition 6(h) shall only apply to Securities to which an Extended Maturity Date is specified in the applicable Final Terms and if the Issuer fails to redeem those Securities in full on the Maturity Date (or within two Business Days thereafter).

## 7. **TAXATION**

All payments of principal and interest in respect of the Securities, Receipts and Coupons shall be made by or on behalf of the Issuer without deduction or withholding for or on account of any present or future taxes or other duties of whatever nature levied by or on behalf of any jurisdiction, unless the Issuer shall be obligated by law to make such deduction or withholding. Neither the Issuer nor any Paying Agent will be obliged to make any additional payments in respect of any such withholding or deduction imposed.

## 8. **PRESCRIPTION**

To the extent permitted by applicable law, the Bearer Securities, Receipts and Coupons will become void unless presented for payment within a period of 12 years from the Relevant Date in respect thereof and claims in respect of Registered Securities shall become prescribed unless made within a period of 12

years from the Relevant Date in respect thereof. Any monies paid by the Issuer to the Registrar or a Paying Agent, as the case may be, for the payment of principal or interest with respect to the Securities and remaining unclaimed when the Securities, Receipts or Coupons become void or claims in respect thereof become prescribed, as the case may be, shall be paid to the Issuer and all liability of the Issuer with respect thereto shall thereupon cease. As used in these Terms and Conditions, "**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Security holders in accordance with Condition 13.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon which would be void, or the claim for payment in respect of which would be prescribed, pursuant to this Condition or Condition 5(b) or any Talon which would be void pursuant to Condition 5(b).

9. **REPLACEMENT OF SECURITIES, COUPONS AND TALONS**

Should any Security, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (in the case of Bearer Securities, Receipts, Coupons or Talons) or the Registrar (in the case of Registered Securities) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Securities, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

10. **AGENTS**

The names of the initial Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (a) there will at all times be a Principal Paying Agent and a Registrar;
- (b) so long as the Securities are listed on any stock exchange, there will at all times be a Paying Agent (in the case of Bearer Securities) and a Transfer Agent (in the case of Registered Securities) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority); and
- (c) there will at all times be a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive.

Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Security holders in accordance with Condition 13.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Security holders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

11. **OVERCOLLATERALISATION/PRUDENT MARKET DISCOUNT**

(a) *Maintenance of Overcollateralisation*

For so long as the Securities are outstanding, the prudent market value (determined in accordance with the Act) of the cover assets pool maintained by the Issuer in accordance with the terms of the Act will not at any time be less than the then applicable Minimum Overcollateralisation Level.

(b) *Minimum Pool Overcollateralisation Level*

For the purposes of this Condition 11, the applicable "**Minimum Overcollateralisation Level**" at any time shall be an amount equal to the Overcollateralisation Percentage of the total aggregate outstanding principal amount of all Securities issued under the Programme and any other mortgage covered securities of the Issuer in issue at such time.

(c) *Overcollateralisation Percentage*

For the purposes of this Condition 11, the "**Overcollateralisation Percentage**" means 105.00 per cent. or such other percentage as may be selected by the Issuer from time to time and notified to the Issuer's cover-assets monitor and the Security holders (in the case of the latter, in accordance with Condition 13) provided that:

- (i) the Overcollateralisation Percentage shall not, for so long as the Securities are outstanding, be reduced by the Issuer below 105.00 per cent.; and
- (ii) without prejudice to (i), the Issuer shall not at any time reduce the then Overcollateralisation Percentage which applies for the purposes of this Condition 11 if to do so would result in any credit rating then applying to the Securities by any credit rating agency appointed by the Issuer in respect of the Securities being reduced, removed, suspended or placed on credit watch.

(d) *Prudent Market Discount*

For the purposes of the Asset Covered Securities Act 2001 Regulatory Notice (Sections 41(1) and 41A(7)) 2007 and the Asset Covered Securities Act 2001 (Sections 61(1), 61(2) and 61(3)) [Prudent Market Discount] Regulation 2004 (as either of them may be amended or replaced from time to time), the Prudent Market Discount applicable to the Issuer in the case of valuations within the scope of the above mentioned regulatory notice and regulation is 0.150 or such other figure as may be selected by the Issuer from time to time and notified to the Issuer's cover-assets monitor and the Security holders (in the case of the latter in accordance with Condition 13) provided that:

- (i) such Prudent Market Discount shall not for so long as the Securities are outstanding be reduced by the Issuer below 0.150; and
- (ii) without prejudice to (i) above, the Issuer shall not at any time reduce the then such Prudent Market Discount which applies for the purposes of this Condition 11 if to do so would result in any credit rating then applying to the Securities by any credit rating agency appointed by the Issuer in respect of the Securities being reduced, removed, suspended or placed on credit watch.

12. **EXCHANGE OF TALONS**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Security to which it appertains) a further Talon, subject to the provisions of Condition 8.

13. **NOTICES**

All notices regarding Bearer Securities admitted to the Official List of the Irish Stock Exchange and/or admitted to trading on the regulated market of the Irish Stock Exchange will be deemed to be validly given if filed with the Companies Announcement Office of the Irish Stock Exchange or published in a leading English language daily newspaper of general circulation in Ireland and approved by the Irish Stock Exchange. It is expected that such publication will be made in **The Irish Times**. Any such notice will be deemed to have been given on the date of the first publication.

All notices regarding the Registered Securities will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the second day after mailing and, in addition, for so long as any Registered Securities are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any definitive Securities are issued, there may, so long as any Global Securities representing the Securities are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Securities and, in addition, for so long as any Securities are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Securities on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Security holder shall be in writing and given by lodging the same, together (in the case of any Security in definitive form) with the related Security or Securities, with the Principal Paying Agent (in the case of Bearer Securities) or the Registrar (in the case of Registered Securities). Whilst



any of the Securities are represented by a Global Security, such notice may be given by any holder of a Security to the Principal Paying Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

14. **FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the Security holders, the Receiptholders or the Couponholders to create and issue further mortgage covered securities in accordance with the Act having terms and conditions the same as the Securities or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Securities.

15. **GOVERNING LAW, JURISDICTION AND PARTIAL INVALIDITY**

(a) *Governing Law*

The Agency Agreement, the Deed of Covenant, the Securities, the Receipts and the Coupons are governed by and shall be construed in accordance with the laws of Ireland.

(b) *Jurisdiction*

Any action or other legal proceedings arising out of or in connection with the Securities shall be brought in the High Court of Ireland and the Issuer hereby submits to the exclusive jurisdiction of such court.

(c) *Partial Invalidity*

Should any provision hereof be or become illegal, invalid, void, unenforceable or inoperable in whole or in part, the other provisions shall remain in force.

## **USE OF PROCEEDS**

The Issuer expects to use the net proceeds from the issue of Securities to support the business of the Issuer permitted by the ACS Acts (See *Risk Factors* and *Restrictions on the Activities of an Institution*).

## DESCRIPTION OF THE ISSUER

### The Issuer

#### *AIB Mortgage Bank*

The Issuer was duly incorporated in Ireland under the Companies Acts 1963 to 2005 (as amended) on 11 July 2005 as a public limited company under the name AIB Mortgage Bank p.l.c. It was subsequently re-registered on 19 December 2005 as a public unlimited company under the name AIB Mortgage Bank. The Issuer obtained an Irish banking licence under the Irish Central Bank Act 1971 (as amended) and was registered as a designated mortgage credit institution under the 2001 Act on 8 February 2006. The Issuer is a wholly-owned subsidiary of AIB. At the date of this Base Prospectus, the Issuer is operating in accordance with its constitutive documents, its Memorandum and Articles of Association.

The Issuer's purpose is to issue Mortgage Covered Securities for the purpose of financing loans secured on residential property or commercial property in accordance with the ACS Acts. Such loans may be made directly by the Issuer or may be purchased from AIB and other members of the Group or third parties. Under the 2007 Amendment Act, the Issuer may also hold (and issue Mortgage Covered Securities secured on) RMBS or CMBS. The Issuer's principal executive and registered offices are located at AIB Bankcentre, Ballsbridge, Dublin 4, Ireland. The telephone number of the Issuer is +353 1 660 0311.

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 425,000,000 ordinary shares of €1 each have been issued and are fully paid up as of the date of this Base Prospectus.

The Issuer is a covered institution for the purposes of the Credit Institutions (Financial Support) Scheme 2008 (Statutory Instrument No. 411 of 2008) – see *Annex XVI Disclosures*.

#### *Ownership/Control*

The Issuer is a 100 per cent. owned subsidiary and as such is under the control of AIB. At the date of this Base Prospectus, the Issuer is not aware of any arrangement the operation of which may at a date subsequent to the date of this Prospectus result in a change in control of the Issuer. The Issuer does not have any subsidiaries.

No specific measures have been put in place by the Issuer to ensure that AIB's control of the Issuer is not abused. However the Issuer and AIB are both regulated and supervised by the Financial Regulator under the Irish Banking Code (see *Regulation of Banks and Residential Lending*) and two of the Issuer's directors are not at the date of this Base Prospectus employees of any member of the Group (see *Board of Directors and Management and Administration of the Issuer*).

#### *Unlimited Liability Status of the Issuer*

The Issuer is an unlimited company. There is no limit on the liability of the then-current members (the "**registered shareholders of record**") of the Issuer (as an unlimited company under Irish law) to contribute to the Issuer in an insolvent liquidation of the Issuer to the extent that the Issuer's assets are insufficient to meet its liabilities. In that event, the liquidator of the Issuer or the court has the right to seek contribution from each of the members. AIB is a member of the Issuer. The Issuer's unlimited status does not confer on the creditors of the Issuer the right to seek payment of the Issuer's liabilities from the Issuer's members or to seek contribution for the Issuer from the members in the event of the Issuer becoming insolvent or otherwise. This right rests

with the liquidator of the Issuer or the court on an insolvent winding-up. Therefore, AIB is not guarantor of the Securities. See further *Insolvency of Institutions – Consequences of Issuer's Status as an Unlimited Company*.

#### *Financial Year of the Issuer*

The financial year end of the Issuer is 31 December.

#### *Business of the Issuer*

The Issuer is an Institution, whose business activities are restricted to dealing in and holding mortgage credit assets (which under the 2007 Amendment Act may include certain RMBS or CMBS) and limited classes of other assets, engaging in activities connected with the financing and refinancing of such assets, entering into certain hedging contracts and engaging in other activities which are incidental or ancillary to the above activities. The objects of the Issuer are set out in paragraph 2 of its Memorandum of Association which forms part of its constitutive documents. See *Restrictions on the Activities of an Institution – Permitted business activities in which an Institution may engage*.

#### *Transfer of AIB Irish Residential Loan Book and Business to the Issuer*

On 13 February 2006, AIB transferred substantially all of the Irish residential loans and related security held by it and of its Irish residential loan 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 13 February 2006 was approximately €13.6 billion. The transfer was effected pursuant to a statutory transfer mechanism provided for in the 2001 Act. This statutory mechanism involved the putting in place of a scheme in accordance with the 2001 Act between AIB and the Issuer on 8 February 2006 which permits the transfer of Irish residential loans and related security and/or Irish residential loan business between AIB and the Issuer. Transfers under that scheme were approved by order of the Financial Regulator on 8 February 2006 as required by the 2001 Act. The scheme permits further transfers from AIB to the Issuer or from the Issuer to AIB in the future.

#### *Irish Housing/Residential Loan Market*

The housing market in Ireland is going through a sharp correction following a period of considerable growth. This had seen total housing assets growing from an estimated €100 billion in 1995 to around €700 billion in early 2007 and the total Irish residential loan debt growing to almost €125 billion from less than €15 billion over the same period. However, the housing market has been going through a period of significant correction since the beginning of 2007. After having risen sharply over most of the period from 1995 to 2006, month on month house price changes turned negative in March 2007. At July 2009 prices were down by over 24 per cent. from their peak, falling 12.5 per cent. on a year-on-year basis (source: permanent tsb / ESRI house price index). The index may not fully reflect either the scale of price cuts announced by developers or the experience of many sellers. The number of housing completions is also in sharp decline, again having risen strongly over the period from 1995 to 2006. They fell by 48 per cent. year-on-year in the first seven months of 2009, following declines of 34 per cent. and 12 per cent. in 2008 and 2007, respectively. The level of housing registrations and commencements for 2009 to the date of this Base Prospectus point to a further contraction in housing completions.

The above information on the permanent tsb / ESRI house price index has been sourced from information published on the websites of Irish Life & Permanent p.l.c. (trading as permanent tsb) ([www.permanenttsb.ie](http://www.permanenttsb.ie)) and the Economic and Social Research Institute

(ESRI) ([www.esri.ie](http://www.esri.ie)). Such information has been accurately reproduced and so far as the Issuer is aware and is able to ascertain from that information, no facts have been omitted which would render the above information inaccurate or misleading.

Following regulatory changes in the late 1980's, AIB entered the Irish residential loan market actively in the mid 1990's and has organically grown its market share to become one of the market leaders. The market grew strongly, at an annual rate in excess of 24 per cent. for the three years to December 2006. However, according to the CBFSAI, the annual rate of mortgage growth in outstanding loan balances (excluding securitisations and reclassifications) has since moderated to just 1.2 per cent. in July 2009 (with total debt outstanding of just under €148.1 billion) as residential lending slowed significantly in line with the downturn in both house prices and house construction activity (source: CBFSAI website: [www.centralbank.ie](http://www.centralbank.ie)). This information from the CBFSAI has been accurately reproduced and so far as the Issuer is aware and is able to ascertain from the information, no facts have been omitted which would render the information inaccurate or misleading. AIB Bank Republic of Ireland Division ("**AIB Bank ROI**") (of which the Issuer forms part) competes in this market through visible customer value and rate-led marketing campaigns, a broad product range geared to meet the needs of the various market segments and a competitive pricing strategy. A large proportion of the Group's mortgages in Ireland are sourced from existing account holders with a strong track record of performance.

#### *Irish Home Mortgage Origination*

The retail branch network in Ireland of the Group, with a presence in all major towns and cities in the country, is the cornerstone distribution channel for the Issuer and AIB, populated by experienced mortgage specialists and supported by AIB Internet Banking and a 24 hour direct telephone banking operation. In addition the Issuer originates residential mortgage loans through Business and Private Banking, AIB Bank ROI. AIB also originates home mortgages sourced through mortgage intermediaries.

On 13 February 2006, AIB transferred substantially all of its branch originated Irish residential mortgage book and related security to the Issuer. At the date of this Base Prospectus, the Issuer does not hold mortgages introduced through mortgage intermediaries.

#### *The Irish Competitive Landscape*

There is strong competition among providers of banking services, based upon the quality and variety of products and services, customer relationship management, convenience of location, technological capability, and the level of interest rates and fees charged to borrowers and interest rates paid to depositors. The Issuer has committed itself to pursuing an integrated multi-channel strategy utilising branches, telephone, internet and other direct channels in a complementary manner, based on customer choice.

The Issuer is a major provider of residential mortgage loans in Ireland. It is subject to competition across the spectrum of its residential mortgage lending activities. The major domestic competitor is Bank of Ireland Mortgage Bank (a subsidiary of the Governor and Company of the Bank of Ireland), which like the Issuer has its headquarters in Dublin. The other principal bank competitors are permanent tsb (the retail division of Irish Life & Permanent plc), Bank of Scotland (Ireland) Limited, National Irish Bank (the Irish branch of Danske Bank A/S), and Ulster Bank Ireland Limited (which is a subsidiary of the UK bank, Royal Bank of Scotland Group plc). There is, in addition, competition from building societies (primarily EBS Building Society), mortgage specialists, credit unions, and some smaller financial institutions.

### *Market and Economic Conditions*

The Director's Report accompanying the audited financial statements for the year ended 31 December 2008 (which is incorporated by reference in this Base Prospectus) sets out the market and economic conditions under which the Issuer operates.

## DESCRIPTION OF THE GROUP

### History

AIB, originally named Allied Irish Banks Limited, was incorporated in Ireland in September 1966 as a result of the amalgamation of three long established banks: the Munster and Leinster Bank Limited (established 1885), the Provincial Bank of Ireland Limited (established 1825) and the Royal Bank of Ireland Limited (established 1836). Since that time, it has grown to become the largest Irish-based banking group based on market capitalisation at 31 December 2008

The Group conducts a broad retail and commercial banking business in Ireland, which, in addition to being one of the leading national branch networks, conducts significant corporate lending and capital markets activities from its head office at Bankcentre and from Dublin's International Financial Services Centre.

The Group has conducted significantly greater international activities than its principal Irish based competitors since the early 1970s. It has established retail and corporate banking businesses in the United Kingdom (including Northern Ireland, where it also enjoys bank note issuing powers), Poland and the United States, primarily through its 22.8 per cent. non-consolidated ownership interest in M&T Bank Corporation ("**M&T**"), a New York Stock Exchange-listed commercial banking business based in Buffalo, New York, with significant businesses in Maryland, Pennsylvania and other eastern states. As of 30 June 2009, M&T, on a US GAAP basis, reported consolidated total assets of \$ 70 billion, deposits of \$ 47 billion and shareholders' equity of \$ 7.4 billion. AIB owns this shareholding by virtue of the 2003 integration of the previously wholly owned Allfirst Financial Inc. into M&T.

The Group also has overseas branches in the United States, Germany, France and Australia among other locations, and a subsidiary company in the Isle of Man and Jersey (Channel Islands). It also has representative offices in a number of States in the United States.

In July 1991, AIB acquired TSB Bank Northern Ireland p.l.c. ("**TSB NI**"), a bank with 56 branches in Northern Ireland. In October 1996, AIB's retail operations in the United Kingdom were integrated under the direction of a single board and the enlarged entity was renamed AIB Group (UK) p.l.c. and carries on business under two distinct trading names 'First Trust Bank' in Northern Ireland and 'Allied Irish Bank (GB)' in Great Britain.

The Group entered the Polish market in 1995, when it acquired a minority interest in Wielkopolski Bank Kredytowy S.A. ("**WBK**"). Since that time, it has completed a number of other transactions in Poland and through its 70.4 per cent. interest in Bank Zachodni WBK S.A. ("**BZWBK**") is responsible for the management of a retail and commercial business that had consolidated total assets of € 12.7 billion, deposits of € 9.4 billion and shareholders' equity of € 1.2 billion at 30 June 2009.

In January 2006, AIB completed a transaction that brought together Hibernian Life & Pensions Limited (an Aviva Group p.l.c. subsidiary) and AIB's life assurance subsidiary Ark Life under a holding company Hibernian Life Holdings Limited ("**HLH**"). As a result, AIB owns an interest of 24.99 per cent. in HLH and has entered into an exclusive agreement to distribute the life and pensions products of the venture.

### General

The AIB Group provides a diverse range of banking, financial and related services, principally in Ireland, the United Kingdom ("**UK**"), the United States ("**US**") and Poland.

AIB has some 280 branches and outlets in Ireland, where, according to CBFSAI data, its share of the total market for both euro loans and deposits is in excess of 20 per cent.

In Northern Ireland, through AIB's wholly-owned subsidiary AIB Group (UK) p.l.c., which trades there as First Trust Bank, the Group operates from some 48 branches and outlets.

In Britain, AIB Group (UK) p.l.c., which trades there as Allied Irish Bank (GB), provides a range of banking services through 31 branches and 5 business development offices.

Since 1 April 2003, AIB's main involvement in the US has been carried on through its interest in M&T. M&T has its headquarters in Buffalo, New York and has a branch network of approximately 700 branches in six States and the District of Columbia. AIB's direct presence in the US consists of corporate banking, treasury and financial services for not-for-profit businesses based in New York, with offices in a number of other principal US cities.

In Poland, the Group operates from 514 branches and 51 outlets, primarily in Western Poland, through its 70.4 per cent. owned subsidiary Bank Zachodni WBK S.A.

AIB is the holding company of all the companies in the Group. It also engages in business in its own right. Its assets are therefore comprised both of shares in those companies; and assets and liabilities acquired in the conduct of its own business. It is thus partly dependent on the members of the Group and the revenues received by them.

## Divisions

The Group's activities are conducted through four major operating divisions – AIB Bank ROI; AIB Bank UK; Capital Markets; and Central & Eastern Europe. At 30 June 2009, AIB Group had consolidated total assets of €179.5 billion and for the year ended 31 December 2008, employed 25,815 people on an average full time equivalent basis. The distribution of assets and the number of employees between those major operating divisions was as follows:

	Assets As at 30 June 2009		Employees Year ended 31 December 2008	
	-----		-----	
	(Euros in millions)	%		%
Division				
AIB Bank ROI	80,854	45	7,746	30
Capital Markets	56,369	31	2,562	10
AIB Bank UK	24,944	14	2,689	10
Central & Eastern Europe	11,864	7	9,776	38
Group	5,509	3	3,042	12
	-----	-----	-----	-----
Total	179,540	100	25,815	100
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## Summary division activities

A summary of the activities conducted by each of the principal companies in each division is set out below.



### *AIB Bank Republic of Ireland division*

The AIB Bank Republic of Ireland ("**ROI**") division, with total assets of €80.9 billion at 30 June 2009 encompasses the Group's retail and commercial banking operations in Ireland, Channel Islands and Isle of Man; AIB Finance & Leasing; the Card Acquiring and Card Issuing businesses; Wealth Management and AIB's share in HLH, the life and pensions venture with Aviva. AIB Bank ROI provides banking services through a distribution network of some 280 locations (182 branches, 89 outlets and 9 business centres), and in excess of 800 automatic teller machines ("**ATMs**"). AIB cardholders also have access to over 2,000 'other bank' ATMs in Ireland, 56,000 LINK ATMs in the UK as well as close to 1 million Visa Plus serviced ATMs worldwide. AIB has an agency agreement with An Post, the national post office network, which enables AIB personal and business customers to carry out basic transactions at over 1,000 post office locations nationwide. AIB also offers customers a debit card, which is co-branded Laser and Maestro and secured by the 'CHIP and PIN' technology. This card provides customers point of sale access domestically via the Laser scheme ('Laser' is operated jointly with other financial institutions in Ireland), ATM access domestically via bi-lateral agreements and internationally at any point of sale or ATM that displays the Maestro symbol. Through the branch network, the division provides a broad suite of savings and investment products, loans and overdrafts, home mortgages, payment services and foreign exchange facilities, and also issues Visa® and Mastercard® credit cards. In addition, the division offers secure internet and telephone banking services for personal customers, who can avail of a range of traditional banking products and services.

For business customers, an Internet based banking service called iBusiness Banking is available. It offers secure internet banking and a comprehensive cash management solution, including domestic and cross-border payment functionality. Branch banking services are provided through a comprehensive relationship management structure to a full range of customer segments, including individuals, small and medium sized businesses ("**SMEs**"), farmers, and large commercial and corporate clients.

AIB Finance & Leasing is AIB's asset financing arm in Ireland. It markets its services through the AIB branch network and through intermediaries with whom it has established relationships, such as motor dealers, equipment suppliers, brokers and other professionals, including lawyers, accountants and estate agents. It also lends directly to customers. Its lending services include vehicle, equipment and fleet leasing, retail and investment property loans, vehicle and equipment hire purchase, insurance premium financing and personal loans.

AIB's Wealth Management unit comprises Private Banking and Investment & Protection. It provides a wide range of wealth management offerings, including retirement, investment and estate planning.

HLH provides a full range of life and pensions products in this sector. In Ireland, general insurance products are sold in the branch network through alliances with partners in the insurance industry.

### *Capital Markets division*

The activities of AIB Capital Markets, with total assets of € 56.4 billion at 30 June 2009, comprise corporate banking, global treasury and investment banking, which includes asset management and stockbroking activities. These activities are delivered through the following business units: AIB Corporate Banking; Global Treasury; Investment Banking; and Allied Irish America ("**AIA**").

AIB Corporate Banking provides a fully integrated, relationship-based banking service to top-tier companies, both domestic and international, including financial institutions and

Irish commercial state companies. AIB Corporate Banking's activities also include participating in, developing and arranging acquisition, project, property and structured finance in Ireland, the UK, North America, Continental Europe and the Asia Pacific region. Corporate Banking has also originated and manages four Collateralised Debt Obligation ("**CDO**") funds. The cumulative size of the CDO funds at 31 December 2008 was € 1.6 billion.

Global Treasury, through its treasury operations, manages on a global basis the liquidity and funding requirements and the interest and exchange rate exposure of the Group. In addition, it undertakes proprietary trading activities, and provides a wide range of treasury and risk management services to corporate, commercial and retail customers of the Group. It also provides import and export related financial services through its international activities.

Investment Banking provides a comprehensive range of services including corporate finance through AIB Corporate Finance Limited; corporate finance and stockbroking through Goodbody Stockbrokers; outsourced financial services through AIB International Financial Services Limited; and asset management through AIB Investment Managers Ltd ("**AIBIM**"). AIBIM manages assets principally for institutional and retail clients in the Republic of Ireland. Investment Banking also includes the management of property fund activities (principally in Polish properties).

AIA's core business activities are aimed at the not-for-profit sector, operating principally from New York and Los Angeles.

AIB Capital Markets is headquartered at Dublin's International Financial Services Centre and has operations in a number of principal UK, US and Polish cities; and in Frankfurt, Paris, Luxembourg, Budapest, Zurich, Toronto and Sydney.

#### *AIB Bank UK division*

The AIB Bank UK division, with total assets of € 24.9 billion at 30 June 2009, operates in two distinct markets, Great Britain and Northern Ireland, with different economies and operating environments. The division's activities are carried out primarily through AIB Group (UK) p.l.c., a bank registered in the UK and regulated by the Financial Services Authority ("**FSA**").

#### *Great Britain*

In this market, the division operates under the trading name Allied Irish Bank (GB) from 31 full service branches and 5 business development offices. The divisional head office is located in Mayfair, London with a significant back office operation in Uxbridge, West London and a divisional processing centre in Belfast.

A full service is offered to business and personal customers, professionals, and high net worth individuals. Internet banking is also offered to customers.

Corporate Banking services are offered from London, Birmingham and Manchester, with particular emphasis on the commercial property, education, health, horse racing and charity sectors.

#### *Northern Ireland*

In this market, the division operates under the trading name First Trust Bank from 48 branches and outlets throughout Northern Ireland. The First Trust Bank head office is located in Belfast, together with the divisional processing centre.

A full service, including internet banking, is offered to business and personal customers across the range of customer segments, including professionals and high net worth individuals, small and medium sized enterprises, and the corporate sector.

Specialist services, including mortgages, credit cards, invoice discounting and asset finance are based in Belfast and delivered throughout the division.

First Trust Independent Financial Services provides sales and advice on regulated products and services, including protection, investment and pension requirements to the whole of the division.

#### *Central & Eastern Europe division*

Central & Eastern Europe division, with total assets of € 11.9 billion at 30 June 2009 comprises (i) BZWBK, the Polish bank in which AIB has a 70.4 per cent. shareholding, together with its subsidiaries and associates (ii) Bulgarian American Credit Bank, a commercial bank operating through five branches in Bulgaria in which AIB has a 49.99 per cent. shareholding and (iii) AmCredit which consists of three branches of Allied Irish Banks, p.l.c., operating in Lithuania, Latvia and Estonia. BZWBK wholesale treasury and an element of BZWBK investment banking subsidiaries' results are reported in the Capital Markets division.

BZWBK is Poland's fourth largest bank by loans, deposits and total equity. As at 30 June 2009 BZWBK had total assets of PLN 56.5 billion (€ 12.7 billion), operated through 514 branches and 1,033 ATMs. As at 31 December 2008 BZWBK employed an average of 9,754 staff, including those in subsidiaries (9,651 of the staff are in the Central & Eastern Europe division). BZWBK's registered office is located in Wroclaw in south-western Poland. Support functions are also located in offices based in Poznan and Warsaw. BZWBK is a universal bank providing a full range of financial services for retail customers, small and medium-sized enterprises and corporate customers. Apart from core banking facilities, the bank provides insurance services, trade finance, transactions in the capital, foreign exchange, derivatives and money markets. Brokerage services, mutual funds, asset management, leasing and factoring products are delivered to customers through subsidiaries. BZWBK set up two joint ventures with Aviva plc (a general and life insurance company) in 2008 whose sole purpose is to provide insurance services to the bank's customers.

BZWBK24, its electronic banking service, gives retail and business customers convenient and safe access to their accounts via telephone, mobile phone and the internet, and facilitates operations such as fund management and the purchase of standard products (cash loans, credit cards, savings accounts, deposits, insurance). The BZWBK branch network was originally concentrated in the western part of the country while elsewhere in Poland the bank operated primarily in major urban areas. Since 2007, BZWBK has grown its presence in central, northern and southern Poland, thus spanning most of the country. Basic retail products are also available through a franchise network mainly situated in small towns and residential areas of big cities. As at 30 June 2009, the bank operated three corporate banking centres (based in Warsaw, Poznan, Wroclaw) providing comprehensive services for large corporates and fifteen business banking centres established across key markets in Poland to manage relationships with small and medium-sized enterprises as well as mid corporate customers.

#### **Organisational structure**

During 2009, the business of the Group has been conducted through the following divisions and AIB's principal subsidiary and associated companies as described below:

## **AIB BANK ROI DIVISION**

<b>Allied Irish Banks, p.l.c.</b>	General retail and commercial banking through some 280 branches, outlets and business centres in Ireland.
<b>AIB Leasing Ltd.</b>	Asset financing company providing leasing products.
<b>AIB Insurance Services Ltd.</b>	Provision of general insurance services. Acts as an insurance intermediary.
<b>AIB Bank (CI) Ltd.</b>	Jersey (Channel Islands) based company providing a full range of offshore banking services including lending and internet banking facilities and also offering offshore trust and corporate services through a subsidiary company. It also maintains a branch in the Isle of Man.
<b>AIB Mortgage Bank</b>	The Issuer's principal activity is the issue of Mortgage Covered Securities for the purpose of financing loans secured on residential property, in accordance with the ACS Acts. See – <i>Description of the Issuer</i> .

## **CAPITAL MARKETS DIVISION**

<b>Allied Irish Banks, p.l.c.</b>	Management of liquidity and funding needs; interest and exchange rate exposures; financial market trading activities; provision of lending; trade finance and commercial treasury services; provision of corporate banking and not-for-profit activities.
<b>AIB Capital Markets plc</b>	Provision of asset management, fund management and corporate advisory services, including equity investment and corporate finance.
<b>AIB Corporate Finance Limited</b>	Provision of corporate advisory services to companies including merger, acquisition, capital raising and strategic financial advice.
<b>Goodbody Holdings Limited</b>	Provision of a broad range of stockbroking services, and corporate advisory services through its subsidiaries, Goodbody Stockbrokers and Goodbody Corporate Finance respectively.
<b>AIB International Financial Services Limited</b>	Provider of outsourced financial services to international banks and corporations.
<b>AIB Asset Management Holdings (Ireland) Limited</b>	Provides asset management and funds services management for institutional and retail clients through its subsidiary companies AIB Investment Managers Ltd. and AIB Fund Management Ltd.

## **AIB BANK UK DIVISION**

<b>AIB Group (UK) p.l.c.</b>	31 branches and 5 business development offices in Britain, trading as <i>Allied Irish Bank (GB)</i> , focused primarily on the mid-corporate business sector. 48 branches and outlets in Northern Ireland, trading as <i>First Trust Bank</i> , focused on general retail and commercial banking and also asset finance and leasing.
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## CENTRAL & EASTERN EUROPE DIVISION

<b>Bank Zachodni WBK S.A.</b>	A commercial and retail bank which operates through 514 branches and 51 outlets in Poland.
<b>Investment in Bulgarian-American Credit bank AD</b>	A 49.99 per cent. interest in a commercial bank which operates through five branches in Bulgaria.
<b>AmCredit</b>	A mortgage lender which operates through three branches in Lithuania, Latvia and Estonia.

## GROUP DIVISION

<b>Investment in M&amp;T</b>	A 22.8 per cent. interest in a retail and commercial bank, with its headquarters in Buffalo, New York, which operates through approximately 700 branches.
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The above undertakings are wholly-owned with the exception of Bank Zachodni WBK S.A. (70.4 per cent.) and Bulgarian American Credit Bank AD (49.99 per cent.). The registered office of each is located in the principal country of operations for divisional reporting purposes. AIB's minority investment in M&T is recorded under the Group division.

## Recapitalisation

On 21 December 2008 the Minister for Finance (the "**Minister**") announced that, subject to shareholder and regulatory approval, the Irish government had agreed to provide a recapitalisation package for AIB. That statement was superseded on 11 February 2009 when the Minister announced revised details of a recapitalisation package (which was subject to shareholder, regulatory and EU state aid approval).

The main features of the Irish government's announcement of 11 February 2009 (the "**Announcement**"), so far as it related to AIB, were as follows:

- (i) The Irish government would provide €3.5 billion (€3,500,000,000) in core tier 1 capital by way of preference shares (the "**Preference Shares**");
- (ii) The Preference Shares would carry a fixed dividend of 8 per cent. payable in cash or ordinary shares in lieu. The Preference Shares could be repurchased at par up to the fifth anniversary of the issue and at 125 per cent. of face value thereafter.
- (iii) The Minister could appoint, in total, 25 per cent. of the directors of AIB (inclusive of the directors appointed under the Financial Support Scheme).
- (iv) The Minister would also be entitled to 25 per cent. of total voting rights on proposals in respect of change of control and on board appointments.
- (v) Warrants (the "**Warrants**") attached to the Preference Shares would give an option to purchase up to 25 per cent. of the ordinary share capital of AIB existing on the date of issue of the new Preference Shares. The strike price of the first 15 per cent. of the Warrants exercised by the State would be €0.975 and, for the balance of the Warrants, would be €0.375.
- (vi) If AIB were to redeem up to €1.5 billion (€1,500,000,000) of the State investment in the Preference Shares from privately sourced core tier 1

capital prior to 31 December 2009, then the Warrants would be reduced, pro rata to that redemption, to an amount representing not less than 15 per cent. of the ordinary shares of the bank.

The recapitalisation was stated to be subject to regulatory approvals and the approval of the ordinary shareholders in a general meeting. In the Announcement the Minister also set out information in relation to other initiatives.

On 20 April 2009 AIB issued a statement (the "**Capital Statement**") to the Irish Stock Exchange on its capital position stating that since the agreement announced with the Irish government in the Announcement in relation to the recapitalisation of AIB, market and public uncertainty in relation to AIB's capital adequacy had persisted despite the proposed government injection of €3.5 billion in core tier 1 capital.

The Capital Statement announced that following discussions with the Minister for Finance of Ireland (the "**Minister**"), AIB had decided to take further action to strengthen its capital position. In co-operation with AIB, the Minister had been conducting due diligence and stress test scenarios. Arising from these stress tests the Minister and AIB had formed a view that to strengthen AIB's capital position a total amount of €5.0 billion new core tier 1 capital was appropriate.

As a consequence, in addition to the proposed €3.5 billion injection by the Irish government, AIB aims to increase core tier 1 capital by a further €1.5 billion before the end of 2009. Potential sources of this capital include the disposal of assets and marketable assets will be considered as part of this process; €1.1 billion of which has already been sourced through a capital exchange process completed in June 2009. This commitment represents a reappraisal of AIB's previous view in relation to asset disposal. In the Capital Statement AIB acknowledged that the Minister had said that if any further capital injections are required from the State that these would be in the form of equity capital.

AIB also expressed its support for the Irish government's decision to create NAMA and signalled its intention to participate in this initiative.

At an Extraordinary General Meeting ("**EGM**") of shareholders of AIB held on 13 May 2009 all the resolutions recommended by the Board at the EGM of the Issuer were duly passed. Following the EGM, the Preference Shares were issued and warrants to subscribe for up to 294,251,819 ordinary shares were granted to the National Pensions Reserve Fund Commission.

## REGULATION OF BANKS AND RESIDENTIAL LENDING IN IRELAND

### General Supervision and Regulation of Banks in Ireland

Institutions such as the Issuer are subject to regulation under Irish legislation and regulations relevant to all banking activities other than the activities regulated by the ACS Acts (the "**Irish Banking Code**") in addition to regulation under the ACS Acts in respect of the activities regulated thereby.

As an Irish incorporated credit institution authorised by the Financial Regulator under the Irish Banking Code, the Issuer is subject to the regulatory and supervision requirements of the Irish Banking Code as well as those under the ACS Acts. In relation to the relationship between the Financial Regulator's powers and functions under the Irish Banking Code and those under the ACS Acts, see *Supervision and Regulation of Institutions/Managers – Regulation of Institutions under banking legislation other than the ACS Acts* below.

The Irish Banking Code consists primarily of the Central Bank Acts 1942 to 1998 as amended (the "**Central Bank Acts**"), 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**"), regulations made by the Irish Minister for Finance under the European Communities Act 1972, and regulatory notices issued by the Financial Regulator. These ministerial regulations and regulatory notices implement EU directives relating to banking regulation, including Council Directive No. 77/780/EEC of 12 December 1977, as amended (the "**First Banking Co-ordination Directive**"), Council Directive 89/646/EEC of 15 December 1989, as amended (the "**Second Banking Co-ordination Directive**"), Council Directive 93/6/EC of 15 March 1993 (the "**Capital Adequacy Directive**"), Council Directive 89/647/EEC of 18 December 1989 (the "**Solvency Ratio Directive**"), Council Directive 89/299/EEC of 17 April 1989 (the "**Own Funds Directive**"), Council Directive 92/121/EEC of 21 December 1992 (the "**Large Exposures Directive**"), Council Directive 94/19/EC of 30 May 1994, as amended (the "**Deposit Guarantee Scheme Directive**"), Council Directive 92/30/EEC of 6 April 1992 (the "**Consolidated Supervision Directive**") and European Parliament and Council Directive 95/26/EC of 29 June 1995 (the "**Post BCCI Directive**"). Most of the above directives were consolidated and in some cases amended, under the CRD/CAD Recast Directive.

At the end of 2006, the CRD and the CAD Recast Directive were (insofar as the latter may be relevant to credit institutions) implemented to the extent required under Irish law in relation to the capital adequacy of credit institutions under the European Communities (Capital Adequacy of Credit Institutions) Regulations 2006 (S.I. No. 661 of 2006) (the "**2006 CRD Regulations**") and together with any other laws implementing the CRD in Ireland, the "**Irish CRD Code**"). The Financial Regulator has published an administrative notice, dated 28 December 2006, with respect to the implementation of the CRD and that notice together with the Irish CRD Code and the guidance published by the Committee of European Banking Supervisors form the basis of transposition of the CRD in Ireland. To the extent that areas of banking activity are the subject of EU directives, the provisions of Irish banking law reflect the requirements of those directives.

The Central Bank Acts provide that banking business may only be carried on in Ireland by the holder of a banking licence or an entity which exercises 'passport rights' to carry on business in Ireland (as to which, see further below). The Financial Regulator may, in its discretion, grant or refuse a licence under the Central Bank Acts and may attach conditions to any licences granted. The Financial Regulator is empowered in specified circumstances, after consultation with the Minister for Finance, to revoke a licence granted under the Central Bank Acts. Under the Central Bank Acts, licenced banks must

maintain a minimum deposit with the Financial Regulator. The Issuer holds a banking licence; no conditions for the purposes of the Central Bank Acts are attached to that licence. The Issuer is also registered as a designated mortgage credit institution under the ACS Acts.

The Second Banking Co-ordination Directive (which has been replaced by the CRD) was the key legislative provision which introduced a single market in banking within the EU. The Second Banking Co-ordination Directive was implemented in Ireland by the European Communities (Licensing and Supervision of Credit Institutions) Regulations 1992 (the "**1992 Licensing Regulations**"). The 1992 Licensing 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 stockbroking firms, authorised investment business firms and authorised life assurance companies. In the spirit of co-operation between financial regulators throughout the EU, the 1992 Licensing Regulations provide that in exercising its regulatory functions, the Financial Regulator may collaborate with any competent authority from another Member State with similar functions, to the extent that it considers reasonable. The 1992 Licensing Regulations also permit the Financial Regulator to carry out an inspection or investigation of a credit institution authorised in another EU Member State which has exercised passport rights and established a branch in Ireland.

The Bank of International Settlements capital adequacy framework was issued in June 2004 and is commonly known as Basel II ("**Basel II**"). The CRD/CAD Recast Directive introduced Basel II capital adequacy standards as adopted in the EU. Under the CRD/CAD Recast Directive capital adequacy standards, a minimum solvency ratio of eight per cent. applies to Irish licensed banks such as the Issuer, with respect to credit risk and dilution risk of all business activities, subject to certain exceptions. The CRD/CAD Recast Directive also imposes regulatory capital requirements for trading book business, position risk, settlement and counterparty risk, large exposures, foreign exchange risk and operational risk. As of the date of this Base Prospectus, a number of amendments to the CRD/CAD Recast Directive have been proposed by the European Commission including:

- (i) a proposal published on 1 October 2008 for an amending directive as regards banks affiliated to central institutions, certain own fund requirements, large exposures, supervisory arrangements, and crisis management; and
- (ii) a proposal published on 13 July 2009 for an amending directive as regards capital requirements for the trading book and resecuritisations and the supervisory review of remuneration policies.

As at the date of this Base Prospectus, liquidity requirements for EU credit institutions are not the subject-matter of EU directives. In Ireland, the Financial Regulator requires credit institutions to manage their liquidity, on a consolidated group-wide basis, by applying a cash-flow maturity mismatch approach. This involves credit institutions analysing their cash flow on a group wide basis under various headings and placing them in pre-determined time bands depending on when the cash is received or paid out. Limits imposed on the group on the first (0-8 days) and the second (8-31 days) time bands and monitoring ratios are calculated for subsequent time bands. The above liquidity requirements apply to the Group on a consolidated basis rather than to the Issuer on a solo basis and the Issuer complies with such requirements as part of the group consolidated reporting permitted by the Financial Regulator.



The Central Bank and Financial Services Authority of Ireland (“**CBFSAI**”) has two component entities: the Central Bank and the Financial Regulator. The Central Bank has responsibility for monetary policy functions, financial stability, economic analysis, currency and payment systems, investment of foreign and domestic assets and the provision of central services. The Financial Regulator has responsibility for financial sector regulation and consumer protection with respect to most financial services activities in Ireland. Amendments to the Central Bank Acts under the 2003 Act (a) established as a separate function within the Financial Regulator the office of the Consumer Director with particular responsibility for the administration of the Consumer Credit Act 1995, and the consumer protection provisions of other supervisory enactments; jurisdiction over some of those provisions is shared with the National Consumer Agency, and (b) established the Irish Financial Services Appeals Tribunal which hears and determines appeals under prescribed legislation relating to financial services that have the effect of imposing a sanction or liability on any person.

On 18 June 2009 the Minister for Finance of Ireland announced the Irish government's intention to establish a single, fully integrated regulatory body, the Central Bank of Ireland Commission. The new body, which is to be chaired by the Governor of the Central Bank and is expected to be responsible for the supervision of individual firms and the stability of the financial system generally, will replace the current structure of two autonomous entities within the CBFSAI (i.e. the Central Bank and the Financial Regulator). Legislation will be necessary to underpin the new structure before it comes into effect.

The Financial Regulator is responsible for regulating and supervising a range of banking and financial services entities in Ireland including credit institutions, investment firms, stockbroking firms, and insurance companies and operates on the basis of the principle of consolidated regulation. Pursuant to this power, the Financial Regulator carries out regular review meetings and periodically inspects licensed banks. The Financial Regulator 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 Financial Regulator 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 Financial Regulator also has wide ranging powers of inspection; inspectors appointed by the Financial Regulator 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 Financial Regulator 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 Financial Regulator must also approve appointments to senior and influential positions in licensed entities and has the power under the Central Bank Acts, as amended by the 2004 Act to impose administrative sanctions directly on financial institutions for failure to comply with regulatory requirements, subject to a right of appeal to the Irish Financial Services Appeals Tribunal.

The Financial Regulator may also prescribe ratios to be maintained between, and requirements as to the composition of, the assets and liabilities of licensed banks, to prescribe maximum interest rates permitted to be charged and to make regulations for the prudent and orderly conduct of banking business of such banks. The Irish CRD Code sets forth minimum start-up and ongoing capital requirements for banks licensed by the Financial Regulator and requires applicants for a licence to notify the Financial Regulator of the identity of certain shareholders and the size of their holdings in the applicant.

The Financial Regulator also sets requirements and standards from time to time for the assessment of applications for banking licences. The Financial Regulator's requirements of applicants are expressed in a publicly-available guidance note on completing and

submitting a banking licence application. The guidance note is supplemented by a checklist for applicants and by the Financial Regulator's 1995 non-statutory Licensing and Supervision Requirements and Standards for Credit Institutions. The Financial Regulator is principally concerned to ensure that certain minimum standards apply (before a banking licence is issued and, on an ongoing basis) in respect of the following: (a) initial capital requirements; (b) own funds/solvency requirements; (c) capital adequacy requirements; (d) liquidity requirements; (e) large exposures limits; (f) funding requirements; and (g) the fitness, probity and competence of the entity's personnel.

The European Communities (Financial Conglomerates) Regulations 2004 (the "**Financial Conglomerate Regulations**") have implemented in Ireland the Financial Conglomerates Directive (Directive 2002/87/EC). The Financial Conglomerate Regulations put in place new rules regarding the supplemental supervision of regulated entities in a financial conglomerate; that is, a financial group which provides products and services in the banking, investment and insurance sectors. The Financial Conglomerate Regulations include own funds requirements, notification obligations in relation to risk concentrations and intra-group transactions and obligations in relation to the maintenance of adequate risk management processes and internal control mechanisms.

The Group's operations in overseas locations are subject to the regulations and reporting requirements of the regulatory and supervisory authorities in the overseas locations with the Financial Regulator having overall responsibility for their regulation and supervision. The Financial Regulator is required to supervise the Group on a consolidated basis, i.e., taking account of the entire Group activities and relationships.

Licensed banks (which includes the Issuer) must notify their existing fees and charges and related terms and conditions, and any changes therein from time to time to the Consumer Director of the Financial Regulator who can direct that no fees, charges or increases or changes therein be made without his or her approval (see also – *Regulation of the Irish Residential Mortgage Market – Consumer Credit Act 1995 (as amended)* below).

All credit institutions (including the Issuer) are obliged to take the necessary measures to effectively counteract money laundering and terrorist financing in accordance with the Criminal Justice Act 1994 (as amended) (the "**1994 Act**") and the Criminal Justice (Terrorist Offences) Act 2005. Guidance notes with respect to credit institutions' obligations under each of the said Acts have been issued by the Money Laundering Steering Committee, a body chaired by the Department of Finance of Ireland and which includes representatives from relevant government departments, the Financial Regulator, the Garda Síochána (police) and the major representative bodies in the financial sector. A third anti-money laundering directive (Directive 2005/60/EC) repeals and replaces the previous anti-money laundering directives and introduces additional requirements and safeguards in line with the Forty Recommendations of the OECD based Financial Action Task Force. A Bill known as the Criminal Justice (Money Laundering and Terrorist Financing) Bill 2009 (the "**2009 AML Bill**") was presented before Dáil Éireann (the lower house of the Irish parliament) on 24 July 2009. The 2009 AML Bill is intended to transpose Directive 2005/60/EC and the associated implementing Directive 2006/70/EC into Irish law and if enacted in its current form will consolidate existing anti-money laundering legislation into a single statute. The 2009 AML Bill contains requirements on the part of designated bodies covered by the proposed legislation to identify customers, to report suspicious transactions to An Garda Síochána and the Revenue Commissioners and to have specific procedures in place to provide for the prevention of money laundering and terrorist financing.

The Data Protection Acts 1988 and 2003 (the "**DPA**") regulate the retention and use of data relating to individual customers. The DPA also requires certain 'data controllers' (including financial institutions which control personal data) to register with the Irish Data Protection Commissioner. The Issuer has registered under the DPA.

In July 2006, the Financial Regulator issued a Consumer Protection Code which is designed to protect the interests of customers of financial institutions and is applicable (in part) to the Issuer's activities with its customers generally and (in whole) to its dealings with those of its customers who are consumers (see *Regulation of the Irish Residential Mortgage Market – Consumer Protection Code* below).

The 2004 Act provided for the establishment of the Financial Services Ombudsman (the "**FSO**") and the Financial Services Ombudsman Council. The FSO has jurisdiction in respect of complaints regarding financial services provided to consumers and has a range of powers to investigate complaints and to impose financial or other sanctions on a regulated financial service provider.

Every Irish licensed bank (including the Issuer) is obliged to draw up and publish its annual accounts in accordance with the European Communities (Credit Institutions: Accounts) Regulations 1992 as amended and the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005.

Under the European Communities (Deposit Guarantee Schemes) Regulations 1995 (as amended), which implement in Ireland the Deposit Guarantee Schemes Directive (Directive 94/19/EC), the Financial Regulator operates a statutory depositor protection scheme under which each licensed bank (including the Issuer) must contribute to the deposit protection account held by the Financial Regulator. The Financial Services (Deposit Guarantee Scheme) Act 2009 gives legal effect to the changes to the Irish deposit guarantee scheme announced by the Irish government on 20 September 2008, which increased the coverage provided by the deposit protection scheme in Ireland to €100,000 per depositor per institution. The cover applies to 100 per cent. of each individual's deposit. The follow-on regulations, the European Communities (Deposit Guarantee Schemes) (Amendment) Regulations 2009, amend the European Communities (Deposit Guarantee Schemes) Regulations 1995 and transpose the Deposit Guarantee Schemes Directive (Directive 2009/14/EC), which provides that Member States shall ensure by 30 June 2009 that coverage is set at a minimum of €50,000; and at a minimum of €100,000 by 31 December 2010. Holders of the Securities will not qualify under the deposit protection scheme. Currently, the level of contribution required by a licensed bank is the greater of €50,000 or 0.2 per cent. of deposits (in whatever currency) held at all branches of the bank in the EEA, including deposits on current accounts but excluding interbank deposits and deposits represented by certificates of deposit.

The Investor Compensation Act 1998 (the "**1998 Act**") provided for the establishment of the Investor Compensation Company Limited (the "**ICCL**") to administer and supervise investor compensation schemes. The 1998 Act requires authorised investment firms (including the Issuer) to pay the ICCL such contribution to the fund maintained by the ICCL as the ICCL may from time to time specify. ICCL is given discretion to specify different rates or amounts of contributions or different bases for the calculation of contributions of different classes or categories of investment firms. The maximum level of compensation payable to any one investor is 90 per cent. of net loss or €20,000 whichever is the lower.

As a company incorporated under the Companies Acts 1963 to 2005 (as amended), the Issuer must comply with the provisions of such legislation. The Director of Corporate Enforcement, an Irish independent statutory officer, is responsible for encouraging compliance with, and for the enforcement of, the Companies Acts 1963 to 2009.

The 2004 Act gives the Financial Regulator the power to request a licensed entity to provide it with a statement confirming that the entity has complied with its relevant obligations/guidelines, thus going further than the general company law obligation to ensure that appropriate policies and procedures are in place.

The provision of credit to consumers is regulated in Ireland by the Consumer Credit Act 1995 as amended (the "**CCA**") and the CCA is relevant to the Issuer to the extent that it provides credit (including housing loans) to consumers. The CCA prescribes a range of detailed requirements to be included in consumer credit agreements and imposes a number of obligations on the provider of such credit. The CCA imposes a requirement on all credit institutions to notify the Financial Regulator in advance of imposing any charge in relation to the provision of a service on a customer; increasing any charge previously notified; or imposing certain charges that do not comply with a direction from the Financial Regulator. The Consumer Director, a full member of the board of the Financial Regulator, aims to monitor closely the provision of financial services to consumers.

In relation to regulation of the Issuer under the ACS Acts, see *Restrictions on the Activities of an Institution to Registration of Institutions/Revocation of Registration* (inclusive) below.

## **Material Legal Aspects of the Irish Residential Loans and the Related Security**

### *General*

Title to land in Ireland takes one of two forms: registered and unregistered. Both these systems of title include freehold and leasehold property. A freehold title is the closest title to absolute ownership which a property owner may hold. A leasehold title means that the property is held for a term of years and the lease generally reserves a nominal annual rent and is subject to covenants and conditions which are usually not onerous.

### *Registered Title*

The registration of title system was established in Ireland by the Local Registration of Title (Ireland) Act 1891. This system of title registration is now governed by the Property Registration Authority established under the provisions of the Registration of Deeds and Title Act 2006. The Land Registry (which is under the control of the Property Registration Authority) provides for the registration of the ownership of land. The register is divided into individual administrative counties and allocates properties in that county a unique title number known as a folio. The basic principle is that the register is conclusive evidence of the title of the owner to the land as it appears on the register.

Each individual folio consists of three parts: the property register, which provides details of the property including location and description as either freehold or leasehold; the ownership register which details the owners and quality of title and, finally; the burdens register, which contains details of all burdens attaching to the property including charges and other security interests. The property is also identified by a map retained at the Land Registry indicating the location of the related land (the "**Plan**"). However, the Plan is not conclusive as to matters such as the location of the boundaries.

Title to freehold land can be described as either absolute, qualified or possessory title. Leasehold land can be either absolute, qualified, possessory or good leasehold title. Compulsory land registration applies to 24 counties in Ireland (all counties except Dublin and Cork) which means that any event affecting land in one of those counties makes registration of the title to the land compulsory in the Land Registry.

### *Unregistered Title*

Where the title to land is not registered in the Land Registry, deeds relating to the land may be filed in the Registry of Deeds, now under the control of the Property Registration Authority. The registration of deeds system was introduced in Ireland by the Registration of Deeds Act (Ireland) 1707. Whereas a Land Registry folio is conclusive evidence of title to a property, the primary function of the Registry of Deeds is to provide a system of recording the existence of deeds and conveyances affecting unregistered property. Title to unregistered land is proved by establishing a chain of documentary evidence to title going back at least 20 years (to be reduced to 15 years on commencement of the LRCA 2009 as referred to below). Where details of the grantor are known, a search in the Registry of Deeds will establish the existence of any documents relating to the property, while the effect of the documents can only be discovered by examining them in detail. There is generally no requirement to register documents relating to unregistered land; however, priority of mortgages and charges affecting the property can be adversely affected if relevant documents are not registered and thus it is standard conveyancing practice to register all documents dealing with unregistered land.

### *Taking Security over Land - Land Reform and Conveyancing Act 2009*

The Land Reform and Conveyancing Act 2009 (the "**LRCA 2009**") comprehensively reforms Irish land law and conveyancing practice and also introduces some fundamental changes to the law of mortgages. As at the date of this Base Prospectus, the provisions of the LRCA 2009 have not yet been commenced. The provisions in relation to mortgages are expected to be commenced on or about 1 December 2009. When commenced, the LRCA 2009 will make significant changes to the law regarding the creation of mortgages and the powers and rights of holders of mortgage security. It is the Issuer's intention to ensure that its documentation and practices in relation to residential mortgage lending will comply with the requirements of the LRCA 2009, when commenced.

The traditional method of creating a mortgage by transfer of ownership of unregistered land (conveyance or demise) is effectively abolished by the LRCA 2009. The LRCA 2009 makes the method of creating mortgages over unregistered land consistent with that over registered land, that is, by way of charge. A legal charge only takes effect once it has been registered in the Land Registry in the case of registered land. A legal charge takes effect immediately it is created in respect of unregistered land, and its priority is protected by registration in the Registry of Deeds. Once registered, the charge secures priority over any subsequent legal charges which may be registered but will rank lower in priority to those already registered against the property. There is no change under the LRCA 2009 to the creation of an equitable mortgage over unregistered land (for example, by deposit of title deeds).

Chapter 3 of the LRCA 2009 addresses the obligations, powers and rights of holders of mortgage security. The provisions apply only to mortgages created by deed after the commencement of the relevant provisions of the LRCA 2009 and mortgages created before that commencement will therefore continue to be governed by the old rules. It is not possible to contract out of the provisions of Chapter 3 in the case of housing loans. Chapter 3 of the LRCA 2009 also deals with taking possession, power of sale, applications for court orders for possession and/or sale and conveyance on sale. In the case of an order for sale, 28 days notice must be given to the mortgagor prior to the exercise of the mortgagee's rights and powers. This notice requirement does not apply in the case of an order for possession.

While these changes are significant from a conveyancing perspective, many of the provisions of the LRCA 2009 consolidate and put on a statutory footing existing legal practice - for example, the non-exercise of the Court's jurisdiction in relation to

foreclosure and the Court's equitable jurisdiction to order a sale of the mortgaged property at the request of the mortgagor.

## **Regulation of the Irish Residential Mortgage Market**

### *Overview*

While the provision of mortgage credit to consumers is a regulated activity in Ireland (see *Consumer Credit Act 1995 (as amended)* below), it is not necessary to hold a banking licence or to be an authorised credit institution to carry on such activity.

The primary regulatory requirements in Ireland applicable to mortgage loans are applied by the CCA. In addition, mortgage loans are subject to the terms of the European Communities (Unfair Terms in Consumer Contracts) Regulations 1995 to 2000 (the "UTCCR"). Any entity regulated by the Financial Regulator (which includes the Issuer) is also obliged to comply with the Consumer Protection Code, which became fully operational on 1 July 2007 and this Code applies to mortgage loans. In addition, the Issuer is also obliged to comply with certain European Union consumer legislation including the Distance Marketing of Financial Services Directive (Directive 2002/65/EC of 22 September 2002) as implemented into Irish law. Certain activities such as retail lending and the provision of home reversion loans are also regulated in Ireland although, as a credit institution, the Issuer would not require separate authorisation to carry on such activities (see *Authorisation as a "Retail Credit Firm" under the Central Bank Act 1997* below).

### *Consumer Credit Act 1995 (as amended)*

The making of housing loans in Ireland is principally regulated by the CCA, which imposes a range of obligations and restrictions on mortgage lenders and mortgage intermediaries. The relevant part of the CCA applicable to housing loans (Part IX) applies to loans made by mortgage lenders only which includes the Issuer. At the date of this Base Prospectus, documentation for all mortgage loans in the Pool complies with the CCA.

For the purposes of the CCA, a mortgage lender is an entity who carries on a business which consists of or includes making housing loans. A housing loan is an agreement for the provision of credit to a person on the security of a mortgage of a freehold or leasehold estate or interest in land for any of a number of purposes, including the purchase or construction of a house to be used as the person's principal residence or that of the person's dependents, or refinancing a loan that was made for any of those purposes, and any loan to a consumer where that loan is secured by a mortgage and on which a house is or is to be constructed.

Relevant obligations imposed by the CCA in respect of the making of housing loans include rules regulating advertising for housing loans; a requirement to furnish the borrower with a valuation report concerning the property; criteria for calculation of APR on housing loans; a requirement that specified warnings regarding the potential loss of the person's home be included in all key documentation relating to a housing loan and that key, prescribed information be displayed on the front page of a housing loan; obligations to provide prescribed documents and information to a borrower; disclosure of certain fees and charges; and to ensure that the borrower obtains mortgage protection insurance (life cover). Restrictions include prohibitions on the imposition of a redemption fee in the case of variable rate housing loans; compelling a borrower to pay the lender's legal costs of investigating title and the linking of certain products.

A breach of obligations or restrictions imposed by the CCA may constitute a criminal offence. The financial penalties may range from a maximum fine of €3,000 for most

offences, to a maximum fine of €100,000 for the unlawful linking of certain services. A person (including a company) that is convicted of an offence under the CCA will normally be ordered to pay the costs of the prosecution. In respect of a regulated financial service provider (but not an entity that is a mortgage lender only), the Financial Regulator may, instead of a prosecution, impose a monetary penalty for breach of any of these obligations and restrictions. That penalty may be appealed to the Financial Services Appeals Tribunal. The maximum financial penalty is €5,000,000 in the case of a body corporate.

Under section 149 of the CCA, credit institutions must apply to the Financial Regulator in order to either increase existing fees or introduce any new fee or charge. The Financial Regulator has the right to decline any such application. Section 149(12) entitles the Financial Regulator to require a credit institution to refrain from using any terms and conditions that the Financial Regulator considers to be unfair or likely to be regarded as unfair.

A housing loan remains enforceable against the borrower even if there is a breach of any provision of Part IX of the CCA.

#### *Unfair Terms in Consumer Contracts Regulations*

The UTCCR apply in relation to mortgage loans taken out by consumers (natural persons acting for purposes outside their business) and their related security. A borrower may challenge a term in an agreement on the basis that it is 'unfair' within the meaning of the UTCCR and therefore not enforceable against the borrower. In addition, the National Consumer Agency or a consumer organisation (as defined in the UTCCR) may seek an injunction preventing the use of specific terms that are unfair.

This will not generally affect 'core terms' which set out the main subject of the contract, such as the borrower's obligation to repay principal, but may affect terms deemed to be ancillary which may include terms the application of which are in the lender's discretion (such as a term permitting the lender to vary the interest rate or waiver by a borrower of set off rights).

#### *Authorisation as a "Retail Credit Firm" under the Central Bank Act 1997*

Under the Central Bank Act 1997, a person who wishes to carry on a regulated business can apply to the Financial Regulator for an authorisation to carry on such a business. Regulated business is defined to include, inter alia, a retail credit firm. A retail credit firm is in turn defined as, inter alia, any person who holds itself out as carrying on a business of, and whose business consists wholly or partly of, providing credit directly to certain natural persons, but does not include, inter alia, (i) a person who is a regulated financial service provider (which is defined to include entities (including the Issuer) which carry on a business of providing one or more financial services and which are subject to regulation by the Financial Regulator) and (ii) in relation to credit that was originally provided by another person, a person to whom all or any part of that person's interest in the credit is directly or indirectly assigned or otherwise disposed of.

#### *Consumer Protection Code*

The Consumer Protection Code, which has been issued by the Financial Regulator under statutory powers and which applies to the Issuer, contains provisions that cover all aspects of a regulated entity's relationship with a consumer. These range from advertising and marketing, to knowing the consumer and offering suitable products, to ensuring that consumers are treated fairly. The general principles of the Consumer Protection Code apply to all customers of the Issuer.

Relevant obligations of the Consumer Protection Code include: a requirement to supply a written suitability statement before providing certain services or products; a strict time period for complaint handling; for consolidation mortgages, an obligation to supply a written comparison detailing the total cost of the consolidated facility on offer versus the cost of maintaining existing loans; and a requirement to advise customers how to mitigate/avoid fees and penalties in respect of the chosen product.

#### *Code of Conduct on Mortgage Arrears*

The Code of Conduct on Mortgage Arrears (the "**Mortgage Arrears Code**"), which has been issued by the Financial Regulator under statutory powers and is to be read as one with the Consumer Protection Code, sets out the procedures that must be adopted by every regulated entity operating in Ireland as regards mortgage lending to a consumer in respect of the consumer's principal private residence in Ireland. As such, the Mortgage Arrears Code applies to the Issuer. The Mortgage Arrears Code mandates a graduated escalation process for addressing an arrears situation. First, contact should be established with the borrower by the lender as soon as the borrower fails to make a mortgage repayment by the due date. Second, assuming co-operation from the borrower, a plan for clearing the mortgage arrears should be developed that is consistent with the interests of both the borrower and the lender. In this regard, all viable options open to the borrower must be examined, taking into consideration the borrower's repayment capacity, previous payment history and any equity remaining in the property. If a third repayment is missed, the lender may issue a formal demand. Where the arrears situation persists, the lender may enforce the mortgage agreement provided it has waited at least six months from the time arrears first arise before applying to the courts to commence enforcement proceedings and it has made every reasonable effort to agree an alternative repayment schedule with the borrower. However, where it is clear that the borrower is deliberately not engaging with the lender, or where other circumstances reasonably justify, the lender may seek repossession in the absence of any engagement with the borrower.

Compliance with the Mortgage Arrears Code is required as a matter of law. However, the Mortgage Arrears Code permits a lender to enforce the mortgage in circumstances where application of the Mortgage Arrears Code would not be appropriate such as, but not limited to, in the case of fraud or breach of contract other than the existence of arrears. In addition, the Mortgage Arrears Code does not relieve the borrower of his/her contractual duties, except where agreed by the lender.

As part of the recapitalisation package announced by the Irish government in February 2009 (see *Irish Residential Loan Origination and Servicing - Enforcement Procedures*), AIB (on behalf of the Group, including the Issuer) committed not to commence court proceedings for repossession of a principal private residence in Ireland until after 12 months of arrears appearing, where the customer continues to co-operate reasonably and honestly with the bank. In addition, AIB has assured the Irish government that, in the normal course of events, the Group will make every effort to avoid repossessions.

#### *Minimum Competency Requirements*

The Financial Regulator applies minimum competency requirements to individuals who in their own right or on behalf of a regulated firm (including the Issuer), arrange or offer to arrange retail financial products (including housing loans within the meaning of the CCA) for consumers (as defined in the Consumer Protection Code above) and/or advise on same. The minimum competency requirements also apply to anyone involved in the direct management or supervision of such individuals and to individuals acting on behalf of a regulated firm in the adjudication of complaints from consumers relating to advice given or products sold or arranged by that regulated firm.



Since 1 January 2007, all such individuals must hold a recognised qualification from an external professional educational body in respect of the product they sell/arrange/advise on or be in the process of obtaining one with a four year time limit for qualification. Individuals who commenced an activity for which a qualification would otherwise be required on or before 1 January 2007 and who have carried on that activity for at least four years between 1 January 1999 and 1 January 2007 may be exempt from the requirement to obtain a qualification if they avail of the grandfathering arrangements provided for in the minimum competency requirements. The requirements also introduce continuing professional development for individuals subject to the requirements.

The Issuer is a regulated firm and has been obliged to comply with these requirements since 1 January 2007.

#### *Fitness and Probity*

Directors and other senior personnel of a regulated firm (including the Issuer) are required to be approved by the Financial Regulator which exercises its oversight by requiring the completion of a detailed individual questionnaire by each proposed appointee. The Financial Regulator's fitness and probity assessment seeks to ensure that directors and other senior personnel have the necessary skills to run the entity and also have the necessary personal qualities such as honesty, integrity, diligence, independent-mindedness and fairness to ensure that the entity is run ethically, in compliance with relevant legislation and in a manner that treats its customers fairly.

#### *Consumer Protection Act 2007*

The Consumer Protection Act 2007 (the "**2007 Act**") applies the Directive on Unfair Commercial Practices (Directive 2005/29/EC) in Ireland and prohibits business-to-consumer commercial practices that are unfair, misleading, aggressive or which otherwise are prohibited by the 2007 Act. Principally, the 2007 Act (a) empowers a consumer who is aggrieved by any of those proscribed varieties of commercial practice, and the National Consumer Agency, to apply to court for an order prohibiting the continued use of the proscribed practice, and (b) confers on every consumer who is aggrieved by a proscribed commercial practice a right of action to claim damages (including exemplary damages) against the person who has provided the relevant good or service. For this purpose, a consumer would include certain borrowers of residential loans and a relevant service would include residential lending.

### **EU Legislation**

#### *Distance Marketing Regulations*

With effect from 15 February 2005, the Distance Marketing of Financial Services Directive (Directive 2002/65/EC of 23 September 2002) has been implemented in Ireland by way of the European Communities (Distance Marketing of Consumer Financial Services) Regulations 2004 as amended (the "**DM Regulations**"). The DM Regulations apply to, inter alia, credit agreements entered into on or after 31 October 2004 by means of distance communication (i.e. without any substantive simultaneous physical presence of the originator and the borrower).

The DM Regulations require suppliers of financial services by way of distance communication to provide certain information to consumers. This information generally has to be provided before the consumer is bound by a distance contract for supply of the financial services in question and includes, but is not limited to, general information in respect of the supplier and the financial service, contractual terms and conditions and whether or not there is a right of cancellation.

Unlike certain other distance contracts for the supply of financial services, a consumer does not have the right under the DM Regulations to cancel a housing loan (within the meaning of the CCA) within the 14 day cooling off period introduced by the DM Regulations, if originated by an Irish lender from an establishment in Ireland. However failure by the supplier to comply with certain obligations under the DM Regulations may result in the distance contract being unenforceable against the consumer. The relevant obligations include (i) the provision of the prescribed pre-contractual information to the consumer (ii) keeping a copy of all information provided to a consumer in relation to a distance contract in durable and tamper-proof form, (iii) upon a request from the consumer, providing a hard paper copy of the distance contract, or (iv) changing the means of distance communication pursuant to a consumer request (unless to do so would be inconsistent with the contract or nature of the service). Failure to comply with such obligations may result in the distance contract being unenforceable against the consumer. The discretion as to enforceability, lies with the courts, who if satisfied that the supplier's non compliance was not deliberate, the consumer has not been prejudiced by such non compliance, and it is just and equitable to dispense with the relevant obligation, may decide that the contract is enforceable, subject to any conditions that the court sees fit to impose.

#### *New European Directive on Consumer Credit*

A new Consumer Credit Directive (Directive 2008/48/EC) is due to be implemented in Ireland by 11 June 2010. Mortgage credit is excluded from the scope of the new measure, which will apply to many types of consumer non-mortgage lending where the principal is between €200 and €75,000.

#### **Proposals on Mortgage Credit**

On 18 December 2007 the European Commission adopted a white paper on mortgage credit which proposes to adopt measures – mostly market-driven – to enhance the integration and improvement of EU mortgage markets, including by cross-border supply, product diversity, consumer empowerment and customer mobility. In the white paper, the Commission states that it is yet to be determined whether legislation is the most appropriate way forward. A report of a study of the costs and benefits of the outline proposals in the white paper was published by the Commission in March 2009.

## **BOARD OF DIRECTORS AND MANAGEMENT AND ADMINISTRATION OF THE ISSUER**

### **Board of Directors**

As of the date of this Base Prospectus, there are eight members of the Board of Directors as set out below. Six members of the Board of Directors of the Issuer are currently employees of Group members. Two members of the Board of Directors are not at the date of this Base Prospectus and never have been employees of any Group member but are non executive directors of other members of the Group. Five of the nine members of the Board of Directors of the Issuer are executive directors and the remaining three members of the Board of Directors are non-executive directors of the Issuer, including the deputy chairman. This close tie between the Group and the directors of the Issuer is indicative of the high level of integration of the Issuer's business in the Group. However, the Issuer is independent in its decision-making capability as far as it is appropriate for a wholly-owned subsidiary bank of a banking group. It is expected that at least four board meetings of the Issuer will be held each year.

The names, business addresses and principal outside activities of the members of the Board of Directors of the Issuer are listed below.

#### **Members**

#### **Principal Outside Activities**

[ • ] (Chairman)* Bankcentre, Ballsbridge, Dublin 4, Ireland	[ • ]*
Maeliosa Ó hOgartaigh (Deputy Chairman) Bankcentre, Ballsbridge, Dublin 4, Ireland	Acting Group Chief Financial Officer, AIB
David Kelly (Managing Director) Bankcentre, Ballsbridge, Dublin 4, Ireland	General Manager Operations, AIB Bank ROI
Seymour Cresswell (Executive Director – Legal and Compliance) Bankcentre, Ballsbridge, Dublin 4, Ireland	Solicitor, AIB Bank ROI
Kieran Crowley (Non-Executive Director) Ryecourt Business Consultants, 12 York Road, Ringsend, Dublin 4, Ireland	Consultant
Jim Pender (Executive Director – Risk) Bankcentre, Ballsbridge, Dublin 4, Ireland	Chief Risk Officer, AIB Bank ROI
Michael Keegan (Executive Director – Finance) Bankcentre, Ballsbridge, Dublin 4, Ireland	Head of Finance, AIB Bank ROI
Gerry O'Connor (Executive Director – Treasury) AIB International Centre, IFSC, Dublin 1, Ireland	Treasurer, Funding and Liquidity Management, Global Treasury AIB Capital Markets
Jennifer Winter (Non-Executive Director) 15 Stanhope Gate, London W1K 1LN, England	Vice-President, Corporate Reputation and Government Affairs, AstraZeneca PLC

\* On 31 August 2009, John O'Donnell retired as Group Finance Director, AIB and resigned his position as Chairman and Director of the Issuer. As at the date of this Base Prospectus Mr O'Donnell's successor had not been appointed.

The company secretary of the Issuer is Aidan Maher.

As far as is known to the Issuer, other than as may arise from an individual director's principal outside activities listed in each case above or, in the case of current or former employees of the Group, other roles within the Group, no potential conflicts of interest exist between any duties to the Issuer or the Board of Directors of the Issuer and their private interests or other duties in respect of their management roles.

### **Outsourcing and Agency Agreement with AIB**

Under an Outsourcing and Agency Agreement dated 8 February 2006 between AIB and the Issuer, AIB has agreed to provide the Issuer with administration and agency services and assistance in relation to the origination, maintenance and enforcement of the Issuer's Irish residential loans and related, treasury, funding and deposit taking activities of the Issuer, custody of documentation, administration of customer accounts, customer relations, product development, market strategy, risk management, legal, regulatory and company secretarial matters, human resources related matters, and technology services for the Issuer. AIB may sub-contract or delegate its powers under the Outsourcing and Agency Agreement to other members of the Group but any such sub-contracting or delegation will not abrogate or relieve AIB of any of its obligations under the Outsourcing and Agency Agreement. See also *Irish Residential Loan Origination and Servicing – Mortgage Servicing*.

## CHARACTERISTICS OF THE POOL/OVERCOLLATERALISATION

### Introduction

The Pool contains on the date of this Base Prospectus mortgage credit assets, substitution assets and cover assets hedge contracts subject to the limitations provided for in the ACS Acts. The ACS Acts permit the composition of the Pool to be dynamic and do not require it to be static. See *Cover Assets Pool*. Accordingly, the composition of mortgage credit assets (and other permitted assets) comprised and to be comprised in the Pool will change from time to time after the date hereof in accordance with the ACS Acts. A mortgage credit asset or substitution asset may only be included in or removed from the Pool if the Monitor agrees to its inclusion or removal and it is permitted by the ACS Acts. Accordingly, any alterations to the composition of the Pool as described above will require the Monitor's approval. A mortgage credit asset includes a loan secured over commercial property as well as one secured over residential property. The 2007 Amendment Act permits certain CMBS and RMBS to be included in the Pool, subject to creditworthiness standards or criteria and where applicable, certain limits. Accordingly, subject to the limits set out in the ACS Acts, the Pool may include CMBS and RMBS and mortgage credit assets the related loans under which are secured over commercial property. The Pool on the date of this Base Prospectus comprises mortgage credit assets, the related residential properties under which are all situated in Ireland. The ACS Acts permit the inclusion in the Pool of mortgage credit assets and substitution assets which are located for the purposes of the ACS Acts outside of Ireland. See *Cover Assets Pool* and *Risk Factors*. As regards the asset/liability requirements of the ACS Acts in respect of the Pool and Mortgage Covered Securities, see *Cover Assets Pool – Financial matching criteria for a Pool and related Mortgage Covered Securities/Regulatory Overcollateralisation*. In relation to overcollateralisation of the Pool with respect to the Securities, see – *Overcollateralisation* below. The Issuer does not intend to include in the Pool either (i) mortgage credit assets the related loans under which have their primary security over commercial property, (ii) mortgage credit assets or substitution assets which are located for the purposes of the ACS Acts outside Ireland, (iii) mortgage credit assets the related loans under which are not denominated in euro or (iv) RMBS or CMBS, without, in each case, first obtaining from Moody's, Fitch and Standard & Poor's (in each case, for so long as the Securities are rated by such rating agency) a confirmation that any such action will not result in a downgrade of the rating then ascribed by such rating agency to the Securities.

The Issuer is required to maintain a Pool in relation to any Mortgage Covered Securities issued under the ACS Acts. The Issuer has established and maintains a register of mortgage covered business and a Pool for the purposes of the ACS Acts and to enable it to issue Mortgage Covered Securities. See *Cover Assets Pool*.

The Issuer plans to issue from time to time Mortgage Covered Securities and will include in the relevant Pool, additional mortgage credit assets or substitution assets as security for those securities in accordance with relevant provisions of the ACS Acts, as to which see below.

The ACS Acts provide that any mortgage credit asset or substitution asset located for the purposes of the ACS Acts within an EEA country (and under the 2007 Amendment Act, also Australia, Canada, Japan, New Zealand, Switzerland and the United States of America) may be included in a Pool maintained by an Institution. The Issuer at the date of this Base Prospectus has included and intends to include in the Pool mortgage credit assets which are located in Ireland and secured primarily on residential property for the purposes of the ACS Acts. Subject to further regulatory and legal approvals, consents and provisions of the ACS Acts the Issuer may include mortgage credit assets or substitution assets located for the purposes of the ACS Acts in other jurisdictions permitted by the ACS Acts, RMBS, CMBS or mortgage credit assets secured on

commercial property for the purposes of the ACS Acts, in each case to the extent permitted by the ACS Acts (see *Risk Factors, Restrictions on the Activities of an Institution and Cover Assets Pool – Location of assets that may be included in a Pool*). The Issuer does not intend at the date of this Base Prospectus to include either (i) mortgage credit assets the related loans under which have their primary security over commercial property (ii) mortgage credit assets or substitution assets which are located for the purposes of the ACS Acts outside Ireland or (iii) RMBS or CMBS, without, in each case, first obtaining from both Moody's, Fitch and Standard & Poor's (in each case for so long as the Securities are rated by such rating agency) a confirmation that any such action will not result in a downgrade of the rating then ascribed by such rating agency to the Securities.

The ACS Acts provide that an Institution may not include a mortgage credit asset or substitution asset in a Pool under certain circumstances such as where the mortgage credit asset or substitution asset is currently included in a different Pool (this would only apply where the Institution is also registered as a different designated credit institution to an Institution under the ACS Acts), the mortgage credit asset or substitution asset is non-performing or the Issuer is insolvent. See *Cover Assets Pool*.

### **Substitution Assets**

An Institution is permitted to deal in and hold substitution assets. Substitution assets are defined in the ACS Acts as the following assets (other than such assets that comprise any Pool Hedge Collateral):

- (a) deposits with an eligible financial institution; and
- (b) any assets designated a substitution asset in an order made by the Minister for Finance under the 2001 Act.

The ACS Acts provide that regulations made by the Financial Regulator must provide for a financial institution or a class of financial institutions to be designated as an eligible financial institution for the purposes of (a) above, see *Restrictions on the Activities of an Institution – Permitted business activities – (b) dealing in and holding substitution assets*.

Under the ACS Acts, any assets of the type referred to at (b) above must be an exposure to a credit or investment institution within the meaning of Article 4(6) of the CRD.

Under the ACS Acts, the total prudent market value of all substitution assets then comprised in the Pool may not in general exceed 15 per cent. of the total nominal or principal amount of all outstanding Mortgage Covered Securities secured on the Pool. The relevant percentage requirement referred to above may be suspended by the Financial Regulator if it is satisfied that to do so would facilitate the discharge of claims secured by the ACS Acts on the Pool.

In addition, under the ACS Acts, substitution assets which are included in the Pool are required to meet creditworthiness standards specified by the Financial Regulator in a regulatory notice in addition to those creditworthiness standards which apply in respect of eligible financial institutions.

The Asset Covered Securities Act 2001 Regulatory Notice (Section 35(9B)) 2007 (the "**Substitution Asset Pool Eligibility Notice**") made by the Financial Regulator (which came into operation on 31 August 2007) 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 a maturity not exceeding 100 days, a minimum long term credit quality assessment of Credit Quality Step 2 (within the meaning of the Irish CRD Code).

The Pool maintained by the Issuer contains substitution assets. See *Restrictions on the Activities of an Institution – Permitted business activities in which an Institution may engage – (b) dealing in and holding substitution assets, Cover Assets Pool – Restrictions on inclusion of substitution assets in a Pool and Risk Factors – Substitution Assets and Cover Assets Hedge Contracts with AIB*.

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 Fitch, Moody's or Standard & Poor's as applicable is appointed by the Issuer to provide credit ratings in respect of Securities issued by the Issuer under the Programme:

- (a) such substitution assets that are represented by deposits with eligible financial institutions will be maintained with an eligible financial institution which is rated at a minimum level of F1 (short term) by Fitch, A-1 (short term) by Standard & Poor's or P-1 (short term) by Moody's;
- (b) where an eligible financial institution with which the Issuer has such deposits (as referred to in (a) above) is downgraded below the minimum level referred to in (a) above, the Issuer will as soon as practicable and in any event within 30 calendar days of such downgrade (in the case a downgrade by Fitch) or 60 calendar days (in the case of a downgrade by Standard & Poor's) or 30 calendar days (in the case of a downgrade by Moody's), ensure that such deposits are transferred to an eligible financial institution which is rated at a minimum level of F1 (short term) by Fitch, A-1 (short term) by Standard & Poor's or P-1 (short term) by Moody's as applicable.

It is the Issuer's intention that for so long as Securities remain outstanding the Issuer will at all times maintain substitution assets in the Pool maintained by the Issuer in accordance with the terms of the ACS Acts at a level not less than the total amount, for the immediately following three months, of:

- (a) interest payable by the Issuer in respect of those Securities (after taking into account the effect of the cover assets hedge contract comprised in the Pool); and
- (b) amounts payable (if any) by the Issuer in respect of the cover assets hedge contract comprised in the Pool, which relate to residential loans comprised in the Pool from time to time.

### **Loan-to-value restrictions**

If the principal amount of a mortgage credit asset included in a Pool represents more than the percentage specified below of the prudent market value of the related property assets, the amount by which the principal amount of the asset exceeds such percentage is disregarded for the purposes of the principal matching requirements applicable to Cover Assets and Mortgage Covered Securities. See – *Financial Matching Criteria below and Cover Assets Pool – Financial matching criteria for a Pool and related Mortgage Covered Securities/Regulatory Overcollateralisation*.

The relevant loan to value percentage (“**LTV**”) for mortgage credit assets secured on residential property (other than RMBS) for the purposes of the ACS Acts to be included in the Pool is 75 per cent. The relevant loan to value percentage for mortgage credit assets secured on any commercial property (other than CMBS) for the purposes of the ACS Acts which may be included in the Pool is 60 per cent.

Under the 2007 Amendment Act, RMBS and CMBS may be included in the Pool subject to certain restrictions which do not include the above LTV limits. However, under the CRD, the value of CMBS or RMBS is only recognised for covered bond collateral purposes to a lesser of the three following amounts, namely, (i) the principal amount of the securitised mortgage credit asset, (ii) the principal amount of the underlying liens (or loans) or (iii) a maximum LTV with respect to the underlying loans of 60 per cent. in the case of CMBS or 80 per cent. in the case of RMBS. See *Cover Assets Pool – Restrictions on Inclusion of securitised mortgage credit assets in the Pool*.

The prudent market value requirements for securitised mortgage credit assets under the 2007 Amendment Act reflect the above valuation limits under the CRD for securitised mortgage credit which collateralises covered bonds. Under the 2007 Amendment Act when determining the LTV related property values or amount of the liens, an aggregate basis is to be used and regard is to be had to the proportion of the tranche of the relevant securitised mortgage credit held by an Institution and the seniority of such securitised mortgage credit.

Under the 2007 Amendment Act the prudent market value of a property asset, which relates to a mortgage credit asset (where relevant), is required to be calculated at such time as the Financial Regulator specifies, having regard to the valuation requirements applicable to covered bonds under the CRD, by regulatory notice. See *Cover Assets Pool – Valuation of assets by an Institution*.

### **Restrictions on including in the Pool mortgage credit assets secured on commercial property**

The inclusion in the Pool of mortgage credit assets secured on commercial property (which include CMBS) is restricted to 10 per cent. of the prudent market value of all mortgage credit assets and substitution assets comprised in the Pool at any time.

### **Circumstances in which an asset may not be included in the Pool**

The Issuer will be prohibited by the ACS Acts from including mortgage credit assets or substitution assets in the Pool in certain circumstances. See *Cover Assets Pool – Circumstances in which an asset may not be included in a Pool, – Restrictions on replacement of underlying assets included in a Pool*.

### **Weighted Average Term to Maturity**

The ACS Acts set out certain criteria, including matching and weighted average term to maturity, which are required to be met by the Issuer in respect of its Pool. Under this criterion, the Pool maintained by the Issuer will have a duration (as defined by the ACS Acts and set out below) of not less than that of the Mortgage Covered Securities that relate to the Pool. Under the ACS Acts, duration means, in relation to a Pool or Mortgage Covered Securities, a weighted average term to maturity of the relevant principal amount of the mortgage credit assets and substitution assets comprised in the Pool or those securities, as the case may be, determined in accordance with a formula or criteria specified in a regulatory notice by the Financial Regulator and taking into account the effect of any relevant cover assets hedge contract entered into by the Institution in relation to the Pool or those securities, or both, as the case may be. In this regard the Financial Regulator has made the Asset Covered Securities Act 2001 Regulatory Notice



(Sections 32(10) and 47(10)) 2007 (the "**Duration Regulatory Notice**") (which came into operation on 31 August 2007), which sets out the formulae and criteria for the purpose of the definition of "**duration**" contained in the ACS Acts. See *Cover Assets Pool – Financial Matching criteria for a Pool and related Mortgage Covered Securities/Regulatory Overcollateralisation*.

### **Maturity of Mortgage Covered Securities**

It is the Issuer's intention that for so long as the Securities remain outstanding no more than €3 billion in aggregate principal amount of Mortgage Covered Securities issued by it should mature within any given period of six months, unless Moody's, Fitch and Standard & Poor's (in each case, for as long as the Securities are rated by such rating agency) confirm that a deviation from this policy will not result in a downgrade of the rating then ascribed by such rating agency to the Securities.

### **Development Property**

An Institution may not include in the Pool a mortgage credit asset if a building related to that asset is being or is to be constructed unless the mortgage credit asset is attributed a nil value for the purposes of:

- (a) the Pool and Mortgage Covered Securities financial matching and Regulatory Overcollateralisation requirements under the ACS Acts; and
- (b) any contractual undertakings in respect of Contractual Overcollateralisation.

Under the ACS Acts, the above restriction ceases to apply immediately upon the building being ready for occupation as a commercial or residential property.

### **Valuation of Cover Assets**

The ACS Acts set out certain criteria, including prudent market valuation, which are required to be met by the Issuer in respect of its Pool. The ACS Acts require that the prudent market value (see below) of the Pool must be greater than the total of the principal amounts of the Mortgage Covered Securities secured on that Pool.

For the purposes of calculating prudent market value, the Financial Regulator published under the ACS Acts the MCA Valuation Notice which lays down requirements in relation to the valuation basis and methodology, time of valuation and other matters related to determining the prudent market value of:

- (a) a property asset which is residential property situated in Ireland and which secures a mortgage credit asset (other than a securitised mortgage credit asset) held by an Institution (an "**Irish Residential Property Asset**");
- (b) a mortgage credit asset (other than a securitised mortgage credit asset) which is secured on an Irish Residential Property Asset (an "**Irish Residential Loan**"); and
- (c) a securitised mortgage credit asset the related property assets of which indirectly comprise (in whole or in part) residential property (whether or not located in Ireland) (a "**Relevant Securitised Mortgage Credit Asset**")

and also specifies requirements and criteria with respect to certain matters required when determining the prudent market value of Relevant Securitised Mortgage Credit Assets.

The MCA Valuation notice repeals and replaces the Former Irish Residential Loan/Property Valuation Notice with effect from 31 August 2007.

In relation to the valuation of Irish Residential Property Assets, Irish Residential Loans and Relevant Securitised Mortgage Credit Assets under the MCA Valuation Notice, see *Cover Assets Pool – Valuation of Irish Residential Property Assets*.

### **Valuations of substitution assets, credit transaction assets and total assets**

The Asset Covered Securities Act 2001 Regulatory Notice (Section 41(3) and (5)) 2007 (the "**Section 41(3)/(5) Valuation Notice**") made by the Financial Regulator (which came into effect on 31 August 2007) specifies requirements in relation to the prudent market valuation of substitution assets and the value of credit transaction assets and total assets. The Section 41(3)/(5) Valuation Notice repealed the Asset Covered Securities Act, 2001 Regulatory Notice (Section 41(3) and Section 41(5)) 2004.

In relation to substitution assets, the Section 41(3)/(5) Valuation Notice provides that where the relevant substitution assets constitute deposits with eligible financial institutions, the prudent market value of such deposits comprised in the Pool maintained by the Institution is equal to 100 per cent. of the principal or nominal amount of the deposit with the eligible financial institution. Under the Section 41(3)/(5) Valuation Notice, the prudent market value of substitution assets is no longer limited to the date on which the substitution asset is included in the Business Register (as to which see *Cover Assets Pool – Register of mortgage covered securities business*) as it was under the former regulatory notice referred to above.

In relation to credit transaction assets and total assets, the Section 41(3)/(5) Valuation Notice provides that the value of credit transaction assets and total assets is to be determined in accordance with accounting standards generally accepted in Ireland (Irish GAAP) as applied to banks. See also *Cover Assets Pool – Valuation of assets held by an Institution*.

### **Financial Matching Criteria**

The ACS Acts set out financial matching criteria in addition to that referred to at *Weighted Average Term to Maturity* above, which are required to be met by the Issuer in respect of its Pool and Mortgage Covered Securities issued by the Issuer, including:

- (a) the prudent market value of the Pool is greater than the total of the principal amounts of those Mortgage Covered Securities;
- (b) the total amount of interest payable in a given period of 12 months in respect of the Pool is during that 12 month period not less than the total amount of interest payable in respect of that period on those Mortgage Covered Securities; and
- (c) the currency in which each mortgage credit asset and each substitution asset included in the Pool is denominated is the same as the currency in which those Mortgage Covered Securities are denominated,

in each case, after taking into account of the effect of any cover assets hedge contract (see *Cover Assets Hedge Contracts* below) that the Institution has entered into in relation to the Pool and those Mortgage Covered Securities (but disregarding for these purposes the effect of any Pool Hedge Collateral) and in the case of (a) above, certain loan to value restrictions.

See also – *Loan to value restrictions and Overcollateralisation and Cover Assets Pool – Financial matching criteria for a Pool and related Mortgage Covered Securities/Regulatory Overcollateralisation.*

### **Restrictions on replacement of underlying assets included in a Pool**

The ACS Acts require the Issuer to replace an underlying asset with a mortgage credit asset or substitution asset if the underlying asset contravenes or fails to comply with a provision of the ACS Acts, the regulations made by the Financial Regulator under the ACS Acts or a requirement of the Financial Regulator or the Monitor made under the ACS Acts.

A mortgage credit asset or substitution asset replaces an underlying asset (defined in relation to a Pool as a mortgage credit asset or substitution asset that is then comprised in a Pool) only if the replacement has been approved by the Monitor.

### **Use of realised proceeds of Cover Assets**

The ACS Acts provide that money received by the Issuer as the proceeds of realising a cover asset forms part of the relevant Pool, until it is used to create or acquire permitted mortgage credit assets or substitution assets for inclusion in the Pool, to discharge secured claims under the ACS Acts (see further *Insolvency of Institutions – Effect under the ACS Acts of insolvency, potential insolvency or insolvency process with respect to an Institution*), is released from the Pool as an underlying asset and is replaced by other mortgage credit assets or substitution assets, or is released from the Pool in accordance with the ACS Acts.

### **Cover assets hedge contracts**

The ACS Acts provide that a cover assets hedge contract entered into by an Institution may relate only to:

- (a) Mortgage Covered Securities issued by the Institution; and/or
- (b) mortgage credit assets and/or substitution assets that are comprised in the Pool maintained by that Institution.

The ACS Acts provide that a cover assets hedge contract must state, among other things, that it is a cover assets hedge contract entered into in accordance with the 2001 Act, and that a cover assets hedge contract must comply with the requirements (if any) specified in any relevant regulatory notice published by the Financial Regulator. As at the date of this Base Prospectus, the Financial Regulator has not published a regulatory notice specifying any such requirements.

The interest rate exposure of the Issuer relating to its mortgage credit assets located in Ireland and secured over residential property for the purposes of the ACS Acts which are comprised in the Pool is managed using a macro interest rate swap with AIB which relates only to the Pool and Mortgage Covered Securities issued by the Issuer (the “**Pool Hedge**”). The Pool Hedge is a cover assets hedge contract for the purposes of the ACS Acts (see *Cover Assets Pool – Cover assets hedge contracts*). Under the Pool Hedge, on a monthly basis the Issuer pays to AIB an amount related to a weighted average basket interest rate, determined by reference to interest rates payable on the residential loans held by the Issuer and which are included in the Pool on the relevant date, on a notional amount equal to the principal amount outstanding of those loans on the relevant date. In turn, on a monthly basis, AIB pays to the Issuer an amount related to one month EURIBOR on that notional amount. With respect to Mortgage Covered Securities, on an annual basis or such other basis referable to the relevant coupon period, AIB pays under

the Pool Hedge an amount related to the interest rate payable on the relevant Mortgage Covered Securities on a notional amount equal to the principal amount outstanding of the relevant Mortgage Covered Securities and the Issuer pays to AIB an amount related to one month EURIBOR on that notional amount.

Under the terms of the Pool Hedge with AIB, in the event that the relevant rating of AIB is downgraded by a rating agency appointed by the Issuer in respect of the Securities below the rating(s) specified in the Pool Hedge, AIB is required, in accordance with the Pool Hedge, to take certain remedial measures which may include providing collateral for its obligations under the Pool Hedge, arranging for its obligations under the Pool Hedge to be transferred to an entity with the ratings required by the relevant rating agency, procuring another entity with the ratings required by the relevant rating agency to become co-obligor in respect of its obligations under the Pool Hedge, or taking such other action as it may agree with the relevant rating agency. A failure to take such steps allows the Issuer to terminate the Pool Hedge.

If the Issuer includes in the Pool mortgage credit assets, located for the purposes of the ACS Acts in Ireland and secured on commercial property, CMBS, RMBS or mortgage credit assets (whether secured on residential property or commercial property) which are located outside of Ireland for the purposes of the ACS Acts, or mortgage credit assets which are not denominated in euro or issues Mortgage Covered Securities which are not denominated in euro, the Pool Hedge referred to above does not hedge any interest rate risks associated with those mortgage credit assets or, as applicable, Mortgage Covered Securities and any such risks would have to be addressed by amending the above hedging arrangements or putting in place new hedging arrangements which may be with counterparties other than AIB. See further Risk Factors.

### **Overcollateralisation**

Condition 11 of the Securities requires the Issuer to maintain Contractual Overcollateralisation of the Pool with respect to Mortgage Covered Securities in issue at any time for so long as the Securities are outstanding at a minimum level of 105 per cent. (see *Terms and Conditions of the Securities*). An independent entity, Mazars (the "**Monitor appointed in respect of the Issuer**"), has agreed in the Cover-Assets Monitor Agreement to monitor compliance by the Issuer with its undertaking regarding the level of Contractual Overcollateralisation. See *The Cover-Assets Monitor – Monitor to the Issuer*. The Monitor is also required by regulations made by the Financial Regulator under the ACS Acts to have regard to contractually agreed levels of Contractual Overcollateralisation in relation to the Securities and to monitor the relevant Institution's observance of those levels.

In this context, Contractual Overcollateralisation of the Pool with respect to Mortgage Covered Securities means the proportion (expressed as a percentage) of the prudent market value of the Pool (see *Cover Assets Pool – Valuation of Assets Held by an Institution*) to the total principal amount outstanding of Mortgage Covered Securities issued by the Issuer which are secured on the Pool. See *Cover Assets Pool – Financial matching criteria for a Pool and Mortgage Covered Securities*.

Since the Monitor must have regard to contractual undertakings with respect to Contractual Overcollateralisation when performing its functions under the ACS Acts, the Monitor could not agree to the removal or substitution of mortgage credit assets or substitution assets from the Pool if the result of such removal or substitution was that the then required level of Contractual Overcollateralisation would not be satisfied. In addition, the Monitor is required to take reasonable steps to verify compliance by the Issuer with contractual undertakings in respect of Contractual Overcollateralisation before the issue of any Mortgage Covered Securities, including the Securities.

For further information regarding the Monitor, see *The Cover-Assets Monitor*.

In addition, having regard to the criteria of the rating agencies, it is the Issuer's intention to maintain Contractual Overcollateralisation of the Pool with respect to Mortgage Covered Securities in issue at any time for so long as the Securities are outstanding (to the extent that the level of Contractual Overcollateralisation referred to above or otherwise required by the Terms and Conditions of the Securities is not sufficient for this purpose) at a level sufficient to ensure that the Securities maintain the current ratings assigned to them by each of Standard & Poor's, Fitch and Moody's (in each case for so long as such rating agency is appointed by the Issuer to rate the Securities), such level being that as determined by those rating agencies from time to time.

Under the 2007 Amendment Act, an Institution is required to maintain a minimum level of Regulatory Overcollateralisation of its Pool with respect to Mortgage Covered Securities secured on the Pool. For this purpose, "**Regulatory Overcollateralisation**" means that the prudent market value of the mortgage credit assets and substitution assets comprised in the Pool, expressed as a percentage of the total nominal or principal amounts of the Mortgage Covered Securities in issue, is a minimum of 103 per cent. after taking into account the effect of any cover assets hedge contract comprised in the Pool. The 2007 Amendment Act confirms that the Regulatory Overcollateralisation requirement does not affect undertakings made by an Institution in respect of Contractual Overcollateralisation requiring higher levels of overcollateralisation to be maintained.

#### **Surplus Cover Assets need not meet certain requirements of the ACS Acts**

Under the 2007 Amendment Act, for as long as:

- (a) the Pool is comprised in part of Cover Assets which meet (i) the financial matching requirements for the Pool (See "*Cover Assets Pool – Financial Matching Criteria for a Pool and related Mortgage Covered Securities/Regulatory Overcollateralisation*"), (ii) the Regulatory Overcollateralisation requirement and (iii) the requirements of any contractual undertaking made by the Institution in respect of Contractual Overcollateralisation; and
- (b) those Cover Assets meet the other provisions of the relevant part of the ACS Acts,

then any provision of the relevant part of the ACS Acts which restricts the proportion or percentage of the Pool which may be comprised of certain Cover Assets or criteria or standards applicable to Cover Assets does not apply to any further such excess Cover Assets comprised or to be comprised from time to time in the Pool.

## IRISH RESIDENTIAL LOAN ORIGINATION AND SERVICING

### Introduction

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 (see *Summary of the Programme – Transfer of AIB Irish Residential Loan Book and Business to the Issuer*). The Group's policy is to originate through the Issuer Irish residential loans which before 13 February 2006 would have been originated by AIB through the AIB branch network.

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. See also *Summary of the Programme – Transfer of AIB Irish Residential Loan Book and Business to the Issuer*.

The Issuer may provide finance to buyers of affordable housing under certain Irish State housing authority affordable housing schemes. Affordable housing is where a housing authority makes a property available to a buyer at a discount of its actual market value. The buyer is subject to a clawback which will arise if and when the buyer resells the property within 20 years and this clawback is registered as a charge on the property. No mortgage credit asset that is secured on an affordable housing property will be included in the Issuer's Pool.

### Lending Criteria

The following criteria (the "**Lending Criteria**") are currently applied in respect of the Irish residential lending by the Issuer:

#### *Key Lending Criteria*

- (a) Maximum loan size is determined by the debt service ratio (DSR) based on the applicant(s) main income.
- (b) Normal maximum loan to value ("**LTV**") is 92 per cent. for principal residence.
- (c) For holiday homes LTV should not exceed 75 per cent.
- (d) On a stand-alone basis, the level of finance for a residential investment property may not exceed 75 per cent. of the lower of purchase price or independent professional valuation. In cases where the Issuer already holds a portfolio of investment properties as security, finance for the purchase of an additional residential investment may be considered up to 100 per cent. of the purchase price plus associated costs and refurbishment, provided the LTV of the portfolio will not exceed 75 per cent. overall.
- (e) Term normally up to 30 years but up to 35 years will be considered subject to clearance by normal retirement age.
- (f) Minimum loan €25,000, normally (€20,000 for top-ups on existing loans).
- (g) Borrowers must have a minimum age of 18 years.

### *Repayment Capacity*

- (a) Net disposable income (after tax, pay related social insurance (“**PRSI**”) and all other outgoings) is the key factor in determining repayment capacity.
- (b) Repayment capacity is assessed by reference to the DSR. The DSR measures the proportion of `after tax' income required to service the proposed borrowing.
- (c) The DSR is the monthly mortgage repayment expressed as a percentage of the borrower's net monthly income (i.e. net of income tax and PRSI).
- (d) For stress testing purposes, repayment capacity is measured at a minimum of 3.25 per cent. above the prevailing main refinancing operations interest rate of the European Central Bank (the “**ECB Rate**”) with a stress test floor of 5 per cent. operational.

### *Funding Balance of Purchase Price*

Documentary evidence to verify the source of funding of the balance of the purchase price is obtained and retained on file.

### *Security*

- (a) First legal mortgage/charge on the residential property.
- (b) Life/fire cover to be put in place – the Issuer's interest noted/assignment taken only where required by security procedures.

### *Documentation*

Evidence of income is submitted with each application. Independent professional property valuation reports are required in all cases. The following documentary evidence is obtained and held on the home mortgage loan file of the sanctioning authority.

#### **P.A.Y.E. Employment:**

- (a) Where salary is mandated to an AIB account, receipt of salary payments over a 12 month period may be regarded as suitable evidence of applicant(s) income and a printout of the account turnover for the relevant period held on the home loan file.
- (b) Where salary is not mandated to an AIB account, a P60 (annual income tax statement issued by employers to employees) and salary payment slips for the most recent 3 month period are obtained and copies retained on the home loan file plus a salary certificate signed and stamped by the employer.

#### **Self Employed Applicants:**

Ideally, 3 years certified or audited accounts to be provided, indicating the annual drawings of the applicant.

### *Money Laundering*

Full compliance with the 1994 Act and related Guidance Notes is required (including obtaining documentary verification of identity and address).

### *Additional Advances (expenditure on mortgaged property)*

Applications for top ups or further advances on existing home loans will be considered under the same criteria that apply to applications for original loans and where:

- (a) there has been a satisfactory repayment performance on the existing loan; and
- (b) the mortgage security in respect of the original loan has been registered or solicitor's confirmation that the title deeds have been lodged for registration is held.

An independent professional property valuation in the Issuer's standard format will be required for all top-up cases subject to the following two exceptions:

- (1) where the LTV (including amount of top-up) is less than 50 per cent. based on the valuation on file; or
- (2) where the lender is satisfied that the valuation on file is not more than one year old and accurately reflects the current market value based on prevailing market conditions and the LTV (including amount of top-up) does not exceed 80 per cent. or in the case of residential investment properties, 75 per cent.

Where the amount of top-up is €30,000 or less, evidence of expenditure is not a requirement.

### *Changes to Lending Criteria and Exceptions*

The Issuer has the right to change the Lending Criteria from time to time. The Issuer also has the right to vary or waive the Lending Criteria from time to time and at any time and may have so done in the case of individual Irish residential loans.

### **Enforcement Procedures**

The Issuer/AIB has well established procedures for managing loans that are in arrears, including early contact with borrowers in order to find a solution to any financial difficulties they may be experiencing. These same procedures, as from time to time varied in accordance with industry practice, will continue to be applied by the Mortgage Servicer under the terms of the Outsourcing and Agency Agreement (as defined below) in respect of arrears arising on the Issuer's Irish residential mortgage loans.

The Issuer is subject to the Financial Regulator's Code of Conduct on Mortgage Arrears (see *Regulation of Banks and Residential Lending in Ireland – Regulation of the Irish Residential Mortgage Market – Code of Conduct on Mortgage Arrears*). In addition to compliance with the Code of Conduct on Mortgage Arrears, AIB has committed, as part of a recapitalisation package agreed with the Irish government, not to commence court proceedings for repossession of a principal private residence in Ireland within 12 months of arrears appearing, where the customer maintains contact and co-operates reasonably and honestly with the bank. AIB has in addition, assured the Irish government that in the normal course it will make every effort to avoid repossessions of principal private residences in Ireland. AIB's commitment and assurance in this regard apply in respect of the Group (including the Issuer).



## **Mortgage Servicing**

### *Introduction*

AIB has been appointed agent and servicer (the "**Mortgage Servicer**") by the Issuer under the Outsourcing and Agency Agreement dated 8 February 2006 between the Issuer and AIB (the "**Outsourcing and Agency Agreement**") to service and administer the Irish loans of the Issuer, their related security and certain other related matters. Under the terms of the Outsourcing and Agency Agreement, the Mortgage Servicer may at its own cost sub-contract or delegate its powers and obligations under the Outsourcing and Agency Agreement to the other members of the Group. Any such sub-contracting or delegation will not abrogate or relieve the Mortgage Servicer of any of its obligations under the Outsourcing and Agency Agreement.

AIB has agreed under the Outsourcing and Agency Agreement to service the Issuer's Irish residential loans with the same level of skill, care and diligence as it would in managing those Irish residential loans advanced by any Group member.

### *Mortgage Rates*

The Issuer will set the interest rates on its Irish residential loans. Interest is calculated on the amount owing by a borrower (including, but not limited to, capitalised interest) and is adjusted daily to take account of principal repayments.

### *Payments from Borrowers*

Payments of principal and interest are usually made monthly in respect of the Issuer's Irish residential loans. Payments are collected by AIB and credited on a monthly basis into a collection account held by the Issuer.

### *Arrears and Default Procedures*

The Mortgage Servicer will endeavour to collect all payments due under or in connection with the Mortgage Loans, but having regard to the circumstances of the borrower in each case and in compliance with the Mortgage Arrears Code and commitments by AIB to the Irish government referred to above (see *Enforcement Proceedings*). The procedures may include making arrangements whereby a borrower's payments may be varied and/or taking legal action for possession of the relevant residential property and the subsequent sale of that residential property, in each case in accordance with applicable legal requirements. An Irish court may exercise discretion as to whether, on application by the lender, it orders the borrower to vacate the property after a default and as to how long the borrower is given to vacate the property. A lender will usually apply for such an order so that it can sell the property with vacant possession.

The net proceeds of sale of the property (after payment of costs and expenses of the sale) together with any sums paid by a guarantor of the relevant borrower will be applied against the sums owing from the borrower to the extent necessary to discharge the loan. Where such funds are insufficient to redeem such loan in full, a claim would be made under any applicable mortgage indemnity guarantee insurance and, where appropriate, claims may be made against professional advisers (including against solicitors for breach of their undertakings) who advised in connection with the advance of the relevant loan. Such claims are in addition to any rights or remedies which the lender may have at law or in equity against a borrower for payment of the outstanding amount of the loan. Where the funds arising from application of the above procedures are insufficient to pay all amounts owing in respect of a loan, such funds will be applied first in paying principal owing and secondly in paying interest and costs in respect of such loan.

### *Redemption*

Under the Outsourcing and Agency Agreement, the Mortgage Servicer is responsible for handling the procedures connected with the redemption of Irish residential loans held by the Issuer.

## **RISK MANAGEMENT AT THE ISSUER**

### **Introduction**

Risk taking is inherent in the provision of financial services and the Issuer, as part of the Group, assumes a variety of risk in undertaking its business activities. Risk is defined as any event that could: damage the core earnings capacity of the Issuer, increase earnings or cash flow volatility; reduce capital; threaten business reputation or viability; and/or breach regulatory or legal obligations.

### **Risk Management – individual risk types**

This section provides details of the exposure to, and risk management of, the following individual risk types which have been identified through the Group risk assessment process and which are relevant to the Issuer:

1. Credit risk
2. Liquidity risk
3. Operational risk
4. Regulatory compliance risk
5. Non-trading interest rate risk (market risk)

Policies with respect to these risks have been approved by the Board of Directors of the Issuer and are subject to annual review. All such policies comply with Group standards and policies. Risk is monitored by Divisional and Group Risk Management who ensure compliance with all relevant Issuer and Group risk policies. In addition Group Internal Audit reviews compliance to risk policies on a regular basis.

The 5 applicable risk types are discussed below.

#### **1. Credit risk**

Credit risk is defined as the risk that a customer or counterparty will be unable or unwilling to meet a commitment that it has entered into and that pledged collateral does not fully cover the Issuer's claims. The most significant credit risks assumed by the Issuer arise from mortgage lending activities to customers in Ireland. Credit risk also arises in respect of funds placed with AIB and in respect of derivatives relating to interest rate risk management with AIB.

The Chief Credit Officer, AIB Bank ROI has overall responsibility for the ongoing credit management of residential home mortgages. It is Group policy to maintain the sanctioning authority for residential home mortgages independent of the sales function. A credit risk policy has been approved by the Board of Directors of the Issuer, is subject to annual review and complies with Group standards. Sophisticated grading tools are used in the management of credit risk and a comprehensive arrears management process ensures that the level of non-performing loans is minimised.

Net disposable income is the key factor in assessing repayment capacity. Repayment capacity is assessed by reference to the debt service ratio which measures the proportion of 'after tax' income required to service the proposed borrowing. When sanctioning mortgage credits, importance is also placed on the loan to value ratios, adequacy of security and the track record of the borrower.

The assessment of individual mortgage loans includes an interest rate stress test in compliance with parameters set by the Financial Regulator.

A high proportion of mortgage origination takes place with existing customers of AIB Bank ROI.

#### *Risk identification and assessment*

All mortgage loans are subject to an individual underwriting process. See *Irish Residential Loan Origination and Servicing*. In addition, credit risk is identified, assessed and measured through the use of credit rating and scoring tools for each borrower or transaction. The methodology used produces a quantitative estimate of the Probability of Default (“**PD**”) for the borrower. This assessment is carried out at the level of the individual borrower or transaction and at portfolio level when relevant. Both application scoring for new customers and behavioural scoring for existing customers are used to assess and measure risk as well as to facilitate the management of the portfolio.

The ratings influence the management of individual loans. Special attention is paid to lower quality rated loans and, when appropriate, loans are transferred to special units to help avoid default or, when in default to minimise loss.

#### *Role of stress and scenario analysis in the assessment of credit risk*

The Mortgage Servicer on behalf of the Issuer conducts periodic stress tests on the mortgage loan portfolio.

#### *Risk management and mitigation*

The Board of Directors of the Issuer has approved the credit risk policy for residential property mortgage loans.

AIB in its capacity as Mortgage Servicer on behalf of the Issuer operates an established credit process within the framework of the credit risk policy approved by the Board of the Issuer and delegated authorities, based on skill and experience, for the management and control of credit risk. Credit grading, scoring and monitoring systems accommodate the early identification and management of any deterioration in loan quality. The credit management system is underpinned by an independent system of credit review.

Divisional management approves the divisional credit policy within the parameters of relevant Group level policies. The divisional risk management function is an integral part of the approval process of divisional policies. Material divisional policies are referred to the Group Risk Management Committee (“**RMC**”) and/or to the AIB Board of Directors where relevant, for approval.

#### *Credit risk mitigation*

The most significant and widely used credit risk mitigation tool available to the Issuer and the Group is the Group's own robust internal credit risk control framework.

#### *Provisioning for impairment*

The identification of loans for assessment as impaired is driven by the Group's rating systems and the level of days past due. The Group provides for impairment in a prompt and consistent way across the credit portfolios. The rating models

provide a systematic discipline to support the identification of loans as impaired and in triggering a need for provisioning on a timely basis. Loans are identified as impaired if they are past due for ninety days (and the arrears position not satisfactorily resolved following issue of demand letter to the borrower) or exhibit, through lender assessment, an inability to meet their obligations to the Group.

Within its provisioning methodology, the Group uses two types of provisions: a) specific; and b) incurred but not reported (“**IBNR**”) – i.e. collective provisions for earning loans.

Specific provisions arise when the recovery of a specific loan or group of loans is significantly in doubt and the loan(s) have been identified as being impaired. The impaired portfolio is divided into two categories namely, ‘Individually Significant’ and ‘Individually Insignificant’. Individually Significant cases will be assessed individually for impairment whereas the Individually Insignificant cases will be pooled and assessed collectively. The threshold for Individually Significant cases is €500,000 plus. For Individually Significant cases, the amount of the specific provision will reflect the financial position of the borrower and the net realisable value of any security held for the loan or group of loans. For Individually Insignificant cases, the amount of the specific provision will be calculated by reference to the loss history experience / the expected recovery on a pool of similar impaired assets.

IBNR provisions are maintained to cover loans which are impaired at the balance sheet date, and while not specifically identified, are known from experience to be present in any portfolio of loans. IBNR impairment provisions can only be raised for incurred losses and are not allowed for losses that are expected to happen as a result of likely future events. IBNR provisions are determined by reference to previous loss experience in loan portfolios and to the credit environment at the balance sheet date. Whilst provisioning is an ongoing process, all Group divisions formally review provision adequacy on a quarterly basis and determine the overall provision requirement. These provisions are, in turn, reviewed and approved on a quarterly basis at a Group level and by the Board of Directors of the Issuer.

#### *Risk monitoring and reporting*

Relevant credit risk information is reported in a timely manner to the appropriate level to enable informed management decision making.

Credit managers receive sufficient account and customer information to proactively manage the Issuer's credit risk exposures at a transaction and relationship level.

## **2. Liquidity risk**

Liquidity risk is the exposure to loss from not having sufficient funds available at an economic price to meet actual and contingent commitments. The objective of liquidity management is to ensure that, at all times, the Issuer holds sufficient funds to meet its contracted and contingent commitments and regulatory requirements, at an economic price.

The Issuer's liquidity risk is managed as part of the overall Group liquidity management. This includes risk identification and assessment, risk management and mitigation, and risk monitoring and reporting processes.

### *Funding and Liquidity*

The funding and liquidity policy as approved by the Board of Directors of the Issuer sets out the forms of funding which can be used by the Issuer to meet its liquidity requirements – see below. It also sets out the outsourcing arrangements which have been established with the Group to source and manage the funding and liquidity requirements. The policy also specifies reporting requirements with respect to funding and liquidity management.

#### *Funding*

The Issuer is authorised to fund the assets it holds through the following forms of funding:

- (a) the issuance of Mortgage Covered Securities in accordance with the ACS Acts;
- (b) borrowing funds from AIB;
- (c) borrowing from the CBFSAI under a Mortgage-Backed Promissory Note (short term) facility ("**MBPN Facility**");
- (d) wholesale and corporate market deposit taking; and
- (e) capital funding to ensure at a minimum compliance with the capital adequacy requirements of the Financial Regulator.

The MBPN Facility is secured by a floating charge over a pool of the Issuer's home loans and related security which is separate to the Pool (that secures the Securities) maintained by the Issuer in accordance with the ACS Acts.

#### *Liquidity*

As at the date of this Base Prospectus, liquidity requirements for EU credit institutions are not the subject matter of EU directives. The Financial Regulator requires credit institutions to comply with a cashflow maturity mismatch approach for the management of their liquidity. This involves credit institutions analysing their cash flows on a group-wide basis under various headings and placing them in pre-determined time bands depending on when the cash is received or paid out. Limits are imposed on the group on the first (0-8 days) and the second (8-31 days) time bands and monitoring ratios will be calculated for subsequent time bands. These requirements apply to the Group on a consolidated basis rather than to the Issuer on a solo basis. The Issuer complies with its liquidity reporting obligations as part of the group consolidated reporting permitted by the Financial Regulator.

The primary liquidity requirements of the Issuer are to have sufficient funds available at an economic price to meet its commitments to pay interest and principal to holders of the Issuer's Mortgage Covered Securities, to repay short term borrowings under the MBPN Facility and to lend to mortgage customers in accordance with outstanding offer letters.

The Issuer's liquidity risk is managed as part of the overall Group liquidity management.

AIB Global Treasury (part of the AIB Capital Markets division) through the Outsourcing and Agency Agreement:

- supports the liquidity management requirements of the Issuer taking into account the regulatory framework at a Group level;
- ensures that the Issuer's liquidity management complies with Group liquidity policy.

### 3. **Operational risk**

Operational risk, which is inherent in all business activities, is the exposure to loss from inadequate or failed internal processes, people and systems, or from external events.

The management of operational risk is a line management responsibility. The Issuer's and AIB's (as the Mortgage Servicer) management of operational risk is supported by specialist operational risk management ("**ORM**") functions within AIB that assist and advise line management on specific operational risks. Examples include money laundering prevention, compliance, business continuity planning, information security and insurance.

An element of the Issuer's ORM programme is an operational risk self-assessment process. This process requires the Issuer to assess its operational risks and the effectiveness of the related controls to address these risks. It complements the risk-based audit approach applied by internal audit in its role as independent assessor of management's control and risk management processes.

### 4. **Regulatory compliance risk**

Regulatory compliance risk is defined as the risk of regulatory sanctions, material financial loss or loss to reputation which the Issuer may suffer as a result of failure to comply with all applicable laws, regulations, rules, related self regulatory standards and codes of conduct applicable to its activities.

The Issuer's regulatory compliance risk is managed as part of the overall Group regulatory compliance framework. This includes risk identification and assessment, risk management and mitigation, and risk monitoring and reporting processes.

### 5. **Non-trading interest rate risk (market risk)**

Interest rate risk is the exposure of the Issuer's earnings to movements in market interest rates. The Issuer is exposed to risk of interest rate fluctuations to the extent that assets and liabilities mature or reprice at different times or in differing amounts.

The Issuer is exposed to interest-rate risk arising from mortgage lending activities and the issuance of Mortgage Covered Securities. Interest rate swaps, as explained in the paragraphs below, are used to manage this exposure.

After taking account of the effect of interest rate swaps, the Issuer's remaining interest rate exposure arises mainly from variable interest rate mortgage loans, where the interest rate for the majority of the loans is based on the ECB Rate, whereas the related funding cost is based on EURIBOR rates.

Interest-rate risk arising from the issuance of fixed-rate Mortgage Covered Securities or fixed-rate deposit-taking is managed through interest rate swaps with AIB which have the effect of transforming fixed-rate liability risk into floating-rate risk.

The interest rate exposure of the Issuer relating to its Irish residential lending denominated in euro is managed using two macro interest rate swaps with AIB, one of which, the Pool Hedge, relates only to the Pool and Mortgage Covered Securities issued by the Issuer and the other of which (the "**Non-Pool Hedge**") relates only to Irish residential loans denominated in euro which are not included in the Pool. This split is required by the ACS Acts (see *Cover Assets Pool – Cover assets hedge contracts*).

In the case of the Pool Hedge, this is a cover assets hedge contract for the purposes of the ACS Acts (see *Cover Assets Pool – Cover assets hedge contracts*). Under the Pool Hedge, on a monthly basis the Issuer pays to AIB an amount related to a weighted average basket interest rate, determined by reference to interest rates payable on the residential loans held by the Issuer and which are included in the Pool on the relevant date, on a notional amount equal to the principal amount outstanding of those loans on the relevant date. In turn on a monthly basis, AIB pays to the Issuer an amount related to one month EURIBOR on that notional amount. With respect to Mortgage Covered Securities, on an annual basis or such other basis referable to the relevant coupon period, AIB pays under that cover assets hedge contract an amount related to the interest rate payable on the relevant Mortgage Covered Securities on a notional amount equal to the principal amount outstanding of the relevant Mortgage Covered Securities and the Issuer pays to AIB an amount related to one month EURIBOR on that notional amount.

Under the terms of the Pool Hedge entered into with AIB, in the event that AIB is downgraded by a rating agency appointed by the Issuer in respect of the Securities below the rating(s) specified in the Pool Hedge, AIB is required, in accordance with the Pool Hedge, to take certain remedial measures which may include providing collateral for its obligations under the Pool Hedge, arranging for its obligations under the Pool Hedge to be transferred to an entity with the ratings required by the relevant rating agency, procuring another entity with the ratings required by the relevant rating agency to become co-obligor in respect of its obligations under the Pool Hedge, or taking such other action as it may agree with the relevant rating agency. A failure to take such steps allows the Issuer to terminate the Pool Hedge.

In the case of the Non-Pool Hedge (which is not a cover assets hedge contract), on a monthly basis the Issuer pays to AIB an amount related to the weighted average basket interest rate, determined by reference to interest rates payable on the residential loans held by the Issuer but which are not included in the Pool on the relevant date, on a notional amount equal to the outstanding principal amount of those loans on the relevant date. In turn, under the Non-Pool Hedge, on a monthly basis AIB pays to the Issuer an amount related to one month EURIBOR on that notional amount.

If the Issuer acquires or originates mortgage credit assets located for the purposes of the ACS Acts in Ireland and secured on commercial property or mortgage credit assets (whether secured on residential property or commercial property) which are located outside of Ireland for the purposes of the ACS Acts (see *Risk Factors*), RMBS, CMBS or mortgage credit assets denominated in a currency other than euro or the Issuer issues Mortgage Covered Securities denominated in a currency other than euro, the Pool Hedge or, as applicable, the Non-Pool Hedge, will not hedge any interest rate risks associated with those mortgage credit assets or, as applicable, Mortgage Covered Securities and any such risks will have to be addressed by amending the above hedging arrangements or putting in place new hedging arrangements which may be with



counterparties other than AIB. See also *Risk Factors – Cover assets hedge contracts*.

The Issuer uses derivatives, including the macro swaps described above, strictly for hedging purposes and are designated as hedging instruments. Derivatives are not used in trading activities or for speculative purposes.

Under regulations made under the 2001 Act, the Issuer is required to ensure that the sensitivity of its own funds to a 1 per cent. upward shift, downward shift or twist in the yield curve does not exceed 10 per cent. of the level of own funds. In addition, the Issuer sets an internal limit to the sensitivity of net worth to interest rate movements which is approved by the Board of Directors.

In addition, the Issuer complies with restrictions on currency related derivative activities under the 2001 Act. In respect of assets within the Pool, the Issuer complies with the currency matching requirements set out in the 2001 Act and provisions applicable to cover assets hedge contracts. See *Cover Assets Pool*.

The Issuer uses derivatives within the limitations prescribed under the ACS Acts. See *Cover Assets Pool – Cover Assets Hedge Contracts and Restrictions on the Activities of an Institution – Permitted business activities – (f) entering into certain hedging contracts for the purpose of hedging risks associated with the foregoing activities/dealing in and holding Pool Hedge Collateral*.

At the date of this Base Prospectus, the Issuer is not exposed to any other market risks, i.e. foreign exchange rates or equity prices.

## RESTRICTIONS ON THE ACTIVITIES OF AN INSTITUTION

The ACS Acts provide that an Institution may not carry on a business activity other than a permitted business activity (see below), although entities which hold more than one designation (relating to residential (and commercial) mortgage credit, commercial mortgage credit and/or public credit activities) may carry out the permitted activities in respect of the relevant designations.

### Permitted business activities in which an Institution may engage

The list of permitted business activities in which an Institution may engage (subject to the restrictions described below) is set out in the ACS Acts. These are:

- (a) providing mortgage credit, dealing in and holding mortgage credit assets and providing group mortgage trust services;
- (b) dealing in and holding substitution assets;
- (c) dealing in and holding assets that the Financial Regulator requires it to hold for regulatory purposes;
- (d) dealing in and holding credit transaction assets;
- (e) engaging in activities connected with financing or refinancing the classes of assets and other activities referred to in (a) to (g);
- (f) entering into certain hedging contracts for the purpose of hedging risks associated with the foregoing activities at (a) to (e) and dealing in and holding Pool Hedge Collateral; and
- (g) engaging in activities that are incidental or ancillary to the foregoing activities at (a) to (f).

An explanation of certain of the categories of permitted business activities is set out below.

### Permitted business activities – (a) providing mortgage credit and dealing in and holding mortgage credit assets and providing group mortgage trust services

The ACS Acts define “**mortgage credit**” as any kind of financial obligation in respect of money borrowed or raised that is secured by a mortgage, charge or other security on residential property (see below) or commercial property (see below), but only if the property is located in:

- (a) Ireland;
- (b) any EEA country;
- (c) Australia, Canada, Japan, New Zealand, the Swiss Confederation, the United States of America, or a country specified in an order made by the Minister for Finance; or
- (d) a country, other than a country to which paragraph (a), (b) or (c) relates, that is a full member of the Organisation for Economic Co-operation and Development, but only if it has not rescheduled its external debt during the immediately preceding 5 years.

The 2007 Amendment Act provides that mortgage credit also includes mortgage credit in securitised form (as the term 'securitisation' is used in the CRD. The 2007 Amendment Act also provides that for the purposes of the mortgage credit definition, "**other security**" in relation to residential or commercial property located outside Ireland, means a kind of security interest over that property that is recognised as a valid security interest under the *lex situs* of that property.

Under the ACS Acts, mortgage credit also includes any kind of credit for the time being designated by an order of the Minister for Finance under the ACS Acts. The ACS Acts authorise the Minister by order to declare credit of a specified kind to be no longer mortgage credit for those purposes. As at the date of this Base Prospectus, no orders have been made by the Minister for Finance under the ACS Acts adding to or reducing the class of mortgage credits.

A "**residential property**" means a building or part of a building that is used or is suitable for use as a dwelling, and includes the land on which the building is constructed and premises that are used in connection with a dwelling, such as a garden, patio, garage or shed.

A "**commercial property**" means:

- (a) subject to paragraph (b) below:
  - (i) a building or part of a building fixed on land that is used, or is set aside to be used, primarily for the purpose of any industry, trade or other business undertaking, and
  - (ii) includes the land on which such building or such part of a building, as the case may be, is located, and the fixtures that are used in conjunction with such building or such part of a building, as the case may be,
- (b) but does not include:
  - (i) a building or part of a building that is fixed on land that is used, or is set aside to be used, primarily for the purpose of any mine, quarry or agriculture, or
  - (ii) subject to the exception referred to below, a building or part of a building that is residential property.

The exception referred to at paragraph b(ii) above is where a mortgage credit asset is secured on a single property asset that would otherwise constitute commercial property in part and residential property in part, then that mortgage credit asset is to be regarded for the purposes of the ACS Acts as secured only on commercial property.

A "**mortgage credit asset**" is defined in the ACS Acts with respect to Institutions as an asset or a property held or to be held by an Institution that comprises one or more mortgage credits and does not include Pool Hedge Collateral.

Under the 2007 Amendment Act "**group mortgage trust services**" are services provided by an Institution to one or more of its other corporate group members:

- (a) which involve the Institution holding mortgage security or if applicable, collateral security on trust for one or more of such members, and
- (b) where, under that trust, the Institution holds an interest in that security for one or more such members and for its own behalf.

**“Mortgage security”** means a mortgage, charge or other security (for the purposes of the definition of mortgage credit) which secures assets that comprise one or more mortgage credits and **“collateral security”** means any security, guarantee, indemnity or insurance which secures, in addition to mortgage security, assets that comprise mortgage credit.

Where an Institution holds mortgage security and, if applicable, collateral security subject to a trust as a consequence of providing group mortgage trust services to other corporate group members, under the 2007 Amendment Act:

- (a) mortgage credit assets do not include group entity assets,
- (b) for the purpose of determining what security held by the Institution is protected under Part 7 of the 2001 Act as part of the Pool, only mortgage security and, if applicable, collateral security to the extent such security secures mortgage credit assets held by the Institution are protected as part of the Pool; and
- (c) as regards recourse by the Institution or other group members to such security to satisfy their respective claims:
  - (i) such claims held by the Institution for its own benefit until they are discharged in full rank in priority to claims held by other group members; and
  - (ii) any terms of the trust or any agreement between the Institution or other group members purporting to provide for a different priority as between such claims is void.

For the purposes of the above, **“group entity assets”** means any assets that comprise one or more mortgage credits held by other group members where those assets are secured by mortgage security and if applicable, collateral security and that security is comprised in a trust constituted for the purposes of group mortgage trust services.

#### **Permitted business activities – (b) dealing in and holding substitution assets**

The ACS Acts define substitution assets as:

- (a) deposits with an eligible financial institution;
- (b) any asset designated a substitution asset in an order made by the Minister for Finance under the 2001 Act.

The 2007 Amendment Act provides that any assets of the type referred to at (b) above must be an exposure to a credit or investment institution within the meaning of Article 4(6) of the CRD. The Minister for Finance under the ACS Acts may by order designate a specified kind of property to be a substitution asset for the purposes of the ACS Acts or declare a specified kind of property to be no longer a substitution asset for those purposes. At the date of this Base Prospectus, no such order has been made by the Minister for Finance. The 2007 Amendment Act also provides that substitution assets will not comprise Pool Hedge Collateral.

The ACS Acts provide that regulations made by the Financial Regulator must provide for a financial institution or a class of financial institutions to be designated as an eligible financial institution for the purposes of (a) above.

It is the Issuer’s intention that any substitution assets forming part of its Pool which fall within the categories of assets described in paragraph (b) above will be rated

Aaa/AAA/AAA (long term) or P-1/A-1+/F1+ (short term) by Moody's, Standard & Poor's and Fitch respectively.

The Asset Covered Securities Act 2001 (Section 6(2)) Regulations 2007 (S.I. No. 603 of 2007) (the "**Substitution Asset Deposit Regulations**") made by the Financial Regulator (which came into effect on 31 August 2007) provide that an eligible financial institution for the purposes of a deposit comprising a substitution asset is:

- (a) (i) any credit institution which is authorised in Ireland or any EEA member state, or
- (ii) a bank which is authorised to receive deposits or other repayable funds from the public and is located in Australia, Canada, Japan, New Zealand, the Swiss Confederation or the United States of America, and
- (b) which has, from an ECAI, a minimum credit quality assessment of Credit Quality Step 2 (within the meaning of the Irish CRD Code).

The Substitution Asset Deposit Regulations repeal the Asset Covered Securities Act 2001 (Section 6(2)) Regulations (S.I. No. 387 of 2002).

The Substitution Asset Pool Eligibility Notice 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 a maturity not exceeding 100 days, a minimum long term credit quality assessment of Credit Quality Step 2 (within the meaning of the Irish CRD Code).

#### **Permitted business activities – (d) dealing in and holding credit transaction assets**

The ACS Acts define a "**credit transaction asset**" as an asset derived from having engaged in a credit transaction (not being a cover assets hedge contract (see *Cover Assets Pool – Cover assets hedge contracts*) or *Pool Hedge Collateral*), but does not include a mortgage credit asset, substitution asset, an asset required to be held for regulatory purposes or an asset arising from financing or refinancing activities. A "**credit transaction**" is defined in the ACS Acts as:

- (a) placing a deposit with a financial institution which has been or is of a class which has been designated as eligible for such purposes by regulations made by the Financial Regulator;
- (b) dealing with or holding a financial asset; or
- (c) any other kind of transaction designated as such by the Minister for Finance by order made under the ACS Acts.

A "**financial asset**" for the purposes of (b) above is defined in section 3 of the ACS Acts by reference to section 496 of the Taxes Consolidation Act 1997 and includes shares, gilts, bonds, derivatives and debt portfolios.

The Asset Covered Securities Act 2001 (Section 27(4)) Regulations 2007 (S.I. No. 601 of 2007) (the "**CTA Eligible Financial Institution Regulations**") made by the Financial

Regulator which came into operation on 31 August 2007) designate the type of eligible financial institutions deposits with which qualify as credit transaction assets. Eligible financial institutions for this purpose are the same as those that apply in respect of deposits comprising substitution assets under the Substitution Asset Deposit Regulations, (see *Restrictions on the Activities of an Institution – Permitted business activities in which an Institution may engage – (b) dealing in and holding substitution assets* above) save that such financial institutions are required under the CTA Eligible Financial Institution Regulations to have a credit quality assessment of Credit Quality Step 3 (as opposed to a minimum Credit Quality Step 2) (both having the meaning given to them in the Irish CRD Code). The CTA Eligible Financial Institution Regulations repeals the Asset Covered Securities Act 2001 (Section 27(4)) Regulation 2004 (S.I. No. 417 of 2004).

**Permitted business activities – (e) engaging in activities connected with financing or refinancing of assets and other activities referred to in (a) to (g)**

The ACS Acts provide that these financing or refinancing activities include (but are not limited to):

- (a) taking deposits or other repayable funds from the public; and
- (b) issuing asset covered securities (which include Mortgage Covered Securities in the case of an Institution).

The ACS Acts provide that an Institution may issue Mortgage Covered Securities, but only in accordance with the ACS Acts.

An Institution that issues a Mortgage Covered Security must ensure that the relevant security documentation states:

- (a) that the Mortgage Covered Security is a mortgage covered security; and
- (b) that the financial obligations of the Institution under the Mortgage Covered Security are secured on the cover assets that comprise a cover assets pool maintained by the Institution in accordance with the ACS Acts.

**Permitted business activities – (f) entering into certain hedging contracts for the purpose of hedging risks associated with the foregoing activities/dealing in and holding Pool Hedge Collateral**

An Institution may enter into one or more contracts (“**Hedging Contracts**”) the purpose or effect of which is to reduce or minimise the risk of financial loss or exposure liable to arise from:

- (a) fluctuations in interest rates or currency exchange rates;
- (b) credit risks; or
- (c) other risk factors that may adversely affect its permitted business activities.

The Financial Regulator may, by regulatory notice, specify requirements as to:

- (a) the kind of Hedging Contracts that an Institution may enter into; and
- (b) the terms and conditions under which those Hedging Contracts, or any class of those Hedging Contracts, may be entered into (including those relating to Pool Hedge Collateral).

As at the date of this Base Prospectus, no such regulatory notice has been published by the Financial Regulator.

The ACS Acts make special provision for Hedging Contracts which relate to the mortgage credit assets or substitution assets that are comprised in a Pool maintained, and Mortgage Covered Securities issued, by an Institution (for a description of the provisions of the ACS Acts relating to the obligation of an Institution to maintain a Pool, see further below). Those hedging contracts when recorded in the Business Register (as to which see *Cover Assets Pool – Register of mortgage covered securities business*) are referred to in the ACS Acts as cover assets hedge contracts. As to the provisions of the ACS Acts relating to cover assets hedge contracts see *Cover Assets Pool – Cover assets hedge contracts and Insolvency of Institutions – Effect under the ACS Acts of insolvency, potential insolvency or insolvency process with respect to an Institution*. For a description of the Hedging Contracts entered into by the Issuer at the date of this Base Prospectus with respect to interest rate exposure relating to the Issuer's Irish residential lending denominated in euro, see *Risk Management at the Issuer – Issuer Risk Management – Non-trading interest rate risk*.

In relation to Pool Hedge Collateral, see *Cover Assets Pool – Pool Hedge Collateral and related Register*.

### **Location of assets for the purposes of the ACS Acts**

For the purposes of the ACS Acts:

- (a) the country in which a mortgage credit asset is located is the country in which the property asset that secures the relevant mortgage credit related to the mortgage credit asset is situated; and
- (b) the country in which a substitution asset that is an exposure for the purposes of the CRD (i.e. an asset or off-balance sheet item) is located is the country in which the place of business of the financial institution that is the subject of the exposure is situated.

In respect of (a) above, if the mortgage credit asset is an RMBS or CMBS, its location is to be determined by reference to the location of the property assets related to the mortgage credit assets which are securitised.

### **General restrictions on certain types of permitted business activities**

The ACS Acts provide that an Institution must ensure that the ratio of the total principal amounts of all mortgage credit assets that it holds to the total prudent market value of the related property assets does not exceed 80 per cent. (or such other percentage as may be prescribed by regulations made by the Financial Regulator). Under the 2007 Amendment Act, securitised mortgage credit is not subject to the above restriction. For a description of the method of determination under the ACS Acts of the prudent market value of a property asset which is related to a mortgage credit asset, see *Cover Assets Pool – Valuation of assets held by an Institution*.

The ACS Acts specify limitations on the level of mortgage credit assets or substitution assets held by an Institution in the course of its general business activities which may be located in category B countries (for the definition of "**category B countries**" under the ACS Acts, see *Cover Assets Pool – Location of assets that may be included in a Pool*). The total prudent market value of mortgage credit assets or substitution assets located in category B countries held by the Institution, expressed as a percentage of the total prudent market value of all the mortgage credit assets and substitution assets held by the Institution, may not exceed 10 per cent. (or such other percentage as may be

specified by an order of the Minister for Finance) of the total prudent market value of all of the mortgage credit assets and substitution assets held by the Institution. For a description of the method of determination under the ACS Acts of the prudent market value of a mortgage credit asset or a substitution asset held by an Institution, see *Cover Assets Pool – Valuation of assets held by an Institution*.

An Institution is required to ensure that the total value of the credit transaction assets that it holds, expressed as a percentage of the total value of all of the Institution's assets, does not at any time exceed 10 per cent. (or such other percentage as may be specified by an order of the Minister) of the total value of all of the Institution's assets. For a description of the method of determination under the ACS Acts of the value of credit transaction assets held by an Institution, see *Cover Assets Pool – Valuation of assets held by an Institution*.

The ACS Acts empower the Financial Regulator, by giving notice in writing to an Institution, to impose on such Institution or on any class of Institutions, requirements or restrictions as to the kinds of credit transaction assets that the Institution or Institutions may hold. At the date of this Base Prospectus, no such requirements or restrictions have been imposed on the Issuer.



## COVER ASSETS POOL

### Institutions Required to Maintain Cover Assets Pool

An Institution may issue Mortgage Covered Securities only if it maintains a related Pool in compliance with the ACS Acts.

After an Institution is registered under the ACS Acts, the Institution may, for the purpose of establishing a Pool and enabling it to make an initial issue of Mortgage Covered Securities, include in its register of mortgage covered securities business, mortgage credit assets or substitution assets in accordance with the ACS Acts (for a description of the provisions of the ACS Acts relating to the requirement for an Institution to maintain a register of mortgage covered securities business, see – *Register of mortgage covered securities business*).

If an Institution wishes at any time to issue further Mortgage Covered Securities, it may include in the relevant Pool mortgage credit assets or substitution assets as security for those Securities in accordance with relevant provisions of the ACS Acts as to which see below.

A mortgage credit asset or a substitution asset forms part of the relevant Pool only if its inclusion has been approved by the Monitor (for a description of the role of the Monitor, see – *The Cover-Assets Monitor*).

An Institution must, as soon as practicable after becoming aware that it has contravened the provisions of the ACS Acts summarised in the first and fourth paragraphs under this heading, take all possible steps to prevent the contravention from continuing or being repeated. Under the 2007 Amendment Act, an Institution is required as soon as practicable after becoming aware that a mortgage credit asset or substitution asset comprised in the Pool no longer meets any creditworthiness criteria specified by the Financial Regulator, to remove the relevant asset from the Pool and where required by the ACS Acts, replace the asset in accordance with the ACS Acts. Until those steps have been taken, the Institution may not issue further Mortgage Covered Securities.

### Circumstances in which an asset may not be included in a Pool

The ACS Acts provide that an Institution, when issuing Mortgage Covered Securities, may not include a mortgage credit asset or substitution asset in a Pool if:

- (a) the mortgage credit asset or substitution asset is currently included in a different Pool maintained by the Institution;
- (b) the mortgage credit asset or substitution asset is non-performing;
- (c) the Institution is insolvent (for a description of the meaning of “**insolvent**” for the purposes of the ACS Acts, see *Meaning of ‘insolvent’, ‘potentially insolvent’ and ‘insolvency process’ for the purposes of the ACS Acts* below);
- (d) the Financial Regulator has given the Institution a direction under certain provisions of legislation relevant to financial institutions, the effect of which is to prohibit the asset from being recorded in the Institution's register of mortgage covered securities business;
- (e) the Financial Regulator has given the Institution a notice under the ACS Acts informing the Institution that the Financial Regulator intends to seek the consent of the Minister for Finance to the revocation of the registration of the Institution as a designated mortgage credit institution (for a description of the circumstances

in which the Financial Regulator may revoke the registration of an Institution as a designated mortgage credit institution, see *Registration of Institutions/Revocation of Registration – Revocation of Registration*); or

- (f) the Financial Regulator has given a direction under certain provisions of the ACS Acts, the effect of which is to prohibit the asset from being recorded in the Institution's register of mortgage covered securities business (for a description of the circumstances in which the Financial Regulator may make such an order, see *Registration of Institutions/Revocation of Registration – Direction of the Financial Regulator requiring an Institution to suspend its business*).

In relation to (b) above, “**non-performing**” is defined under the 2001 Act in the context of an Institution to mean that the relevant asset:

- (i) is in the course of being foreclosed or otherwise enforced; or
- (ii) in the case of mortgage credit assets for which the related mortgage credit is of a kind referred to in section 4(1) of the 2001 Act, but excluding securitised mortgage credit assets) (see the first paragraph of *Restrictions on the Activities of an Institution – Permitted business activities (a) providing mortgage credit and dealing in and holding mortgage credit assets and providing group mortgage trust services*), has one or more payments of principal or interest payable on the related credit in arrears and those payments are referable to a period of 3 months or more; or
- (iii) in relation to kinds of assets other than those referred to at (ii) above, has one or more payments of principal or interest payable on the related credit in arrears for 10 days or more.

The ACS Acts provide that an Institution may not, without the consent of the Financial Regulator, include a mortgage credit asset or substitution asset in a Pool maintained by the Institution if:

- (a) the Institution is potentially insolvent (for a description of the meaning of “**potentially insolvent**” for the purposes of the ACS Acts, see *Insolvency of Institutions – Meaning of ‘insolvent’, ‘potentially insolvent’ and ‘insolvency process’ for the purposes of the ACS Acts*); or
- (b) there is currently no Monitor appointed in respect of the Institution.

The Financial Regulator 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. The Substitution Asset Pool Eligibility Notice distinguishes between substitution assets which have a maximum maturity of 100 days and those which do not. See *Cover Assets Pool – Restrictions on inclusion of substitution assets in the Pool*.

The Financial Regulator has under the Asset Covered Securities Act 2001 Regulatory Notice (Section 41A(4), (5) and (7)) 2007 imposed creditworthiness standards and criteria in respect of securitised mortgage credit assets which may be comprised in the Pool. See *Cover Assets Pool – Restrictions on inclusion of securitised mortgage credit assets in the Pool*.

An Institution must, as soon as practicable after becoming aware that it has contravened the provisions of the ACS Acts summarised under this heading, take all possible steps to prevent the contravention from continuing or being repeated or, as applicable, remove

from the Pool and where required, replace the relevant asset. Until those steps have been taken, the Institution may not issue further Mortgage Covered Securities.

### **Location of assets that may be included in a Pool**

The ACS Acts provide that any mortgage credit asset or substitution asset located within an EEA country or within one or more category A countries (see below) may be included in a Pool maintained by an Institution. In relation to the meaning of located for the purposes of the ACS Acts, see *Restrictions on the activities of an Institution – Location of assets for the purposes of the ACS Acts*. However, in relation to substitution assets, see further – *Restriction on inclusion of substitution assets in a Pool*.

Mortgage credit assets or substitution assets that are located in one or more category B countries (see below) may not be included in a Pool maintained by an Institution under the ACS Acts.

A “**category A**” country is Australia, Canada, Japan, New Zealand, the Swiss Confederation, the United States of America, or a country specified in an order made by the Minister for Finance.

A “**category B**” country is a country, other than a category A country or a member of the EEA, that is a full member of the Organisation for Economic Co-operation and Development, but only if it has not re-scheduled its external debt during the immediately preceding 5 years.

An Institution must, as soon as practicable after becoming aware that it has contravened the provisions of the ACS Acts summarised above under this heading, take all possible steps to prevent the contravention from continuing or being repeated. Until those steps have been taken, the Institution may not issue any further Mortgage Covered Securities.

The Monitor must monitor the Institution's compliance with the requirements summarised under this heading and take reasonable steps to verify that the Institution will not be in contravention of the above restrictions before the Institution issues Mortgage Covered Securities or enters into a cover assets hedge contract.

### **Restrictions on inclusion of certain types of mortgage credit assets in a Pool**

An Institution may not include in a Pool maintained by it a mortgage credit asset that is secured on commercial property if, after inclusion of the asset in the Pool, the total prudent market value of all mortgage credit assets so secured would exceed 10 per cent. (or such other percentage as may be prescribed by regulations made by the Financial Regulator) of the total prudent market value of all mortgage credit assets and substitution assets then comprised in the Pool.

The Monitor must monitor the Institution's compliance with this requirement and take reasonable steps to verify that the Institution will not be in contravention of the above restriction before the Institution issues Mortgage Covered Securities or enters into a cover assets hedge contract.

Under the ACS Acts, an Institution may not include a mortgage credit asset in a Pool maintained by it if a building related to that mortgage credit asset is being or is to be constructed until the building is ready for occupation as a commercial or residential property (development property). Under the 2007 Amendment Act, mortgage credit assets secured on development property can be included in the Pool if the relevant mortgage credit asset is attributed a nil value for relevant Cover Asset – Mortgage Covered Securities financial matching requirements, the Regulatory Overcollateralisation requirement and Contractual Overcollateralisation purposes or if the mortgage credit

asset concerned is not required to satisfy those requirements because sufficient cover assets are comprised in the Pool which meet the requirements of the ACS Acts.

An Institution must, as soon as practicable after becoming aware that it has contravened the provisions of the ACS Acts summarised above under this heading, take all possible steps to prevent the contravention from continuing or being repeated. Until those steps have been taken, the Institution may not issue any further Mortgage Covered Securities.

### **Restrictions on inclusion of securitised mortgage credit assets in the Pool**

Under the 2007 Amendment Act, securitised mortgage credit assets may be included in a Pool where they meet any creditworthiness criteria and limits as to percentage of the Pool specified by the Financial Regulator in regulatory notices. The Financial Regulator is required when making any such regulatory notice to have regard to any relevant standards or criteria applicable to covered bonds under the CRD. Where a securitised mortgage credit asset comprised in the Pool ceases to meet any creditworthiness criteria specified by the Financial Regulator, the Institution concerned must, remove the asset from the Pool and where required by the ACS Acts, replace the relevant asset.

The Asset Covered Securities Act 2001 Regulatory Notice (Section 41A(4), (5) and (7)) 2007 made by the Financial Regulator (which came into operation on 31 August 2007) provides that:

- (a) securitised mortgage credit assets comprised in a Pool are required to have a credit quality assessment of Credit Quality Step 1 based on their long-term or, as applicable, short-term rating from an eligible ECAI and the ratings mapping process as set out in the CRD. For the above purposes, Credit Quality Step 1 has the meaning given to it in the Irish CRD Code;
- (b) the applicable percentage for the purposes of the provisions of the ACS Acts which permit the Financial Regulator to restrict the level of securitised mortgage credit assets comprised in a Pool to a percentage, subject to (c) below, is 20 per cent. of the principal or nominal amount outstanding of the Mortgage Covered Securities issued by the Institution;
- (c) prior to 31 December 2010, the restriction referred to at (b) above does not apply where the securitised mortgage credit assets representing the amount greater than the 20 per cent. referred to in (b) above have a credit quality assessment by a nominated eligible ECAI which is the most favourable category of credit assessment made by the eligible ECAI in respect of covered bonds;
- (d) any securitised mortgage credit asset held by an Institution outside a Pool must have a minimum credit quality assessment of Credit Quality Step 2 (within the meaning of the Irish CRD Code), based on the long-term or, as applicable, short-term rating from an eligible ECAI and the ratings mapping process as set out in the CRD.

In addition to meeting any creditworthiness criteria and limits as to percentage of the Pool referred to above, in order to be included in the Pool securitised mortgage credit assets must also satisfy the following requirements:

- (i) the securitisation entity which is the issuer of the securitised mortgage credit assets must be established under and be subject to the laws of an EEA country;
- (ii) at least 90 per cent. of the assets held directly or indirectly by the securitisation entity must be assets comprising one or more mortgage credits (disregarding certain assets for that purpose); and

- (iii) the securitised mortgage credit assets must meet prudent market value requirements specified in the ACS Acts. Those requirements reflect valuation criteria with respect to securitised mortgage credit collateral for covered bonds under the CRD and may be expanded in a regulatory notice made by the Financial Regulator under the ACS Acts.

### **Financial matching criteria for a Pool and related Mortgage Covered Securities/Regulatory Overcollateralisation**

The ACS Acts set out certain financial matching criteria which are required to be met by an Institution in respect of its Pool and Mortgage Covered Securities. These criteria are that:

- (a) the Pool maintained by an Institution has a duration (see below) of not less than that of the Mortgage Covered Securities that relate to the Pool;
- (b) the prudent market value (see below) of the Pool is greater than the total of the principal amounts of those Mortgage Covered Securities;
- (c) the total amount of interest payable in a given period of 12 months in respect of the Pool is during that 12 month period not less than the total amount of interest payable in respect of that period on those Mortgage Covered Securities; and
- (d) the currency in which each mortgage credit asset and each substitution asset included in the Pool is denominated is the same as the currency in which those Mortgage Covered Securities are denominated,

in each case, after taking into account, in the case of paragraphs (b), (c) and (d) above, the effect of any cover assets hedge contract that the Institution has entered into in relation to the Pool and those Mortgage Covered Securities (but disregarding for these purposes the effect of any Pool Hedge Collateral) and in the case of (b) above, certain loan to value restrictions.

In relation to paragraph (a) above and the meaning of "**duration**" under the ACS Acts, see below – *Meaning of "duration" of a Pool or Mortgage Covered Securities*. In relation to paragraph (b) above and the meaning of "**prudent market value**" under the ACS Acts, see – *Loan-to-value restrictions on the valuation of mortgage credit assets and related property assets and Valuation of assets held by an Institution*.

Under the 2007 Amendment Act, for the purposes of (b) above, an Institution is required to maintain a minimum level of Regulatory Overcollateralisation of its Pool with respect to the Mortgage Covered Securities in issue which are secured on the Pool. The 2007 Amendment Act confirms that the Regulatory Overcollateralisation requirement does not affect any Contractual Overcollateralisation undertakings made by an Institution requiring higher levels of overcollateralisation to be maintained.

The Monitor must monitor the Institution's compliance with the above requirements and take reasonable steps to verify that the Institution will not be in contravention of the above requirements before the Institution issues Mortgage Covered Securities or enters into a cover assets hedge contract.

An Institution must, as soon as practicable after becoming aware that it has failed to comply with the provisions of the ACS Acts summarised above under this heading, take all possible steps to comply with that provision. Until those steps have been taken, the Institution may not issue any further Mortgage Covered Securities.

### *Meaning of "duration" of a Pool or Mortgage Covered Securities*

For the purposes of paragraph (a) under – *Financial matching criteria for a Pool and related Mortgage Covered Securities/Regulatory Overcollateralisation*, "duration" in the ACS Acts means, in relation to a Pool or Mortgage Covered Securities secured on the Pool, a weighted average term to maturity of the relevant principal amount of the mortgage credit assets and substitution assets comprised in the Pool or those securities, as the case may be, determined in accordance with a formula or criteria specified in a regulatory notice by the Financial Regulator and taking into account the effect of any cover asset hedge contract entered into by the Institution in relation to the Pool or those securities, or both, as the case may be.

The Duration Regulatory Notice sets out the formulae and criteria for the purpose of the definition of "duration" contained in ACS Acts. The Duration Regulatory Notice repeals the Assets Covered Securities Act 2001 Regulatory Notice (Section 32(10)) 2004.

### *Loan-to-value restrictions on the valuation of mortgage credit assets and related property assets*

For the purpose of paragraph (b) under – *Financial matching criteria for a Pool and related Mortgage Covered Securities/Regulatory Overcollateralisation*, if the principal amount of a mortgage credit asset comprised in a Pool represents more than the percentage specified below of the prudent market value of the related property assets, the amount by which the principal amount of the asset exceeds such percentage is to be disregarded.

The relevant LTV percentage is:

- (a) 75 per cent. in the case of a mortgage credit asset that comprises residential property; and
- (b) 60 per cent. in the case of a mortgage credit asset that comprises commercial property,

or, in each case, such other percentage as may be specified in an order made by the Minister for Finance. As at the date of this Base Prospectus, no other percentage has been specified in an order made by the Minister for Finance.

Under the 2007 Amendment Act, the LTV rules referred to above do not apply in the case of securitised mortgage credit assets. However, under the CRD, the value of CMBS or RMBS is only recognised for covered bond collateral purposes to a lesser of the three following amounts, namely, (i) the principal amount of the securitised mortgage credit asset, (ii) the principal amount of the underlying liens (or loans) or (iii) a maximum LTV with respect to the underlying loans of 60 per cent. in the case of CMBS or 80 per cent. in the case of RMBS.

The prudent market value requirements for securitised mortgage credit under the 2007 Amendment Act reflect the above valuation limits under the CRD for securitised mortgage credit which collateralises covered bonds. Under the 2007 Amendment Act, when determining the LTV related property values or amount of the liens, an aggregate basis is to be used and regard is to be had to the proportion of the tranche of the relevant securitised mortgage credit held by an Institution and the seniority of such securitised mortgage credit. Under the 2007 Amendment Act, the prudent market value of a property asset, which relates to mortgage credit assets (where relevant) is required to be calculated at such times as the Financial Regulator specifies in a regulatory notice, after having regard to the valuation requirements applicable to covered bonds under the

CRD. See *Valuation of assets held by an Institution – Valuation of Relevant Securitised Mortgage Credit Assets*.

### **Valuation of assets held by an Institution**

The ACS Acts empower the Financial Regulator to specify, by regulatory notice, requirements in relation to the valuation basis and methodology, time of valuation and any other matter that it considers relevant for determining the prudent market value of mortgage credit assets or related property assets for the purposes of the ACS Acts. The ACS Acts also empower the Financial Regulator to specify, by regulatory notice, requirements in relation to the valuation basis and methodology, time of valuation and any other matter that it considers relevant for determining the prudent market value of substitution assets, credit transaction assets, or the total assets held by an Institution for the purposes of the ACS Act.

#### *Prudent Market Valuation of Irish Residential Property Assets, Irish Residential Loans and Relevant Securitised Mortgage Credit Assets*

For the purposes of calculating prudent market value, the Financial Regulator has made the MCA Valuation Notice which came into operation on 31 August 2007 and lays down requirements in relation to the valuation basis and methodology, time of valuation and other matters related to determining the prudent market value of:

- (a) a property asset which is residential property situated in Ireland and which secures a mortgage credit asset (other than a securitised mortgage credit asset) held by an Institution (an "**Irish Residential Property Asset**");
- (b) a mortgage credit asset (other than a securitised mortgage credit asset) which is secured on an Irish Residential Property Asset (an "**Irish Residential Loan**"); and
- (c) a securitised mortgage credit asset the related property assets of which indirectly comprise (in whole or in part) residential property (whether or not located in Ireland) (a "**Relevant Securitised Mortgage Credit Asset**")

and also specifies requirements and criteria with respect to certain matters required when determining the prudent market value of Relevant Securitised Mortgage Credit Assets.

The MCA Valuation notice repealed and replaced the Former Irish Residential Loan/Property Valuation Notice with effect from 31 August 2007.

The Monitor is required to monitor the Institution's compliance with the MCA Valuation Notice under the Asset Covered Securities Act 2001 (Section 61(3)) [Irish Residential Property Loan/Valuation] Regulation 2004 (S.I. No. 418 of 2004) (see *The Cover Assets Monitor – Continuing duties of a Monitor*).

The MCA Valuation Notice is only applicable to the valuation of Irish Residential Property Assets, Irish Residential Loans and Relevant Securitised Mortgage Credit Assets. The MCA Valuation Notice is not applicable to (and the Financial Regulator on the date of this Base Prospectus has not published any regulatory notice providing for) the valuation of property assets comprising residential property located outside Ireland or mortgage credit assets located in Ireland for the purposes of the ACS Acts and secured on commercial property or of mortgage credit assets (whether secured on residential property or commercial property) which are located outside Ireland for the purposes of the ACS Acts. See *Risk Factors*.

### *Prudent Market Discount*

The "**Prudent Market Discount**" for the purposes of certain calculations which are to be made by Institutions in respect of Irish Residential Property Assets and Irish Residential Loans under the MCA Valuation Notice is that published by the Institution and monitored by the Monitor in accordance with the Asset Covered Securities Act 2001 (Sections 61(1), 61(2) and 61(3)) [Prudent Market Discount] Regulation 2004 (S.I. No. 420 of 2004) (the "**Prudent Market Discount Regulation**") (see *The Cover Assets Monitor – Continuing duties of a Monitor*). The Prudent Market Discount Regulation prescribes that a Monitor appointed in respect of any Institution when performing its responsibilities under the ACS Acts must have regard to any contractual undertakings given by the Institution to apply a level of prudent market discount to certain calculations which are to be made by the Institution in respect of the MCA Valuation Notice. The Issuer adopted on 3 February 2006 and has published on the Group's website ([www.aibgroup.com](http://www.aibgroup.com)), a Prudent Market Discount for the purposes of the Former Irish Residential Loan/Property Valuation Notice of 0.150 (or in percentage terms, 15 per cent.) and this Prudent Market Discount continues to apply for the purposes of the MCA Valuation Notice (which repealed and replaced the Former Irish Residential Loan/Property Valuation Notice).

### *Valuation of Irish Residential Property Assets*

Under the MCA Valuation Notice, in order to value an Irish Residential Property Asset, an Institution is first required to determine the Origination Market Value (defined below) of that Irish Residential Property Asset. In general, an Irish Residential Property Asset for the purposes of the MCA Valuation Notice has a market value at the time of origination of the mortgage credit asset secured on that Irish Residential Property Asset (the "**Origination Market Value**" of that Irish Residential Property Asset) equal to the amount determined or accepted by the originator of that mortgage credit asset to have been the market value of that Irish Residential Property Asset at or about that time. Under the MCA Valuation Notice an Institution is required to calculate the prudent market value of each Irish Residential Property Asset:

- (a) where the related Irish Residential Loan is comprised in a Pool maintained by that Institution, at the time that the Institution comprises that Irish Residential Loan in the Pool;
- (b) where the related Irish Residential Loan is comprised in the Pool, at such intervals as are required to ensure that the Institution complies with the requirements of the CRD with respect to collateral for covered bonds in the form of loans secured by residential real estate; and
- (c) whether the related Irish Residential Loan is comprised in the Pool or not, at such intervals as may be specified by the Financial Regulator to that Institution from time to time so as to ensure that the Institution can demonstrate to the satisfaction of the Financial Regulator compliance by the Institution with the requirements of section 31(1) of the 2001 Act and, if not so specified, then at intervals not exceeding 12 months.

### *Valuation of Irish Residential Loans*

The MCA Valuation Notice also contains requirements for determining the prudent market value of mortgage credit assets secured on Irish Residential Property Assets.

For the purposes of the principal matching requirements in respect of a Pool and Mortgage Covered Securities under the ACS Acts (see – *Cover Assets Pool – Financial matching criteria for a Pool and related Mortgage Covered Securities/Regulatory*



*Overcollateralisation*), the prudent market value at any time of an Irish Residential Loan which is included in the Pool of an Institution is an amount, denominated in the currency in which the related mortgage credit is denominated, equal to the lesser of (i) 100 per cent. of the principal or nominal amount of that Irish Residential Loan that is outstanding at that time and (ii) 75 per cent. (or such other percentage as may apply at the relevant time for the purposes of relevant provisions of the ACS Acts) of the prudent market value of the related Irish Residential Property Asset(s) at that time, and in each case rounded to the nearest whole number (0.5 or above being rounded upwards and any number strictly less than 0.5 being rounded downwards).

Under the MCA Valuation Notice, an Institution is required to calculate the prudent market value of each Irish Residential Loan at such intervals as may be specified by the Monitor from time to time so as to ensure that the Institution can demonstrate to the satisfaction of the Monitor compliance by the Institution with the principal matching requirements with respect to the Pool and Mortgage Covered Securities, Regulatory Overcollateralisation requirements under the ACS Acts and the Asset Covered Securities Act 2001 (Sections 61(1), 61(2) and 61(3)) [Overcollateralisation] Regulation 2004 (as amended) (the "**Overcollateralisation Regulation**") (see – *Financial matching criteria for a Pool and related Mortgage Covered Securities/ Regulatory Overcollateralisation*) and, if not so specified by the Monitor, then at intervals not exceeding 3 months (see *The Cover Assets Monitor – Continuing duties of a Monitor*).

The Asset Covered Securities Act 2001 (Section 61(1), (2) and (3)) (Overcollateralisation) (Amendment) Regulations 2007 (S.I. No. 604 of 2007) made by the Financial Regulator (which came into operation on 31 August 2007) provide for technical amendments to the Overcollateralisation Regulation in relation to the meaning of prudent market value for the purposes of Overcollateralisation Regulation. References to the Overcollateralisation Regulation in this Base Prospectus are to the regulation as amended.

#### *Valuation of Relevant Securitised Mortgage Credit Assets*

The MCA Valuation Notice provides that the prudent market value of Relevant Securitised Mortgage Credit Assets is an amount equal to the lesser of the three amounts which are summarised below:

- (i) the principal or nominal amount of the Relevant Securitised Mortgage Credit Assets,
- (ii) the principal or nominal amount of the underlying liens (or loans) less any liens secured on the relevant property assets and which rank senior to that held by the securitisation entity which has issued the Relevant Securitised Mortgage Credit Assets,
- (iii) a maximum LTV of 80 per cent. with respect to the loans underlying the Relevant Securitised Mortgage Credit Assets,

in the case of (ii) and (iii) above:

- (I) determined on an aggregate basis having regard to the proportion which the nominal or principal amount of the Relevant Securitised Mortgage Credit Assets bear to the nominal or principal amount of the securitisation securities issued by the securitisation entity and secured on the same property assets as the Relevant Securitised Mortgage Credit Assets;
- (II) the ranking in terms of seniority of the Relevant Securitised Mortgage Credit Assets as against all such securitisation securities;

- (III) regard may be had to contracts, to which such securitisation entity is a party, the effect or purpose of which is to reduce the exposure of that securitisation entity in respect of the Relevant Securitised Mortgage Assets to fluctuations in the values of currencies concerned.

Under the MCA Valuation Notice, when determining the prudent market value of a Relevant Securitised Mortgage Credit Asset:

- (A) the amount referred to at (i) above is the principal or nominal amount outstanding of the Relevant Securitised Mortgage Credit Assets concerned on the date such prudent market value is determined or to be determined under the MCA Valuation Notice;
- (B) the amounts referred to at (ii) and (iii) above are to be determined by reference to the most recent information available to the Institution provided by or on behalf of the securitisation entity which is the issuer of the Relevant Securitised Mortgage Credit Asset and the most recent publicly available information relating to certain relevant matters.

An Institution is required under the MCA Valuation Notice to calculate the prudent market value of each Relevant Securitised Mortgage Credit Asset and the other relevant amounts for that purpose referred to at (i) to (iii) above at such intervals as may be specified by the Monitor from time to time so as to ensure that the Institution can demonstrate to the satisfaction of the Monitor compliance with the principal matching requirements with respect to the Pool and Mortgage Covered Securities, Regulatory Overcollateralisation requirements under the ACS Acts and the Overcollateralisation Regulation (see – *Financial matching criteria for a Pool and related Mortgage Covered Securities/Regulatory Overcollateralisation*) and if not so specified by the Monitor, then at intervals not exceeding 3 months (see *The Cover-Assets Monitor – Continuing duties of a Monitor*).

Under the MCA Valuation Notice where any sum is to be converted from one currency to another currency, the Institution is required to base such conversion on an applicable rate available on the relevant date to the Institution in the interbank market for the sum concerned.

Under the MCA Valuation Notice, when determining:

- (a) the prudent market value of Irish Residential Loans or Irish Residential Property Assets; or
- (b) the prudent market value of Relevant Securitisation Mortgage Credit Assets or the other related amounts referred to at (i) to (iii) above,

an Institution is required to act in a manner consistent with requirements under the CRD applicable to collateral for covered bonds in the form of loans secured on residential real estate and that Institution.

#### *Valuations of substitution assets, credit transaction assets and total assets*

The Section 41(3)/(5) Valuation Notice made by the Financial Regulator (which came into effect on 31 August 2007) specifies requirements in relation to the prudent market valuation of substitution assets and the value of credit transaction assets and total assets. The Section 41(3)/(5) Valuation Notice repealed the Asset Covered Securities Act 2001 Regulatory Notice (Section 41(3) and Section 41(5)) 2004.

In relation to substitution assets, the Section 41(3)/(5) Valuation Notice provides that where the relevant substitution assets constitute deposits with eligible financial institutions, the prudent market value of such deposits comprised in the Pool maintained by the Institution is equal to 100 per cent. of the principal or nominal amount of the deposit with the eligible financial institution.

In relation to credit transaction assets and total assets, the Section 41(3)/(5) Valuation Notice provides that the value of such credit transaction assets and total assets shall be determined in accordance with Irish GAAP as applied to banks.

### **Restrictions on replacement of underlying assets included in a Pool**

A mortgage credit asset or substitution asset replaces an “**underlying asset**” (defined in relation to a Pool as a mortgage credit asset or substitution asset that is then included in a Pool) only if such replacement has been approved by the Monitor. The Monitor is required to monitor an Institution's compliance with this requirement.

The ACS Acts require an Institution to replace an underlying asset with a mortgage credit asset or substitution asset if the underlying asset when included in the Pool contravenes or fails to comply with a provision of the ACS Acts, the regulations made by the Financial Regulator under the ACS Acts or a requirement of the Financial Regulator or the Monitor made under the ACS Acts.

The ACS Acts permit an Institution in any other case to replace an underlying asset with a mortgage credit asset or substitution asset, provided that the replacement is not prohibited by a provision of the ACS Acts, the regulations made by the Financial Regulator under the ACS Acts or a requirement of the Financial Regulator or the Monitor made under the ACS Acts.

The ACS Acts provide that an Institution may not replace an underlying asset with a mortgage credit asset or a substitution asset if:

- (a) the mortgage credit asset or substitution asset is currently contained in a different Pool maintained by the Institution;
- (b) the mortgage credit asset or substitution asset is non-performing;
- (c) the Institution is insolvent;
- (d) the Financial Regulator has given to the Institution direction under certain provisions of legislation relevant to financial institutions, the effect of which is to prohibit the replacement from being made;
- (e) a notice has been given to the Institution by the Financial Regulator under the ACS Acts informing the Institution that it intends to seek the consent of the Minister for Finance to the revocation of the registration of the Institution as an Institution; or
- (f) the Financial Regulator has given a direction under the ACS Acts that prevents the replacement from being made.

In relation to the meaning of “**non-performing**” for the purposes of (b) above, see – *Circumstances in which an asset may not be included in a Pool*.

An Institution may not, without the consent of the Financial Regulator, replace an underlying asset with a mortgage credit asset or substitution asset if:

- (a) the Institution is potentially insolvent; or
- (b) there is currently no Monitor appointed in respect of the Institution.

### **Restrictions on inclusion of substitution assets in a Pool**

The ACS Acts prescribe that an Institution may not at any time include a substitution asset in the Pool maintained by the Institution:

- (a) unless the substitution asset concerned meets any creditworthiness standards or criteria which may be specified by the Financial Regulator in a regulatory notice; or
- (b) if, after including the substitution asset concerned in the Pool, the total prudent market value of all substitution assets then comprised in the Pool would not exceed 15 per cent. of the aggregate nominal or principal amount of outstanding Mortgage Covered Securities secured on the Pool.

For the purpose of (a) above, the Financial Regulator may have regard to creditworthiness standards or criteria applicable to substitution assets as eligible collateral for covered bonds under the CRD and may differentiate between substitution assets which have a maximum maturity of 100 days and those which have a longer maturity. The Substitution Asset Pool Eligibility Notice made by the Financial Regulator 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:

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

In relation to (b) above, the restriction does not apply to any further substitution assets comprised or to be comprised from time to time in the Pool for so long as the Pool is comprised of Cover Assets which meet, with respect to the Pool and Mortgage Covered Securities, the financial matching and Regulatory Overcollateralisation requirements under the ACS Acts, any Contractual Overcollateralisation undertaking and all other requirements of Part 4 of the 2001 Act.

When determining for the purposes of the ACS Acts the total prudent value of substitution assets comprised in the Pool, any substitution assets represented by exposures caused by the transmission and management of payments of the obligors under, or liquidation proceeds in respect of, mortgage credit assets comprised in the Pool, are to be disregarded. Under the ACS Acts, the Financial Regulator may, however, suspend the ratio requirement if it is satisfied that to do so would facilitate the discharge of secured claims (claims in respect of which the rights of a preferred creditor are secured under Part 7 of the 2001 Act – see further *Insolvency of Institutions – Effect of insolvency, potential insolvency or insolvency process with respect to an Institution*) against the Institution.

The Monitor must monitor compliance by the Institution with the above requirements and take reasonable steps to verify that the Institution will not be in contravention of the above requirements before the Institution issues Mortgage Covered Securities or enters into a cover assets hedge contract.

The ACS Acts empower the Financial Regulator to make regulations for or with respect to any matter that by the ACS Acts is required or permitted to be prescribed, or that is necessary or expedient to be prescribed, for the carrying out or giving effect to the ACS Acts. The ACS Acts provide that the regulations made by the Financial Regulator under this provision may prescribe kinds of substitution assets which may be included in a Pool. As at the date of this Base Prospectus, no such regulations have been made by the Financial Regulator in relation to Institutions.

### **Use of realised proceeds of Cover Assets**

The ACS Acts provide that money received by an Institution as the proceeds of realising a Cover Asset forms part of the relevant Pool, until it is used to create or acquire permitted mortgage credit assets or substitution assets for inclusion in the Pool, to discharge secured claims under the ACS Acts (see further *Insolvency of Institutions – Effect under the ACS Acts of insolvency, potential insolvency or insolvency process with respect to an Institution*), is released from the Pool as an underlying asset and is replaced by other mortgage credit assets or substitution assets, or is released from the Pool in accordance with the ACS Acts as summarised in the next paragraph below. The Monitor is responsible for monitoring the Institution's compliance with this requirement.

### **Release of underlying assets from a Pool**

An Institution may, with the prior consent of the Monitor concerned, release underlying assets (including money received by the Institution as the proceeds of a relevant Cover Asset) from the Pool if the assets are not required to be included in the Pool to secure secured claims. The Monitor is responsible for monitoring the Institution's compliance with this requirement.

### **Register of mortgage covered securities business**

The ACS Acts provide that for the purposes of the ACS Acts an asset is, except as described under – *Use of realised proceedings of Cover Assets*, included in, or removed from, a Pool when the appropriate particulars are recorded in the register of mortgage covered securities business (Business Register) maintained by the Institution.

An Institution is required to establish and keep a Business Register in respect of:

- (a) the Mortgage Covered Securities it has issued;
- (b) the cover assets hedge contracts that it has entered into; and
- (c) the mortgage credit assets and substitution assets that it holds as security for those Mortgage Covered Securities and contracts.

The Monitor must monitor compliance by the Institution with the above requirement and take reasonable steps to verify that the Institution will not be in contravention of the above requirement before the Institution issues Mortgage Covered Securities or enters into a cover assets hedge contract. The Financial Regulator may make regulations specifying other particulars which must be recorded by an Institution in its Business Register. As at the date of this Base Prospectus, no such regulations have been made by the Financial Regulator.

An Institution may make, delete or amend an entry in the Business Register only with the consent of the Monitor or the Financial Regulator, unless regulations made by the Financial Regulator provide otherwise (as at the date of this Base Prospectus, no regulations made by the Financial Regulator provide otherwise). The Monitor must monitor compliance by the Institution with the above requirement and take reasonable

steps to verify that the Institution will not be in contravention of the above requirement before the Institution issues Mortgage Covered Securities or enters into a cover assets hedge contract.

An Institution is required to keep the Business Register in such place as may be prescribed by the regulations made by the Financial Regulator. In the Asset Covered Securities Act, 2001 (Sections 38(6) and 53(6)) Regulations 2002 (S.I. No. 382 of 2002), the Financial Regulator prescribed the registered or head office of the Institution, or such other office as may be notified in writing to the Financial Regulator for such purposes, and which in each case must be in Ireland, as the place at which such Institution's Business Register must be kept.

The ACS Acts provide that an Institution is required to at all times to provide access to the Institution's Business Register to the Financial Regulator and the Monitor appointed in respect of such Institution, and to permit each such person to take copies of the Business Register or any entry in the Business Register at the Institution's expense.

### **Cover assets hedge contracts**

The ACS Acts provide that a cover assets hedge contract entered into by an Institution may relate only to:

- (a) Mortgage Covered Securities issued by the Institution; and/or
- (b) mortgage credit assets and/or substitution assets that are included in a Pool maintained by that Institution.

The ACS Acts provide that a cover assets hedge contract must state, among other things, that it is a cover assets hedge contract entered into in accordance with the 2001 Act and that the financial obligations of the Institution under the contract are secured on the Cover Assets comprised in the Pool. A cover assets hedge contract must comply with the requirements (if any) specified in any relevant regulatory notice published by the Financial Regulator. As at the date of this Base Prospectus, the Financial Regulator has not published a regulatory notice specifying any such requirements.

The ACS Acts provide provides that as soon as practicable after entering into a cover assets hedge contract, an Institution is required to ensure that particulars of the contract are entered into its Business Register. An Institution must remove from its Business Register a cover assets hedge contract if the contract has been discharged or the counterparty has so agreed.

### **Pool Hedge Collateral and Collateral Register**

The 2007 Amendment Act recognises a new category of assets called Pool Hedge Collateral distinct from mortgage credit assets, substitution assets and other categories of assets under the 2001 Act which an Institution may deal in or hold. "**Pool Hedge Collateral**" means assets or property provided to an Institution by or on behalf of any other contracting party to a cover assets hedge contract where the terms of the cover assets hedge contract:

- (a) provide for the absolute transfer by way of collateral of the asset or property to the Institution (as opposed to by way of security); or
- (b) provide for the transfer of the asset or property by way of security and gives the Institution the right to deal with the asset or property under the security as if the Institution were the absolute owner of that asset or property.

An Institution is required under the 2007 Amendment Act to establish and maintain a register in respect of any Pool Hedge Collateral that it holds from time to time, called the register of pool hedge collateral (the "**Collateral Register**"), which is to be kept separate from the Business Register. An Institution is required to include in the Collateral Register, among other things particulars of the Pool Hedge Collateral it holds from each counterparty to a cover assets hedge contract and particulars of the cover assets hedge contracts that relate to the Pool Hedge Collateral. Unless the Financial Regulator otherwise requires (whether generally in respect of all Institutions or individually in respect of any given Institution) or the Institution is potentially insolvent or insolvent, the consent of the Monitor is not required for an Institution to make, amend or delete an entry in its Collateral Register.

The Financial Regulator may, by regulatory notice, specify requirements in relation to:

- (a) the type of assets or property that qualify as Pool Hedge Collateral;
- (b) the maintenance and operation of the Collateral Register;
- (c) particulars that an Institution shall include in its Collateral Register;
- (d) the circumstances in which the consent of the Monitor is required for an Institution to make, amend or delete an entry in the Collateral Register.

The Asset Covered Securities Act 2001 Regulatory Notice (Section 30(15) and 45(15)) 2007 made by the Financial Regulator (which came into operation on 31 August 2007) provides that:

- (a) the Collateral Register must contain particulars detailing, in respect of any Pool Hedge Collateral, the cover assets hedge contract(s) for which such Pool Hedge Collateral has been provided; and
- (b) an Institution must maintain the Collateral Register at the registered office or head office of the Institution or at such other office as has been notified to the Financial Regulator in writing, and in any event must maintain such register at an office located in Ireland.

## **Financial Statements**

The ACS Acts provide that an Institution shall include the following information in its annual financial statement, or in a document accompanying the statement, in respect of mortgage credit assets that are recorded in the Institution's Business Register (and, accordingly, its Pool):

- (a) the number of mortgage credit assets, as at the date to which the statement is made up, with the amounts of principal outstanding in respect of the related credits being specified in tranches of:
  - (i) €100,000 or less;
  - (ii) more than €100,000 but not more than €200,000;
  - (iii) more than €200,000 but not more than €500,000; and
  - (iv) more than €500,000;
- (b) the geographical areas in which the related property assets are located, and the number and percentage of those assets held in each of those areas;

- (c) whether or not such mortgage credit assets are non-performing as at that date, and if they are:
  - (i) the number of those assets as at that date; and
  - (ii) the total amount of principal outstanding in respect of those assets at that date;
- (d) whether or not any persons who owed money under mortgage credit assets had, during the immediately preceding financial year of the Institution (if any), defaulted in making payments in respect of those assets in excess of €1,000 (so as to render them non-performing for the purposes of the ACS Acts) at any time during that year, and if any such persons had defaulted, the number of those assets that were held in the Pool at the date to which the financial statement for that year was made up;
- (e) the number of cases in which the Institution has replaced mortgage credit assets with other assets because those mortgage credit assets were non-performing;
- (f) the total amount of interest in arrears in respect of mortgage credit assets that has not been written off at that date;
- (g) the total amount of payments of principal repaid and the total amount of interest paid in respect of mortgage credit assets;
- (h) in relation to any related mortgage credits that are secured on commercial property (and not on residential property), the number and the total amounts of principal of those credits that are outstanding at that date; and
- (i) any other information prescribed by the regulations made by the Financial Regulator.

In relation to (i) above, at the date of this Base Prospectus no such other information has been prescribed by regulations made by the Financial Regulator.

In addition, under the 2007 Amendment Act, the above disclosure requirements do not apply in the case of securitised mortgage credit comprised in the Pool but in their place, an Institution is required to disclose in its annual financial statement or in a document accompanying the statement:

- (a) the name of the securitisation entities which are the issuers of those assets and the principal or nominal amount and class or title of those assets, as at the date to which the statement is made up; and
- (b) any information prescribed by regulations made by the Financial Regulator.

If an Institution has a parent entity, the parent entity shall include the following information in its annual consolidated financial statement or in a document accompanying the statement:

- (a) the name of the Institution and any other particulars required by regulations made by the Financial Regulator with respect to the Institution;
- (b) the total amounts of principal outstanding in respect of Mortgage Covered Securities issued by the Institution;



- (c) the total amounts of principal outstanding in respect of mortgage credit assets and substitution assets comprised in the Pool that relates to those Mortgage Covered Securities issued by the institution; and
- (d) any other particulars prescribed by regulations made by the Financial Regulator.

In relation to (d) above, at the date of this Base Prospectus no such other particulars have been prescribed by regulations made by the Financial Regulator.

**Surplus Cover Assets need not meet certain requirements of the ACS Acts**

Under the 2007 Amendment Act, for as long as:

- (a) the Pool is comprised in part of Cover Assets which meet the financial matching requirements and Regulatory Overcollateralisation requirement under the ACS Acts and any contractual undertaking made by the Institution in respect of Contractual Overcollateralisation; and
- (b) those Cover Assets meet the other provisions of Part 4 of the 2001 Act,

then any provision of Part 4 of the 2001 Act which restricts the proportion or percentage of the Pool which may be comprised of certain Cover Assets or criteria or standards applicable to Cover Assets does not apply to any further such Cover Assets comprised or to be comprised from time to time in the Pool.

## THE COVER-ASSETS MONITOR

### Appointment of a cover-assets monitor

The ACS Acts require every Institution to appoint a qualified person to be a cover-assets monitor (a "**Monitor**") in respect of the Institution. The ACS Acts provide that an appointment of a Monitor by an Institution does not take effect until it is approved in writing by the Financial Regulator. The Institution is responsible for paying any remuneration or other money payable to its Monitor in connection with the Monitor's responsibilities in respect of the Institution.

The ACS Acts provide that if at any time an Institution has no Monitor appointed in respect of a Pool and the Financial Regulator reasonably believes that the Institution is unlikely to appoint such a Monitor, the Financial Regulator may appoint a suitably qualified person to be a Monitor in respect of such Institution. (For a general description of the obligation of an Institution to establish a Pool, see *Cover Assets Pool*). The appointment by the Financial Regulator in those circumstances may be on such terms and subject to such conditions as the Financial Regulator thinks fit. If the Financial Regulator has appointed a Monitor in accordance with the ACS Acts, the Institution concerned is responsible for paying any remuneration or other money payable to the Monitor in connection with the performance of the Monitor's responsibilities in respect of the Institution.

### Monitor to the Issuer

The Monitor appointed in respect of the Issuer at the date of the Base Prospectus is Mazars. The Financial Regulator has approved the appointment of Mazars as Monitor in respect of the Issuer. The terms on which Mazars has been appointed and acts as Monitor in respect of the Issuer are set out in an agreement entered into on 10 February 2006 (as amended and restated on 10 October 2007) between Mazars and the Issuer (the "**Cover-Assets Monitor Agreement**"). The Cover-Assets Monitor Agreement reflects the requirements of the ACS Acts and associated secondary legislation (as referred to in this Base Prospectus) in relation to the appointment and functions of a Monitor in respect of an Institution and provides for certain matters such as overcollateralisation (see *Characteristics of the Pool/Overcollateralisation – Overcollateralisation*), Prudent Market Discount (see *Cover Assets Pool – Valuation of assets held by an Institution – Prudent Market Discount*), the payment of fees and expenses by the Issuer to Mazars, the resignation of Mazars as Monitor to the Issuer (see *Resignation of a Monitor*) and the replacement by the Issuer of Mazars as its Monitor.

Mazars is an independent professional services firm which employs approximately 10,000 people in 55 countries and has a global turnover in excess of €767 million.

Mazars Ireland has over 25 years experience in the provision of professional services to local and international clients in the financial services, institutional and corporate sectors. Its professional services include audit, corporate finance, insolvency, consulting and corporate recovery.

The above information on Mazars has been sourced from Mazars. Such information has been accurately reproduced and so far as the Issuer is aware and is able to ascertain from that information, no facts have been omitted which would render the above information inaccurate or misleading.

## Qualifications of a Monitor

The ACS Acts provide that the Financial Regulator may, by regulatory notice, specify, among other things, the qualifications required in order for a person to be appointed as a Monitor.

The Financial Regulator issued the Asset Covered Securities Act 2001 Amended Regulatory Notice (Section 59(6)) pursuant to the 2001 Act on 12 November 2002. In this regulatory notice, the Financial Regulator stated that the qualifications for an appointment as a Monitor in respect of an Institution are:

- (a) a Monitor must be a body corporate or partnership, comprising personnel and partners respectively who are members of a professional representative body. The Monitor must demonstrate to the satisfaction of the Financial Regulator that it is experienced and competent in the following areas:
  - (i) financial risk management techniques;
  - (ii) regulatory compliance reporting; and
  - (iii) capital markets, derivatives and mortgage credit business as applicable;
- (b) a Monitor must demonstrate that it has sufficient resources at its disposal, and its personnel or partners must have sufficient academic or professional qualifications and experience in the financial services industry to satisfy firstly the designated credit institution and secondly the Financial Regulator, that it is capable of fulfilling this role;
- (c) a Monitor should possess adequate professional indemnity insurance to the satisfaction of the Institution;
- (d) the books and records of a Monitor must be held in Ireland;
- (e) a Monitor must not be an affiliate of the Institution or of any affiliate of the Institution;
- (f) a Monitor and its affiliates must not be engaged as auditor or legal advisor for the Institution or any affiliate of the Institution. Neither a Monitor nor any of its affiliates may provide any other services to the Institution nor any of its affiliates unless it is first established to the satisfaction of the Financial Regulator that the provision of such services does not and will not create any conflict of interest with the performance by the Monitor of its duties and responsibilities under the ACS Acts and the regulatory notices;
- (g) a Monitor must not hold any shares or similar interest in the Institution or in any affiliate of the Institution; and
- (h) save as permitted by the ACS Acts, the regulations and any regulatory notices or orders made under the ACS Acts, a Monitor must not be involved in any decision-making function or directional activity of the Institution or any of its affiliates, which could unduly influence the judgement of management of the Institution or its affiliates.

## **Duties of a Monitor before an Institution issues Mortgage Covered Securities**

The ACS Acts provide that before an Institution issues Mortgage Covered Securities, or enters into a cover assets hedge contract the Monitor appointed in respect of it must take reasonable steps to verify:

- (a) that the Institution will be in compliance with the financial matching requirements of the ACS Acts with respect to the Pool and Mortgage Covered Securities (see *Cover Assets Pool – Financial matching criteria for a Pool and related Mortgage Covered Securities/Regulatory Overcollateralisation*) and will not be in contravention of certain provisions of the ACS Acts restricting the location of assets that may be included in the Pool (see *Cover Assets Pool – Location of assets that may be included in a Pool – Restrictions on inclusion of certain types of mortgage credit assets in a Pool*) and the level of substitution assets that may be included in the Pool (see *Cover Assets Pool – Restrictions on inclusion of substitution assets in a Pool*), as a result of issuing the Mortgage Covered Securities or entering into the cover asset hedge contract;
- (b) that the Institution will not be in contravention of certain provisions of the ACS Acts relevant to the maintenance by the Institution of its Business Register (see *Cover Assets Pool – Register of mortgage covered securities business*);
- (c) such other matters relating to the business of Institutions as may be prescribed by regulations made by the Financial Regulator.

In regard to (a) above, the Financial Regulator has made the Asset Covered Securities Act 2001 (Section 61(2)) (Regulatory Overcollateralisation) Regulations 2007 (S.I. No. 606 of 2007) (which came into operation on 31 August 2007), under which, a Monitor appointed in respect of an Institution is required to take reasonable steps to verify that the Institution will be in compliance with its obligation to maintain Regulatory Overcollateralisation before the Institution issues Mortgage Covered Securities or enters into a cover assets hedge contract.

In regard to (c) above, the Financial Regulator has made the Overcollateralisation Regulation (see *Cover Assets Pool – Valuation of assets held by an Institution – Valuation of Irish Residential Loans*). Under the Overcollateralisation Regulation a Monitor appointed in respect of any Institution when performing its responsibilities under the ACS Acts must have regard to any contractual undertakings given by the Institution to maintain a level of Contractual Overcollateralisation of Cover Assets as against Mortgage Covered Securities issued by that Institution and the Monitor is responsible for monitoring the Institution's compliance with those undertakings. With respect to the Issuer and its contractual undertaking to maintain a specified level of Contractual Overcollateralisation, see further *Characteristics of the Pool/Overcollateralisation – Overcollateralisation*. The Financial Regulator has also made the Prudent Market Discount Regulation. The Prudent Market Discount Regulation provides that the Monitor when performing its responsibilities under the ACS Acts must have regard to any contractual undertakings given by the Institution to apply a level of prudent market discount to certain calculations which are to be made by the Institution in respect of the Former Irish Residential Loan/Property Valuation Notice and the Monitor is responsible for monitoring the Institution's compliance with those undertakings. See further *Cover Assets Pool – Valuation of assets held by an Institution*.

## **Continuing duties of a Monitor**

The ACS Acts provide that the Monitor appointed in respect of an Institution is responsible for monitoring the Institution's compliance with the following provisions of the ACS Acts:

- (a) the matching requirements of the ACS Acts with respect to the Pool and Mortgage Covered Securities (see *Cover Assets Pool – Financial matching criteria for a Pool and related Mortgage Covered Securities/Regulatory Overcollateralisation*) and certain provisions of the ACS Acts restricting the location of assets that may be included in the Pool (see *Cover Assets Pool – Location of assets that may be included in a Pool and Restriction on inclusion of certain types of mortgage credit assets in a Pool*);
- (b) the requirement that, except in certain cases specified in the ACS Acts, a mortgage credit asset or substitution asset replacing another asset or a substitution asset replacing another asset in the Pool only forms part of the Pool if the replacement has been approved by the Monitor (see *Cover Assets Pool – Restrictions on replacement of underlying assets included in a Pool*);
- (c) restrictions under the ACS Acts on the level of substitution assets that may be included in the Pool (see *Cover Assets Pool – Restrictions on inclusion of substitution assets in a Pool*);
- (d) the application by an Institution of realisations of mortgage credit assets or substitution assets comprised in a Pool under certain provisions of the ACS Acts (see *Cover Assets Pool – Use of realised proceeds of Cover Assets and – Release of underlying assets from a Pool*);
- (e) certain provisions of the ACS Acts relevant to the maintenance by the Institution of its Business Register (see *Cover Assets Pool – Register of mortgage covered securities business*);
- (f) the 3 per cent. Regulatory Overcollateralisation requirement in respect of the Pool and Mortgage Covered Securities imposed under the 2007 Amendment Act (see *Characteristics of the Pool Overcollateralisation – Overcollateralisation*);
- (g) the requirements under the 2007 Amendment Act in respect of securitised mortgage credit assets that can be included in the Pool (see *Cover Assets Pool – Restrictions on inclusion of securitised mortgage credit assets in the Pool*);
- (h) such other matters as may be prescribed by regulations made by the Financial Regulator.

The Asset Covered Securities Act 2001 (Section 61(1)) Regulations 2007 (S.I. No. 605 of 2007) made by the Financial Regulator (which came into operation on 31 August 2007) provide that a Monitor appointed in respect of an Institution is responsible for monitoring the Institution's compliance with the obligation of the Institution under the ACS Acts to include certain particulars in the Collateral Register.

The ACS Acts provide that the Monitor is also responsible for performing such other responsibilities (if any) as are prescribed by regulations made by the Financial Regulator.

The Financial Regulator has made, on 2 July 2004, the Asset Covered Securities Act 2001 (Section 61(3)) [Interest Rate Sensitivity] Regulation 2004 (S.I. No. 415 of 2004) pursuant to which a Monitor appointed in respect of an Institution is made responsible for monitoring the Institution's compliance with the Asset Covered Securities Act, 2001 (Section 91(1)) (Sensitivity to Interest Rate Changes) Regulation, 2004 (S.I. No. 416 of 2004) as amended by the Asset Covered Securities Act 2001 (Section 91(1)) (Sensitivity to Interest Rate Changes – Mortgage Credit) (Amendment) Regulations 2007 (S.I. No. 612 of 2007) (which came into operation on 31 August 2007) (together, the "**Sensitivity to Interest Rate Changes Regulation**"). The Sensitivity to Interest Rate Changes Regulation provides that the net present value changes arising from any of the

scenarios set forth in the regulation must not exceed 10 per cent. of an Institution's total own funds at any time. The scenarios set forth in the regulation are:

- (a) one hundred basis point upward shift in the yield curve;
- (b) one hundred basis point downward shift in the yield curve; and
- (c) one hundred basis point twist in the yield curve.

All calculations of sensitivity to interest rate changes are to be carried out in accordance with formulae set out in the schedule to the Sensitivity to Interest Rate Changes Regulation. See further *Risk Management at the Issuer – Issuer Risk Management – Non-trading interest rate risk*.

The Financial Regulator has made, on 2 July 2004, the Asset Covered Securities Act 2001 (Section 61(3)) [Irish Residential Property Loan/Valuation] Regulation 2004 (S.I. No. 418 of 2004). That regulation provides that the Monitor appointed in respect of an Institution is responsible for monitoring that Institution's compliance with the MCA Valuation Notice. The MCA Valuation Notice makes provision for the prudent market valuation, valuation methodology and timing of valuation of Irish Residential Loans, Irish Residential Property Assets and Relevant Securitised Mortgage Credit Assets (together with related amounts) (see *Cover Assets Pool – Valuation of assets held by an Institution*). On 2 July 2004 the Financial Regulator also made the Prudent Market Discount Regulation. The Prudent Market Discount Regulation provides that the Monitor when performing its responsibilities under the ACS Acts must have regard to any contractual undertakings given by the Institution to apply a level of prudent market discount to certain calculations which are to be made by the Institution in respect of the MCA Valuation Notice and the Monitor is responsible for monitoring the Institution's compliance with those undertakings.

On 2 July 2004 the Financial Regulator made the Overcollateralisation Regulation which was amended with effect from 31 August 2007 (see *Cover Assets Pool – Valuation of assets held by an Institution – Valuation of Irish Residential Loans*). Under the Overcollateralisation Regulation, a Monitor appointed in respect of any Institution when performing its responsibilities under the ACS Acts must have regard to any contractual undertakings given by the Institution to maintain a level of Contractual Overcollateralisation of Cover Assets as against Mortgage Covered Securities issued by that Institution and the Monitor is responsible for monitoring the Institution's compliance with those undertakings (see *Characteristics of the Pool/Overcollateralisation – Contractual Overcollateralisation*).

### **Duty of a Monitor to inform the Financial Regulator of certain matters**

As soon as practicable after the Monitor has become aware, or has formed a reasonable suspicion, that the Institution in respect of which it has been appointed has contravened or failed to comply with a provision of the ACS Acts (which includes regulations made by the Financial Regulator under the ACS Acts) that relates to the responsibilities of the Monitor, the Monitor is required to provide the Financial Regulator with a written report of the matter.

The Monitor is also required to provide the Financial Regulator with such reports and provide such information as the Financial Regulator notifies to it in writing from time to time with respect to:

- (a) whether or not the Institution in respect of which it has been appointed is, in the opinion of the Monitor, complying with the provisions of the ACS Acts that relate to the responsibilities of the Monitor; and

- (b) if in the Monitor's opinion the Institution is not fully complying with any of those provisions, the extent of non-compliance.

### **Additional duties which may be imposed on a Monitor by the Financial Regulator**

The Financial Regulator may, by notice in writing to the Monitor appointed in respect of an Institution, confer on that Monitor such additional responsibilities as it considers appropriate for the effective management of the affairs of the Institution if the relevant Institution:

- (a) has become subject to an insolvency process (for a description of the meaning of "**insolvency process**" for the purposes of the ACS Acts, see *Insolvency of Institutions – Meanings of "insolvent", "potentially insolvent" and "insolvency process" for the purposes of the ACS Acts*);
- (b) is a formerly designated credit institution (for a description of when an Institution may cease to be designated for the purposes of the ACS Acts, see *Registration of Institutions/Revocation of Registration – Revocation of Registration*);
- (c) is an Institution to which the Financial Regulator, reasonably believing that there may be grounds for revoking the registration of the Institution under of the ACS Acts, has given a direction under the ACS Acts prohibiting the Institution from dealing in assets, engaging in transactions, or making payments, except with the Financial Regulator's permission (for a description of the circumstances in which the Financial Regulator can give such a direction, see *Registration of Institutions/Revocation of Registration – Direction of the Financial Regulator requiring an Institution to suspend its business*);
- (d) is an Institution in respect of which a manager has been appointed under the ACS Acts (for a description of the circumstances in which a manager can be appointed to an Institution and the rights and powers of a manager, see *Supervision and Regulation of Institutions/Managers – Power of the Financial Regulator to appoint the NTMA or a recommended person as manager of an Institution*).

The ACS Acts provide that if a liquidator, examiner, receiver or manager is appointed in respect of any such Institution, the Monitor appointed in respect of the Institution may enter into arrangements with respect to the management of the Institution on such matters as may be specified in the notice from the Financial Regulator referred to above. Those arrangements must include arrangements relating to the payment of the remuneration of, and the costs incurred by, the Monitor, and will be subject to such conditions (if any) as are specified in the Financial Regulator's notice, or as the Financial Regulator may subsequently notify to the Monitor in writing.

### **The powers of Monitors with respect to security trustees**

The 2007 Amendment Act makes provision for the holding by a security trustee of security (other than under the ACS Acts) over assets comprised in the Pool which are located outside of Ireland in order to augment the security provided for under the ACS Acts (see *Insolvency of Institutions – Security Interests on the Pool*). The Monitor may under the 2007 Amendment Act enter into arrangements with the security trustee in connection with:

- (a) their respective functions under the ACS Acts and operations relating to Cover Assets which are also subject to such additional security arrangements;

- (b) their respective functions under the ACS Acts and the enforcement or administration of Cover Assets which are also subject to such additional security arrangements.

### **Duty of a Monitor to provide reports to the Financial Regulator**

If the Financial Regulator so directs by notice in writing, the Monitor appointed in respect of an Institution is required to:

- (a) prepare for the Financial Regulator, or any other person specified by the Financial Regulator, such reports; and
- (b) provide the Financial Regulator, or any such person, with such information,

at such times or intervals, in relation to the exercise or performance of the Monitor's responsibilities under the ACS Acts and the performance by the relevant Institution of its obligations under the ACS Acts in so far as the Monitor is responsible for monitoring the carrying out of those obligations, as the Financial Regulator specifies in the direction.

### **Power of a Monitor to enter an Institution's business premises**

A Monitor may, upon giving the Institution in respect of which it has been appointed reasonable notice, enter at any reasonable time during ordinary business hours any place at which the Institution carries on its business for the purpose of carrying out the Monitor's responsibilities in relation to the Institution.

A Monitor who exercises its power to enter an Institution's place of business may do any of the following:

- (a) inspect the place and examine any record found in the place that the Monitor reasonably believes to be relevant to the performance of its responsibilities in respect of the Institution;
- (b) require the Institution or any person who is apparently a person concerned in the management of the Institution to answer any relevant questions or provide the Monitor with such assistance and facilities as is or are reasonably necessary to enable the Monitor to exercise or perform the Monitor's responsibilities;
- (c) require any person in the place to produce for inspection records in so far as they relate to the responsibilities of the Monitor; and
- (d) make copies of all or any part of those records.

### **Power of a Monitor to obtain information from an Institution**

A Monitor may, by notice in writing to the relevant Institution, require it to give to the Monitor, within such period as may be specified in the notice, any specified information or record that relates to the responsibilities of the Monitor in respect of the Institution, but only if the information or record is in the possession, or under the control, of the Institution.

### **Duties of an Institution to inform its Monitor of certain matters**

The ACS Acts provide that an Institution is required to keep its Monitor informed of the following matters:



- (a) such particulars of payments received by the Institution in respect of Cover Assets included in the relevant cover assets pool, and at such times or intervals, as the Monitor requires;
- (b) any failure of any person who has a financial obligation in respect of those assets to perform the obligation within a period of 10 or 60 days depending on the type of asset (or such other period as may be specified in a regulatory notice published by the Financial Regulator) after it was due to be performed; and
- (c) any proceedings brought in relation to those assets against any such person by or on behalf of the Institution.

An Institution that, without reasonable excuse, fails to provide its Monitor with the above information commits an offence and is liable on summary conviction to a fine not exceeding €1,000.

Financial Regulator powers to require information regarding Pool Hedge Collateral to be given to the Monitor

Under the 2007 Amendment Act, the Financial Regulator may require an Institution to provide the Monitor such information in relation to Pool Hedge Collateral held by the Institution and at such intervals as may be specified to the Institution by the Financial Regulator.

### **Remuneration of a Monitor**

The appointing Institution is responsible for paying any remuneration to the Monitor in connection with the performance of the Monitor's duties.

### **Priority of a Monitor on an insolvency of the Institution**

The Monitor of an Institution, along with any manager (and under the 2007 Amendment Act, a Pool security trustee) that has been appointed to the Institution, constitute "super-preferred" creditors of the Institution. The ACS Acts provide that the claims of super-preferred creditors rank ahead of those of any other preferred creditors, including the holders of Mortgage Covered Securities. For a description of the priority afforded to the claims of preferred creditors of an Institution on the insolvency of such Institution, see *Insolvency of Institutions – Effect of insolvency, potential insolvency or insolvency process with respect to an Institution*.

### **Termination of appointment of a Monitor**

An Institution may terminate the appointment of its Monitor only with the written consent of the Financial Regulator. The Financial Regulator may direct an Institution to terminate the appointment of its Monitor and to appoint another qualified person in place of that Monitor. The notice issued by the Financial Regulator making that direction must specify the Financial Regulator's reasons.

### **Resignation of a Monitor**

A Monitor may resign by giving at least 30 days' notice in writing to the Financial Regulator (unless the Financial Regulator agrees to a shorter notice period) and must include in such notice a statement of the reasons for its resignation. In the Cover-Assets Monitor Agreement, Mazars has agreed that it will not resign as Monitor in respect of the Issuer unless another entity has agreed to act as Monitor in respect of the Issuer and the Financial Regulator has approved the appointment of such other entity as Monitor in respect of the Issuer in place of Mazars; provided that if a replacement Monitor has not

been appointed within six months of Mazars having given notice of its intention to resign as Monitor, then Mazars will be entitled to resign as Monitor notwithstanding that no replacement Monitor has been appointed.

### **Effect of the insolvency of an Institution on the appointment of its Monitor**

The fact that an Institution, or its parent entity or any company related to the Institution, has become insolvent or potentially insolvent does not affect the appointment of the Monitor appointed in respect of it and the claims and rights of the Monitor in so far as those claims or rights relate to the appointment or arise under the ACS Acts. For a description of the circumstances in which an Institution is regarded as insolvent or potentially insolvent for the purposes of the ACS Acts, see *Insolvency of Institutions – Meanings of "insolvent", "potentially insolvent" and "insolvency process" for the purposes of the ACS Acts*.

The ACS Acts provide that the obligations of the Institution towards the Monitor continue to have effect in relation to the Institution, and be enforceable, despite the Institution, or its parent entity or a company related to the Institution, becoming subject to an insolvency process.

If an Institution, or where the Institution has a parent entity or a company is related to the Institution, the parent entity or related company, becomes subject to an insolvency process, the obligation of the Institution to appoint and maintain a Monitor continues to have effect until the claims of all preferred creditors have been fully satisfied and the functions of each Monitor and manager appointed in respect of the Institution have been fully discharged. In such circumstances, the Monitor continues to hold office in accordance with the terms and conditions applicable to the appointment. For a description of the circumstances in which an Institution is regarded as subject to an insolvency process for the purpose of the ACS Acts, (see *Insolvency of Institutions – Meanings of "insolvent", "potentially insolvent" and "insolvency process" for the purposes of the ACS Acts*).

### **Powers of the Financial Regulator in relation to a Monitor**

The ACS Acts provide that the Financial Regulator may at any reasonable time:

- (a) enter any premises at which a Monitor carries on its business; and
- (b) inspect and take copies of any records kept by the Monitor in connection with the Monitor's responsibilities under the ACS Acts.

### **Limitation on the civil liability of a Monitor**

The ACS Acts provide that the Monitor, officers and employees of the Monitor, and persons acting under the direction of the Monitor are not liable in any civil proceedings for any act done, or omitted to be done, by the person for the purposes of, or in connection with, performing or exercising any function or power imposed or conferred on the Monitor by or under the ACS Acts if the act was done, or was omitted, in good faith for the purposes of the ACS Acts.

## INSOLVENCY OF INSTITUTIONS

### **Effect under the ACS Acts of insolvency, potential insolvency or insolvency process with respect to an Institution**

Part 7 of the 2001 Act contains provisions dealing with the effect of an insolvency, potential insolvency or insolvency process on the rights and obligations of an Institution and other persons connected with an Institution.

Under the 2007 Amendment Act, a reference in Part 7 of the 2001 Act to Cover Assets or a Pool includes:

- (a) in the case of mortgage credit assets and substitution assets which constitute Cover Assets, any security, guarantee, indemnity and insurance held by the Institution in respect of such assets; and
- (b) in the case of cover assets hedge contracts, any security, guarantee, indemnity and insurance held by the Institution for, or Pool Hedge Collateral provided to the Institution under, such contracts.

In addition, under the 2007 Amendment Act, any reference in Part 7 of the 2001 Act to a cover assets hedge contract includes Pool Hedge Collateral or security provided to the Institution under or for that contract.

Part 7 of the 2001 Act disapplies with respect to Institutions, the Companies Acts 1963 to 2009, the Bankruptcy Acts 1988 and 2001, the Taxes Acts (as defined in section 811(1) (a) of the Taxes Consolidation Act 1997), legislation relating to the regulation of credit institutions in Ireland and any other enactments or rules of law relating to an insolvency process, except insofar as they are specified in relation to laws relevant to fraud and misrepresentation. Certain insolvency provisions relating to fraud continue to have effect with respect to Part 7 of the 2001 Act, in addition to any enactment or rule of law that would render the security or contract void or unenforceable on the grounds of fraud or misrepresentation.

The ACS Acts provide that the fact that an Institution or its parent entity or any company related to the Institution has become insolvent (as to which see the definition under the next heading below) or potentially insolvent (as to which see the definition under the next heading below) does not affect:

- (a) the claims and rights of holders of Mortgage Covered Securities issued by the Institution;
- (b) the claims and rights of a person (other than the holder of a Mortgage Covered Security issued by the Institution) who has rights under or in respect of any such Mortgage Covered Security by virtue of any legal relationship with the holder;
- (c) the claims and rights that the other contracting party has under any cover assets hedge contract entered into by the Institution;
- (d) the appointment of a Monitor and the relevant claims and rights of such Monitor in so far as those claims and rights relate to the appointment or arise under the ACS Acts (for a description of the role of a Monitor see *The Cover-Assets Monitor*);
- (e) the appointment of a manager in respect of the Institution and the relevant claims and rights of such manager in so far as those claims and rights relate to the appointment or arise under the ACS Acts (for a description of the

circumstances in which a manager may be appointed to an Institution, see *Supervision and Regulation of Institutions/Managers*); or

- (f) the functions of the National Treasury Management Agency under Part 6 of the 2001 Act and the relevant claims and rights of the National Treasury Management Agency in so far as those claims and rights relate to those functions (for a description of the role of the National Treasury Management Agency under Part 6 of the 2001 Act, see *Supervision and Regulation of Institutions/Managers*).

Where an Institution, or its parent entity or any company related to the Institution becomes subject to an insolvency process (as to which see the definition under the next heading below), preferred creditors (see below) are, for the purpose of satisfying their claims and rights under Part 7 of the 2001 Act, entitled to have recourse to the cover assets that are comprised in the Pool maintained by the Institution ahead of members of, and contributories to, the Institution and all other creditors of the Institution, its parent entity or company related to the Institution. This provision applies irrespective of whether the claims of creditors other than preferred creditors are preferred under any other enactment or any rule of law and whether those claims are secured or unsecured.

Preferred creditors are defined in the ACS Acts as all or any of the following persons:

- (a) the holder of an outstanding Mortgage Covered Security issued by the Institution;
- (b) a person (other than the holder) who has rights under or in respect of any such Mortgage Covered Security by virtue of any legal relationship with the holder;
- (c) a person with whom the Institution has entered into a cover assets hedge contract, but only if the person is in compliance with the financial obligations imposed under the contract; and
- (d) a person who is a super-preferred creditor (see below) in relation to the Institution.

The claims of a super-preferred creditors rank ahead of those of the other preferred creditors. Super-preferred creditors are defined in the 2001 Act in respect of an Institution as a Monitor or manager appointed in respect of that Institution.

Under the 2007 Amendment Act, super preferred creditors are extended to include the claims (approved by a manager or where no manager is appointed, the Monitor) of a security trustee which holds security (other than under the ACS Acts) over assets outside Ireland in order to augment the security under the ACS Acts.

The ACS Acts provide that the claims of the super-preferred creditors and the other preferred creditors have effect irrespective of when the Mortgage Covered Security, contract or appointment of the Monitor or manager giving rise to a claim was issued or made, of when a claim of a preferred creditor arose and of the terms of that security, contract or appointment.

To the extent that the claims of all preferred creditors are not fully satisfied from the proceeds of the disposal of the Cover Assets comprised in the Pool maintained by the relevant Institution, such creditors become unsecured creditors in the insolvency process relating to the Institution, the claims of the super-preferred creditors ranking above those of the other preferred creditors in this regard.

The following obligations of an Institution continue under Part 7 of the 2001 Act to have effect in relation to the Institution, and are enforceable, despite the Institution, or its

parent entity or a company related to the Institution, becoming subject to an insolvency process:

- (a) obligations arising under or in respect of a Mortgage Covered Security issued by the Institution;
- (b) obligations arising under or in respect of any cover assets hedge contract entered into by the Institution;
- (c) obligations towards the Monitor appointed in respect of the Institution;
- (d) obligations towards any manager appointed to manage affairs of the Institution; or
- (e) obligations towards the National Treasury Management Agency under Part 6 of the 2001 Act.

The ACS Acts provide that in the event that an Institution or its parent or a related company becomes subject to an insolvency process, the obligation of the Institution to appoint a Monitor, and the powers of the Financial Regulator and the National Treasury Management Agency with respect to the appointment of a manager, continue to have effect until the claims of all preferred creditors have been fully satisfied and the functions of each Monitor and manager appointed in respect of the Institution have been fully discharged.

Part 7 of the 2001 Act provides that if an Institution, or where the Institution has a parent entity or a company is related to the Institution, the parent entity or related company, becomes subject to an insolvency process:

- (a) all Mortgage Covered Securities issued by the Institution remain outstanding, subject to the terms and conditions specified in the security documents under which those Mortgage Covered Securities are created;
- (b) every cover assets hedge contract relating to those Mortgage Covered Securities continues to have effect, subject to the terms and conditions of the contract;
- (c) each Monitor or manager appointed by or in respect of the Institution continues to hold office as such in accordance with the terms and conditions applicable to the appointment; and
- (d) the Institution's obligations under those Mortgage Covered Securities, or any such contract or appointment, continue to be enforceable.

The ACS Acts expressly exclude Cover Assets that are included in a Pool from forming part of the assets of an Institution, its parent or a related company, for the purposes of any insolvency process until the claims secured by Part 7 of the 2001 Act are fully discharged.

The ACS Acts provide that Cover Assets that are included in a Pool are not liable to attachment, sequestration or other form of seizure, or to set-off by any persons, that would otherwise be permitted by law so long as claims secured under Part 7 of the 2001 Act remain unsatisfied.

The ACS Acts provide that an Institution may not be dissolved under an insolvency process until the claims and rights of all preferred creditors have been fully satisfied. However, if the High Court of Ireland is satisfied that the Institution has no assets

capable of meeting the claims and rights of those creditors, it may make an order dissolving the Institution.

### **Security interests on the Pool**

An Institution may not create a security interest in respect of any Cover Assets in a Pool if Mortgage Covered Securities are outstanding or if a cover assets hedge contract is in existence and if such security interest would, but for Part 7 of the 2001 Act, adversely affect the priority conferred by Part 7 of the 2001 Act on preferred creditors. If an Institution creates any such security interest, the interest is void and any money secured by it is repayable immediately. The ACS Acts provide that, if a cover asset included in a Pool is subject to a security interest which would contravene the above provisions of the ACS Acts, the relevant Institution is required to replace such cover asset in accordance with the relevant provisions of the ACS Acts.

The ACS Acts permit an Institution to create a security interest in respect of its Cover Assets if:

- (a) the relevant assets are located outside of Ireland; and
- (b) the person who (directly or indirectly) has the benefit of the interest is the same person as the person who is entitled to security over those assets in accordance with the order of priority prescribed by Part 7 of the 2001 Act.

Under the 2007 Amendment Act, for the purposes of (b) above, there may be disregarded claims over the relevant assets arising from mandatory laws in the relevant jurisdictions and any costs associated with administering the security interest and realising assets under the security interest.

### **Meanings of “insolvent”, “potentially insolvent” and “insolvency process” for the purposes of the ACS Acts**

The ACS Acts provide that an Institution becomes insolvent for the purposes of the ACS Acts in any of the following circumstances:

- (a) if the appointment of an examiner in respect of the Institution under the Companies (Amendment) Act 1990, is not terminated or stayed within 30 days after the date of the appointment;
- (b) if the appointment of a liquidator in respect of the Institution is not terminated or stayed within 30 days after the date of the appointment;
- (c) if the appointment of a receiver over any part of the property or undertaking of the Institution is not terminated or stayed within 30 days after the date of the appointment;
- (d) if the Institution is a company and the company is deemed to be unable to pay its debts as provided by relevant provisions of the Companies Acts 1963 to 2009;
- (e) if the Institution is a building society and the High Court of Ireland makes an order under the Building Societies Act 1989, directing the society to be wound up on the ground that it is unable to pay its debts;
- (f) if the Institution is the holder of a banking licence issued under section 9 of the Central Bank Act 1971 and:

- (i) the Institution is deemed to be unable to meet its obligations under that Act, or
  - (ii) the Institution is deemed to have committed an act of bankruptcy or to be unable to pay its debts under that Act;
- or
- (g) if the Institution has, in relation to a Mortgage Covered Security that it has issued, failed to pay an amount payable in respect of the Mortgage Covered Security within 30 days after the amount fell due (unless the failure is attributable to administrative difficulties arising from circumstances that are outside the control of the Institution).

The ACS Acts provide that an Institution becomes potentially insolvent for the purposes of the ACS Acts in any of the following circumstances:

- (a) if a petition for the appointment of an examiner is presented in relation to the Institution under the Companies (Amendment) Act 1990;
- (b) if a petition is presented, or an effective resolution is passed, for the appointment of a liquidator in relation to the Institution;
- (c) if a receiver over any assets of the Institution is appointed; or
- (d) if the Institution has, in relation to a Mortgage Covered Security that it has issued, failed to pay an amount payable in respect of the Mortgage Covered Security within 10 days after the amount fell due (unless the failure is attributable to administrative difficulties arising from circumstances that are outside the control of the Institution).

The ACS Acts define an 'insolvency process' with respect to an Institution as liquidation, examination, receivership, reorganisation, a moratorium, bankruptcy or any similar process related to the inability of persons to pay their debts, and, in relation to an Institution, includes any process relating to the insolvency or potential insolvency of the Institution.

### **Developments in European and Irish Insolvency Law relevant to Institutions**

Directive 2001/24/EC of the European Parliament and the Council of 4 April, 2001 on the reorganisation and winding up of credit institutions (the "**CI Insolvency Directive**") was required to be implemented into the national law of the Member States of the European Community ("**Member State**") on 5 May, 2004. It was implemented in Ireland by the European Communities (Reorganisation and Winding-up of Credit Institutions) Regulations 2004 (the "**2004 Regulations**") with effect from 5 May, 2004.

The purpose of the CI Insolvency Directive is to create unified proceedings for EU credit institutions that are subject to the imposition of reorganisation measures or the commencement of winding-up proceedings (as such terms are defined in the CI Insolvency Directive and the 2004 Regulations). The CI Insolvency Directive provides that, with some exceptions and exclusions, the application of reorganisation measures to, or the winding-up of, a credit institution (including in respect of its branches in other Member States) will be effected in accordance with the national law of its "home" Member State (the Member State in which it has been authorised as a credit institution). It also provides that only the administrative or judicial authorities in that home Member State can authorise the implementation of reorganisation measures or the opening of

winding up proceedings in respect of the credit institution, including branches in other Member States.

To this end, the 2004 Regulations provide, among other things, that the “**relevant applicable enactment**” applies to and in relation to a reorganisation measure imposed, or to be imposed, in respect of an “authorised credit institution” (except as otherwise provided by the 2004 Regulations) and also applies to proceedings to wind up an “authorised credit institution”.

An “authorised credit institution” is defined in the 2004 Regulations as including the holder of a licence under section 9 of the Irish Central Bank Act 1971, as amended, which would include an Institution. The term “relevant applicable enactment” would in the context of an Institution include the ACS Acts. Therefore, the 2004 Regulations confirm, subject as described below, that the ACS Acts will apply to any reorganisation measure imposed or to be imposed, or any proceedings to wind up, an Institution.

Reflecting the provisions of the CI Insolvency Directive, the 2004 Regulations recognise that reorganisation measures or winding-up proceedings in respect of an Irish authorised credit institution should not affect certain rights in rem of its creditors to assets of the credit institution located in another Member State when the reorganisation measure is imposed or the winding-up proceedings commenced.

Again reflecting the provisions of the CI Insolvency Directive, the 2004 Regulations provide that reorganisation measures or winding-up proceedings, in respect of an Irish authorised credit institution should not affect certain set-off rights of its creditors where such set-off is permitted by the law that applies to the institution's claims. To the extent that such law is Irish law, a creditor of an Irish authorised credit institution which is subject to reorganisation measures or winding-up proceedings could only assert a right of set-off to the extent that Irish law would otherwise permit. With regard to the prohibition under the ACS Acts of set-off against Cover Assets comprised in the Pool maintained by an Institution, see – *Effect under the ACS Acts of insolvency, potential insolvency or insolvency process with respect to an Institution* above. However, to the extent that the law that applies to any claim of a relevant credit institution, within the meaning of the 2004 Regulations, is a law other than Irish law, the 2004 Regulations, together with that law, may operate to displace provisions of Irish law prohibiting the exercise of a right of set-off by a creditor against the relevant credit institution, including, in the context of Cover Assets comprised in a Pool maintained by an Institution, the provisions of the ACS Acts referred to above.

It should be noted in this regard that neither the 2004 Regulations nor the CI Insolvency Directive provide any guidance on the meaning of the term “the law applicable to the institution's claim” and so, in the absence of any Irish or EU judicial authority on the point, it is not possible to confirm, for example, whether this would comprise the governing law of the claim or, if different, the *lex situs* of the claim.

### **Consequences of Issuer's Status as Unlimited Company**

The Issuer is an unlimited company. There is no limit on the liability of a then-current member (the “**registered shareholder of record**”) of an unlimited company to contribute to that company in an insolvent liquidation of the company to the extent that the company's asset are insufficient to meet its liabilities. In that event, the liquidator of the unlimited company or the court seeks the contributions from each of the members. A company's unlimited status does not confer on the creditors of the company the right to seek payment of the company's liabilities from the company's members or to seek contributions for the company from the members in the event of the unlimited company becoming insolvent or otherwise. This right rests with the liquidator or the court on an insolvent winding-up. If the persons who are the members of an unlimited company at



the date of commencement of the winding-up cannot contribute sufficiently to the assets of the company, the liquidator or court may have recourse to persons who were members within one year before the winding up commenced, although these former members will only be liable to contribute in respect of liabilities contracted by the company while they were members.

At the date of this Base Prospectus, AIB is a member of the Issuer and the other members are all direct wholly owned subsidiaries of AIB. AIB beneficially owns the entire issued share capital of the Issuer. The Issuer is thus a wholly-owned subsidiary of AIB. The Issuer's liabilities under the Securities will be contracted by the Issuer on the date when the Securities are issued and their issue price is paid up in full. The members of the Issuer on the date on which the Securities are issued and the issue price is paid up in full will be liable to contribute in respect of the Issuer's liabilities in respect of the Securities on an insolvent winding-up of the Issuer (if the Issuer does not have sufficient resources to discharge its liabilities in respect of the Securities in full) if they are still members of the Issuer at the date of the commencement of such winding up, or if they were members of the Issuer within one year before such winding-up commenced.

AIB is not a guarantor of the Securities.

## **SUPERVISION AND REGULATION OF INSTITUTIONS/MANAGERS**

### **Introduction**

The Financial Regulator is primarily responsible for the supervision and regulation of Institutions. In certain circumstances (summarised below) the Financial Regulator may under the ACS Acts appoint the National Treasury Management Agency (the "NTMA") or a person recommended by the NTMA as manager of an Institution.

In addition, each Institution is required by the ACS Acts to appoint a Monitor. For a description of the obligations of an Institution towards the Monitor appointed by it, and the rights and duties of a Monitor, see *The Cover-Assets Monitor*.

### **Regulation of Institutions under banking legislation other than the ACS Acts**

As Irish incorporated credit institutions authorised by the Financial Regulator under legislation relating to banking activities in Ireland, Institutions are subject to regulation under the Irish Banking Code in addition to regulation under the ACS Acts in respect of the activities regulated thereby (see further *Regulation of Banks and Residential Lending in Ireland*).

As regards the relationship between the Financial Regulator's powers and functions under the Irish Banking Code and those under the ACS Acts, the ACS Acts provide that the Financial Regulator has, in relation to Institutions and other persons to whom the ACS Acts relate, the functions imposed and powers conferred on the Financial Regulator by or under the Irish Banking Code in relation to credit institutions within the scope of the Irish Banking Code, except as required or provided by the ACS Acts and subject to such modifications to those functions and powers as are necessary in order to adopt those functions and powers for the purposes of the ACS Acts.

### **General functions of the Financial Regulator under the ACS Acts**

The ACS Acts provide that the functions of the Financial Regulator are as follows:

- (a) to designate credit institutions for the purposes of the ACS Acts;
- (b) to administer the system of supervision and regulation of designated credit institutions in accordance with the ACS Acts in order to promote the maintenance of the proper and orderly regulation and supervision of those institutions; and
- (c) to perform such other functions as are prescribed by or under the ACS Acts.

The ACS Acts provide that the Minister for Finance may, by order, impose on the Financial Regulator functions additional to those specified above. At the date of this Base Prospectus, no such order has been made by the Minister for Finance.

In addition, the Financial Regulator is given a general power pursuant to the ACS Acts to do all things necessary or expedient to be done for or in connection with, or incidental to, the performance of its functions.

Various provisions of the ACS Acts oblige, or confer on the Financial Regulator the power, to make regulations or publish regulatory notices to make provision for a range of matters arising from the operation of the ACS Acts. In addition, the ACS Acts confer on the Financial Regulator a general power to make regulations, not inconsistent with the ACS Acts, for or with respect to any matter that by the ACS Acts is required or permitted to be prescribed, or that is necessary or expedient to be prescribed, for carrying out or giving effect to the ACS Acts.

Under the 2007 Amendment Act, where the Financial Regulator makes an order, regulation, regulatory notice or other notice under the ACS Acts, the Financial Regulator is required to have regard to the following principals and policies to the extent applicable:

- (a) the facilitation of the establishment and operation in Ireland of designated credit institutions (which include Institutions);
- (b) the facilitation of the establishment and operation of a market in asset covered securities (which include Mortgage Covered Securities) so as to make available further sources of funds to those institutions;
- (c) the need to develop the business of one or more types of designated credit institutions having regard to domestic or international markets in which the institutions operate or may propose to operate;
- (d) the need to protect the interests of preferred creditors or other creditors of one or more types of designated credit institutions;
- (e) the need for proper and proportionate regulation of one or more types of designated credit institutions;
- (f) the CRD and any regulations and directives made by competent organs of the EU which have been implemented in Irish law relevant to among other types of securities, asset covered securities.

#### **Power of the Financial Regulator to appoint the NTMA or a recommended person as manager of an Institution**

The ACS Acts set out the circumstances in which the Financial Regulator may appoint the NTMA or a person recommended by the NTMA as manager of an Institution and the role and functions of the NTMA and a manager appointed under the ACS Acts.

The ACS Acts provide that the Financial Regulator may request the NTMA to attempt to locate persons who are suitably qualified for appointment to manage asset covered securities business activities (described below), or specified asset covered securities business activities, of an Institution in any of the following circumstances:

- (a) if the Institution has become insolvent or potentially insolvent (for a description of the circumstances in which an Institution is regarded as insolvent or potentially insolvent for the purposes of the ACS Acts, see *Insolvency of Institutions – Meanings of “insolvent”, “potentially insolvent” and “insolvency process” for the purposes of the ACS Acts*);
- (b) if as a result of becoming aware of information provided to the Financial Regulator, it is of the opinion that a manager should be appointed in respect of the Institution in order to safeguard the interests of:
  - (i) holders of Mortgage Covered Securities issued by the Institution; or
  - (ii) persons who have rights under cover assets hedge contracts entered into by the Institution (for a general description of the circumstances in which an Institution may enter into cover assets hedge contracts and the rights and obligations attaching thereto, see *Permitted Business activities – (f) entering into certain hedging contracts for the purposes of hedging risks associated with the foregoing activities/dealing in and holding Pool Hedge Collateral*); or

- (iii) other creditors of the Institution; or
- (c) if the registration of the Institution as a designated credit institution is revoked under the ACS Acts or the Institution is subject to a direction given under sections of the ACS Acts (for a description of the relevant provisions see Registration of Institutions/Revocation of Registration – Revocation of registration as an Institution and – Direction of the Financial Regulator requiring an Institution to suspend its business).

The ACS Acts define “**asset covered securities business activities**” in relation to an Institution or former Institution, for the purposes of Part 6 of the 2001 Act, as:

- (a) issuing Mortgage Covered Securities and otherwise financing or refinancing the activities referred to in (b) to (d) below;
- (b) entering into cover assets hedge contracts;
- (c) dealing with mortgage credit assets or substitution assets;
- (d) holding Cover Assets and maintaining the related Pool;
- (e) the keeping of the Business Register (for a description of the provisions of the ACS Acts requiring an Institution to maintain a Business Register, see *Cover Assets Pool – Register of mortgage covered securities business*); and
- (f) administering and servicing those activities.

Under the 2007 Amendment Act, the Financial Regulator may by notice in writing given to a manager appointed in respect of an Institution, confer on that manager such additional responsibilities or powers as it considers appropriate for the effective management of the asset covered securities business activities of the Institution.

Under the 2007 Amendment Act, if a liquidator, examiner or receiver is appointed in respect of an Institution to which a manager has been appointed, the manager may enter into arrangements with respect to the management of the Institution, including such matters as may be specified in a notice of the kind referred to in the paragraph immediately above. Those arrangements must include payment of the manager’s costs and remuneration and are subject to any conditions specified in such a notice or as the Financial Regulator may notify the manager in writing.

Where an Institution, in respect of which a manager has been appointed, has property or assets located for the purposes of the ACS Acts outside Ireland and those assets or property are relevant to the manager’s functions under the ACS Acts, under the 2007 Amendment Act, the manager may, with the prior written consent of the Financial Regulator, appoint agents with such powers of the manager and on such terms as the manager considers are required to enable the manager to carry out the manager’s functions under the ACS Acts and the claims of any such agent are deemed to be claims of the manager for the purposes of the ACS Acts.

The ACS Acts also contain provisions in relation to nominations by the NTMA to the Financial Regulator of prospective candidates for manager to an Institution, selection and appointment of the manager by the Financial Regulator and publication of that appointment.

In the event that such a person cannot be located, the NTMA will then attempt to find an appropriate body corporate to become the parent entity of the Institution concerned in place of the existing parent (if any).

The ACS Acts provide that in the event that the NTMA cannot locate a suitable appointee as manager or replacement parent entity, the Financial Regulator is required to appoint the NTMA as manager to manage the asset covered securities business activities of the Institution concerned, or such of those activities as are specified by the Financial Regulator.

The ACS Acts provide that the Financial Regulator may, while the NTMA is attempting to locate a suitably qualified person for appointment as manager or an appropriate body corporate to become the parent entity of the Institution concerned, appoint the NTMA as a temporary manager to manage the asset covered securities business activities of the Institution concerned, or such of those activities as are specified by the Financial Regulator.

The ACS Acts provide that, on appointment, a manager becomes responsible for managing the asset covered securities business of the relevant Institution, or such of those activities as are specified in the manager's notice of appointment, and performing the functions, and exercising the powers, of the relevant Institution insofar as they relate to those activities.

The ACS Acts provide that the manager is required to assume control of the assets of the Institution that relate to the Institution's asset covered securities business activities, or such of those assets that relate to the asset covered securities business activities specified in the manager's notice of appointment. The manager is required to carry on that business in such manner as appears to the manager to be in the commercial interest of the holders of Mortgage Covered Securities issued by the relevant Institution and of persons with whom the Institution has entered into cover assets hedge contracts, subject to and in accordance with any directions of the Financial Regulator.

The ACS Acts provide that the provisions set out in schedule 1 to the 2001 Act are applicable to a manager appointed in respect of an Institution. Schedule 1 includes provisions relating to the replacement of managers in certain circumstances, the vacation of the office of manager in certain circumstances and the fees and expenses payable to a manager.

### **Limitations on the civil liability of the Financial Regulator/the NTMA/any manager**

The ACS Acts provide that the Financial Regulator, members and employees of the Financial Regulator, and persons acting under the direction of the Financial Regulator are not liable in any civil proceedings for any act done, or omitted to be done, by the person for the purposes of, or in connection with, performing or exercising any function or power imposed or conferred on the Financial Regulator by or under the ACS Acts if the act was done, or was omitted, in good faith for the purposes of the ACS Acts.

The NTMA and any manager, the chief executive of the NTMA, officers of a manager and employees of the NTMA or a manager, and persons acting under the direction of the NTMA or a manager are not liable in any civil proceedings for any act done, or omitted to be done, by the person for the purposes of, or in connection with, performing or exercising any function or power imposed or conferred on the NTMA or, as applicable, the manager by or under the ACS Acts if the act was done, or was omitted, in good faith for the purposes of the ACS Acts.

### **The powers of managers with respect to security trustees**

The 2007 Amendment Act makes provisions for the holding by a security trustee of security (other than under the ACS Acts) over assets comprised in the Pool which are located outside of Ireland in order to augment the security provided for under the ACS

Acts (see *Insolvency of Institutions – Security interests on the Pool*). A manager may under the 2007 Amendment Act enter into arrangements with the security trustee in connection with:

- (a) their respective functions under the ACS Acts and operations relating to Cover Assets which are also subject to such additional security arrangements;
- (b) their respective functions under the ACS Acts and the enforcement or administration of Cover Assets which are also subject to such additional security arrangements.

## **TRANSFERS OF A BUSINESS OR ASSETS UNDER THE ACS ACTS INVOLVING AN INSTITUTION**

### **Transfer to be effected by means of a statutory scheme**

The ACS Acts contain a statutory mechanism for effecting a transfer of a business or assets from a credit institution which is not an Institution to a credit institution which is an Institution. The ACS Acts also contains a statutory mechanism for effecting a transfer of a business or assets from an Institution to another credit institution (which may be another Institution). A transfer is effected by means of a scheme which must be approved by the appropriate relevant person. The ACS Acts provide that the transferor credit institution and transferee credit institution are required to jointly submit to the relevant person (see – *Approval of the Minister for Finance or the Financial Regulator required*) for approval a scheme for the proposed transfer of the business or assets concerned. The scheme must contain such details as the relevant person may require with respect to that business or those assets and must specify the date or dates on which the transfer is to take place or how that date or those dates are to be ascertained.

### **Transfer may be subject to conditions**

As a prerequisite to giving approval, the relevant person may impose on the parties to the proposed transfer such conditions relating to the scheme as that person thinks necessary for the purpose of:

- (a) safeguarding the interests of the parties to the transfer and of persons who have financial obligations in respect of the business or assets concerned;
- (b) ensuring an orderly transfer of that business or those assets; and
- (c) providing for publication of the proposed transfer.

### **Transfer scheme to be approved by order**

On being satisfied that a scheme submitted to the relevant person will achieve the purpose referred to in – *Transfer may be subject to conditions* and that the conditions (if any) imposed by that person in respect of the scheme have been or will be complied with, the relevant person:

- (a) must, by order, approve a transfer of the business or assets concerned; and
- (b) must publish a notice giving particulars of the transfer in one or more daily newspapers circulating in Ireland.

The relevant person may, by further order, vary an initial approval. If such an approval is varied, the relevant person must publish a notice giving particulars of the variation in one or more daily newspapers circulating in Ireland.

### *Effect of a transfer scheme*

The ACS Acts provide that a transfer of a business or assets under the ACS Acts takes effect:

- (a) subject to any conditions imposed on the approval of the transfer; and
- (b) on the date or dates specified in the scheme.

On the transfer of a business or assets under the ACS Acts:

- (a) the transferee credit institution has the same rights (including priorities) and obligations in respect of that business or those assets as the transferor credit institution had immediately before the transfer took effect; and
- (b) the transferor ceases to have those rights and obligations.

The ACS Acts exempt a transfer of an asset under the ACS Acts, whether specifically or as part of a transfer of a business, from any requirement to be registered under the Registration of Deeds Act 1707 (which has been repealed and replaced by the Registration of Deeds and Title Act 2006), the Bills of Sale (Ireland) Acts 1879 and 1883, the Companies Act 1963, the Registration of Title Act 1964, and any other Act that provides for the registration of assets or details of them.

If legal proceedings are pending immediately before the time when a transfer under the ACS Acts takes effect, those proceedings are to continue. At that time, the transferee credit institution:

- (a) replaces the transferor credit institution as a party to the proceedings; and
- (b) assumes the same rights and obligations in relation to those proceedings as the transferor credit institution had immediately before that time.

#### **Approval of the Minister for Finance or the Financial Regulator required**

For the purposes of the transfer mechanism under the ACS Acts, the “**relevant person**” is the Minister for Finance, if the relevant credit institutions are not associated, or the Financial Regulator, if the relevant credit institutions are associated.

If the approval of the Minister for Finance is required for a transfer of a business or assets under the relevant provision of the ACS Acts (i.e. because the relevant credit institutions are not associated), the Minister is required to consult the Financial Regulator before approving the transfer.

For the purposes of this section, a transferor credit institution is “associated” with the transferee credit institution if:

- (a) either of the institutions is the beneficial owner of not less than 90 per cent. of the issued share capital of the other institution (whether directly or indirectly through any other person or persons); or
- (b) a body corporate (other than the transferor or transferee credit institution) is the beneficial owner of not less than 90 per cent. of the issued share capital of each of the institutions (whether directly or indirectly through any other person or persons).

#### **Transfer of AIB's Irish Residential Loan Book and Business to the Issuer**

On 13 February 2006, AIB transferred to the Issuer the Irish residential loans and related security held by its home mortgage department and the home mortgage business related to that department of AIB. The aggregate principal amount outstanding of and accrued but unpaid interest on, the Irish residential loans transferred by AIB to the Issuer on 13 February 2006 was approximately €13.6 billion. The transfer was effected pursuant to the statutory transfer mechanism provided for in the ACS Acts described above. This statutory mechanism involved the putting in place of a scheme in accordance with the ACS Acts between AIB and the Issuer on 8 February 2006 which



permits the transfer of Irish residential loans and related security and/or Irish residential loan business between AIB and the Issuer. Transfers under that scheme were approved by order of the Financial Regulator on 8 February 2006 as required by the ACS Acts. The scheme permits further transfers from AIB to the Issuer or from the Issuer to AIB.

## **REGISTRATION OF INSTITUTIONS/REVOCATION OF REGISTRATION**

### **Registration of an eligible credit institution as an Institution**

A person may not purport to issue Mortgage Covered Securities in accordance with the ACS Acts unless the person is registered as an Institution in accordance the ACS Acts.

An eligible person may apply to the Financial Regulator to be registered as an Institution. A person is an eligible person for the purposes of the ACS Acts only if it is a credit institution incorporated or formed in Ireland that holds an authorisation issued by the Financial Regulator authorising it to carry on business as a credit institution.

A "credit institution" is defined in the ACS Acts to include the holder of a banking licence under section 9 of the Central Bank Act 1971.

The ACS Acts provide that the Financial Regulator may register an applicant as an Institution only if it is satisfied that the applicant:

- (a) is or will be able to carry out, in a proper manner, the responsibilities that an Institution is required by the ACS Acts to carry out; and
- (b) complies with, or will be able to comply with, such requirements (if any) relating to Institutions as are prescribed by the regulations made and regulatory notices published by the Financial Regulator under the ACS Acts.

The ACS Acts provide that in granting an application, the Financial Regulator may impose conditions on the applicant with respect to the orderly and proper regulation of the applicant's business which it considers appropriate.

The ACS Acts provide for the recording of the particulars of successful applicants for registration in the register of designated mortgage credit institutions as an Institution (see further below) and the issuance of certificates of registration to registered Institutions.

Registration authorises the Institution named in the certificate to carry on the business of an Institution. An Institution is required to comply with the conditions contained in its certificate of registration or in any document issued with the certificate. A registration of an Institution remains in force until it is revoked.

The Financial Regulator may from time to time vary a condition of an Institution's registration or impose on the Institution a new condition, but only after giving to the Institution concerned notice in writing of its intention to do so and after giving the Institution an opportunity to make written representations to the Financial Regulator in relation to the proposed variation or proposed new condition.

### **Register of Institutions maintained by the Financial Regulator**

The Financial Regulator is required to establish and maintain a register of designated mortgage credit institutions (the "**Register of Institutions**"). The Register of Institutions must contain the name and address of the principal place of business of each Institution and such other information as the Financial Regulator determines. The Issuer is registered in the Register of Institutions on the date of this Base Prospectus as an Institution.

Members of the public are entitled, without charge, to inspect the Register of Institutions during the ordinary business hours of the Financial Regulator. The Financial Regulator must, not less frequently than once every 12 months, publish a list of Institutions. If

regulations made by the Financial Regulator so require, the list must contain such other particulars as are prescribed by such regulations. As at the date of this Base Prospectus, no such regulations have been made by the Financial Regulator.

### **Revocation of Registration**

The ACS Acts provide for the revocation by the Financial Regulator of the registration of an Institution at the request of the Institution, but only if the Financial Regulator is of the opinion that the Institution has fully satisfied all claims and liabilities that are secured in respect of the Institution as provided by Part 7 of the 2001 Act (see *Insolvency of Institutions – Effect under the ACS Acts of insolvency, potential insolvency or insolvency process with respect to an Institution*).

The Financial Regulator may, with the consent of the Minister for Finance, revoke the registration of an Institution in circumstances where the revocation is not requested by the Institution. These circumstances arise when the Financial Regulator is satisfied on reasonable grounds that:

- (a) the Institution has not begun to carry on any business of a designated mortgage credit institution within 12 months after the date on which the registration was notified to the Institution;
- (b) the Institution has not carried on any of that business within the immediately preceding 6 months;
- (c) the registration was obtained by means of a false or misleading representation;
- (d) the Institution has contravened or is contravening, or has failed or is failing to comply, with a provision of the ACS Acts or a regulatory notice published by the Financial Regulator;
- (e) the Institution has become subject to an insolvency process (for a description of the meaning of “insolvency process” for the purposes of the ACS Acts, see *Insolvency of Institutions – Meaning of ‘insolvent’, ‘potentially insolvent’ and ‘insolvency process’ for the purposes of the ACS Acts*);
- (f) the Institution no longer has sufficient “own funds” (as referred to in the Capital Requirements Directive);
- (g) the Cover Assets comprised in a Pool maintained by the Institution do not comply with any provision of Part 4 of the 2001 Act (for a description of the provisions of the ACS Acts governing the composition of a Pool, see Cover Assets Pool);
- (h) the business of, or the corporate structure of, the Institution has been so organised to such an extent that the institution can no longer be supervised to the satisfaction of the Financial Regulator;
- (i) the Institution has come under the control of any other entity that is not supervised by the Financial Regulator to such an extent that the Institution can no longer be supervised to the satisfaction of the Financial Regulator;
- (j) since the Institution was registered as a designated mortgage credit institution, the circumstances under which the registration was given have changed to the extent that an application for registration would be refused had it been made in the changed circumstances; or
- (k) the Institution, or any of its officers, is convicted on indictment of:

- (i) an offence under the ACS Acts or under any other enactment prescribed by regulations made by the Financial Regulator for the purpose of section 19 of the 2001 Act (as at the date of this Base Prospectus, no such regulations have been made by the Financial Regulator); or
- (ii) an offence involving fraud, dishonesty or breach of trust.

In the case of an Institution whose registration has been revoked under the ACS Acts, but which is not a company or building society, or, being a company or building society, is not being wound up, the Institution is required to continue to carry out the financial obligations of the Institution that are secured under Part 7 of the 2001 Act (see *Insolvency of Institutions – Effect of insolvency, potential insolvency or insolvency process with respect to an Institution* below) until all those obligations have been fully discharged to the satisfaction of the Financial Regulator. In relation to such an Institution which is being wound up and the position of the liquidator under the ACS Acts, see *Position of a Liquidator* below.

*Direction of the Financial Regulator requiring an Institution to suspend its business*

The ACS Acts provide that if the Financial Regulator reasonably believes that there may be grounds for revoking the registration of an Institution under the ACS Acts, it may, subject to Part 7 of the 2001 Act (see *Insolvency of Institutions – Effect under the ACS Acts of insolvency, potential insolvency or insolvency process with respect to an Institution*), give to the Institution a direction in writing prohibiting it from engaging in the following specified activities except with the permission of the Financial Regulator:

- (a) dealing with the Institution's assets generally or dealing with any specified class of assets or any specified asset;
- (b) engaging in transactions generally or engaging in any specified class of transactions or any specified transaction; or
- (c) making payments generally or making any specified class of payments or any specified payment.

If such a direction is in effect:

- (a) winding up or bankruptcy proceedings may be initiated in respect of the Institution concerned;
- (b) a receiver over the assets of that Institution may be appointed; and
- (c) the assets of that Institution may be attached, sequestered or otherwise distributed,

only if the prior approval of the High Court of Ireland has been obtained.

The ACS Acts also confer on the Financial Regulator a power in certain circumstances to give an Institution, whose registration has been revoked and which is not a company or a building society, or, being a company or a building society, is not being wound up, a direction to a similar effect as one described above.

A direction given by the Financial Regulator under the ACS Acts must include a statement of the Financial Regulator's reason for giving the direction and its duration (not exceeding six months). The Financial Regulator may by notice in writing to the relevant Institution amend or revoke a direction and extend the duration of a direction by a further period not exceeding six months.

### **Position of a liquidator**

In the case of an Institution whose registration is revoked under the ACS Acts and that (being a company or a building society) is being wound up, the ACS Acts provide that, except as otherwise provided by the ACS Acts, the liquidator of the Institution has a duty to ensure that the Institution performs the obligations of an Institution under the ACS Acts. The Financial Regulator may, by notice in writing given to the liquidator, substitute the liquidator's obligations referred to above with other obligations referred to above of a similar nature as specified in that notice.

## TAXATION

The following summary of the anticipated tax treatment in Ireland in relation to the payments on the Securities is based on Irish taxation law and the practices of the Revenue Commissioners of Ireland (the "**Irish tax authorities**") as in force at the date of this Base Prospectus. It does not constitute tax or legal advice and it does not purport to be, and is not, a complete description of all of the tax considerations that may be relevant to a decision to subscribe for, buy, hold, sell, redeem or dispose of the Securities. The summary relates only to the position of persons who are the absolute beneficial owners of the Securities and the interest payable on them ("**Security holders**"). Prospective investors should consult their own professional advisers on the implications of subscribing for, buying, holding, selling, redeeming or disposing of Securities and the receipt of interest on the Securities under the laws of the jurisdictions in which they may be liable to taxation.

### *Withholding Tax on Interest*

In general, withholding tax at the standard rate of income tax (currently 20 per cent.) must be deducted from Irish source yearly interest payments made by an Irish company. However no withholding for or on account of Irish income tax is required to be made from yearly interest in the circumstances set out below.

Withholding tax on yearly interest does not apply to interest payments made by a company in the ordinary course of an Irish banking business. The Revenue Commissioners of Ireland (the "**Revenue Commissioners**") have previously confirmed that interest payments made by an Institution on mortgage covered securities issued by that Institution will be regarded as interest paid by such Institution in the ordinary course of its banking business in Ireland. In the case of the Issuer and the Securities, this exemption would cease to apply if the Issuer at any time ceased to be the holder of a banking licence under section 9 of the Central Bank Act 1971 (as amended), to be a designated credit institution under the ACS Acts, or to carry on business in Ireland.

Separately, section 64 of the Taxes Consolidation Act 1997, as amended (the "**TCA**") provides for the payment of interest on a quoted Eurobond without the deduction of tax in certain circumstances. A "**quoted Eurobond**" is defined as a security which:

- (a) is issued by a company;
- (b) is quoted on a recognised stock exchange (this would include the Irish Stock Exchange); and
- (c) carries a right to interest (this excludes zero coupon securities).

Securities (other than zero coupon securities) will qualify as quoted Eurobonds provided that they are listed on the Irish Stock Exchange or another recognised stock exchange for the purposes of section 64 of the TCA and carry a right to interest. Under legislation in force at the date of this Base Prospectus, zero coupon securities do not qualify as quoted Eurobonds.

There is no obligation to withhold tax on quoted Eurobonds where:

- (i) the person by or through whom the payment is made is not in Ireland; or
- (ii) the payment is made by or through a person in Ireland; and

- (A) the quoted Eurobond is held in a recognised clearing system (Euroclear and Clearstream, Luxembourg have been designated as recognised clearing systems for this purpose); or
- (B) the person who is the beneficial owner of the quoted Eurobond and who is beneficially entitled to the interest is not resident in Ireland for the purposes of Irish tax ("**Irish Resident**") and has made an appropriate written declaration in the prescribed format to this effect.

The Revenue Commissioners have confirmed that definitive bearer securities issued in exchange for interests in a bearer global security held within Euroclear or Clearstream, Luxembourg will continue to be regarded as held within a recognised clearing system for the purposes of (ii)(A) above.

Any requirement to operate Irish withholding tax on interest may be obviated or reduced pursuant to the terms of an applicable double taxation agreement.

*Withholding tax on Discount*

Discounts arising on the Securities will not be subject to Irish withholding tax.

*Deposit Interest Retention Tax ("**DIRT**")*

A relevant deposit taker (as defined by section 256 of the TCA) such as the Issuer is obliged to withhold tax currently at a rate of 25 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 28 per cent.) from certain interest payments or other returns on a relevant deposit. The term 'deposit' is widely defined and would include a Security. There are a number of exemptions to the requirement to withhold tax, of which the most relevant to the Securities are set out below:

- (a) The interest or discount is paid on a "**Wholesale Debt Instrument**". A Wholesale Debt Instrument for this purpose is a debt on a security (which would include a Security) and is listed on a stock exchange (which includes the Irish Stock Exchange).
- (b) The interest or discount is paid on a security that, although not listed on a stock exchange, matures within two years, carries a right to interest or is issued at a discount or at a premium and either:
  - (i) has a minimum denomination of €500,000, or US\$500,000 or if another currency, the equivalent of €500,000 and is held in Euroclear or Clearstream, Luxembourg or any other clearing system recognised from time to time by the Revenue Commissioners; or
  - (ii)
    - (A) the person by whom the payment is made; or
    - (B) the person through whom the payment is made, is Irish Resident or the payment is made either by or through, a branch or agency in Ireland; and
      - (1) the person who is beneficially entitled to the interest is Irish Resident and has provided their Irish tax reference number to the payer; or

- (2) the person who is the beneficial owner of the security and who is beneficially entitled to the interest thereon is not Irish Resident and has made a declaration to that effect in the prescribed form
- (c) The person beneficially entitled to interest on the Securities is not Irish Resident and has provided a declaration to that effect in the form prescribed by the Revenue Commissioners.
- (d) The person beneficially entitled to interest on the Securities is a company or a pension scheme that is Irish Resident and has provided an Irish tax reference number to the Issuer.

#### *Reporting Requirements*

In the case of a paying agent in Ireland paying interest in respect of a quoted Eurobond, the paying agent may be required by notice from the Revenue Commissioners, to provide the names and addresses of the persons to whom the interest was paid and details of the amount of interest paid to the Revenue Commissioners.

The Issuer, in respect of interest payments made by it to a person who is Irish Resident, is required to provide by the Revenue Commissioners, to provide the names and addresses of the persons to whom interest was paid or credited and the amount of interest paid or credited.

#### *Encashment Tax*

A paying agent outside Ireland is not obliged to deduct Irish encashment tax from interest on the Securities. A paying agent in Ireland acting on behalf of the holder of the Securities that obtains payment of, or realises interest in respect of, a Security where interest on that Security qualifies for exemption from withholding as a quoted Eurobond (see above under *Withholding Tax on Interest*) is required to withhold tax at the standard rate of income tax (currently 20 per cent.) unless it is proved, on a claim made in the required manner to the Revenue Commissioners, that the person owning the Securities and beneficially entitled to such interest is not Irish Resident. It is also necessary that such interest is not deemed under the provisions of Irish tax legislation to be income of another person that is Irish Resident. No encashment tax will apply where a bank's only role is the clearing of a cheque, or the arranging for the clearing of a cheque, by the bank.

#### *Liability of Security holders to Irish Income Tax*

In general, persons who are Irish Resident and domiciled in Ireland are liable to Irish taxation on their world-wide income whereas persons who are not Irish Resident or ordinarily resident in Ireland for the purposes of Irish tax ("**Ordinarily Resident in Ireland**") are only liable to Irish taxation on their Irish source income. All persons are under a statutory obligation to account for Irish tax on a self-assessment basis and there is no requirement for the Revenue Commissioners to issue or raise an assessment.

A person becomes Ordinarily Resident in Ireland upon the commencement of the fourth consecutive tax year in which that person is Irish Resident. A person ceases to be Ordinarily in Ireland upon the cessation of the third consecutive tax year in which that person is not Irish Resident.



*Interest earned and discount arising on the Securities is regarded as Irish source income*

Notwithstanding that a Security holder may receive interest payments on the Securities free of withholding tax, the Security holder will technically be liable for Irish tax (and levies if an individual recipient) in respect of such interest payments unless an exemption applies. There is an exemption from Irish tax on interest under section 198 of the TCA in certain circumstances.

These circumstances include:

- (a) where interest is paid by the Issuer to a person that is not Irish Resident and is regarded as being resident in an EU Member State (other than Ireland) under the law of that EU Member State, or is a resident of a territory with which Ireland has signed a double taxation agreement under the terms of that agreement, and that interest is paid on an asset covered security within the meaning of section 3 of the 2001 Act (which includes the Securities);
- (b) where interest is paid by the Issuer to a person that is not Irish Resident and is regarded as being resident in an EU Member State (other than Ireland) under the law of that EU Member State, or is a resident of a territory with which Ireland has signed a double taxation agreement under the terms of that agreement, and the interest is interest exempt from withholding tax because it is paid on a quoted Eurobond (see above under *Withholding Tax on Interest*);
- (c) where interest is paid by the Issuer to a person that is not Irish Resident and is regarded as being resident in an EU Member State (other than Ireland) under the law of that EU Member State, or is a resident of a territory with which Ireland has signed a double taxation agreement under the terms of that agreement, and the interest is interest exempt from DIRT because it is paid on a Wholesale Debt Instrument (see above under *Deposit Interest Retention Tax*);
- (d) where discount arises on Securities to a person who is not Irish Resident and is regarded as being resident in an EU Member State (other than Ireland) under the law of that EU Member State, or is a resident of a territory with which Ireland has signed a double taxation agreement under the terms of that agreement; or
- (e) where interest is paid by the Issuer in the ordinary course of its trade or business and the recipient of the interest is a company resident in an EU Member State (other than Ireland) under the law of that EU Member State, or in a territory with which Ireland has a double taxation agreement that is in effect under the terms of that agreement.

In addition provided certain procedural formalities are completed, no Irish tax liability will arise where relief is available under an applicable double taxation agreement. Relief will not be available unless the beneficial owner of the interest does not carry on business through a permanent establishment in Ireland to which the interest may be attributable.

Companies that are not Irish Resident and are not regarded as being resident in an EU Member State (other than Ireland) under the laws of that EU Member State, or a resident of a territory with which Ireland has a double taxation agreement that is in effect under the terms of that agreement (i.e. do not qualify for one of the exemptions from Irish tax listed above), where the interest is not attributable to a branch or agency of that company in Ireland (an Irish branch or agency of a non-resident company would be liable to Irish corporation tax), are subject to income tax at the standard rate of income tax (currently 20 per cent.). Credit is available for any Irish tax withheld from

income on account of the related income tax liability. Therefore, any withholding tax suffered should be equal to and in satisfaction of the full liability.

Where an income tax liability arises for a person that is not Irish Resident who is not regarded as being resident in an EU Member State (other than Ireland) under the laws of that EU Member State, or a resident of a territory with which Ireland has a double taxation agreement that is in effect under the terms of that agreement, there is currently no mechanism by which the Revenue Commissioners may collect this income tax liability. Therefore the long established practice of the Revenue Commissioners is not to seek to collect the liability from such persons. This is unless that person has any other tax connection with Ireland such as the carrying on of business in Ireland through a branch or agency or a permanent establishment to which the Securities are attributable, or a claim for the refund of Irish tax deducted at source. However, this practice reflects the absence of a collection mechanism available to the Revenue Commissioners, rather than the adoption of a policy on the part of the Revenue Commissioners not to collect the relevant tax. There is no guarantee that this practice will continue.

#### *Capital Gains Tax*

Where the Securities are listed on a stock exchange (which would include the Irish Stock Exchange), a Security holder will not be subject to Irish tax on capital gains in respect of the Securities unless that Security holder is either Irish Resident or Ordinarily Resident in Ireland or that Security holder has an enterprise, or an interest in an enterprise, which carries on business in Ireland through a branch or agency, or a permanent establishment, to which or to whom the Securities are attributable.

The rate of capital gains tax is currently 25 per cent.

#### *Capital Acquisitions Tax*

If the Securities are comprised in a gift or inheritance taken from a disponent that is Irish Resident or Ordinarily Resident in Ireland or, in the case of certain settlements, an Irish domiciled disponent, or if the recipient is Irish Resident or Ordinarily Resident in Ireland, or the Securities are regarded as property situate in Ireland, the recipient (or, in certain cases, the disponent) may be liable for Irish capital acquisitions tax.

Bearer Securities would be regarded as property situate in Ireland if the Securities are physically kept or located in Ireland with a depository or otherwise at the relevant time. Accordingly, if Bearer Securities are comprised in a gift or inheritance, the recipient and the disponent may be liable to Irish capital acquisitions tax, even though the disponent may not be domiciled in Ireland, Irish Resident or Ordinarily Resident in Ireland, if the Bearer Securities are physically located in Ireland at the date of the gift or inheritance.

Registered Securities would be regarded as property situate in Ireland if the principal register of the Securities is maintained in Ireland. At the date of this Base Prospectus, the principal register of Registered Securities is maintained outside of Ireland.

The rate of capital acquisitions tax is currently 25 per cent.

#### *Stamp Duty*

No Irish stamp duty is payable on the issue or transfer of the Securities.

#### *European Union Taxation of Savings Income Directive*

On 3rd June, 2003, the European Council of Economics and Finance Ministers adopted a Directive on the taxation of savings income (the "**EU Savings Tax Directive**") under

which EU Member States and certain other territories including Switzerland (see Risk Factors – EU Savings Directive) are required to provide to the tax authorities of another EU Member State or those other territories, details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other EU Member State or territory. This is subject to the exception that, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate withholding tax in relation to such payments.

The EU Savings Tax Directive has been enacted into Irish legislation. Since 1 January 2004, where any person in the course of a business or profession carried on in Ireland makes an interest payment to, or secures an interest payment for the immediate benefit of, the beneficial owner of that interest, where that beneficial owner is an individual, that person must, in accordance with the methods prescribed in the legislation, establish the identity and residence of that beneficial owner. Where such a person makes such a payment to a 'residual entity' then that interest payment is a 'deemed interest payment' of the 'residual entity' for the purpose of this legislation. A 'residual entity', in relation to 'deemed interest payments', must, in accordance with the methods prescribed in the legislation, establish the identity and residence of the beneficial owners of the interest payments received that are comprised in the 'deemed interest payments'.

**"Residual entity"** means a person or undertaking established in Ireland or in another EU Member State or in an 'associated territory' to which an interest payment is made for the benefit of a beneficial owner that is an individual, unless that person or undertaking is within the charge to corporation tax or a tax corresponding to corporation tax, or it has, in the prescribed format for the purposes of this legislation, elected to be treated in the same manner as an undertaking for collective investment in transferable securities within the meaning of the UCITS Directive 85/611/EEC, or it is such an entity or it is an equivalent entity established in an 'associated territory', or it is a legal person (not being an individual) other than certain Finish or Swedish legal persons that are excluded from the exemption from this definition in the EU Savings Tax Directive.

Procedures relating to the reporting of details of payments of interest (or similar income) made by any person in the course of a business or profession carried on in Ireland, to beneficial owners that are individuals or to residual entities resident in another EU Member State or an 'associated territory' and procedures relating to the reporting of details of deemed interest payments made by residual entities where the beneficial owner is an individual resident in another EU Member State or an 'associated territory', apply. For the purposes of the paragraphs under this heading **"associated territory"** means Andorra, Liechtenstein, Monaco, San Marino, the Swiss Confederation, Aruba, Netherlands Antilles, Jersey, Gibraltar, Guernsey, Isle of Man, Anguilla, British Virgin Islands, Cayman Islands, Montserrat and the Turks and Caicos Islands.

## **SUBSCRIPTION AND SALE, TRANSFER AND SELLING RESTRICTIONS AND SECONDARY MARKET ARRANGEMENTS**

### **Subscription and Sale: Programme Agreement**

The Dealers have, in an amended and restated programme agreement (the "**Programme Agreement**") dated 14 September 2009 agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Securities. Any such agreement will extend to those matters stated under *Form of the Securities, Issue Procedures and Clearing Systems and Terms and Conditions of the Securities*. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Securities under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith. The Issuer may pay the Dealers commission from time to time in connection with the sale of Securities. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with any future update of the Programme and the issue of Securities under the Programme. The Dealers are entitled to be released and discharged from their obligations in relation to any agreement to issue and purchase Securities under the Programme Agreement in certain circumstances prior to payment to the Issuer.

The names and address of the initial Dealers are set out at the end of this Base Prospectus. The description of each of the initial Dealers is a financial institution. The name, address and description of any additional Dealer or Manager, as the case may be, appointed after the date of this Base Prospectus will be disclosed in the applicable Final Terms and notified to the Irish Stock Exchange/Financial Regulator.

### **Transfer Restrictions**

Each purchaser of Registered Securities (other than a person purchasing an interest in Registered Global Security with a view to holding it in the form of an interest in the same Global Security) or person wishing to transfer an interest from one Registered Global Security to another or from global to definitive form or *vice versa*, will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

- (i) that it is outside the United States and is not a U.S. person;
- (ii) that the Securities are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Securities have not been and will not be registered under the Securities Act or any other applicable U.S. State securities law and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (iii) that, unless it holds an interest in a Registered Global Security and either is a person located outside the United States or is not a U.S. person, if in future it decides to resell, pledge or otherwise transfer the Securities or any beneficial interests in the Securities, it will do so, prior to the date which is two years after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Securities, only (a) to the Issuer or any affiliate thereof; (b) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act; or (c) pursuant to an effective registration statements under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;

- (iv) it will, and will require each subsequent holder to, notify any purchaser of the Securities from it of the resale restriction referred to in paragraph (iii) above, as applicable;
- (v) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Securities prior to the expiration of the distribution compliance period (defined as 40 days after the completion of the distribution of the Securities following the original issuance of the Securities, as certified by the Dealers in accordance with the Agency Agreement), it will do so only (a) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (b) in accordance with all applicable U.S. States securities laws; and it acknowledges that the Registered Global Securities will bear a legend to the following effect unless otherwise agreed to by the Issuer.

"THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (the "**SECURITIES ACT**") AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO U.S. PERSONS (AS THOSE TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) UNLESS AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IS AVAILABLE."; and

- (vi) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representation or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Securities as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

## **Selling Restrictions**

### *United States*

The Securities have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from the registration requirements of the Securities Act. The Securities are initially being offered and sold only outside the United States in reliance on Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, the Securities in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has agreed (and each further Dealer named in a Final Terms will be required to agree) that it will not offer or sell Securities (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Tranche of which such Securities are part, as determined and certified to the Agent by such Dealer (in the case of a non-syndicated issue) or the relevant Lead Dealer (in the case of a syndicated issue) within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Securities during the Distribution Compliance Period a confirmation or other notice setting out the restrictions on offers and sales of the Securities within the United States or to, or for the account or

benefit of, U.S. persons. Terms used in this paragraph have meanings given to them by Regulation S.

In addition, until 40 days after the completion of the distribution of all Securities of the Tranche of which such Securities are a part, an offer or sale of the Securities within the United States by any dealer whether or not participating in the offering of such Tranche may violate the registration requirements of the Securities Act.

#### *European Economic Area*

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Securities which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Securities to the public in that Relevant Member State:

- (a) if the Final Terms in relation to the Securities specify that an offer of those Securities may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Securities which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the Final Terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of the following attributes (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (d) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (e) at any time in any other circumstances falling within Article 1(2)(d) or Article 3(2) of the Prospectus Directive,

provided that no such offer of Securities referred to in (b) to (e) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Securities to the public" in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the

Securities to be offered so as to enable an investor to decide to purchase or subscribe the Securities, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 and includes any relevant implementing measure in each Relevant Member State.

#### *United Kingdom*

Each Dealer has represented and agreed under the Programme Agreement that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Securities in circumstances in which section 21(1) of the FSMA would not, if the Issuer was not an authorised person, apply to the Issuer; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Securities in, from or otherwise involving the United Kingdom.

#### *Japan*

The Securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) (the "**Financial Instruments and Exchange Law**") and, accordingly, each Dealer represents and agrees and each further Dealer appointed under the Programme Agreement will be required to represent and agree that it will not, directly or indirectly, offer or sell any Securities in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and all other applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. As used in this paragraph, "**resident of Japan**" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

#### *Republic of Italy*

Each Dealer has represented and agreed that it has not made and will not make an offer of the Securities which are the subject of any offering contemplated by the Base Prospectus to the public in the Republic of Italy ("**Italy**") other than:

- (a) to professional investors (investitori qualificati) as defined pursuant to Article 100, paragraph 1 (a), of Legislative Decree No 58, 24 February 1998 (the "**Financial Services Act**") as amended and restated from time to time; or
- (b) in any other circumstances provided under Article 100, paragraph 1, of the Financial Services Act and under Article 33, paragraph 1, of CONSOB Regulation No 11971, 14 May 1999, as amended, where exemptions from the requirement to publish a prospectus pursuant to Article 94 of the Financial Services Act are provided.

For the purposes of this provision, the expression "offer of Securities to the public" in Italy means the communication in any form and by any means of sufficient information

on the terms of the offer and the Securities to be offered so as to enable an investor to decide to purchase or subscribe the Securities, including the placement through authorised intermediaries.

Any investor purchasing the Securities is solely responsible for ensuring that any offer or resale of the Securities by such investor occurs in compliance with applicable Italian laws and regulations. The Securities and the information contained in the Base Prospectus are intended only for the use of its recipient.

No person resident or located in Italy other than the original recipients of the Base Prospectus may rely on it or its content.

Moreover, and subject to the foregoing, each Dealer has acknowledged that any offer, sale or delivery of the Securities or distribution of copies of this document or any other document relating to the Securities in Italy under (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the so-called "**Banking Act**"), CONSOB regulation No. 11522, 1 July 1998, all as amended;
- (ii) in compliance with the so-called subsequent notification to the Bank of Italy, pursuant to Article 129 of the Banking Act, if applicable, and
- (iii) in compliance with any other applicable laws and regulations including any relevant limitations which may be imposed by CONSOB.

#### *Ireland*

Each Dealer has agreed and represented in the Programme Agreement that:

- (i) it will not underwrite or place Securities in or involving Ireland otherwise than in conformity with the provisions of the Irish Companies Acts 1963 to 2009 and the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) including, without limitation, Regulations 7 and 152 thereof and any codes of conduct used in connection therewith and the provisions of the Investor Compensation Act 1998;
- (ii) in respect of any Securities that are not listed on any recognised stock exchange and that do not mature within two years:
  - (a) its action in any jurisdiction will comply with the then applicable laws and regulations of that jurisdiction;
  - (b) it will not knowingly offer to sell such Securities to an Irish resident, or to persons whose usual place of abode is Ireland, and it will not knowingly distribute or cause to be distributed in Ireland any offering material in connection with such Securities;
  - (c) it will not offer, sell or deliver any such Securities to any person in a denomination of less than €500,000 or its equivalent; and
  - (d) such Securities will be held in a recognised clearing system;
- (iii) in respect of any Securities that are not listed on any recognised stock exchange and that mature within two years, it will not offer, sell or deliver any such Securities in Ireland or elsewhere to any person in a denomination of less than



€500,000 if the relevant Securities are denominated in euro, U.S.\$500,000 if the relevant Securities are denominated in U.S. dollars, or if the relevant Securities are denominated in a currency other than euro or U.S. dollars, the equivalent of €500,000 at the date the Programme is first publicised and that such Securities will be held in a recognised clearing system; and

- (iv) it will not underwrite or place any Securities in or involving Ireland other than in compliance with the Market Abuse (Directive 2003/6/EC) Regulations 2005 of Ireland and any Market Abuse Rules made by the Financial Regulator thereunder.

#### *General*

No action has been or will be taken in any jurisdiction by the Issuer or any Dealer that would, or is intended to, permit a public offering of the Securities, or possession or distribution of this Base Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Base Prospectus comes are required by the Issuer and each of the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Securities or have in their possession, distribute or publish this Base Prospectus or any other offering material relating to the Securities, in all cases at their own expense.

No Dealer will be liable to the Issuer or any other parties as a result of any breach by any other Dealer of the restrictions set out in the Programme Agreement. Relevant Dealers will be required to comply with such other restrictions as the Issuer and such Dealers shall agree as a term of the issue and purchase of the Securities indicated in the applicable Final Terms.

#### **Secondary Market Arrangements**

The Issuer may enter agreements with Dealers or other persons in relation to a Tranche or Series of Securities whereby such Dealers may agree to provide liquidity in those Securities through bid and offer rate arrangements. The relevant Dealers or relevant persons in such agreements may agree to quote bid and offer prices for the relevant Securities at such rates and in such sizes as are specified in the relevant agreement and the provision of such quotes may be subject to other conditions as set out in the relevant agreement. Not all issues of Securities under the Programme will benefit from such agreements. A description of the main terms of any such agreements and the names and addresses of the relevant Dealers or other persons who are party to such will be disclosed in the applicable Final Terms for the relevant Securities.

## GENERAL INFORMATION

1. The Board of Directors of the Issuer authorised the establishment of the Programme and the creation and issue of the Securities on 28 February 2006. The update of the Programme and the issue of Securities within a period of 12 months from the date of this Base Prospectus has been duly authorised by resolutions of the Board of Directors of the Issuer on 8 September 2009.
2. For so long as Securities are capable of being issued under the Programme, copies of the following documents may be inspected physically at the registered office of the Issuer and at the office of the Irish Paying Agent during business hours:
  - (a) the Memorandum and Articles of Association of the Issuer;
  - (b) the audited financial statements of the Issuer for the financial year ended 31 December 2007 and the auditor's report dated 31 March 2008 by KPMG thereon;
  - (c) the audited financial statements of the Issuer for the financial year ended 31 December 2008 and the auditor's report dated 27 March 2009 by KPMG thereon; and
  - (d) terms and conditions of the Securities as contained in the base prospectuses dated 23 March 2006, 18 June 2007 and 30 June 2008, as incorporated by reference in this Base Prospectus in respect of the Programme.

See also section headed *Documents on display* under *Annex XVI Disclosures*.

3. No governmental, legal or arbitration proceedings which may have or have had a significant effect on the Issuer's financial position have been held against the Issuer in the 12 months preceding the date of this Base Prospectus and the Issuer is not aware of any such proceedings which are pending or threatened. See also section headed *Legal and arbitration proceedings* under *Annex XVI Disclosures*.
4. Copies of the most recently published audited annual financial statements of the Issuer, the first of which relates to the financial period ended 31 December 2005, will be available at the registered office of the Issuer, currently Bankcentre, Ballsbridge, Dublin 4, Ireland and at the offices of the Irish Paying Agent.
5. Agency Agreement/Deed of Covenant

The following provides a brief description of the contents of each of the Agency Agreement and the Deed of Covenant. A description of the contents of the Programme Agreement is set out in the first paragraph under Subscription and Sale, Transfer and Selling Restrictions and Secondary Market Arrangements above.

(i) *Agency Agreement*

In the Agency Agreement the Issuer has agreed the terms of the appointment of the principal paying agent, registrar and the other agents specified therein. In particular, the Agency Agreement sets out terms governing the issue of Securities, the duties of the agents, provisions relating to the payment of the agents' commissions and expenses, an

indemnity from the Issuer in favour of the agents and provisions governing changes to the identity of the agents. The Agency Agreement also contains in a number of schedules, the forms of the Securities and the form of the Deed of Covenant.

(ii) *Deed of Covenant*

Under a deed of covenant dated 14 September 2009 (the "**Deed of Covenant**") the Issuer has agreed, subject to the terms thereof, to grant certain direct contractual rights to Relevant Account Holders (as defined in the Deed of Covenant) in respect of Securities that are issued initially in global form and where a Global Security becomes void in accordance with its terms provides for such contractual rights to arise.

6. 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 2008.
7. The Bearer Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Bearer Securities allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Securities are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.
8. No website referred to in this Base Prospectus forms part of this Base Prospectus.
9. KPMG, the auditors of the Issuer, are a member of the Institute of Chartered Accountants in Ireland.
10. Where information in this Base Prospectus is identified as having been sourced by the Issuer from a third party or otherwise attributed to a third party such information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the information reproduced in this Base Prospectus inaccurate or misleading.
11. The language of this Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.
12. The Department of Finance's website is [www.finance.gov.ie](http://www.finance.gov.ie).

## ANNEX XVI DISCLOSURES

### PERSONS RESPONSIBLE

The Issuer hereby declares that the information contained in the "Information about the Guarantor" section and the risk factor under the heading Credit Institutions (Financial Support) Act 2008 has been sourced from third persons and has been accurately reproduced and that as far as the Issuer is aware and is able to ascertain from information published by those third persons, no facts have been omitted which would render the reproduced information inaccurate or misleading.

### INFORMATION ABOUT THE GUARANTOR

#### *The Guarantee*

Under the Credit Institutions (Financial Support) Act 2008 (the "**Act**"), the Minister has the power to provide guarantees to credit institutions and their subsidiaries.

The Credit Institutions (Financial Support) Scheme 2008 (Statutory Instrument No. 411 of 2008) (the "**Scheme**") was approved by both Houses of the Oireachtas (i.e. the Irish Parliament) on 17 October 2008 and was made by the Minister on 20 October 2008.

The Act, the Scheme and associated Ministerial orders made under section 6(1) of the Act provide the statutory basis for the credit institution guarantee arrangement announced by the Minister on 30 September 2008 and 9 October 2008.

The Scheme has been approved by the European Commission as being compatible with EC Treaty state aid rules.

The covered liabilities (as defined below) of participating covered institutions for the period 30 September 2008 to 29 September 2010 inclusive are guaranteed under the laws of Ireland by the Minister (the "**Guarantor**").

In the event of any default of a covered institution in respect of a covered liability, the Guarantor will pay to the relevant creditor, on demand, an amount equal to the unpaid covered liabilities (the "**Guarantee**").

The guarantee is unconditional and irrevocable and ensures timely payment of the covered liabilities of the covered institutions.

Should a covered institution be removed from the Scheme, all of its fixed term covered liabilities outstanding at that time will continue to have the full benefit of the Guarantee to 29 September 2010 or their maturity, whichever is the earlier. All covered liabilities, including on-demand deposits, will be protected by notice of at least 90 days prior to any covered institution being removed from the Scheme.

No call can be made under the Guarantee after 29 September 2010.

The Guarantee does not affect any other rights or claims of creditors.

The following liabilities are covered by the Scheme ("**covered liabilities**"):

- all retail and corporate deposits (to the extent not covered by existing deposit protection schemes in Ireland or any other jurisdiction);
- interbank deposits;

- senior unsecured debt;
- covered bonds (including asset covered securities); and
- dated subordinated debt (Lower Tier 2),

excluding any intra-group borrowing and any debt due to the European Central Bank arising from Eurosystem monetary operations.

*Source: The Department of Finance*

### **The Guarantor**

The Guarantor is the Minister for Finance of Ireland.

The contact address and telephone number for the Guarantor is set out below:

Minister for Finance  
 Department of Finance  
 Government Buildings  
 Upper Merrion Street  
 Dublin 2  
 Ireland

Telephone: +353 1 676 7571

*Source: The Department of Finance*

The following information about Ireland can be found in "Ireland – Information Memorandum April 2009" issued by the National Treasury Management Agency, which is incorporated by reference in its entirety into this Base Prospectus:

- A description of Ireland's economy including: (a) the structure of the economy with details of the main sectors of the economy; and (b) gross domestic product (GDP) information – see pages 11, 17 to 25 and Appendix 3 of "Ireland – Information Memorandum April 2009"
- A general description of Ireland's political system – see pages 9 to 10 of "Ireland – Information Memorandum April 2009"

### *Public Finance and Trade*

The following information about Ireland can be found in "Ireland – Information Memorandum April 2009" issued by the National Treasury Management Agency, which is incorporated by reference in its entirety into this Base Prospectus:

- Gross public debt – see pages 13 to 16 and pages 31 to 48 of "Ireland – Information Memorandum April 2009"
- Foreign trade and balance of payment figures – see pages 23 to 24 and Appendix 4 of "Ireland – Information Memorandum April 2009"
- Financial position and resources – see Appendix 4 of "Ireland – Information Memorandum April 2009"
- Income and expenditure figures – see Appendix 5 of "Ireland – Information Memorandum April 2009"

## ***Tax and budgetary systems***

The main taxes in Ireland are: Income Tax, PRSI and Levies, Corporation Tax, Capital Gains Tax, Capital Acquisitions Tax, Stamp Duty, Value-Added Tax (VAT) and Customs and Excise. Details of the basis for charging and applicable rates of taxation can be found on the website of the Office of the Revenue Commissioners, who are responsible for the assessment, collection and management of taxes and duties in Ireland.

The fiscal year for the Budget is the calendar year. The Budget, or Financial Statement of the Minister for Finance, which is usually published in the December before the year to which it relates, is the focal point of the financial cycle.

The Budget sets out the Government's budgetary targets for the following three years. The Budget documentation normally contains the following:

- Financial Statement – the Minister for Finance's speech to the Dáil Eireann (Irish House of Representatives in the National Parliament) on Budget day.
- Budget Measures – detailed list of changes announced in the Budget together with the estimated cost or yield arising.
- Budget Statistics and Tables – gives aggregate budgetary projections for the next three years.
- Financial Resolutions – give temporary legislative backing for immediate budgetary changes.
- Stability Programme Update – outlines the economic background to the Budget and sets out Government economic strategy over the following three years. It is produced in compliance with the EU Stability and Growth Pact.
- White Paper on Receipts & Expenditure – the opening position for the Budget. Published the Saturday before the Budget.
- Estimates for Public Services and Summary of Public Capital Programme.

The annual Finance Act gives statutory effect to the taxation measures announced in the Budget and to other miscellaneous financial provisions. If there are Financial Resolutions under the Provisional Collection of Taxes Act 1927 in the Budget, the Second Stage of the Finance Bill must be passed in the Dáil within 84 days of Budget Day and the President must sign the Finance Bill within 4 months of Budget Day.

*Source: The Department of Finance*

## ***Composition of public debt***

At the end of 2008, 100% of the (net) national debt was denominated in, or swapped into, euro.

*Source: The Department of Finance/NTMA*

## ***Debt payment record***

Ireland always promptly pays the full amount of the principal of, and any interest on, any obligation when due and payable.

*Source: The Department of Finance*

### **Details of the foreign exchange reserves of Ireland**

<b>Official External Reserves (EUR millions)</b>					
<b>Month ending</b>	<b>Gold</b>	<b>SDRs</b>	<b>Reserve Position in IMF</b>	<b>Foreign Exchange</b>	<b>Total</b>
Dec. 2006	92	72	103	429	695
Mar. 2007	96	73	69	427	665
June 2007	93	74	73	392	631
Sept. 2007	100	73	60	420	653
Dec. 2007	110	77	51	401	639
Mar. 2008	114	79	44	361	598
June 2008	114	79	51	362	608
Sept. 2008	121	76	62	394	653
Dec. 2008	120	77	111	438	746
Feb. 2009	120	77	111	368	676

*All the figures are quoted in millions of euro. It should be noted that some of the totals are not equal to the sum of parts. This is because of rounding.*

*Source: Table A1 – Statistical Appendix, Central Bank Quarterly Bulletin April 2009*

The State's FX reserves are sold forward on a rolling basis in order to mitigate FX risk.

*Source: The Department of Finance*

### **Liquid deposits available in domestic currency**

Liquid assets as at 31 December 2007 were EUR 4.487 billion. Liquid assets as at 31 December 2006 were EUR 3.588 billion.

*Source: Note 10 to the Financial Statements – NTMA Annual Report 2007 and Note 10 to the Financial Statements – NTMA Annual Report 2006 (page 46 in both cases)*

### **Auditing/independent review procedures on accounts**

The financial statements of the Exchequer for each financial year are audited by the Comptroller and Auditor General pursuant to the Comptroller and Auditor General (Amendment) Act 1993.

*Source: The Department of Finance*

### *Legal and arbitration proceedings*

There have been no significant governmental, legal or arbitration proceedings (including proceedings which are pending or threatened) during the last 12 months that may affect the ability of the Guarantor to fulfil its financial obligations under the Guarantee.

Pursuant to section 15 of the Financial Measures (Miscellaneous Provisions) Act 2009, the Guarantor does not have liability for the accuracy of information contained in this Supplement.

*Source: The Department of Finance*

### *Documents on display*

The Act, the Scheme and associated Ministerial orders are available from AIB Mortgage Bank on request and are also available on the website of the Department of Finance.

For the lifetime of this document the audited financial statements of the Exchequer covering the last two fiscal years and the budget for the current fiscal year may be inspected in electronic form on the website of the Department of Finance.



**REGISTERED OFFICE OF THE ISSUER**

**AIB Mortgage Bank**

Bankcentre  
Ballsbridge  
Dublin 4  
Ireland

**COVER-ASSETS MONITOR**

**Mazars**

Harcourt Centre  
Block 3  
Harcourt Road  
Dublin 2  
Ireland

**DEALERS**

**Allied Irish Banks, p.l.c.**

Bankcentre  
Ballsbridge  
Dublin 4  
Ireland

**Barclays Bank PLC**

5 The North Colonnade  
Canary Wharf  
London E14 4BB  
United Kingdom

**Deutsche Bank Aktiengesellschaft**

Grosse Gallusstrasse  
10-14, D-60272  
Frankfurt am Main  
Germany

**Morgan Stanley & Co. International plc**

25 Cabot Square  
Canary Wharf  
London E14 4QA  
United Kingdom

**PRINCIPAL PAYING AGENT, ISSUING AGENT, AGENT BANK, TRANSFER AGENT  
AND REGISTRAR**

**The Bank of New York Mellon**

One Canada Square  
London E14 5AL  
United Kingdom

**IRISH PAYING AGENT AND TRANSFER AGENT**

**The Bank of New York Mellon (Ireland) Limited**

4th Floor Hanover Building  
Windmill Lane  
Dublin 2  
Ireland

**IRISH LISTING AGENT**

**Goodbody Stockbrokers**

Ballsbridge Park  
Dublin 4  
Ireland

**LEGAL ADVISORS TO THE ISSUER**

*As to Irish Law*

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Sir John Rogerson's Quay  
Dublin 2  
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**LEGAL ADVISORS TO THE ARRANGERS  
AND THE DEALERS**

*As to Irish Law*

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Chartered Accountants  
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