

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. PART 2 OF THIS DOCUMENT COMPRISES AN EXPLANATORY STATEMENT IN COMPLIANCE WITH SECTION 897 OF THE COMPANIES ACT 2006. If you are in any doubt as to the action you should take in connection with this document or the proposals contained in it, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, accountant or other independent financial adviser who, if you are taking advice in the United Kingdom, is authorised under the Financial Services and Markets Act 2000 or, if you are taking advice in a territory outside the United Kingdom, from an appropriately authorised financial adviser.

If you have sold or otherwise transferred all of your A&L Preference Shares, please send this document together with the accompanying documents at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee. However, such documents should not be forwarded or transmitted in or into any jurisdiction in which such act would constitute a violation of the relevant laws of such jurisdiction. If you have sold or otherwise transferred only part of your holding of A&L Preference Shares, please consult the stockbroker, bank or other agent through whom the sale or transfer was effected.

Proposal for the cancellation of A&L Preference Shares and the issue of New Santander UK Preference Shares by Santander UK plc

to be effected by means of a

Scheme of Arrangement

under sections 895 to 899 of the Companies Act 2006



Further information in relation to Santander UK, the Santander UK Directors and the New Santander UK Preference Shares will be contained in the Santander UK Preference Prospectus. The Santander UK Preference Prospectus is being and will be made available to the public as required by rule 3.2 of the Prospectus Rules.

Notices of the Court Meeting, the General Meeting and the Preference Class Meeting, each of which will be held at 2 Triton Square, Regent's Place, London NW1 3AN on 30 March 2010, are set out at the end of this document. The Court Meeting will start at 8.45 a.m., the General Meeting will start at 8.50 a.m. (or as soon as the Court Meeting has been concluded or adjourned) and the Preference Class Meeting will start at 8.55 a.m. (or as soon as the Court Meeting and the General Meeting have been concluded or adjourned). The action to be taken in respect of the Court Meeting, the General Meeting and the Preference Class Meeting is set out in Sections 6 and 8 of Part 2 of this document. A&L Preference Shareholders who hold their A&L Preference Shares in uncertificated form through Euroclear or Clearstream are asked to complete Electronic Voting Instructions, in accordance with the instructions in Section 8 of Part 2 of this document. It is very important that you use your vote so that the Court can be satisfied that the votes cast constitute a fair representation of the views of the A&L Preference Shareholders.

Definitions used in this document are set out in Part 7 of this document, except where otherwise indicated.

UBS Limited is acting for Santander UK and no other party in connection with the Preference Scheme and will not be responsible to anyone other than Santander UK in relation to the Preference Scheme or any other matter or arrangement referred to in this document.

IMPORTANT NOTICE

The distribution of this document in or into jurisdictions other than the United Kingdom may be restricted by the laws of those jurisdictions and therefore persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Failure to comply with any such restrictions may constitute a violation of the relevant laws of any such jurisdiction.

This document does not constitute an offer or invitation to sell, purchase or subscribe for any securities or a solicitation of an offer to purchase any securities pursuant to this document or otherwise in any jurisdiction in which such offer, invitation or solicitation is unlawful.

This document has been prepared to comply with English law and the applicable rules of the UK Listing Authority and the London Stock Exchange and the information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws and regulations of jurisdictions outside England and Wales. This document and the Conditions and further terms set out in this document and any non-contractual obligations are governed by English law and are subject to the jurisdiction of the English courts.

This document does not constitute a prospectus within the meaning of article 3 of Directive 2003/71/EC. A prospectus in respect of the New Santander UK Preference Shares is being and will be made available to the public as required by section 3.2 of the Prospectus Rules of the UK Listing Authority. To request a copy of the prospectus in respect of the New Santander UK Preference Shares, please contact the Tabulation Agent by email at santander@lucid-is.com.

This document is not an offer of securities for sale in the United States. Information disclosed in this document is provided to A&L Preference Shareholders in the United States solely to assist such holders in participating in the Meetings and voting on the Preference Scheme. The New Santander UK Preference Shares have not been and will not be registered under the US Securities Act of 1933 as amended (the “**Securities Act**”) in reliance upon the exemption from the registration requirements of the Securities Act provided by Section 3(a)(10) thereof.

Further information for A&L Preference Shareholders in the United States is set out in Section 11 of Part 2 of this document. **Neither the US Securities and Exchanges Commission (the “SEC”) nor any state securities commission of any state or other jurisdiction has approved or disapproved of these securities or passed judgment upon the adequacy or accuracy of this document. Any representation to the contrary is a criminal offence in the United States. The information disclosed in this document is not the same as that which would have been disclosed if this document had been prepared to comply with the registration requirements of the Securities Act or in accordance with the laws and regulations of any other jurisdiction.**

CAUTIONARY NOTE: FORWARD-LOOKING STATEMENTS

This document contains statements which are, or may be deemed to be, “forward-looking statements”. Forward-looking statements can be identified by words such as “expects”, “anticipates”, “intends”, “targets”, “plans”, “believes”, “seeks”, “estimates”, “may”, “will”, “should” or words of similar meaning. Forward-looking statements include all matters that are not historical fact. They appear in a number of places throughout this document and include statements as to the expected timing of the Preference Scheme, and statements about the expected future business and financial performance of A&L and Santander UK. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements. These factors include, but are not limited to, the satisfaction of the Conditions to the Preference Scheme, conditions in the market, the market position of A&L and/or Santander UK, earnings, cash flow, return on investments, changing business conditions or an adverse change in the economic climate. Investors should not place undue reliance on any forward-looking statement and neither A&L nor Santander UK undertakes any obligation to update or revise any forward-looking statement unless required to do so by the Prospectus Rules, the Listing Rules, the Disclosure and Transparency Rules of the UK Listing Authority or otherwise by law.

The statements contained herein are made as at the date of this document, unless some other time is specified in relation to them, and publication of this document shall not give rise to any implication that there has been no change in the facts set forth herein since such date. Nothing contained herein shall be deemed to be a forecast, projection or estimate of the future financial performance of A&L or the Santander UK Group except where otherwise expressly stated.

ACTION TO BE TAKEN

If you hold your A&L Preference Shares in uncertificated form through Euroclear or Clearstream, please arrange for the Direct Participant through which you hold your A&L Preference Shares to submit Electronic Voting Instructions on your behalf to Euroclear or Clearstream (as applicable) before 5.00 p.m. on 26 March 2010 or any other deadline specified by Euroclear or Clearstream (as applicable). Further details of the action you should take are set out in Sections 6 and 8 of Part 2 of this document.

The CD Nominee is the registered holder of all A&L Preference Shares held through Euroclear and Clearstream and will endeavour to vote on your behalf at the Meetings in accordance with your Electronic Voting Instructions.

If you hold your A&L Preference Shares in certificated form, you will be sent a separate Proxy Pack containing three Forms of Proxy, instructions as to the completion of the Forms of Proxy and additional information relating specifically to those A&L Preference Shareholders who hold A&L Preference Shares in certificated form. Please refer to the Proxy Pack for information about the action you should take.

If you have any questions relating to this document, please telephone Mark T. Watkins at UBS on +44 207 567 0525 or at mark-t.watkins@ubs.com. For legal reasons, UBS will not be able to provide advice on the merits of the Preference Scheme or give any financial or tax advice.

To request a copy of the Santander UK Preference Prospectus issued by Santander UK on or about the date of this document in relation to the New Santander UK Preference Shares, please contact the Tabulation Agent by email at santander@lucid-is.com.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

<i>Event</i>	<i>Time and/or date (2010)</i>
Latest time for receipt of Electronic Voting Instructions	5.00 p.m. on 26 March
Voting Record Time	5.00 p.m. on 28 March ⁽¹⁾
Latest time for receipt of Forms of Proxy	12.00 p.m. on 29 March
Court Meeting	8.45 a.m. on 30 March
General Meeting	8.50 a.m. on 30 March ⁽²⁾
Preference Class Meeting	8.55 a.m. on 30 March ⁽³⁾
Preference Scheme Court Hearing	27 April ⁽⁴⁾
Suspension of dealings in A&L Preference Shares	5.00 p.m. on 27 April ^{(4) (5)}
Preference Scheme Record Time	6.00 p.m. on 27 April ^{(4) (5)}
Effective Date	28 April ⁽⁴⁾
Issue of New Santander UK Preference Shares	28 April ⁽⁴⁾
Issue of New A&L Ordinary Shares	28 April ⁽⁴⁾
Cancellation of listing of A&L Preference Shares	8.00 a.m. on 29 April ⁽⁴⁾
Admission to trading and commencement of dealings in New Santander UK Preference Shares	8.00 a.m. on 29 April ⁽⁴⁾
Expected date of first dividend payment on the New Santander UK Preference Shares	24 May

(1) If the Court Meeting, the General Meeting and/or the Preference Class Meeting is/are adjourned, the Voting Record Time in respect of such adjourned meeting(s) will be 5.00 p.m. on the date two days before the adjourned meeting.

(2) The General Meeting will commence at the time specified above, or as soon as the Court Meeting has been concluded or adjourned.

(3) The Preference Class Meeting will commence at the time specified above, or as soon as the Court Meeting and the General Meeting have been concluded or adjourned.

(4) These dates are indicative only and will depend on, among other things, the dates upon which the Court sanctions the Preference Scheme and confirms the related reduction of capital.

(5) Dealings in A&L Preference Shares will be suspended with effect from 5.00 p.m. on 27 April 2010. Dealings in A&L Preference Shares after the third business day prior to the Preference Scheme Record Time (that is, dealings after 6.00 p.m. on 22 April 2010) will not, in accordance with normal settlement procedures, be registered prior to the Preference Scheme Record Time.

(6) Any updates to the dates set out above will be announced by A&L and/or Santander UK (as appropriate) to the Regulatory News Service.

(7) Unless otherwise stated, references to times in this document are to London time.

PART 1
LETTER FROM THE CHAIRMAN OF A&L

Alliance & Leicester plc
Carlton Park
Narborough
Leicester LE19 0AL
United Kingdom

Registered in England and Wales No. 03263713

12 March 2010

Dear A&L Preference Shareholder,

**Scheme of arrangement for the cancellation of A&L Preference Shares
and issue of New Santander UK Preference Shares by Santander UK**

1. Introduction

A&L announced on 25 February 2010 that, subject to FSA support and Court approval, it intends to transfer its business to Santander UK later this year under Part VII of FSMA (the “**Part VII Transfer**”). As the A&L Preference Shares will not transfer to Santander UK under the proposed Part VII Transfer, A&L and Santander UK have agreed that the holders of the A&L Preference Shares should be given the opportunity to exchange their A&L Preference Shares for New Santander UK Preference Shares to be issued by Santander UK on substantially similar terms to the A&L Preference Shares.

I am now pleased to offer this proposal to A&L Preference Shareholders and am writing to you on behalf of the A&L Board to explain how the exchange will be implemented and how you can vote on the resolutions to be proposed at the Court Meeting, the General Meeting and the Preference Class Meeting.

The exchange is proposed to be implemented by way of a scheme of arrangement under Part 26 of the Companies Act 2006. For the Preference Scheme to become effective, A&L Preference Shareholders will need to vote in favour of the Preference Scheme at the Court Meeting, the General Meeting and the Preference Class Meeting, each to be held at 2 Triton Square, Regent's Place, London NW1 3AN on 30 March 2010.

2. Summary of the terms of the Preference Scheme

Under the terms of the Preference Scheme, which will be subject to the satisfaction of or, if permitted, waiver of the Conditions set out in this document, A&L Preference Shareholders will receive:

For every A&L Preference Share	One New Santander UK Preference Share
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It is expected that the New Santander UK Preference Shares will be admitted to the Official List and to trading on the London Stock Exchange's main market for listed securities.

A brief summary of the terms of the New Santander UK Preference Shares is set out in Part 4 of this document. A more detailed description of the New Santander UK Preference Shares is contained in the Santander UK Preference Prospectus. A&L Preference Shareholders should read the Santander UK Preference Prospectus, as well as this document, when considering any action to take in relation to the Preference Scheme.

3. Approval of the Preference Scheme

In particular, the Preference Scheme and the associated reduction of capital will be subject to, among other things:

- (i) the approval of a majority in number representing not less than 75 per cent. in value of the A&L Preference Shareholders present and voting either in person or by proxy at the Court Meeting;
- (ii) the approval of not less than 75 per cent. of the A&L Ordinary Shareholders (including, in relation to certain resolutions, the A&L Preference Shareholders) present and voting either in person or by proxy at the General Meeting;
- (iii) the approval of not less than 75 per cent. of the A&L Preference Shareholders present and voting either in person or by proxy at the Preference Class Meeting; and
- (iv) the sanction of the Court at the Preference Scheme Court Hearing.

Further details of the Court Meeting, the General Meeting and the Preference Class Meeting and details of the approvals required at such meetings are set out in Sections 3 and 4 of Part 2 of this document.

The Preference Scheme will be subject to the Conditions and other terms set out in Part 3 of this document. It is expected that, subject to the satisfaction or, where permitted, waiver of all of the Conditions, the Preference Scheme will become effective on 28 April 2010.

4. Background to and reasons for the Preference Scheme

As mentioned, the A&L Preference Shares will not transfer to Santander UK under the proposed Part VII Transfer announced by A&L on 25 February 2010, so A&L and Santander UK have agreed that the holders of the A&L Preference Shares should be given the opportunity to exchange their A&L Preference Shares for New Santander UK Preference Shares to be issued by Santander UK on substantially similar terms to the A&L Preference Shares.

5. Taxation

Your attention is drawn to Section 10 of Part 2 of this document. **If you are in any doubt as to your tax position, or if you are subject to taxation in any jurisdiction other than the United Kingdom, you should consult an appropriate independent professional adviser.**

6. Overseas shareholders

Persons resident in, or citizens of, jurisdictions outside the United Kingdom should refer to Section 11 of Part 2 of this document which contains important information relevant to such persons.

7. Action to be taken

A&L Preference Shareholders who hold their A&L Preference Shares in uncertificated form and wish to vote for or against the Preference Scheme are urged to deliver their Electronic Voting Instructions through Euroclear or Clearstream (as applicable). Details of the action to be taken are included in Sections 6 and 8 of Part 2 of this document. A&L Preference Shareholders who hold their A&L Preference Shares in certificated form should refer to the Proxy Pack for further information.

It is very important that you use your vote at the Court Meeting, so that the Court can be satisfied that the votes cast constitute a fair representation of the views of the A&L Preference Shareholders.

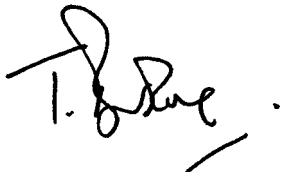
If you have any questions relating to this document, please telephone Mark T. Watkins at UBS on +44 207 567 0525 or at mark-t.watkins@ubs.com. For legal reasons, UBS will not be able to provide advice on the merits of the Preference Scheme or give any financial or tax advice.

To request a copy of the Santander UK Preference Prospectus, please contact the Tabulation Agent by email at santander@lucid-is.com.

8. Recommendation

The A&L Directors believe that the Preference Scheme is in the best interests of the A&L Preference Shareholders as a whole and unanimously recommend that the A&L Preference Shareholders vote in favour of the Preference Scheme.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'T. Burns', followed by a period.

Lord Terence Burns
Chairman
Alliance & Leicester plc

PART 2

EXPLANATORY STATEMENT

(in compliance with section 897 of the Companies Act)

Scheme of arrangement for the cancellation of A&L Preference Shares and the issue by Santander UK of New Santander UK Preference Shares

1. Introduction

Your attention is drawn to the letter from the Chairman set out in Part 1 of this document which forms part of this Explanatory Statement and which contains, among other things, the background to and reasons for the Preference Scheme.

Statements made or referred to in this Part 2 which refer to Santander UK's reasons for the Preference Scheme, to information concerning the business of Santander UK, and to the intentions and expectations regarding Santander UK reflect the views of the Santander UK Board. Statements made or referred to in this Part 2 which refer to information concerning the business of A&L and to expectations regarding A&L reflect the views of the A&L Board.

The terms of the Preference Scheme are set out in full in Part 8 of this document. Your attention is also drawn to the further information contained in this document which forms part of the explanatory statement.

2. Information on A&L and Santander UK

A&L has been part of the Santander Group since 10 October 2008. Further information on the Santander UK Group is set out in Part 5 of this document.

3. Structure of the Preference Scheme

In summary, the Preference Scheme will require an application by A&L to the Court to sanction the exchange of the A&L Preference Shares for New Santander UK Preference Shares and to confirm the cancellation of the A&L Preference Shares. The reserve arising on the cancellation of the A&L Preference Shares will be applied in paying up New A&L Ordinary Shares to be issued to Santander UK (with an aggregate nominal value which is equal to the aggregate nominal value and share premium of the cancelled A&L Preference Shares). In consideration for the cancellation of the A&L Preference Shares and the issue of the New A&L Ordinary Shares to Santander UK, Santander UK will issue New Santander UK Preference Shares to the former holders of the cancelled A&L Preference Shares, credited as fully paid. All A&L Preference Shareholders at the Preference Scheme Record Time will receive one New Santander UK Preference Share for each A&L Preference Share held by them at the Preference Scheme Record Time.

The Preference Scheme will only become effective if all of the Conditions set out in Part 3 of this document have been satisfied or, if permitted, waived. In particular, the Preference Scheme and the related reduction of capital require the following approvals:

- (i) the approval of a majority in number representing not less than 75 per cent. in value of the A&L Preference Shareholders present and voting either in person or by proxy at the Court Meeting;
- (ii) the approval of not less than 75 per cent. of the A&L Ordinary Shareholders (including, in relation to certain resolutions, the A&L Preference Shareholders) present and voting either in person or by proxy at the General Meeting;
- (iii) the approval of not less than 75 per cent. of the A&L Preference Shareholders present and voting either in person or by proxy at the Preference Class Meeting; and
- (iv) the sanction of the Court at the Preference Scheme Court Hearing.

A more detailed description of these Meetings is set out in Section 4 of this Part 2 below.

Any dividends which are accrued on the A&L Preference Shares as at the date the Preference Scheme becomes effective will be paid, subject to the terms of the New Santander UK Preference

Shares, on the first scheduled dividend payment date thereafter in respect of the New Santander UK Preference Shares.

4. Actions to be taken

Notices of the Court Meeting, the General Meeting and the Preference Class Meeting are set out in Part 9, Part 10 and Part 11, respectively, of this document. Only A&L Preference Shareholders who are entered on the Register of Members at the Voting Record Time will be entitled to attend and vote at the Meetings. This means that, if you hold your A&L Preference Shares through the Clearing Systems in uncertificated form (in which case the CD Nominee, and not you, will be entered into the Register of Members as the registered holder of your A&L Preference Shares), you will not be entitled to attend the Meetings. Instead, the CD Nominee will vote by proxy at the Meetings on your behalf, in accordance with your Electronic Voting Instructions.

In addition to the information below, the attention of Direct Participants is drawn to Section 8 of this Part 2.

(a) The Court Meeting

The Court Meeting has been convened at the direction of the Court for 8.45 a.m. on 30 March 2010 at 2 Triton Square, Regent's Place, London NW1 3AN to enable the A&L Preference Shareholders to consider and, if thought fit, approve the Preference Scheme (with or without modification).

At the Court Meeting, voting will be by poll and each A&L Preference Shareholder present and voting either in person or by proxy will be entitled to one vote for each A&L Preference Share he holds. If you hold your shares through the Clearing Systems in uncertificated form, the CD Nominee will vote by proxy on your behalf in accordance with your Electronic Voting Instructions. Under sections 895 to 899 of the Companies Act, those A&L Preference Shareholders voting in favour of the Scheme must:

- (i) represent a majority in number of those A&L Preference Shareholders present and voting either in person or by proxy; and
- (ii) represent not less than 75 per cent. in value of the A&L Preference Shares held by those A&L Preference Shareholders present and voting either in person or by proxy.

The CD Nominee can only be counted as one holder of A&L Preference Shares regardless of the number of underlying A&L Preference Shareholders on whose behalf the CD Nominee is voting. Therefore, if all A&L Preference Shares were held through the Clearing Systems in uncertificated form, all votes in favour of or against the Preference Scheme would be cast by the CD Nominee and this would not satisfy the majority in number threshold referred to in (i) above.

To avoid the CD Nominee being the only registered A&L Preference Shareholder, one additional A&L Preference Share was issued to each of (A) Allen & Overy Service Company Limited (a service company of Allen & Overy LLP) and (B) Trexco Limited (a company wholly-owned by Slaughter and May) (together, the "**Additional A&L Preference Shares**"), whose holders' names appear on the Register of Members and whose holders' votes can therefore count towards the majority in number threshold referred to in (i) above. Allen & Overy Service Company Limited and Trexco Limited have both indicated that they will exercise the votes attaching to both Additional A&L Preference Shares in favour of the Preference Scheme.

Every vote cast by the CD Nominee (or its proxy) in respect of an A&L Preference Share will count towards the value threshold in determining (ii) above.

The result of the poll taken at the Court Meeting will be publicly announced via the Regulatory News Service as soon as is practicable, after it is known, and by no later than 8.00 a.m. on the Business Day following the Court Meeting.

(b) The General Meeting

The General Meeting has been convened for 8.50 a.m. on 30 March 2010 (or as soon thereafter as the Court Meeting has been concluded or adjourned) and will be held at 2 Triton Square, Regent's Place, London NW1 3AN to enable A&L Ordinary Shareholders (and, in respect of certain

resolutions, A&L Preference Shareholders) to consider and, if thought fit, approve special resolutions to implement the Preference Scheme, including:

- (i) amending the A&L Articles to permit the amendment of the terms of the A&L Preference Shares to include an additional dividend right in certain limited circumstances;
- (ii) amending the terms of the A&L Preference Shares to include an additional dividend right in certain limited circumstances;
- (iii) reducing the capital of A&L by cancelling and extinguishing the A&L Preference Shares;
- (iv) reducing the share premium account of A&L by the sum of £299,701,998;
- (v) capitalising the reserve arising in the books of A&L as a result of the reduction of capital and share premium account and applying such reserve to pay up at par such number of New A&L Ordinary Shares the aggregate nominal value of which is equal to the aggregate nominal value and share premium of the A&L Preference Shares cancelled, which shall have the same rights as the other ordinary shares issued in the capital of A&L, and be issued, credited as fully paid up, to Santander UK (or its nominee(s));
- (vi) giving the A&L Directors the power to allot the New A&L Ordinary Shares; and
- (vii) authorising the A&L Directors to take all such action as they consider necessary to implement the Preference Scheme.

The amendments proposed to the A&L Articles are set out in the Notice of General Meeting contained in Part 10 of this document as repeated below:

- (a) the adoption and inclusion of the following new definition of "Preference Dividend" in substitution for the existing definition of "Preference Dividend":

"The dividend (preferential or otherwise) payable to the holders of the Preference Shares."

- (b) the inclusion of the following words at the beginning of existing Article 4.2(b):

"Subject to Article 4.2(e) below,"

- (c) the adoption and inclusion of the following new Article 4.2(e):

"(e) Notwithstanding Article 4.2(b) above, the Directors may determine before or after allotting the relevant Preference Shares to include in that Relevant Preference Series the right to a dividend which ranks as regards participation in profits equally among themselves and equally with any Junior Obligations, subject to any conditions as the Directors may see fit to impose, and this additional right will be considered a Preference Dividend for the purposes of this Article 4."

The approval required at the General Meeting for the resolutions referred to at (i), (ii), (iii), (iv) and (vii) above is not less than 75 per cent. (by value) of the votes cast by A&L Ordinary Shareholders and A&L Preference Shareholders present and voting either in person or by proxy. The approval required at the General Meeting for the resolutions referred to at (v) and (vi) above is not less than 75 per cent. (by value) of the votes cast by A&L Ordinary Shareholders present and voting either in person or by proxy. Voting will be on a poll instead of by a show of hands. Each A&L Ordinary Shareholder who is present in person or by proxy and entitled to vote shall have one vote in respect of each A&L Ordinary Share held by him. Each A&L Preference Shareholder who is present in person or by proxy and entitled to vote shall (where applicable) have one vote in respect of each A&L Preference Share held by him. If you hold your A&L Preference Shares through the Clearing Systems in uncertificated form, the CD Nominee will vote by proxy on your behalf, in accordance with your Electronic Voting Instructions.

The result of the poll taken at the General Meeting will be publicly announced via the Regulatory News Service as soon as is practicable after it is known and by no later than 8.00 a.m. on the Business Day following the General Meeting.

(c) The Preference Class Meeting

The Preference Class Meeting has been convened for 8.55 a.m. on 30 March 2010 (or as soon thereafter as the Court Meeting and the General Meeting have been concluded or adjourned), and will be held at 2 Triton Square, Regent's Place, London NW1 3AN to enable A&L Preference

Shareholders to consider and, if thought fit, approve special resolutions to implement the Preference Scheme, including:

- (i) amending the A&L Articles to permit the amendment of the terms of the A&L Preference Shares to include an additional dividend right in certain limited circumstances;
- (ii) amending the terms of the A&L Preference Shares to include an additional dividend right in certain limited circumstances;
- (iii) reducing the capital of A&L by cancelling and extinguishing the A&L Preference Shares;
- (iv) reducing the share premium account of A&L by the sum of £299,701,998; and
- (v) authorising the A&L Directors to take all such action as they consider necessary to implement the Preference Scheme.

The amendments proposed to the A&L Articles are those set out in paragraph (b) above.

The approval required at the Preference Class Meeting for each resolution is not less than 75 per cent. (by value) of the votes cast by A&L Preference Shareholders present and voting either in person or by proxy. Voting will be on a poll instead of a show of hands. Each A&L Preference Shareholder who is present either in person or by proxy and entitled to vote shall have one vote in respect of each A&L Preference Share held by him. If you hold your A&L Preference Shares through the Clearing Systems in uncertificated form, the CD Nominee will vote by proxy on your behalf in accordance with your Electronic Voting Instructions.

The result of the poll taken at the Preference Class Meeting will be publicly announced via the Regulatory News Service as soon as is practicable after it is known and by no later than 8.00 a.m. on the Business Day following the Preference Class Meeting.

(d) The Preference Scheme Court Hearing

There will be one court hearing (the Preference Scheme Court Hearing) following the Meetings to sanction the Preference Scheme and to confirm the reduction of capital which forms part of the Preference Scheme. The Preference Scheme Court Hearing is expected to be held on 27 April 2010. Santander UK has confirmed that it will be represented by counsel at the Preference Scheme Court Hearing so as to consent to the Preference Scheme and to undertake to the Court to be bound thereby.

A&L Preference Shareholders have the right to attend the Preference Scheme Court Hearing and to appear in person or be represented by counsel to support or oppose the sanction of the Preference Scheme. The Preference Scheme Court Hearing will be held at the Royal Courts of Justice, The Strand, London WC2A 2LL.

The existence of the application to sanction the Preference Scheme will be advertised in The Times at least eight days before the date of the Preference Scheme Court Hearing.

(e) Modifications to the Preference Scheme

The Preference Scheme contains a provision for A&L and Santander UK jointly to consent, on behalf of all the persons affected, to any modification of, or addition to, the Preference Scheme. For further details see clause 7 of the Preference Scheme at Part 8 of this document. The Court would be unlikely to approve any modification of or addition to the Preference Scheme, or to impose a condition to the Preference Scheme, which would be materially adverse to the interests of A&L Preference Shareholders unless A&L Preference Shareholders were informed of that modification, addition or condition. The Court would also have discretion to decide whether or not further meetings of A&L Preference Shareholders should be held. Similarly, if a modification, addition or condition is put forward which, in the opinion of the A&L Directors, is of such a nature or importance that it requires the consent of A&L Preference Shareholders, the A&L Directors will not take the necessary steps to enable the Preference Scheme to become effective unless and until such consent is obtained.

(f) Preference Scheme becoming effective

The Preference Scheme will become effective on the Effective Date (expected to be 28 April 2010), only if the necessary approvals from the A&L Preference Shareholders, the A&L Ordinary

Shareholders and the Court have been obtained, the other Conditions have been satisfied or, where permitted, waived, and the Preference Court Order (together with the related minute of reduction of capital attached thereto) has been delivered to the Registrar of Companies for registration. If the Preference Scheme is not approved by the A&L Preference Shareholders, the Preference Scheme and the related reduction of A&L's share capital shall not become effective and A&L Preference Shareholders will retain their A&L Preference Shares and no New Santander UK Preference Shares will be issued to them.

Upon the Preference Scheme becoming effective, it will be binding on all Preference Scheme Shareholders irrespective of whether or not they attended the Meetings or voted on the Preference Scheme. If the Preference Scheme does not become effective for any reason, A&L Preference Shareholders will retain their A&L Preference Shares and no New Santander UK Preference Shares will be issued to them.

(g) Other actions relevant to the Preference Scheme

To preserve the rights of the holders of the A&L Preferred Securities with respect to the rights of holders of the A&L Preference Shares and other existing Santander UK capital instruments, it is proposed that certain amendments be made to the terms of the A&L Preferred Securities.

In particular, it is proposed that the payment restriction provided under the current terms of the A&L Preferred Securities is amended such that any non-payment of coupons on the A&L Preferred Securities will not prevent dividend or coupon payments on any existing capital instruments of Santander UK which rank *pari passu* with the A&L Preferred Securities, notwithstanding that such non-payment will prevent dividends from being paid on the Santander UK Ordinary Shares and on the New Santander UK Preference Shares. This proposed amendment to the payment restriction is in line with the payment restriction envisaged for the New Santander UK Preference Shares.

The proposed amendments will be made in accordance with the current terms of the A&L Preferred Securities by written resolution of the holders of the A&L Preferred Securities holding not less than 75 per cent. in value (the "**Written Resolution**").

Banco Santander and SFEL together currently hold in excess of 75 per cent. of the A&L Preferred Securities. Banco Santander and SFEL intend to pass the Written Resolution, the implementation of which will be conditional upon approval by the Court of the Part VII Transfer.

5. Interests of the Santander Group

Banco Santander (the parent company of Santander UK and the ultimate parent company of A&L) and SFEL (a wholly-owned subsidiary of Banco Santander), together, currently hold 265,067 A&L Preference Shares, representing approximately 88.4 per cent. of the A&L Preference Shares in issue. Banco Santander and SFEL both intend to exercise all of the voting rights attaching to their A&L Preference Shares in favour of the resolutions to be proposed at the Meetings.

Santander UK and Abbey National Nominees Limited, together, currently hold all of the A&L Ordinary Shares in issue, and both intend to exercise all of the voting rights attaching to their A&L Ordinary Shares in favour of the resolutions to be proposed at the General Meeting.

As at 11 March 2010 members of the Santander Group held, in aggregate:

- (i) 63,913,555, or approximately 32.0 per cent., of the 200,000,000 $10\frac{3}{8}$ per cent. non-cumulative sterling preference shares of £1 each issued by Santander UK with ISIN GB0000064393; and
- (ii) 100,487,938, or approximately 80.4 per cent., of the 125,000,000 $8\frac{5}{8}$ per cent. non-cumulative sterling preference shares of £1 each issued by Santander UK with ISIN GB0000044221.

Upon the Preference Scheme becoming effective, it is expected that Banco Santander and SFEL will hold, in aggregate, 265,067, or approximately 88.4 per cent., of the New Santander UK Preference Shares.

None of the A&L Directors have an interest in the A&L Ordinary Shares or the A&L Preference Shares which is material for the purpose of section 897 of the Companies Act.

6. Action to be taken

It is important that as many votes as possible are cast at the Court Meeting so that the Court may be satisfied that there is a fair representation of A&L Preference Shareholder opinion. You are therefore strongly urged to return your Electronic Voting Instructions as soon as possible and, in any event, before 5.00 p.m. on 26 March 2010. Forms of Proxy should be submitted as soon as possible and, in any event, before 12.00 p.m. on 29 March 2010.

(a) If you hold your A&L Preference Shares through Euroclear or Clearstream in uncertificated form

If you hold your A&L Preference Shares through Euroclear or Clearstream in uncertificated form, you should arrange for the Direct Participant through which you hold your A&L Preference Shares to submit Electronic Voting Instructions on your behalf to Euroclear or Clearstream before 5.00 p.m. on 26 March 2010 (or such other earlier deadline as may be specified by Euroclear or Clearstream).

If you are a Direct Participant, you should provide Electronic Voting Instructions to Euroclear or Clearstream on behalf of A&L Preference Shareholders who hold their shares through Euroclear or Clearstream before 5.00 p.m. on 26 March 2010 (or such other earlier deadline as may be specified by Euroclear or Clearstream).

The receipt of Electronic Voting Instructions by Euroclear or Clearstream will be acknowledged in accordance with the standard practices of Euroclear or Clearstream and will result in the blocking of the relevant A&L Preference Shares in the Direct Participant's account with Euroclear or Clearstream, so that no transfers may be effected in relation to such A&L Preference Shares.

You must take appropriate steps through Euroclear or Clearstream so that no transfers may be effected in relation to such blocked A&L Preference Shares at any time after the date of submission of such Electronic Voting Instructions, in accordance with the requirements of Euroclear or Clearstream (or such other deadline as may be required by Euroclear or Clearstream). By delivering Electronic Voting Instructions through the Clearing Systems to the Tabulation Agent, each Direct Participant will be deemed to have consented to Euroclear or Clearstream providing details concerning his identity to the Tabulation Agent for disclosure to A&L, the Registrar and the Solicitation Agent (and for the CD Nominee to provide such details to A&L).

Votes attributable to the A&L Preference Shares that are the subject of an Electronic Voting Instruction need to be cast in a particular way (either in favour or against) in relation to the Meetings. All valid Electronic Voting Instructions shall form part of a block voting instruction to be issued by the CD Nominee who is the registered holder of the relevant A&L Preference Shares and will appoint the Chairman of each of the Meetings as its proxy to vote in accordance with your Electronic Voting Instructions.

The procedure for delivering Electronic Voting Instructions is set out below in full in Section 8 of this Part 2.

(b) If you hold your A&L Preference Shares in certificated form

If you hold A&L Preference Shares in certificated form (including the holding by the CD Nominee) you will find enclosed with this document a Proxy Pack containing three Forms of Proxy for use in respect of the Meetings. Please refer to the Proxy Pack for further information about the action you should take.

7. Listing, dealing and settlement

(a) Listing and dealing

Subject to the Conditions having been satisfied or, where permitted, waived, the New Santander UK Preference Shares will be issued on the Effective Date. Application will be made to the UK Listing Authority for the New Santander UK Preference Shares to be admitted to the Official List and to the London Stock Exchange for the New Santander UK Preference Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective and that dealings, for normal settlement, in the New Santander UK

Preference Shares will commence at 8.00 a.m. on the Business Day following the Effective Date, which is expected to be 29 April 2010.

It is expected that dealings in A&L Preference Shares on the London Stock Exchange will be suspended with effect from 5.00 p.m. on 27 April 2010.

(b) Settlement

Subject to the Preference Scheme becoming effective, settlement of any New Santander UK Preference Shares to which A&L Preference Shareholders are entitled under the Preference Scheme will be effected in the following manner:

(i) A&L Preference Shares held through Euroclear and/or Clearstream in uncertificated form

The CD Nominee holds a global share certificate in respect of A&L Preference Shares held through the Clearing Systems in uncertificated form (the “**A&L Global Share Certificate**”).

A single global share certificate (the “**Santander UK Global Share Certificate**”) will be issued to the CD Nominee in respect of the New Santander UK Preference Shares to which the CD Nominee is entitled under the Preference Scheme (on behalf of Direct Participants at the Preference Scheme Record Time).

With effect from the Effective Date, the A&L Global Share Certificate for the A&L Preference Shares held by the CD Nominee will cease to be valid and should be destroyed upon receipt by the CD Nominee of the Santander UK Global Share Certificate for the New Santander UK Preference Shares. The A&L Preference Shares which are held in the securities accounts of each Direct Participant within Euroclear or Clearstream (as applicable) will be cancelled and debited from these securities accounts on the Effective Date.

The New Santander UK Preference Shares to which Direct Participants at the Preference Scheme Record Time are entitled will be held by the CD Nominee on their behalf. On the Effective Date, the securities account of each Direct Participant within Euroclear or Clearstream (as applicable) will be credited with the number of New Santander UK Preference Shares held on their behalf.

(ii) A&L Preference Shares held in certificated form

With effect from the Effective Date, individual share certificates in respect of the New Santander UK Preference Shares will be issued to those former A&L Preference Shareholders who held their A&L Preference Shares in certificated form. The share certificates for the A&L Preference Shares held in certificated form will cease to be valid and should be destroyed upon receipt of the new share certificate for the New Santander UK Preference Shares.

(iii) General

All documents and remittances sent by or to A&L Preference Shareholders will be sent at their own risk and will be sent by post to their address as set out on the Register of Members at the Preference Scheme Record Time and, in the case of joint holders, to the holder whose name appears first in the Register of Members in respect of the joint holdings concerned.

Mandates in force at the Effective Date relating to the payment of dividends and other instructions given (or deemed given) by A&L Preference Shareholders will, unless and until amended or revoked, remain in full force and effect notwithstanding the implementation of the Preference Scheme.

8. Holders who hold A&L Preference Shares through Euroclear and/or Clearstream in uncertificated form and/or Direct Participants

(a) Procedures for delivery of Electronic Voting Instructions

If you hold your A&L Preference Shares through Euroclear or Clearstream in uncertificated form and wish to vote in respect of the Preference Scheme, you are urged to deliver or procure the delivery of Electronic Voting Instructions. If you do not deliver Electronic Voting Instructions, the CD Nominee will not vote on your behalf at the Meetings. Electronic Voting Instructions must be delivered to the Tabulation Agent in accordance with the procedures of the relevant Clearing

System and before 5.00 p.m. on 26 March 2010, or such other earlier deadline as may be specified by the relevant Clearing System.

By delivering Electronic Voting Instructions through the Clearing Systems to the Tabulation Agent, Direct Participants are deemed to authorise the relevant Clearing System to disclose their identity, the aggregate principal amount of Preference Shares the subject of their Electronic Voting Instructions and their Clearing System account details to the Tabulation Agent for disclosure to A&L, the Registrar and the Solicitation Agent.

Any A&L Preference Shareholder who is not a Direct Participant should arrange for the Direct Participant through which he holds his Preference Shares to deliver Electronic Voting Instructions on his behalf.

On delivery of valid Electronic Voting Instructions to the relevant Clearing System, the A&L Preference Shares which are the subject of those Electronic Voting Instructions will be blocked in that Clearing System to the order of the Tabulation Agent until (i) valid revocation of the Electronic Voting Instructions or (ii) the conclusion of the later of the Court Meeting, the General Meeting or the Preference Class Meeting (or, if any such Meeting is adjourned, the conclusion of such adjourned Meeting). While blocked, A&L Preference Shares which are the subject of Electronic Voting Instructions may not be transferred.

A&L expects that the receipt of Electronic Voting Instructions by the relevant Clearing System will be acknowledged in accordance with the standard practices of that Clearing System. All questions as to validity, form and eligibility (including time of receipt) of any Electronic Voting Instructions will be determined solely by A&L. A&L's determination as to whether or when Electronic Voting Instructions are received, whether they are duly completed or whether acceptance is validly revoked shall be final and binding (subject to any manifest error).

The beneficial owners of A&L Preference Shares that are held in the name of a broker, dealer, bank, custodian, trust company or other nominee or custodian should contact such entity sufficiently in advance of the relevant date if they wish to submit Electronic Voting Instructions and procure that the A&L Preference Shares are blocked in accordance with the normal procedures of the relevant Clearing System and the deadlines imposed by such Clearing System.

Please note, in particular, the provisions of sub-paragraph 8(c)(E) below.

(b) Revocation of Electronic Voting Instructions

It is a term of the Preference Scheme that Electronic Voting Instructions which are delivered (and which are not revoked) before 5.00 p.m. on 26 March 2010 shall be irrevocable from 5.00 p.m. on 26 March 2010, including, if any Meeting is adjourned, the time during which that Meeting is adjourned. Any notice of revocation received after 5.00 p.m. on 26 March 2010 will not be effective. For the avoidance of doubt, from 5.00 p.m. on 26 March 2010 until the conclusion of the later of the Court Meeting, the General Meeting, or the Preference Class Meeting (or, if any such Meeting is adjourned, the conclusion of such adjourned Meeting), no Electronic Voting Instructions will be revocable or capable of amendment.

To be effective, a notice of revocation must be in a format customarily used by the Clearing Systems. Only the Direct Participant who gave the relevant Electronic Voting Instructions is entitled to revoke those instructions. A beneficial owner of A&L Preference Shares held through a Direct Participant must arrange the delivery of any revocation of Electronic Voting Instructions to be made on his behalf with such Direct Participant (or, if required, through any custodian or other intermediary). A&L Preference Shareholders who hold A&L Preference Shares through a Direct Participant are advised to check with their Direct Participant (or, if required, any custodian or other intermediary) when it would need to receive instructions to revoke Electronic Voting Instructions to meet the prescribed deadlines.

(c) Representations, warranties and undertakings

Each holder of A&L Preference Shares who submits, delivers, or procures the delivery of Electronic Voting Instructions, represents, warrants and undertakes to A&L, the Solicitation Agent, the Registrar and the Tabulation Agent that:

- (i) he has received, reviewed and accepts the terms of the Preference Scheme;

- (ii) he is not a person from whom it is unlawful to seek approval of the Preference Scheme;
- (iii) the A&L Preference Shares which are the subject of the Electronic Voting Instructions are, at the time of submission or delivery of such Electronic Voting Instructions (and will continue to be) until the end of the later of the Court Meeting, the General Meeting and the Preference Class Meeting or any adjournment thereof, held by him (directly or indirectly) or on his behalf at Euroclear or Clearstream;
- (iv) the Preference Shares which are the subject of the Electronic Voting Instructions have been blocked (and will remain blocked) until the end of the latter of the Court Meeting, the General Meeting and the Preference Class Meeting or any adjournment thereof to the order of the Tabulation Agent in the securities account to which the A&L Preference Shares are credited in the relevant Clearing System for the duration of the relevant blocking period;
- (v) by procuring the blocking of the A&L Preference Shares in the relevant Clearing System, the Direct Participant will be deemed to have authorised the relevant Clearing System to provide details concerning his identity, his holdings of A&L Preference Shares and his applicable account details to A&L, the Solicitation Agent, the Registrar and the Tabulation Agent and their respective legal and financial advisers at the time he submits the Electronic Voting Instructions;
- (vi) none of the Solicitation Agent, the Registrar, the Tabulation Agent or any of their respective affiliates, directors, officers or employees has made any recommendation as to whether, or how, to vote in relation to the Preference Scheme and that he has made his own decision with regard to voting based on any legal, tax or financial advice that he has deemed necessary to seek; and
- (vii) all authority conferred or agreed to be conferred pursuant to these representations, warranties and undertakings shall be binding on the successors, assigns, heirs, executors, trustees in bankruptcy and legal representatives of such holder of A&L Preference Shares and shall not be affected by, and shall survive, the death or incapacity of such holder.

For the avoidance of doubt, the inability of an A&L Preference Shareholder to make any of the representations or warranties set out above will not in any way affect the right of such A&L Preference Shareholder to participate in, or vote in respect of, the Meetings or to issue Electronic Voting Instructions in respect of the Meetings.

(d) Procedures for adjournment of Meetings

A&L Preference Shareholders should note that Electronic Voting Instructions (unless validly revoked) will remain valid for any adjourned Meeting.

9. Description of the New Santander UK Preference Shares

Please refer to Part 4 of this document for a description of the New Santander UK Preference Shares.

A more detailed description of the terms of the New Santander UK Preference Shares is contained in the Santander UK Preference Prospectus.

10. Taxation

The following is intended to apply only as a general guide to certain UK tax consequences of the implementation of the Preference Scheme for A&L Preference Shareholders. It is based on current UK tax law and the current published practice of HMRC. Unless otherwise stated, it is intended to apply only to A&L Preference Shareholders who are resident, and (in the case of individuals) ordinarily resident and domiciled, in the UK for UK tax purposes, who hold A&L Preference Shares as an investment and who are the absolute beneficial owners of their A&L Preference Shares. The statements below may not apply to certain classes of A&L Preference Shareholders, such as dealers in securities, insurance companies, collective investment schemes, individuals who are resident or ordinarily resident but not domiciled in the UK, and A&L Preference Shareholders who have (or who are deemed to have) acquired their A&L Preference Shares by reason of their or another's office or employment. Such persons may be subject to special rules. **A&L Preference**

Shareholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their own tax advisers.

(a) Taxation of chargeable gains

(i) Cancellation of Preference Scheme Shares and receipt of New Santander UK Preference Shares

Preference Scheme Shareholders should not be treated as making a disposal of their Preference Scheme Shares as a result of receiving New Santander UK Preference Shares in exchange for Preference Scheme Shares pursuant to the Preference Scheme, and therefore no chargeable gain or allowable loss should arise from the Preference Scheme. Accordingly, the New Santander UK Preference Shares should be treated as the same asset, and as having been acquired at the same time and for the same consideration, as those Preference Scheme Shares from which they are derived.

Preference Scheme Shareholders who hold (either alone or together with persons connected with them) more than five per cent. of, or any class of, shares in or debentures of A&L are advised that clearance has been obtained from HMRC under section 138 of the Taxation of Chargeable Gains Act 1992 that it is satisfied that the Preference Scheme is being effected for bona fide commercial reasons and does not form part of a scheme or arrangement of which the main purpose, or one of the main purposes, is an avoidance of liability to United Kingdom corporation tax or capital gains tax.

(ii) Subsequent disposals of New Santander UK Preference Shares

A sale or other disposal of New Santander UK Preference Shares may give rise to a chargeable gain or allowable loss for the purposes of UK taxation of chargeable gains.

An individual holder of New Santander UK Preference Shares who is resident or ordinarily resident in the UK for tax purposes and who realises such a gain may be liable to UK capital gains tax, depending on the holder's circumstances and subject to any available exemption or relief. Special rules may apply where an individual holder of New Santander UK Preference Shares temporarily ceases to be resident or ordinarily resident in the UK, and disposes of New Santander UK Preference Shares during that period of temporary non-residence.

A corporate holder of New Santander UK Preference Shares who is resident in the UK for tax purposes and who realises such a gain may be liable to UK corporation tax on chargeable gains, depending on the holder's circumstances and subject to any available exemption or relief.

A holder of New Santander UK Preference Shares who is not resident in the UK for tax purposes and who carries on a trade in the UK through a branch or agency or, in the case of a company, a permanent establishment, may be subject to UK capital gains tax or corporation tax (as the case may be) on a disposal of New Santander UK Preference Shares which are used, held, or acquired for the purposes of the branch, agency, or permanent establishment, subject to any available exemption or relief.

(b) Taxation of dividends on New Santander UK Preference Shares

Santander UK will not be required to withhold tax at source when paying a dividend on the New Santander UK Preference Shares.

Individual holders of New Santander UK Preference Shares who are resident in the UK for tax purposes, and who receive a dividend from Santander UK on the New Santander UK Preference Shares, will generally be entitled to a tax credit (the "**Tax Credit**") equal to one-ninth of the amount of the cash dividend (or one-tenth of the aggregate of the cash dividend and the Tax Credit (the "**Gross Dividend**")).

An individual holder of New Santander UK Preference Shares who is liable to UK income tax, at a rate not exceeding the basic rate, will be liable to tax on the Gross Dividend at the rate of 10 per cent. The Tax Credit will satisfy the whole of such holder's income tax liability in respect of the dividend. Individual holders of New Santander UK Preference Shares who are not liable to income tax in the UK in respect of the Gross Dividend will not be entitled to repayment of the Tax Credit.

An individual holder of New Santander UK Preference Shares who is liable to UK income tax at the higher rate will be liable to tax on the Gross Dividend at the rate of 32.5 per cent. After taking

into account the 10 per cent. Tax Credit on the Gross Dividend, such individuals will be liable to pay additional UK income tax at the rate of 22.5 per cent. of the Gross Dividend. Individuals who are higher rate taxpayers will therefore pay UK income tax at an effective tax rate of 25 per cent. of the cash dividend received. So, for example, a dividend of £80 received by a UK resident individual shareholder will carry a tax credit of £8.89 (one-ninth of £80). If the whole of the dividend and the related tax credit falls above that individual's threshold for the higher rate of income tax, the income tax payable will be 32.5 per cent. of £88.89, namely £28.89, less the tax credit of £8.89, leaving a net income tax charge of £20.

A holder of New Santander UK Preference Shares who is an individual resident in the United Kingdom for tax purposes should note that the Finance Act 2009 includes legislation which provides for an additional rate of income tax, which the UK government proposes to introduce with effect from 6 April 2010, at a rate of 50 per cent. for taxable income above £150,000. If implemented from 6 April 2010, a new rate of income tax of 42.5 per cent. will also apply to the gross dividend to the extent such individual's taxable income for the relevant tax year exceeds the £150,000 threshold. If the new 42.5 per cent. rate of tax is applied in the same way as the existing rates, the tax credit will be set against the liability of such holder of New Santander UK Preference Shares on the gross dividend, and such shareholder will have to account for additional tax equal to 32.5 per cent. of the gross dividend. For example, in the case of a gross dividend of £100, comprising a net dividend of £90 and a tax credit of £10, the income tax payable on the dividend by a UK tax resident individual liable to income tax at the additional rate would be 42.5 per cent. of £100, namely £42.50, less the tax credit of £10, leaving a net income tax charge of £32.50.

Subject to special rules for small companies, UK residents within the charge to United Kingdom corporation tax will be subject to UK corporation tax on dividends received, unless the dividends fall within an exempt class and certain conditions are met. In particular, dividends paid on the New Santander UK Preference Shares will generally be exempt from corporation tax if the shareholder receiving the dividend, together with all connected persons, holds less than 10 per cent. of the New Santander UK Preference Shares. Holders of New Santander UK Preference Shares who are UK residents within the charge to UK corporation tax will not be able to claim repayment of the Tax Credit attaching to dividends paid by Santander UK on the New Santander UK Preference Shares.

Holders of New Santander UK Preference Shares who are resident outside the UK for tax purposes will not generally be able to claim repayment of any part of the Tax Credit attaching to dividends paid by Santander UK on the New Santander UK Preference Shares, although this will depend on the existence and terms of any double tax treaty between the UK and the country in which the holder of the New Santander UK Preference Shares is resident for tax purposes.

(c) Stamp Duty and SDRT

(i) Cancellation of Preference Scheme Shares and Issue of New Santander UK Preference Shares

No stamp duty or SDRT should be payable by Preference Scheme Shareholders as a result of the cancellation of Preference Scheme Shares and the issue of New Santander UK Preference Shares under the Preference Scheme (including the issue of New Santander UK Preference Shares to a nominee for Euroclear or Clearstream).

So long as, and to the extent that, the New Santander UK Preference Shares are held through Euroclear or Clearstream, and provided that neither Euroclear nor Clearstream makes a relevant election for an alternative system of charge pursuant to section 97A of the Finance Act 1986, neither SDRT nor stamp duty will generally be payable on the transfer of a beneficial interest in the New Santander UK Preference Shares (provided, with respect to stamp duty, that no instrument of transfer is executed in relation to the transfer).

(ii) Transfer of New Santander UK Preference Shares held in certificated form

Subject to an exemption for certain low value transactions, the transfer on sale of New Santander UK Preference Shares which are held in certificated form will generally be liable to *ad valorem* stamp duty at the rate of 0.5 per cent. of the consideration paid (rounded up to the nearest multiple of £5). An unconditional agreement to transfer such shares will generally be liable to SDRT at the rate of 0.5 per cent. of the consideration paid, but such liability will be cancelled, or a right to a repayment in respect of the SDRT liability will arise, if the agreement is completed by a

duly stamped transfer within six years of the agreement having become unconditional. Stamp duty and SDRT are normally the liability of the purchaser.

11. Overseas Shareholders

The implications of the Preference Scheme for persons with a registered address in, or citizens or residents of, jurisdictions outside the United Kingdom ("**Overseas Shareholders**") may be affected by the laws of the relevant jurisdiction. Overseas Shareholders should inform themselves about and observe any applicable legal requirements. It is the responsibility of each Overseas Shareholder to satisfy himself or herself as to the full observance of the laws of the relevant jurisdiction, including the obtaining of any governmental, exchange control or other consents which may be required in connection therewith, and the payment of any issue, transfer or other taxes due in such jurisdiction.

In any case where Santander UK is advised that the delivery of any of the New Santander UK Preference Shares would or may infringe the laws of any jurisdiction outside the United Kingdom or would or may require Santander UK to comply with any governmental or other consent or effect any registration, filing or other formality with which, in the opinion of Santander UK, it would be unable to comply or compliance with which it regards as unduly onerous or disproportionate given the number of A&L Preference Shareholders with a registered address in that jurisdiction (any such jurisdiction, a "**Relevant Overseas Jurisdiction**"), the Preference Scheme provides that such New Santander UK Preference Shares may, at the discretion of Santander UK, either (i) be issued to a nominee on behalf of the relevant Overseas Shareholder and then sold or (ii) issued to the relevant Overseas Shareholder and sold on his or her behalf, in each case with the net proceeds of sale being remitted to the Overseas Shareholder. Any such proceeds shall be remitted by way of cheque to the relevant Overseas Shareholder within seven days of the Effective Date.

No A&L Preference Shareholder at the Preference Scheme Record Time who is located in any Relevant Overseas Jurisdiction will receive a copy of this document.

No Direct Participant at the Preference Scheme Record Time who is located in any Relevant Overseas Jurisdiction will receive a copy of this document. However, the CD Nominee will receive New Santander UK Preference Shares on behalf of persons whose A&L Preference Shares are held in Euroclear or Clearstream at the Preference Scheme Record Time (including those in any Relevant Overseas Jurisdiction) which will be held in Euroclear or Clearstream (as appropriate) on behalf of such participant and each such person will receive a statement of entitlement describing the number of New Santander UK Preference Shares held on his behalf.

This document has been prepared to comply with the laws of England and Wales, and the applicable rules of the UK Listing Authority and the London Stock Exchange. The information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws and regulations of any jurisdiction outside England and Wales.

United States

The New Santander UK Preference Shares have not been and will not be registered under the Securities Act in reliance upon the exemption from the registration requirements of the Securities Act provided by Section 3(a)(10) thereof. To establish this exemption from the registration requirements of the Securities Act, A&L will advise the Court at the Preference Scheme Court Hearing that its sanctioning of the Preference Scheme will be relied upon by A&L and Santander UK for such purpose as an approval of the Preference Scheme following a hearing on the fairness of the terms and conditions of the Preference Scheme for A&L Preference Shareholders, at which hearing all such holders are entitled to attend in person or through counsel to support or oppose the sanctioning of the exchange of A&L Preference Shares for New Santander UK Preference Shares under the Preference Scheme.

The New Santander UK Preference Shares will not be "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act and may be immediately resold without restriction under the Securities Act by former holders of A&L Preference Shares who are not affiliates of Santander UK and have not been affiliates of Santander UK within 90 days prior to the issuance of New Santander UK Preference Shares under the Preference Scheme. Thereafter, a former holder of A&L Preference Shares may resell without restriction under the Securities Act, any New Santander

UK Preference Shares issued under the Preference Scheme, unless such person is an affiliate of Santander UK at the time of such resale, or was an affiliate of Santander UK 90 days prior to such resale.

Under United States federal securities laws, an A&L Preference Shareholder who is an affiliate of Santander UK at the time of, or within 90 days prior to, any resale of New Santander UK Preference Shares received under the Preference Scheme will be subject to certain US transfer restrictions relating to such shares. Such New Santander UK Preference Shares may not be sold without registration under the Securities Act, except pursuant to any available exemptions from the registration requirement or in a transaction not subject to such requirements (including a transaction that satisfies the applicable requirements for resales outside of the United States pursuant to Regulation S under the Securities Act). Whether a person is an affiliate of Santander UK for such purposes depends on the circumstances, but affiliates could include certain officers and directors and significant shareholders. An A&L Preference Shareholder who believes that he or she may be an affiliate of Santander UK should consult his or her own legal advisers prior to any sales of New Santander UK Preference Shares received pursuant to the Preference Scheme.

Switzerland

This document is being communicated in Switzerland to a small number of selected investors only. The New Santander UK Preference Shares are not being offered to the public in Switzerland. Neither this document, nor any other offering materials relating to the New Santander UK Preference Shares may be distributed in connection with any public offering in or from Switzerland. This document does not constitute a prospectus within the meaning of Article 652a of the Swiss Code of Obligations.

General

This document does not constitute, and may not be used for the purpose of, an offer or solicitation to the public or to anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation. Nothing contained in this document is intended to constitute or should be construed as business, investment, legal, tax, accounting or other professional advice. This document is for your information only and nothing in this document is intended to endorse or recommend a particular course of action. You should consult with an appropriate professional for specific advice rendered on the basis of your situation.

12. Further information

The terms of the Preference Scheme are set out in full in Part 8 of this document. Your attention is also drawn to the further information contained in this document which forms part of this explanatory statement.

12 March 2010

PART 3

CONDITIONS OF THE PREFERENCE SCHEME

1. The Preference Scheme is conditional upon:
 - (a) approval of the Preference Scheme by a majority in number representing at least 75 per cent. in value of the A&L Preference Shareholders present and voting, either in person or by proxy, at the Court Meeting or at any adjournment of that meeting;
 - (b) the resolutions being duly passed by the requisite majority at the General Meeting or at any adjournment of that meeting;
 - (c) the resolutions being duly passed by the requisite majority at the Preference Class Meeting or at any adjournment of that meeting; and
 - (d) the sanction (with or without modification, any such modification as agreed by A&L and Santander UK) of the Preference Scheme and the confirmation of the reduction of capital involved therein by the Court and the delivery of a certified copy of the Preference Court Order (together with the minute of such reduction of capital attached thereto) in the form approved by the Court to the Registrar of Companies for registration and, having been so delivered, being registered by him.
2. A&L and Santander UK have agreed that the Preference Scheme will also be conditional upon the following matters and that the necessary action to make the Preference Scheme effective will only be taken if the following conditions are satisfied or waived by A&L and Santander UK:
 - (a) Admission becoming effective subject only to:
 - (i) the allotment of the New Santander UK Preference Shares; and/or
 - (ii) the Preference Scheme becoming effective; and
 - (b) the amendments to the terms of the A&L Preference Shares, as referred to in the notice of the General Meeting in Part 10 of this document and the notice of the Preference Class Meeting in Part 11 of this document, taking effect.

PART 4

SUMMARY OF KEY FEATURES OF THE NEW SANTANDER UK PREFERENCE SHARES

Introduction

The rights applicable to the New Santander UK Preference Shares will be, in substance, similar to those applicable to the A&L Preference Shares save (i) that certain provisions will be amended to conform the New Santander UK Preference Shares to the terms of existing preference shares issued by Santander UK and to the Santander UK Articles, and (ii) as further described below.

The description set out below in relation to the New Santander UK Preference Shares is not exhaustive, and contains only a summary of certain key features of the New Santander UK Preference Shares. A&L Preference Shareholders should refer to the Santander UK Preference Prospectus for further information on the rights attaching to the New Santander UK Preference Shares.

Regulatory capital treatment

The New Santander UK Preference Shares will be issued on terms eligible to qualify as perpetual non-cumulative preference share capital in compliance with the requirements of the General Prudential Sourcebook of the FSA Handbook that are in force as at the date the Preference Scheme becomes effective. On a return of capital or distribution of assets, holders of the New Santander UK Preference Shares will rank *pari passu* with each other and with other Parity Obligations of the New Santander UK Preference Shares, including the most senior class of preference shares of Santander UK in issue from time to time. The rate of dividend, the scheduled dividend payment dates and the scheduled redemption dates in respect of the New Santander UK Preference Shares will be the same as the A&L Preference Shares. Any dividends which are accrued on the A&L Preference Shares as at the date the Preference Scheme becomes effective will be paid, subject to the terms of the New Santander UK Preference Shares, on the first scheduled dividend payment date thereafter under such New Santander UK Preference Shares. It is anticipated that the New Santander UK Preference Shares to be issued (other than any New Santander UK Preference Shares which are issued in certificated form) will be represented by a global share certificate in the name of the CD Nominee and will be settled and tradable through the same Clearing Systems as the corresponding A&L Preference Shares. The New Santander UK Preference Shares will be issued with a nominal value of £1, consistent with the existing preference share capital of Santander UK, and will be issued fully paid up and with a premium such that both the paid-up amount (by reference to which dividend payments and, where applicable, redemption amounts are calculated) and the liquidation preference of the New Santander UK Preference Shares will equal those of the A&L Preference Shares.

Summary of the terms of the New Santander UK Preference Shares

The terms of the New Santander UK Preference Shares will provide, among other things, that:

- (i) the New Santander UK Preference Shares may be held in uncertificated form. New Santander UK Preference Shares which are held in uncertificated form will be represented by the Santander UK Global Share Certificate and will be settled and tradable through the Clearing Systems;
- (ii) dividends in respect of the New Santander UK Preference Shares will be payable only at the discretion of the Santander UK Board;
- (iii) a limited dividend right will be available on the New Santander UK Preference Shares of an amount (if any) equal to any dividend exceeding £100 paid or declared on each Santander UK Ordinary Share in the period from (and including) the Issue Date to (but excluding) 1 May 2010, if (and only if) Santander UK has repaid all of its Parity Obligations on or prior to 1 May 2010;
- (iv) holders of the New Santander UK Preference Shares will rank as regards participation in the profits of Santander UK *pari passu* with each other, *pari passu* with the Parity Obligations and in priority to holders of the Santander UK Ordinary Shares and any other Junior Obligations.

- (v) if on any Preference Dividend Payment Date, Preference Dividends are not paid in full on the New Santander UK Preference Shares or dividends or other distributions are not paid in full on any Parity Obligations during the Dividend Stopper Period (other than any payments payable on the Existing Parity Obligations) but the Santander UK Board determines that there are sufficient distributable profits and distributable reserves so as to allow payment in part, the Santander UK Board may determine to pay the Relevant Proportion of any such Preference Dividend;
- (vi) if less than the full amount of any Preference Dividend is paid on any Preference Dividend Payment Date, Santander UK will not declare and pay any distribution or dividend on any Junior Obligation until the then applicable Dividend Stopper Period has expired;
- (vii) if no Preference Dividend is paid on any Preference Dividend Payment Date, during the then applicable Dividend Stopper Period, Santander UK will not declare and pay any distribution or dividend on, and will procure that no distribution or dividend is declared or paid on, any Parity Obligation (other than any payments payable on any Existing Parity Obligations);
- (viii) if the Relevant Proportion of a Preference Dividend is paid on a Preference Dividend Payment Date, during the then applicable Dividend Stopper Period, Santander UK will not declare and pay an amount exceeding, and will procure that no amount is declared and paid exceeding, the Relevant Proportion of any distribution or dividend on any Parity Obligation (other than any payments payable on any Existing Parity Obligations);
- (ix) if less than the full amount of any Preference Dividend is paid on any Preference Dividend Payment Date, then until the end of the Dividend Stopper Period, Santander UK will not cancel, redeem, purchase, reduce or otherwise acquire any Junior Obligation or any Parity Obligation;
- (x) dividends, interest and other income distributions may be made on the Existing Parity Obligations in accordance with their terms and, where applicable, subject to applicable legislation, regardless of whether or not the Santander UK Board has exercised its discretion not to pay a dividend on the New Santander UK Preference Shares;
- (xi) if, at any time, certain regulatory events occur, Santander UK may, at its option:
 - (a) redeem the New Santander UK Preference Shares in whole, but not in part, at the Make Whole Redemption Price (as such phrase is defined in the Santander UK Preference Prospectus); or
 - (b) substitute Qualifying Non-Innovative Tier 1 Securities for the New Santander UK Preference Shares, including by mandatorily applying any redemption proceeds of New Santander UK Preference Shares to the subscription or purchase on behalf of the holders of the New Santander UK Preference Shares of Qualifying Non-Innovative Tier 1 Securities,

in either case, only if the FSA has indicated that it has no objection to such redemption substitution (or if the FSA has given its formal consent in respect of a redemption prior to the fifth anniversary of the Issue Date) and Santander UK continues to satisfy its minimum regulatory capital adequacy requirements on and following redemption or substitution; and

- (xii) holders of the New Santander UK Preference Shares shall only be entitled to receive notice of and to attend any general meeting of the shareholders of Santander UK if: (a) the Preference Dividend on the New Santander UK Preference Shares has not, at the date of the notice of the general meeting, been paid in full in respect of the then most recent dividend period ending before the First Call Date or the then most recent four consecutive dividend periods ending after the First Call Date, in which case the holders of the New Santander UK Preference Shares shall be entitled to speak and/or vote upon any resolution proposed at that general meeting; or (b) a resolution is proposed at the general meeting (1) for, or in relation to, the winding-up of Santander UK, or (2) varying, altering or abrogating any of the rights, privileges, limitations or restrictions attached to New Santander UK Preference Shares, in which case the holders of the New Santander UK Preference Shares will be entitled to speak and vote only upon such resolution;

- (xiii) for so long as the New Santander UK Preference Shares are outstanding, Santander UK will not (a) issue any further non-cumulative preference shares or preferred securities or (b) enter into any guarantee or other contractual support undertaking in respect of any non-cumulative preference shares or preferred securities of a subsidiary, which, in either case, purport to rank in priority to the New Santander UK Preference Shares as regards participation in the profits and assets of Santander UK;
- (xiv) that, unlike the A&L Preference Shares, a variation of rights attaching to the New Santander UK Preference Shares will require the consent in writing of the holders of three-quarters of the New Santander UK Preference Shares in issue (rather than the consent of the holders of two-thirds of the A&L Preference Shares as is currently the case).

Summary of the main differences between the terms of the A&L Preference Shares and the New Santander UK Preference Shares

The main differences between the terms of the A&L Preference Shares as at the date of this document and the New Santander UK Preference Shares are:

- (i) a limited dividend right will be available on the New Santander UK Preference Shares of an amount (if any) equal to any dividend exceeding £100 paid or declared on each Santander UK Ordinary Share in the period from (and including) the Issue Date to (but excluding) 1 May 2010, if (and only if) Santander UK has repaid all of its Parity Obligations on or prior to 1 May 2010. An equivalent to this limited dividend right is proposed to be considered for inclusion in the terms of the A&L Preference Shares on 30 March 2010 by A&L Preference Shareholders and A&L Ordinary Shareholders at the General Meeting and Preference Class Meeting, which right (if approved) shall be attached to the A&L Preference Shares immediately before the Preference Scheme becomes effective and attach to the New Santander UK Preference Shares upon the Preference Scheme becoming effective;
- (ii) dividends, interest and other income distributions may be paid on the Existing Parity Obligations in accordance with their terms and, where applicable, subject to applicable legislation, regardless of whether or not the Santander UK Board has exercised its discretion not to pay a dividend on the New Santander UK Preference Shares. In particular, in the event that no Preference Dividend is paid or only a Relevant Proportion of a Preference Dividend is paid on any Preference Dividend Payment Date, then distributions or dividends can still be made (including above any Relevant Proportion, if applicable) on any Existing Parity Obligation during the then applicable Dividend Stopper Period;
- (iii) Existing Parity Obligations are not included in the calculation of any partial payments which may be made on the New Santander UK Preference Shares and Parity Obligations;
- (iv) Existing Parity Obligations are carved out of the definition of Dividend Stopper Period; and
- (v) the rights attaching to the New Santander UK Preference Shares may be varied or abrogated with the consent in writing of the holders of three-quarters in nominal value of the New Santander UK Preference Shares in issue, rather than two-thirds in nominal value.

PART 5

INFORMATION ON SANTANDER UK AND THE SANTANDER GROUP

1. Background

Santander UK, formerly Abbey National plc, was originally formed as a building society in 1944 and is now a public limited liability company incorporated and registered in England and Wales under the Companies Act 1985. Santander UK was incorporated on 12 September 1988 with registered number 2294747.

The registered office of Santander UK is at 2 Triton Square, Regent's Place, London, NW1 3AN. The telephone number of Santander UK's registered office is +44 (0) 870 607 6000.

Santander UK is a significant financial services provider in the UK, being the second largest residential mortgage lender and the third largest savings brand following the combinations with A&L and Bradford & Bingley operating across the full range of personal financial services. The Santander UK Group is regulated by the FSA.

On 12 November 2004, Banco Santander completed the acquisition of the entire issued ordinary share capital of Santander UK, implemented by means of a scheme of arrangement under section 425 of the Companies Act 1985. Banco Santander is one of the largest banks in the world by market capitalisation. Founded in 1857, Banco Santander has approximately 80 million customers and over 14,000 branches.

On 11 January 2010, Santander UK changed its name from Abbey National plc to Santander UK plc.

2. Corporate Purpose and Strategy

Santander UK's purpose is to maximise value for its shareholder, Banco Santander, by focusing on offering a full commercial banking service in the United Kingdom, providing value-for-money products to customers. With the continuing support of Banco Santander, Santander UK aims to be the best commercial bank in the United Kingdom.

3. Business and Support Divisions

Santander UK's management structure consists of a number of business and support divisions. The business divisions consist of:

(a) Retail Banking

Retail banking offers residential mortgages, savings and banking and other personal financial products to customers throughout the United Kingdom. Retail Banking consists of residential mortgages, savings, banking and consumer credit, online banking and financial services through cahoot, general insurance and Santander UK Business Banking, asset management and credit cards.

(b) Global Banking & Markets

Global banking & markets provides financial markets sales, trading and risk management services, as well as manufacturing retail structured products. It is principally structured into two business areas, Rates and Equity. Rates cover sales and trading activity for fixed income derivatives. Equity comprises the Equity Derivatives, Property Derivatives and Short-Term Markets areas.

(c) Corporate Banking

Corporate Banking offers banking services principally to small and mid-sized UK companies. Corporate Banking provides a range of banking services through its network of Regional Business centres and specialist businesses. A broad range of banking products is offered including loans, current accounts, deposits, treasury services, asset finance, cash transmission, trade finance and invoice discounting.

(d) Private Banking

Private Banking offers private banking and other specialist banking services. On 10 March 2010, the self-invested personal pension plans and WRAP (portfolio management) service businesses previously provided by Private Banking, were sold.

The support divisions consist of:

- **Retail products and marketing** – responsible for integrating and gaining the maximum value from Santander UK's products, marketing and brand communications to serve Santander UK's customers better.
- **Human resources** – responsible for delivering the human resources strategy and personnel support.
- **Manufacturing** – responsible for all information technology, cost control and operations activity, including service centres.
- **Risk** – responsible for ensuring that the Santander UK Board and senior management team of Santander UK are provided with an appropriate risk policy and control framework, and to report any material risk issues to the risk committee and the Santander UK Board.
- **Internal Audit** – responsible for supervising the compliance, effectiveness and efficiency of Santander UK's internal control systems to manage its risks.

In addition there are a number of corporate units – Corporate Services; Service Quality; Communications; Strategy & Planning; Financial Accounting & Economics, Group Infrastructure, which includes Asset & Liability Management, Group Capital and Funding.

4. Transfer of retail deposits, branch network and related employees – Bradford & Bingley plc

In September 2008, following the announcement by H.M. Treasury to take Bradford & Bingley plc into public ownership, the retail deposits, branch network and its related employees transferred, under the provisions of the Banking (Special Provisions) Act 2008, to Santander UK. All of Bradford & Bingley plc's customer loans and treasury assets, including all its mortgage assets, were taken into public ownership. The transfer to Santander UK consisted of the £20 billion retail deposit base with 2.7 million customers, as well as Bradford & Bingley plc's direct channels including 197 retail branches, 141 agencies (distribution outlets in third party premises) and related employees. The acquisition price was £612 million, including the transfer of £208 million of capital relating to offshore entities. The transfer of Bradford & Bingley plc's customers and their retail deposits further strengthened Santander UK's retail customer deposit base and franchise.

5. Capital injection – Santander UK

On 13 October 2008, Banco Santander injected £1 billion in the form of Tier 1 Capital into Santander UK. This capital was, in turn, transferred to A&L in December 2008 (see "*Acquisitions – Alliance & Leicester plc*" below).

6. Acquisitions – Alliance & Leicester plc

On 10 October 2008, Banco Santander completed the acquisition of the entire issued ordinary share capital of A&L, implemented by means of a scheme of arrangement under sections 895-899 of the Companies Act.

Following the acquisition of A&L by Banco Santander, a new management structure was announced for A&L such that the same persons sit on each of the Board and Executive Committee of Santander UK and A&L.

In 2008, Banco Santander's commitments to the UK government and regulators to improve A&L's Tier 1 ratio were met using the additional £1 billion of capital announced at the time of the acquisition of A&L, which was transferred into Santander UK from Banco Santander. This capital has, in turn, been transferred to A&L. In December 2008, Santander UK injected £950 million of capital into A&L through a subscription of: (i) 234,113,712 A&L Ordinary Shares for cash at £2.99 per ordinary share; (ii) US\$220 million undated subordinated notes issued by A&L; and (iii) €115 million undated subordinated notes issued by A&L. Previously, in October 2008, Santander

UK subscribed for US\$100 million undated floating rate subordinated notes issued by A&L. As a result of the subscription of ordinary shares, Santander UK held 35.6 per cent. of the issued share capital of A&L as at 31 December 2008.

On 9 January 2009, to optimise the capital, liquidity funding and overall financial efficiency of the enlarged Santander Group, Banco Santander transferred all of its A&L Ordinary Shares to Santander UK in exchange for 12,631,375,230 Santander UK newly issued ordinary shares. Accordingly, Santander UK is now the immediate parent company of A&L.

On 30 June 2009, Santander UK's shareholding in A&L was increased from 1.2 billion ordinary shares of £0.50 each, by capitalising £600 million of the A&L share premium account.

To continue growing Santander UK's business and enable further investment in frontline services and branches, Santander UK will be transferring A&L's savings operations on to Banco Santander's proprietary IT platform, Partenon, as well as removing duplicated back office and support functions across the businesses.

Santander UK has given a full and unconditional guarantee in respect of the unsubordinated liabilities of A&L incurred prior to 31 July 2012. A&L in turn has given a full and unconditional guarantee in respect of the unsubordinated liabilities of Santander UK incurred prior to 31 July 2012. Each guarantee is granted pursuant to a deed poll entered into by Santander UK and A&L on 19 March 2009. The respective forms of the deed poll guarantees are included in the consolidated annual report and accounts of Santander UK for the year ended 31 December 2008 and the consolidated annual report and accounts of A&L for the year ended 31 December 2008, each of which are incorporated by reference into this Prospectus. The deed poll guarantees referred to above do not constitute a guarantee of the New Santander UK Preference Shares.

A&L is a public limited company incorporated and registered in England and Wales under the Companies Act 1985. The Alliance & Leicester Building Society (the "**Society**") was formed in 1985 with the merger of two long-standing building societies, the Alliance Building Society and the Leicester Building Society. In 1997, A&L was incorporated as a bank and the Society transferred business to A&L as part of the conversion and listing on the London Stock Exchange. A&L was incorporated as a public limited company on 10 October 1996 (with registration number 3263713) and the conversion became effective as of 21 April 1997.

A&L and its Subsidiaries (the "**A&L Group**") operate primarily in the United Kingdom. A&L is a significant financial services provider in the United Kingdom, operating across the full range of personal financial services.

The registered office of A&L is Carlton Park, Narborough, Leicester LE19 0AL. The telephone number of A&L's registered office is +44 (0) 116 201 1000.

A&L's management structure consists of a number of business and support divisions. The business divisions consist of: retail banking, corporate banking and treasury & group items. The support divisions consist of: retail products and marketing, human resources, manufacturing, risk and internal audit. In addition there are a number of corporate units: corporate services, service quality and finance strategy & planning.

The A&L Directors are set out on page 33 under the heading "*Directors of Santander UK*", which also sets forth the directors of Santander UK. The business address of each of the A&L Directors is 2 Triton Square, Regent's Place, London NW1 3AN with telephone number +44 (0) 870 607 6000.

There are no potential conflicts of interest between the duties to A&L of the persons listed under "*Directors of Santander UK*" below and their private interests or other duties.

7. Economic Environment and Competition

The economic environment in 2009 remained very difficult, with falling house prices, volatile share prices, rising unemployment, and difficulties facing banks, homeowners and savers. The UK's retail banks underwent further significant changes, with the UK government increasing its already substantial holdings of shares in The Royal Bank of Scotland Group plc and Lloyds Banking Group plc. The UK government continues to support UK banks during the current market turmoil through the special liquidity scheme, the asset protection scheme, the credit guarantee scheme and the Banking Act 2009.

Santander UK's main competitors are other UK retail banks, building societies and other financial services providers such as insurance companies, supermarket chains and large retailers. The market remains highly competitive, driven largely by market incumbents. Management expects such competition to continue in response to competitor behaviour, consumer demand, technological changes, the impact of consolidation, regulatory actions and other factors.

2010 is expected to be another difficult year for the UK economy. Although the UK economy has begun to show signs of emerging from recession, unemployment is predicted to remain high, resulting in continuing difficulties for banks, homeowners and savers. The outcome of the European Union's review of the UK government's support for The Royal Bank of Scotland Group plc and Lloyds Banking Group plc may also trigger further restructuring of the retail banking sector in the UK. Santander UK continues to benefit from the strength of its parent company, Banco Santander and, as part of the Santander Group, management remains confident of Santander UK's strength and potential to continue growing despite continuing challenging conditions in some of its core personal financial services markets.

8. Trends in Santander UK's business

Main highlights from the business flows of the Santander UK Group for the six months to 30 June 2009 include:

- Gross mortgage lending of £10.8 billion, with an estimated market share of 16.3 per cent., which was ahead of the same period last year and ahead of stock share, with continued focus on the quality of new lending based on affordability and lower loan to value ("**LTV**") segments. The average LTV on new business completions in Q2 09 remained flat at 59 per cent. (Q1 '09: 59 per cent., Q4 '08: 60 per cent.).
- Capital repayments of £8.8 billion, with an estimated market share of 13.6 per cent., were almost half the level of repayments seen in H1 '08. This performance was achieved against a market backdrop of heightened competition in low LTV segments, demonstrating effective retention strategies in key segments.
- Net mortgage lending of £2.0 billion exceeded total estimated market net lending as the Santander UK Group continues to be a consistent lender in difficult times.
- Net deposit flows of £4.7 billion were underpinned by improved performance from the Corporate and Private Banking businesses. In Retail the performance was marginally positive, representing a strong performance in increasingly difficult market conditions, benefiting from the alignment product marketing and pricing strategies across brands. The Santander UK Group continued to deliver a strong performance for the "**Super**" range across the brands, as well as delivering focused activities and propositions for bond and bonus period retention. This allowed the expected outflows of negative margin Bradford & Bingley ("**B&B**") balances to be more than offset.
- Investment sales of £1.8 billion were up 34 per cent. compared with the same period last year and continued the growth trend seen throughout 2008. This strong performance has primarily been driven by increased Bancassurance adviser coverage across the branch network contributing to the acquisition and management of investment net flows and stock.
- Current account openings increased by over 37 per cent. in Santander UK, and including A&L openings were up 24 per cent., maintaining the trend of previous quarters and ensuring the Santander UK Group is on track to achieve 1 million openings by year end. The current account is viewed as a key relationship product in the UK and is therefore an area of focus throughout the branch network.
- Credit card sales are lower than H1 '08, following less emphasis on this product category from Q3 '08.
- Total gross unsecured personal lending ("**UPL**") decreased by 40 per cent., following the same trend as last year as lending continues to focus on existing customers, which make up 95 per cent. of new Santander UK lending. A&L has followed the same reduction strategy and overall UPL stock is down over 20 per cent.

- Commercial (retail and corporate) loans of £184.3 billion grew by 1 per cent. compared with strong commercial deposit growth of 15 per cent. (34 per cent. including B&B) allowing the Santander UK Group to improve its commercial funding ratio to 76 per cent.
- In total, net commercial lending (Retail and Corporate) in the first half of the year was £1.0 billion driven by a robust performance in mortgage net lending. The Santander UK Group's funding position improved, with net commercial deposit inflows of £4.7 billion. This was underpinned by the Santander UK Group being able to capitalise on market conditions with customers seeking broader banking relationships.

Further information and commentary on the business flows of the Santander UK Group, and information on the principal risks and uncertainties facing its business, can be found in the interim management report on pages 1 to 6 of its 2009 half-yearly financial report.

9. Key financial highlights

Profit before tax of £845 million (for the six months to 30 June 2009) increased from £571 million in the first half of 2008. Material movements by line include:

- Net interest income of £1,687 million compared with £834 million in the first half of 2008 increased by £853 million.
- Non-interest income of £605 million compared with £635 million in the first half of 2008 decreased by £30 million.
- Administrative expenses of £914 million compared with £629 million in the first half of 2008 increased by £285 million, principally due to the inclusion of A&L and B&B, which accounted for £248 million and £52 million respectively, in the first half of 2009.
- Depreciation and amortisation costs of £128 million compared with £108 million in the first half of 2008 increased by £20 million. The total increase reflected the inclusion of £59 million of A&L's depreciation and amortisation costs in the first half of 2009.
- The remaining depreciation and amortisation costs decreased by £39 million, reflecting a significant reduction in operating lease depreciation following the sale of Porterbrook in the second half of 2008.
- Impairment losses on loans and advances of £405 million compared with £161 million in the first half of 2008 increased by £244 million.
- Of the total increase, £86 million represented the inclusion of A&L's impairment losses in the first half of 2009.

Profit before tax by segment (measured on a "trading" basis, which differs from the statutory basis as a result of the application of various adjustments as further described on page 2 of the Santander UK Group's 2009 half-yearly financial report) for the six months to 30 June 2009 is summarised as follows:

- Trading profit before tax of £970 million increased by £208 million on the first half of the previous year (2008: £762 million) driven by strong income growth across all businesses, which exceeded the increase in impairment losses, as well as continued cost control. Trading income in the first half was up £449 million, 24 per cent. higher than the first half of 2008, driven by a robust performance across Retail, Corporate and Private Banking, together with a particularly successful performance in Global Banking & Markets.
- Retail Banking trading profit before tax increased by £105 million to £774 million (2008: £669 million) driven by a robust increase in trading income, partly offset by higher trading expenses and impairment losses.
- Global Banking & Markets trading profit before tax increased by £111 million to £217 million (2008: £106 million) due predominantly to a very strong income performance. During the first half of 2009, Global Banking & Markets was able to take advantage of wider spreads, particularly in the short-term markets business. In addition, Global Banking & Markets benefited from integrated sales efforts across the Santander Group.

- Corporate banking trading profit before tax increased by £37 million to £114 million (2008: £77 million). This movement was due to strong income performance and lower operating expenses, which was partly offset by increased provisions reflecting the ongoing economic uncertainty. Trading income growth benefited from higher asset margins as well as robust growth on both sides of the balance sheet – assets grew by 3 per cent. and deposits by more than double. Operating expenses reduced year on year benefiting from cost synergies across the Abbey and A&L businesses.
- Private banking trading profit before tax increased by £16 million to £51 million (2008: £35 million) reflecting higher trading income partly offset by a slightly higher cost base. Trading income increased due to higher levels of customer deposits in Cater Allen and the contribution of the acquired B&B business in the Isle of Man together with improved fee income in Abbey International and Abbey Sharedealing.
- Group infrastructure trading loss before tax increased by £61 million to £186 million (2008: £125 million). Group infrastructure was largely impacted by lower earnings on liquid assets.

Further information and commentary on the financials of the Santander UK Group can be found in its 2009 half-yearly financial report.

10. Recent Developments

On 25 February 2010, A&L announced that, subject to FSA support and Court approval, it intends to transfer its business to Santander UK later this year under Part VII of FSMA.

PART 6

ADDITIONAL INFORMATION

1. Directors

The A&L Directors and their respective positions within A&L are:

<i>Name of Director</i>	<i>Position</i>
Lord Terence Burns	Chairman
Juan Rodríguez Inciarte	Non-Executive Director
António Horta-Osório	Chief Executive
Juan Colombás Calafat	Executive Director
Antonio Lorenzo Munoz	Executive Director
Alison Brittain	Executive Director
Jane Barker	Non-Executive Director
Roy Brown	Non-Executive Director
José María Carballo	Non-Executive Director
José María Fuster	Non-Executive Director
Rosemary Thorne	Non-Executive Director
Keith Woodley	Non-Executive Director

2. Directors' interests

None of the A&L Directors hold any A&L Ordinary Shares or any A&L Preference Shares.

Accordingly, none of the A&L Directors has any interest in the Preference Scheme which is material for the purpose of section 897 of the Companies Act and the effect of the Preference Scheme on the interests of each A&L Director does not differ from the effect on like interests of other persons.

3. Documents on display

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturday, Sunday and United Kingdom public holidays excepted) at 2 Triton Square, Regent's Place, London, NW1 3AN and at the offices of Slaughter and May, One Bunhill Row, London, EC1Y 8YY from the date of this document up to and including the Effective Date:

- (a) a copy of this document;
- (b) the Santander UK Preference Prospectus and any supplementary prospectus issued by Santander UK in relation to it;
- (c) a specimen Proxy Pack;
- (d) the A&L Articles;
- (e) the Santander UK Articles;
- (f) the resolutions of a duly authorised committee of the Santander UK Board authorising the issue and allotment of the New Santander UK Preference Shares, subject to the Preference Scheme becoming effective in accordance with its terms;
- (g) the unaudited half-yearly financial report of Santander UK for the six months ended 30 June 2009;
- (h) the audited consolidated financial statements of Santander UK in respect of the financial years ended 31 December 2007 and 31 December 2008;
- (i) the unaudited half-yearly financial report of A&L for the six months ended 30 June 2009;

- (j) the audited consolidated financial statements of A&L in respect of the financial years ended 31 December 2007 and 31 December 2008; and
- (k) the agency agreement between Santander UK and Citibank, N.A. relating to the New Santander UK Preference Shares.

PART 7

DEFINITIONS

The following definitions apply throughout this document unless the context otherwise requires:

“A&L”	means Alliance & Leicester plc;
“A&L Articles”	means the articles of association of A&L in force at the date of this document;
“A&L Board”	means the board of directors of A&L;
“A&L Directors”	means the directors of A&L whose names are set out in Section 1 of Part 6 of this document;
“A&L Global Share Certificate”	means the global share certificate deposited with the CD Nominee for Euroclear and/or Clearstream and representing the A&L Preference Shares which are held through the Clearing Systems in uncertificated form;
“A&L Ordinary Shareholders”	means the registered holders of A&L Ordinary Shares and “A&L Ordinary Shareholder” means any one of them;
“A&L Ordinary Shares”	means the ordinary shares of 50 pence each in the capital of A&L and “A&L Ordinary Share” means any one of them;
“A&L Preference Shareholders”	means the holders of A&L Preference Shares (whether holding such shares in certificated form or through the Clearing Systems in uncertificated form) and “A&L Preference Shareholder” means any one of them;
“A&L Preference Shares”	means the A&L Series A Fixed/Floating Rate Non-Cumulative Callable Preference Shares of £1 each in the capital of A&L and “A&L Preference Share” means any one of them;
“A&L Preferred Securities”	means the £300,000,000 5.827 per cent. Step-Up Callable Perpetual Preferred Securities originally issued by A&L with ISIN 0188550114;
“Additional A&L Preference Shares”	means the two A&L Preference Shares issued to (i) Allen & Overy Service Company Limited (a service company of Allen & Overy LLP) and (ii) Trexco Limited (a company wholly-owned by Slaughter and May);
“Admission”	means the admission of the New Santander UK Preference Shares to the Official List, in accordance with the Listing Rules, and the admission of the New Santander UK Preference Shares to trading on the London Stock Exchange’s main market for listed securities in accordance with the Admission and Disclosure Standards of the London Stock Exchange;
“Admission and Disclosure Standards”	means the requirements contained in the publication “Admission and Disclosure Standards” (as amended from time to time) containing, among other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange’s main market for listed securities;
“Banco Santander”	means Banco Santander, S.A., a financial institution registered with the Banco de España (Bank of Spain) under number 0049, with registered offices at Paseo de Pereda 9-12 Santander;
“Bradford & Bingley” or “B&B”	means the savings business of Bradford & Bingley plc which was transferred to Banco Santander under the Banking (Special Provisions) Act 2008;

“Business Day”	means a day (excluding Saturdays, Sundays and public holidays in the United Kingdom) on which banks are generally open for business in London;
“CD Nominee”	means Citivic Nominees Limited as nominee for Euroclear and Clearstream;
“Clearing Systems”	means Clearstream and Euroclear and “Clearing System” shall mean either of them;
“Clearstream”	means Clearstream Banking, <i>société anonyme</i> , Luxembourg;
“Companies Act”	means the Companies Act 2006 (as amended);
“Conditions”	means the conditions to the implementation of the Preference Scheme set out in Part 3 of this document and “Condition” means any one of them;
“Court”	means the High Court of Justice in England and Wales;
“Court Meeting”	means the meeting of the A&L Preference Shareholders as convened by order of the Court under section 896 of the Companies Act to consider and, if thought fit, to approve the Preference Scheme in its original form or with or subject to any modification, addition or condition approved or imposed by the Court, such meeting to be held on 30 March 2010 at 8.45 a.m. at 2 Triton Square, Regent’s Place, London NW1 3AN, and any adjournment thereof, notice of which is set out at Part 9 of this document;
“DACE Notice”	means the “Deadlines and Corporate Events” notice to be sent to Direct Participants by each of Euroclear and/or Clearstream on or about the date of this document informing Direct Participants of the procedures to be followed in order to vote at the Court Meeting, the General Meeting and the Preference Class Meeting;
“Direct Participants”	means the persons shown in the records of Euroclear and/or Clearstream as the holders of the A&L Preference Shares as evidenced by the A&L Global Share Certificate and “Direct Participant” means any one of them;
“Disclosure and Transparency Rules”	mean the combined Disclosure Rules and Transparency Rules contained in the FSA Handbook, such rules having been made pursuant to sections 96A to 96C of FSMA (in the case of the Disclosure Rules) and sections 89A to 89N of FSMA (in the case of the Transparency Rules);
“Dividend Stopper Period”	means with respect to any Preference Dividend Payment Date or the equivalent term in respect of any Parity Obligation (excluding any Existing Parity Obligation), one calendar year from and including the earlier of the date (i) on which a full instalment of Preference Dividends is not paid or (ii) on which a full scheduled dividend or distribution on any Parity Obligation (excluding any Existing Parity Obligation) has not been paid;
“Effective Date”	means the date on which the Preference Scheme becomes effective in accordance with its terms;
“Electronic Voting Instructions”	means the electronic voting and blocking instructions in the form specified in the DACE Notice for submission by Direct Participants to the CD Nominee via Euroclear or Clearstream and in accordance with the requirements of Euroclear or Clearstream (as applicable) in order for the CD Nominee to vote at the Meetings on behalf of the A&L Preference Shareholders who hold their A&L Preference Shares through a Clearing System;
“Euroclear”	means Euroclear Bank S.A./N.V.;

“Existing Parity Obligations”	<p>means:</p> <ul style="list-style-type: none"> (i) the 200,000,000 10³/₈ per cent. Non-Cumulative Sterling Preference Shares of £1 each issued by Santander UK with ISIN GB0000064393; (ii) the 125,000,000 8⁵/₈ per cent. Non-Cumulative Sterling Preference Shares of £1 each issued by Santander UK with ISIN GB0000044221; (iii) the US\$1,000,000,000 8.963 per cent. non-cumulative trust preferred securities issued by Abbey National Capital Trust I and guaranteed by Santander UK with ISIN US002927AA95; (iv) the £300,000,000 7.037 per cent. callable reserve capital instruments issued by Santander UK with ISIN XS0124569566; and (v) the £175,000,000 6.984 per cent. fixed/floating rate tier one preferred income securities issued by Santander UK with ISIN XS0152838586, <p>each of which has been admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange;</p>
“Explanatory Statement”	means this document and in particular Part 2 of this document, which has been prepared in accordance with section 897 of the Companies Act;
“First Call Date”	means 24 May 2019;
“Forms of Proxy”	means the separate forms of proxy for use by the A&L Preference Shareholders who hold their A&L Preference Shares in certificated form in connection with the Court Meeting, the General Meeting and the Preference Class Meeting respectively and the separate form of proxy for use by the A&L Ordinary Shareholders in connection with the General Meeting;
“FSA”	means the Financial Services Authority of the United Kingdom and any successor regulatory authority that may succeed to the bank regulatory functions of the Financial Services Authority;
“FSMA”	means the Financial Services and Markets Act 2000;
“General Meeting”	means the general meeting of the A&L Ordinary Shareholders and the A&L Preference Shareholders to be held on 30 March 2010 at 8.50 a.m. (or as soon as the Court Meeting has been concluded or adjourned) at 2 Triton Square, Regent’s Place, London NW1 3AN, and any adjournment thereof, notice of which is set out in Part 10 of this document;
“HMRC”	means HM Revenue and Customs in the United Kingdom;
“Innovative Tier 1 Capital”	has the meaning given to it from time to time by the FSA;
“Issue Date”	means the date on which the New Santander UK Preference Shares are issued, which is expected to be on or around 28 April 2010;
“Junior Obligations”	<p>means:</p> <ul style="list-style-type: none"> (i) the Santander UK Ordinary Shares; (ii) any shares in the capital of Santander UK ranking junior as to dividends with the New Santander UK Preference Shares;

- (iii) any security issued by a subsidiary of Santander UK benefiting from a guarantee or other contractual support undertaking of Santander UK ranking junior as to dividends or other income distributions with the New Santander UK Preference Shares; or
- (iv) any other instrument issued by Santander UK ranking junior as to the dividends or other income distributions with the New Santander UK Preference Shares;

“Listing Rules”

means the Listing Rules of the UK Listing Authority;

“London Stock Exchange”

means the London Stock Exchange plc or its successor;

“Meetings”

means the Court Meeting, the General Meeting and the Preference Class Meeting and **“Meeting”** means any one of them;

“New A&L Ordinary Shares”

means the new ordinary shares of 50 pence each in the capital of A&L to be issued to Santander UK in accordance with clause 1(c) of the Preference Scheme set out in Part 8 of this document;

“New Santander UK Preference Shares”

means the new Series A Fixed/Floating Rate Non-Cumulative Callable Preference Shares of £1 each in the capital of Santander UK proposed to be issued and credited as fully paid pursuant to the terms of the Preference Scheme and **“New Santander UK Preference Share”** means any one of them;

“Non-Innovative Tier 1 Capital”

means Tier 1 Capital which does not comprise Innovative Tier 1 Capital;

“Official List”

means the official list of the UK Listing Authority;

“Parity Obligations”

means:

- (i) any other series of preference shares issued by Santander UK ranking equally as to dividends with the New Santander UK Preference Shares;
- (ii) any security issued by a subsidiary of Santander UK which benefits from a guarantee or other contractual support undertaking of Santander UK, which guarantee or contractual support undertaking ranks equally as to dividends or other income distributions with the New Santander UK Preference Shares;
- (iii) any other security, instrument or preferred security (including the Existing Parity Obligations) issued by Santander UK ranking equally as to dividends or other income distributions with the New Santander UK Preference Shares; and
- (iv) the A&L Preferred Securities with effect from the date on which such securities may be transferred to Santander UK, or assumed by Santander UK, pursuant to the proposed Part VII Transfer or otherwise;

“Part VII Transfer”

means the proposed transfer by A&L of its business to Santander UK pursuant to a scheme conducted under Part VII of FSMA, as announced by A&L on 25 February 2010;

“Preference Class Meeting”	means the separate class meeting of A&L Preference Shareholders to be held on 30 March 2010 at 8.55 a.m. (or as soon as the Court Meeting and the General Meeting have been concluded or adjourned) at 2 Triton Square, Regent’s Place, London NW1 3AN, and any adjournment thereof, notice of which is set out in Part 11 of this document;
“Preference Court Order”	means the order of the Court sanctioning the Preference Scheme under sections 895 to 899 of the Companies Act and confirming the reduction of capital under section 648 of the Companies Act provided for by the Preference Scheme;
“Preference Dividend”	has the meaning set out in paragraph 2(i) of Part IV (“ <i>Description of the New Santander UK Preference Shares</i> ”) of the Santander UK Preference Prospectus;
“Preference Dividend Payment Date”	means 24 May in each year commencing on 24 May 2010 to (and including) the First Call Date and, thereafter, means 24 August, 24 November, 24 February and 24 May in each year or in the event that 24 August, 24 November, 24 February or 24 May in any year falls on a Saturday or Sunday or public holiday in the United Kingdom, the following Business Day;
“Preference Scheme”	means the proposed scheme of arrangement under sections 895 to 899 of the Companies Act between A&L and the Preference Scheme Shareholders, with or subject to any modification thereof or addition thereto or condition agreed by A&L and Santander UK and which the Court may think fit to approve or impose, particulars of which are set out in Part 8 of this document;
“Preference Scheme Court Hearing”	means the hearing at which the Court’s sanction of the Preference Scheme will be sought under sections 895 to 899 of the Companies Act and the Court’s confirmation of the reduction of capital provided for by the Preference Scheme will be sought under section 648 of the Companies Act;
“Preference Scheme Record Time”	means 6.00 p.m. on the Business Day of the Preference Scheme Court Hearing;
“Preference Scheme Shareholders”	means holders of the A&L Preference Shares at the Preference Scheme Record Time and “Preference Scheme Shareholder” means any one of them;
“Preference Scheme Shares”	means: <ul style="list-style-type: none"> (i) the A&L Preference Shares in issue at the date of this document; (ii) any A&L Preference Shares issued after the date of this document and prior to the Voting Record Time; and (iii) any A&L Preference Shares issued at or after the Voting Record Time and prior to the Preference Scheme Record Time;
“Proxy Pack”	means the pack of documentation to be sent to those A&L Preference Shareholders who hold their A&L Preference Shares in certificated form and the A&L Ordinary Shareholders (containing, among other things, the Forms of Proxy);
“Qualifying Non-Innovative Tier 1 Securities”	means securities, whether debt, equity, interests in limited partnerships or otherwise, issued directly or indirectly by Santander UK that: <ul style="list-style-type: none"> (i) in the reasonable opinion of an independent investment bank appointed by Santander UK, have terms not materially less favourable to a holder of New Santander UK Preference Shares than the terms of the New Santander

UK Preference Shares, provided that they shall (1) include a ranking at least equal as to dividends or other income distributions and as to participation in assets to that of the New Santander UK Preference Shares, (2) have the same dividend or distribution rate or rate of return and dividend payment dates, from time to time, as those applying to the New Santander UK Preference Shares, (3) have the same redemption dates as the New Santander UK Preference Shares, (4) be issued in an amount at least equal to the total number of the New Santander UK Preference Shares each in a principal amount of £1,000, (5) comply with the then current requirements of the FSA in relation to Non-Innovative Tier 1 Capital and (6) preserve any existing rights under the New Santander UK Preference Shares to any accrued Preference Dividend which has not been paid in respect of the period from (and including) the Preference Dividend Payment Date last preceding the substitution date to (but excluding) the substitution date; and

- (ii) are listed on a recognised investment exchange (as defined in the FSMA);

“Register of Members”	means the register of members of A&L maintained by the Registrar on behalf of A&L;
“Registrar”	means Citibank, N.A.;
“Registrar of Companies”	means the Registrar of Companies in England and Wales;
“Regulatory News Service”	means the service authorised by the FSA to disseminate regulatory announcements from time to time;
“Relevant Proportion”	means in relation to any partial payment of a Preference Dividend on a New Santander UK Preference Share, a fraction of which the numerator is an amount set at the absolute discretion of the Santander UK Board being no more than distributable profits and distributable reserves as of the most recently available audited accounts for the previous financial year of Santander UK or interim accounts for the previous half year of Santander UK on the first day of the relevant Dividend Stopper Period and the denominator is the sum of (i) the amount originally scheduled to be paid on the New Santander UK Preference Shares during the Dividend Stopper Period (on the basis for any period following the First Call Date that LIBOR will remain unchanged during such period) and (ii) the aggregate of distributions or dividends originally scheduled (also disregarding for such purpose possible movements in interest rates or any other fluctuating benchmark used in calculating such distribution or dividend) to be payable in respect of Parity Obligations (excluding any Existing Parity Obligations) during the Dividend Stopper Period, converted where necessary into sterling;
“Santander Group”	means Banco Santander and all of its subsidiaries and subsidiary undertakings collectively;
“Santander UK”	means Santander UK plc;
“Santander UK Articles”	means the articles of association of Santander UK, in force from time to time;
“Santander UK Board”	means the board of directors of Santander UK;
“Santander UK Directors”	means the directors of Santander UK, whose names are set out in Part VI (“ <i>Santander UK and the Santander UK Group</i> ”) of the Santander UK Preference Prospectus;

“Santander UK Global Share Certificate”	means the global share certificate deposited with the CD Nominee for Euroclear and/or Clearstream and representing the New Santander UK Preference Shares held through the Clearing Systems in uncertificated form;
“Santander UK Group”	means Santander UK and its subsidiaries and subsidiary undertakings collectively which, for the avoidance of doubt, includes A&L;
“Santander UK Ordinary Shares”	means the ordinary shares of 10 pence each in the capital of Santander UK and “Santander UK Ordinary Share” means any one of them;
“Santander UK Preference Prospectus”	means the prospectus issued by Santander UK on or about the date of this document in relation to the New Santander UK Preference Shares;
“SDRT”	means stamp duty reserve tax;
“SEC”	means the United States Securities and Exchange Commission;
“Securities Act”	means the US Securities Act of 1933, as amended;
“SFEL”	means Santander Financial Exchanges Limited, a wholly-owned subsidiary of Banco Santander;
“Solicitation Agent”	means UBS Limited;
“Sterling”, “£”, “pence” and “p”	means the lawful currency in the UK;
“subsidiary”	has the meaning ascribed under the Companies Act;
“subsidiary undertaking”	has the meaning ascribed under the Companies Act;
“Tabulation Agent”	means Lucid Issuer Services Ltd;
“Tier 1 Capital”	has the meaning given to the term from time to time by the FSA;
“UK” or “United Kingdom”	means the United Kingdom of Great Britain and Northern Ireland;
“UK Listing Authority”	means the FSA in its capacity as competent authority under FSMA;
“US or United States”	means the United States of America, its territories and possessions, any state or political sub-division of the United States of America and the District of Columbia; and
“Voting Record Time”	means the time fixed for determining the entitlement to vote at the Court Meeting, the General Meeting and the Preference Class Meeting, which will be 5.00 p.m. on 28 March 2010 or, in the case of an adjournment of any of the Meetings, 5.00 p.m. on the day two days before the date of such adjourned meeting.

All references to legislation in this document are to the legislation of England and Wales unless the contrary is indicated. Reference to a statute or statutory provision includes:

- (i) that statute or provision as from time to time modified, re-enacted or consolidated whether before or after the date of this document; and
- (ii) any past statute or statutory provision (as from time to time modified, re-enacted or consolidated) which that statute or provision has directly or indirectly replaced.

All references in this document are to London time unless otherwise stated.

Words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall include the feminine or neutral gender.

PART 8
THE SCHEME OF ARRANGEMENT

**IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT**

No. 1936 of 2010

**IN THE MATTER OF
ALLIANCE & LEICESTER PLC**

**AND IN THE MATTER OF
THE COMPANIES ACT 2006**

SCHEME OF ARRANGEMENT

(Under Part 26 of the Companies Act 2006)

Between

ALLIANCE & LEICESTER PLC

and

PREFERENCE SCHEME SHAREHOLDERS

(as hereinafter defined)

PRELIMINARY

- (A) In this Preference Scheme (as hereinafter defined), unless inconsistent with the subject or context, the following expressions have the following meanings:

“A&L” or “the Company”	means Alliance & Leicester plc;
“A&L Global Share Certificate”	means the global share certificate deposited with the CD Nominee for Euroclear and/or Clearstream and representing the A&L Preference Shares which are held through Euroclear or Clearstream in uncertificated form;
“A&L Ordinary Shares”	means the ordinary shares of 50 pence each in the capital of A&L and “A&L Ordinary Share” means any one of them;
“A&L Preference Shareholders”	means the holders of A&L Preference Shares and “A&L Preference Shareholder” means any one of them;
“A&L Preference Shares”	means the A&L Series A Fixed/Floating Rate Non-Cumulative Callable Preference Shares of £1 each in the capital of A&L and “A&L Preference Share” means any one of them;
“Business Day”	means a day (excluding Saturdays, Sundays and public holidays in the United Kingdom) on which banks are generally open for business in London;
“CD Nominee”	means Citivic Nominees Limited as nominee for Euroclear and/or Clearstream;
“Clearstream”	means Clearstream Banking, <i>société anonyme</i> , Luxembourg;
“Companies Act”	means the Companies Act 2006 (as amended);
“Court”	means the High Court of Justice in England and Wales;
“Court Meeting”	means the meeting of A&L Preference Shareholders as convened by order of the Court under section 896 of the Companies Act to consider and, if thought fit, to approve the Preference Scheme in its original form or with or subject to any modification, addition or condition approved or imposed by the Court, such meeting to be held on 30 March 2010 at 8.45 a.m. at 2 Triton Square, Regent’s Place, London NW1 3AN, and any adjournment thereof, notice of which is set out at Part 9 of this document;
“Direct Participants”	means the persons shown in the records of Euroclear and/or Clearstream as the holders of the A&L Preference Shares evidenced by the A&L Global Share Certificate and “Direct Participant” means any one of them;
“Effective Date”	means the date on which a certified copy of the Preference Court Order (with the related minute of reduction of capital attached thereto) in the form approved by the Court has been delivered to the Registrar of Companies for registration and registered by him;
“Euroclear”	means Euroclear Bank S.A./N.V.;
“New A&L Ordinary Shares”	means the new ordinary shares of 50 pence each in the capital of A&L to be issued to Santander UK and in accordance with Clause 1(c) of this Preference Scheme;
“New Santander UK Preference Shares”	means the new Series A Fixed/Floating Rate Non-Cumulative Callable Preference Shares of £1 each in the capital of Santander UK proposed to be issued and credited as fully paid in accordance with Clause 2(a) of this Preference Scheme and “New Santander UK Preference Share” means any one of them;

“Preference Court Order”	means the order of the Court sanctioning the Preference Scheme under sections 895 to 899 of the Companies Act and confirming the reduction of capital under section 648 of the Companies Act provided for by the Preference Scheme;
“Preference Scheme”	means this scheme of arrangement under sections 895 to 899 of the Companies Act between A&L and the Preference Scheme Shareholders, with or subject to any modification thereof or addition thereto or condition agreed by A&L and Santander UK and which the Court may think fit to approve or impose, particulars of which are set out in this Preference Scheme;
“Preference Scheme Court Hearing”	means the hearing at which the Court’s sanction of the Preference Scheme will be sought under sections 895 to 899 of the Companies Act and the Court’s confirmation of the reduction of capital provided for by the Preference Scheme will be sought under section 648 of the Companies Act;
“Preference Scheme Record Time”	means 6.00 p.m. on the Business Day of the Preference Scheme Court Hearing;
“Preference Scheme Shareholders”	means holders of the A&L Preference Shares at the Preference Scheme Record Time and “Preference Scheme Shareholder” means any one of them;
“Preference Scheme Shares”	means: <ul style="list-style-type: none"> (i) the A&L Preference Shares in issue at the date of this document; (ii) any A&L Preference Shares issued after the date of this document and prior to the Voting Record Time; and (iii) any A&L Preference Shares issued at or after the Voting Record Time and prior to the Preference Scheme Record Time;
“Register of Members”	means the register of members of A&L maintained by the Registrar on behalf of A&L;
“Registrar”	means Citibank, N.A.;
“Registrar of Companies”	means the Registrar of Companies in England and Wales;
“Santander UK”	means Santander UK plc;
“sterling”, “£”, “pence” and “p”	means the lawful currency in the UK;
“UK” or “United Kingdom”	means the United Kingdom of Great Britain and Northern Ireland; and
“Voting Record Time”	means the time fixed by the Court for determining the entitlement to vote at the Court Meeting as set out in the notice thereof, which will be 5.00 p.m. on the day which is two days prior to the date of the Court Meeting or, in the case of an adjournment of the Court Meeting, 5.00 p.m. on the day two days before the date of the adjourned Court Meeting.

- (B) All times referred to in this Preference Scheme are references to London time unless otherwise specified. References to Clauses are to clauses of this Preference Scheme. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.
- (C) A&L was incorporated on 10 October 1996 under the Companies Act 1985 as a public company limited by shares and at 11 March 2010 (the last practicable date prior to the date of this Preference Scheme), 1,857,083,127 A&L Ordinary Shares and 300,002 A&L Preference Shares have been issued and fully paid up.

- (D) Santander UK is a public company limited by shares whose registered address is 2 Triton Square, Regent's Place, London, NW1 3AN.
- (E) The purpose of this Preference Scheme is to provide for the cancellation of the Preference Scheme Shares in consideration for the allotment by Santander UK of New Santander UK Preference Shares to each Preference Scheme Shareholder.
- (F) Santander UK has agreed to appear by counsel on the hearing of the Court of the claim form to sanction this Preference Scheme and to undertake to the Court to be bound thereby and to execute and do or procure to be executed and done, all such documents, acts or things as may be necessary or desirable to be executed or done by it, or on its behalf, to give effect to this Preference Scheme.

THE SCHEME

1. Cancellation of the Preference Scheme Shares and issue of New A&L Ordinary Shares

- (a) The share capital of A&L shall be reduced by cancelling and extinguishing all of the Preference Scheme Shares.
- (b) The share premium account of A&L shall be reduced by the sum of £299,701,998 (together with the reduction of Preference Scheme Shares referred to in Clause 1(a) above being the “**Reduction of Capital**”).
- (c) Forthwith and contingent upon the Reduction of Capital taking effect:
 - (i) the directors of A&L shall be authorised to allot such number of New A&L Ordinary Shares the aggregate nominal value of which is equal to the aggregate value of the capital cancelled in the Reduction of Capital; and
 - (ii) the reserve arising in the books of account of A&L as a result of the Reduction of Capital shall be capitalised and applied by A&L in paying up in full at par the New A&L Ordinary Shares authorised to be allotted pursuant to Clause 1(c)(i) above which shall be issued to Santander UK, credited as fully paid up and having the same rights as the other ordinary shares issued in the capital of A&L, free from all liens, charges, encumbrances, rights of pre-emption and other third party rights and interests of any nature whatsoever.

2. Consideration for the cancellation of the Preference Scheme Shares and the issue of the New A&L Ordinary Shares

(a) **Consideration**

Subject to and in consideration for the Reduction of Capital taking effect and the issue of the New A&L Ordinary Shares to Santander UK, Santander UK shall issue (credited as fully paid and, having the same share premium as that of the corresponding Preference Scheme Shares) to the Preference Scheme Shareholders appearing on the Register of Members at the Preference Scheme Record Time, New Santander UK Preference Shares on the following basis:

For every Preference Scheme Share	One New Santander UK Preference Share
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(b) **Dividends**

Any dividends which are accrued on the Preference Scheme Shares as at the date this Preference Scheme becomes effective will be paid, subject to the terms of the New Santander UK Preference Shares, on the first scheduled dividend payment date thereafter in respect of the New Santander UK Preference Shares.

3. Settlement

- (a) As soon as reasonably practicable after the Preference Scheme becomes effective, Santander UK shall make all such allotments of and shall issue such New Santander UK Preference Shares (and, if applicable, shall pay such amounts of cash as are required to be paid) to give effect to this Preference Scheme to the persons respectively entitled thereto, such consideration to be settled as set out in Clause 3(b) below.
- (b) Settlement of the New Santander UK Preference Shares shall be effected as follows, subject in each case to Clause 3(d) below:
 - (i) in the case of Preference Scheme Shares held through Euroclear and Clearstream in uncertificated form, the New Santander UK Preference Shares to which Direct Participants at the Preference Scheme Record Time are entitled will be held by the CD Nominee on behalf of those persons and the securities account of each Direct Participant within Euroclear or Clearstream (as applicable) will be credited with the number of New Santander UK Preference Shares held on behalf of such persons on the Effective Date;

- (ii) in the case of Preference Scheme Shares held in certificated form, the New Santander UK Preference Shares to which the relevant Preference Scheme Shareholder is entitled shall be issued to him in certificated form; and
 - (iii) in the case of New Santander UK Preference Shares to be sold in accordance with Clause 3(d)(i) or 3(d)(ii) Santander UK shall, on behalf of the nominee appointed pursuant to Clause 3(d)(i) below, or the person appointed by Santander UK in accordance with Clause 3(d)(ii) below, make any cash payment pursuant to Clause 3(d)(i) or 3(d)(ii) provided that Santander UK may (if, for any reason, it wishes to do so) determine that all or part of such consideration shall be paid by cheque in accordance with the provisions of Clause 3(c) below.
- (c) All notices, statements and/or cheques relating to the delivery of New Santander UK Preference Shares required to be made pursuant to this Preference Scheme shall be made through Euroclear and Clearstream or (as the case may be) by sending the same by first class post in pre-paid envelopes addressed to the persons entitled thereto at their respective addresses as appearing in the Register of Members at the Preference Scheme Record Time or, in the case of joint holders, at the address of that one of the joint holders whose name stands first in the said register in respect of such joint holding at such time, and none of the Company, the Registrar, Santander UK, the nominees referred to in Clause 3(d)(i) below or the person appointed by Santander UK in accordance with Clause 3(d)(ii) below shall be responsible for any loss or delay in the transmission or delivery of any notices, statements or cheques sent in accordance with this sub-clause which shall be sent at the risk of the persons entitled thereto. All cheques shall be in sterling drawn on a United Kingdom clearing bank and shall be made payable to the Preference Scheme Shareholder or, in the case of joint holders, to that one of the joint holders whose name stands first in the Register of Members in respect of such joint holding at the Preference Scheme Record Time or to such other persons (if any) as such persons may direct in writing and the encashment of any such cheque shall be a complete discharge for the moneys represented thereby.
- (d) The provisions of Clause 2 and this Clause 3 shall be subject to any prohibition or condition imposed by law. Without prejudice to the generality of the foregoing, if, in respect of any Preference Scheme Shareholder with a registered address outside the United Kingdom or whom Santander UK reasonably believes to be a citizen, resident or national of a jurisdiction outside the United Kingdom, Santander UK is advised that the delivery of New Santander UK Preference Shares pursuant to Clause 2 or this Clause 3 would or may infringe the laws of any such jurisdiction or would or may require Santander UK to comply with any governmental or other consent or any registration, filing or other formality with which Santander UK is unable to comply or compliance with which Santander UK regards as unduly onerous, or, in either case, Santander UK considers that to determine the same is not possible or is a matter which Santander UK regards as unduly onerous or disproportionate given the number of Preference Scheme Shareholders with a registered address in that jurisdiction, Santander UK may in its sole discretion, either:
 - (i) determine that such New Santander UK Preference Shares shall not be issued or credited to such Preference Scheme Shareholder under Clause 2 or this Clause 3 but shall instead be issued or credited to a nominee for such Preference Scheme Shareholder appointed by Santander UK on terms that the nominee shall, as soon as is practicable following the Effective Date, sell the New Santander UK Preference Shares so delivered or credited, as the case may be, and shall account for the net proceeds of such sale to such Preference Scheme Shareholder; or
 - (ii) determine that such New Santander UK Preference Shares shall be issued or credited to such Preference Scheme Shareholder and sold on his or her behalf, in which event the New Santander UK Preference Shares shall be delivered or credited to such Preference Scheme Shareholder and Santander UK shall appoint a person to act pursuant to this Clause 3(d)(ii) and such person shall be treated as having been irrevocably authorised by such Preference Scheme Shareholder to

procure that any New Santander UK Preference Shares in respect of which Santander UK has made such determination shall, as soon as is practicable following the Effective Date, be sold.

- (e) Any sale of New Santander UK Preference Shares under Clause 3(d)(i) or 3(d)(ii) shall be carried out at the best price which can reasonably be obtained at the time of sale and the net proceeds of such sale (after the deduction of all expenses and commissions incurred in connection with such sale, including any amount in respect of value added tax thereon) shall, within seven days after such sale, be paid to the Preference Scheme Shareholder entitled thereto in accordance with Clause 3(b)(iii) above. To give effect to any sale under Clause 3(d)(i) or 3(d)(ii) above, the nominee referred to in Clause 3(d)(i) and/or the person appointed by Santander UK in accordance with Clause 3(d)(ii) above (as the case may be) shall be irrevocably authorised as attorney on behalf of the Preference Scheme Shareholder concerned to execute and deliver as transferor an instrument or instruction of transfer and to give such instructions and to do all other things which he may consider necessary or expedient in connection with such sale. In the absence of bad faith or wilful default, none of A&L, Santander UK, the nominee or the person so appointed shall have any liability for any loss or damage arising as a result of the timing or (other than as set out in this Clause) terms of such sale.

4. Certificates relating to Preference Scheme Shares

With effect from and including the Effective Date, all certificates representing the Preference Scheme Shares shall cease to be valid for any purpose. In addition, with effect from and including the Effective Date, in respect of the Preference Scheme Shareholders who held their Preference Scheme Shares through Euroclear or Clearstream in uncertificated form, Euroclear and Clearstream shall be instructed to cancel the entitlements to such Preference Scheme Shares.

5. Operation of this Preference Scheme

- (a) The Preference Scheme shall become effective in accordance with its terms as soon as a certified copy of the Preference Court Order (together with the minute of such resolution of capital attached thereto) in the form approved by the Court has been delivered to the Registrar of Companies for registration and is registered by him.
- (b) Unless this Preference Scheme becomes effective on or before 30 June 2010, or such later date (if any) as the Company and Santander UK may agree and (if required) the Court may allow, this Preference Scheme shall never become effective and shall lapse.

6. Mandates

Each mandate in force at the Preference Scheme Record Time relating to the payment of dividends on Preference Scheme Shares and each instruction then in force in respect of the Preference Scheme Shares as to notices and other communications shall, unless and until varied or revoked, be deemed as from the Effective Date to be a valid and effective mandate or instruction to Santander UK in relation to the corresponding New Santander UK Preference Shares to be allotted and issued pursuant to this Preference Scheme.

7. Modification

A&L and Santander UK may jointly consent on behalf of all persons concerned to any modification of or addition to (including, without limitation, any modification or addition which represents an improvement in the value and/or terms of the Preference Scheme to Preference Scheme Shareholders) this Preference Scheme or to any condition which the Court may think fit to approve or impose.

8. Governing Law

This Preference Scheme is governed by English law and is subject to the jurisdiction of the Court.

12 March 2010

PART 9
NOTICE OF COURT MEETING

**IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT**

No 1936 of 2010

IN THE MATTER OF ALLIANCE & LEICESTER PLC
and
IN THE MATTER OF THE COMPANIES ACT 2006

NOTICE IS HEREBY GIVEN that, by an Order dated 12 March 2010 made in the above matters, the Court has directed a meeting to be convened of the holders of Series A fixed/floating rate non-cumulative callable preference shares of £1 each in the capital of Alliance & Leicester plc (the **"Company"**) (**"A&L Preference Shares"**) for the purpose of considering and, if thought fit, approving (with or without modification) a scheme of arrangement pursuant to Part 26 of the Companies Act 2006 (the **"Preference Scheme"**) proposed to be made between the Company and the Preference Scheme Shareholders (as defined in the Preference Scheme) and that such meeting will be held at 2 Triton Square, Regent's Place, London NW1 3AN on 30 March 2010 at 8.45 a.m., at which place and time all holders of the A&L Preference Shares are requested to attend.

A copy of the Preference Scheme and a copy of the explanatory statement required to be furnished pursuant to section 897 of the Companies Act 2006 are incorporated in the document of which this notice forms part.

It is requested that forms appointing proxies be lodged with the registrars of the Company, Citibank, N.A., at Citibank Agency and Trust, c/o Lucid Issuer Services Ltd, Leroy House, 436 Essex Road, London N1 3QP, no later than 12.00 p.m. on 29 March 2010 or, in the event that the meeting is adjourned, not less than 48 hours before the time appointed for any adjourned meeting but, if forms are not so lodged, they may be handed to Lucid Issuer Services Ltd on behalf of the chairman of the meeting at the meeting.

Persons who hold their interests in A&L Preference Shares in uncertificated form through the Clearing Systems should immediately contact their Direct Participant (through any intermediaries, if appropriate) to ensure that a valid Electronic Voting Instruction (as defined in Part 7 of the document of which this notice forms part) is submitted in respect of their interests in A&L Preference Shares.

Such persons should note, however, that unless a valid Electronic Voting Instruction is delivered on or before 5.00 p.m. (London time) on 26 March 2010 the voting instructions contained in that Electronic Voting Instruction will be disregarded for the purposes of voting at the Court Meeting (as defined in Part 7 of the circular sent to holders of A&L Preference Shares on 12 March 2010) and the Preference Scheme Shareholder will not be able to vote at the Court Meeting.

Entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Register of Members at 5.00 p.m. on the day which is two days prior to the date of the meeting or any adjourned meeting (as the case may be). Changes to the entries on the Register of Members after such time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

By the said Order, the Court has appointed Antonio Lorenzo Munoz, or failing him, Juan Colombás, or failing him, Alison Brittain to act as chairman of the meeting and has directed the chairman to report the result of the meeting to the Court.

The Preference Scheme will be subject to the subsequent sanction of the Court.

Dated 12 March 2010

Slaughter and May
One Bunhill Row
London EC1Y 8YY

Solicitors for the Company

Notes:

- (1) A registered holder of the A&L Preference Shares is entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice.
- (2) If you hold your interest in A&L Preference Shares through Euroclear and/or Clearstream in uncertificated form, please arrange for the Direct Participant through which you hold your shares to submit Electronic Voting Instructions on your behalf to Euroclear and/or Clearstream before 5.00 p.m. on 26 March 2010 or such earlier deadline as may be specified by Euroclear and/or Clearstream.

The receipt of such Electronic Voting Instructions by Euroclear and/or Clearstream will be acknowledged in accordance with the standard practices of Euroclear and/or Clearstream (as applicable) and will result in the blocking of the relevant shares in the holder's account with Euroclear and/or Clearstream so that no transfers may be effected in relation to such A&L Preference Shares.

You must take the appropriate steps through Euroclear and/or Clearstream so that no transfers may be effected in relation to such blocked A&L Preference Shares at any time after the date of submission of such Electronic Voting Instructions, in accordance with the requirements of Euroclear and/or Clearstream and the deadlines required by Euroclear and/or Clearstream. By delivering Electronic Voting Instructions through the Clearing Systems to the Tabulation Agent, Direct Participants are deemed to authorise the relevant Clearing System to disclose their identity, the aggregate principal amount of Preference Shares the subject of their Electronic Voting Instructions and their Clearing System account details to the Tabulation Agent for disclosure to A&L, the Registrar and the Solicitation Agent.

If you are a Direct Participant, please submit Electronic Voting Instructions to Euroclear and/or Clearstream on behalf of holders who hold A&L Preference Shares through Euroclear and/or Clearstream in uncertificated form before 5.00 p.m. on 26 March 2010 or such earlier deadline as may be specified by Euroclear and/or Clearstream (as applicable). The CD Nominee, in the case of A&L Preference Shares held through Euroclear and/or Clearstream in uncertificated form, is the registered holder of such A&L Preference Shares and will endeavour to vote in accordance with your instructions.

- (3) To be valid, any form of proxy, together with the authority (if any) under which it is executed or a certified copy of such authority, must be lodged with the registrars of the Company, Citibank, N.A. at Citibank Agency and Trust, c/o Lucid Issuer Services Limited, Leroy House, 436 Essex Road, London N1 3QP, by no later than 12.00 p.m. on 29 March 2010, or, in the event that the meeting is adjourned, not less than 48 hours before the time appointed for any adjourned meeting but, if forms are not so lodged, they may be handed to the chairman at the meeting. Proxy forms returned by fax or email will not be accepted.
- (4) The return of a completed proxy form will not prevent a shareholder from attending and voting in person at the meeting.
- (5) To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company as at 5.00 p.m. on 28 March 2010 or, if the meeting is adjourned, on the date which is two days prior to the date of any adjourned meeting. Changes to the Register of Members after the relevant deadline will be disregarded in determining the right of any person to attend and vote at the meeting.
- (6) As at 11 March 2010 (the latest practicable date prior to the publication of this notice) the Company's issued preference share capital consists of 300,002 A&L Preference Shares carrying one vote each. Therefore, the total voting rights in the Company as at 11 March 2010 in relation to the resolutions to be considered at this meeting are 300,002.
- (7) Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
- (8) Voting on all resolutions will be decided on a poll. This means that shareholders who attend the meeting, as well as those who are not able to attend but have sent proxy forms may have their votes taken into account according to the number of shares they hold. Details of the results of the poll will be announced through the Regulatory News Service.

PART 10
NOTICE OF GENERAL MEETING

ALLIANCE & LEICESTER PLC
Registered in England and Wales
(No. 3263713)

NOTICE IS HEREBY GIVEN that a general meeting of Alliance & Leicester plc (the “**Company**”) will be held at 2 Triton Square, Regent’s Place, London NW1 3AN on 30 March 2010 at 8.50 a.m. (or as soon as the Court Meeting (as defined in the circular to the Company’s shareholders dated 12 March 2010) has been concluded or adjourned) for the purpose of considering and, if thought fit, passing the following resolutions, which will be proposed as special resolutions:

SPECIAL RESOLUTIONS

1. THAT, subject to and conditional on the passing of the resolution set out in the notice of the meeting of the holders of A&L Preference Shares convened by the Court and the resolutions set out in the notice convening the separate class meeting of the holders of the A&L Preference Shares, (both dated 12 March 2010) and all the other resolutions set out in this notice of general meeting, and forthwith upon the passing of this resolution, the articles of association of the Company shall be amended as follows:
 - (a) by the adoption and inclusion of the following new definition of “Preference Dividend” in substitution for the existing definition of “Preference Dividend”:

“The dividend (preferential or otherwise) payable to the holders of the Preference Shares.”
 - (b) by the inclusion of the following words at the beginning of existing Article 4.2(b):

“Subject to Article 4.2(e) below,”
 - (c) by the adoption and inclusion of the following new Article 4.2(e):

“(e) Notwithstanding Article 4.2(b) above, the Directors may determine before or after allotting the relevant Preference Shares to include in that Relevant Preference Series the right to a dividend which ranks as regards participation in profits equally among themselves and equally with any Junior Obligations, subject to any conditions as the Directors may see fit to impose, and this additional right will be considered a Preference Dividend for the purposes of this Article 4.”
2. THAT, subject to and conditional on the passing of the resolution set out in the notice of the meeting of the holders of A&L Preference Shares convened by the Court and the resolutions set out in the notice convening the separate class meeting of the holders of A&L Preference Shares (both dated 12 March 2010) and all the other resolutions set out in this notice of general meeting, and forthwith upon the passing of this resolution, the terms of the A&L Preference Shares shall be amended by the adoption and inclusion of the following additional right to participate in the profits of A&L as described below:

“The Preference Dividend in respect of each Preference Share shall also include an amount (if any) equal to any dividend exceeding £100 paid or declared on each Ordinary Share in the period from (and including) 27 April 2010 to (but excluding) 1 May 2010, if (and only if) A&L has repaid all of its Parity Obligations on or prior to 1 May 2010.”
3. THAT, subject to and conditional on the passing of the resolution set out in the notice of the meeting of the holders of A&L Preference Shares convened by the Court and the resolutions set out in the notice convening the separate class meeting of the holders of A&L Preference Shares (both dated 12 March 2010) and all the other resolutions set out in this notice of general meeting, and for the purposes of giving effect to the Preference Scheme (as such term is defined in the Company’s circular to shareholders dated 12 March 2010) (the

“Preference Scheme”) in its original form or subject to any modification, addition or condition which represents an improvement in the value and/or terms of the Preference Scheme to the holders of Preference Scheme Shares as may be approved by the Company, Santander UK and the Court:

- (a) the share capital of the Company be reduced by cancelling and extinguishing the Preference Scheme Shares (as defined in the Preference Scheme);
- (b) the share premium account of the Company be reduced by the sum of £299,701,998 (the reductions referred to in resolution 3(a) above and this resolution 3(b) together the **“Reduction of Capital”**);
- (c) forthwith and contingently upon the Reduction of Capital taking effect, the reserve arising in the books of account of the Company as a result of the Reduction of Capital be capitalised and applied by the Company in paying up in full at par such number of new ordinary shares of 50 pence each in the capital of the Company (the **“New A&L Ordinary Shares”**) the aggregate nominal value of which is equal to the Reduction of Capital and having the same rights as the other ordinary shares in the capital of the Company, which shall be allotted and issued credited as fully paid up to Santander UK;
- (d) forthwith and contingently upon the Reduction of Capital taking effect, the directors of the Company be and they are hereby generally and unconditionally authorised to allot the New A&L Ordinary Shares, provided that:
 - (i) this authority shall expire on the first anniversary of the date of this resolution;
 - (ii) the maximum nominal amount of shares which may be allotted hereunder shall be the aggregate nominal amount of the New A&L Ordinary Shares created pursuant to sub-paragraph 3(c) above of this resolution; and
 - (iii) this authority shall be without prejudice to any other authority under section 551 of the Companies Act 2006 (or its predecessor section under the Companies Act 1985) previously granted and in force, or to be granted, on the date on which this resolution is passed; and
- (e) the directors of the Company be authorised to take all such additional actions as they consider necessary for carrying the Preference Scheme into effect.

By order of the Board

Karen M Fortunato
Group Secretary
Alliance & Leicester plc

12 March 2010

Registered Office:
Carlton Park
Narborough
Leicester
LE19 0AL

Notes:

- (1) The holders of the ordinary shares of 50 pence each shall be entitled to vote on all resolutions.
- (2) The holders of the A&L Preference Shares shall be entitled to speak and/or vote on resolutions 1, 2, 3(a), 3(b) and 3(e) pursuant to the rights conferred under the terms of the A&L Preference Shares.
- (3) A shareholder is entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice.
- (4) If you hold your interest in A&L Preference Shares through Euroclear and/or Clearstream in uncertificated form, please arrange for the Direct Participant through which you hold such shares to submit Electronic Voting Instructions on your behalf to Euroclear and/or Clearstream before 5.00 p.m. on 26 March 2010 or such earlier deadline as may be specified by Euroclear and/or Clearstream.

The receipt of such Electronic Voting Instructions by Euroclear and/or Clearstream will be acknowledged in accordance with the standard practices of Euroclear and/or Clearstream (as applicable) and will result in the blocking of the relevant shares in the holder's account with Euroclear and/or Clearstream so that no transfers may be effected in relation to such A&L Preference Shares.

You must take the appropriate steps through Euroclear and/or Clearstream so that no transfers may be effected in relation to such blocked A&L Preference Shares at any time after the date of submission of such Electronic Voting Instructions, in accordance with the requirements of Euroclear and/or Clearstream and the deadlines required by Euroclear and/or Clearstream. By delivering Electronic Voting Instructions through the Clearing Systems to the Tabulation Agent, Direct Participants are deemed to authorise the relevant Clearing System to disclose their identity, the aggregate principal amount of Preference Shares the subject of their Electronic Voting Instructions and their Clearing System account details to the Tabulation Agent for disclosure to A&L, the Registrar and the Solicitation Agent.

If you are a Direct Participant, please submit Electronic Voting Instructions to Euroclear and/or Clearstream on behalf of holders who hold A&L Preference Shares through Euroclear and/or Clearstream in uncertificated form before 5.00 p.m. on 26 March 2010 or such earlier deadline as may be specified by Euroclear and/or Clearstream (as applicable). The CD Nominee, in the case of A&L Preference Shares held through Euroclear and/or Clearstream in uncertificated form, is the registered holder of such A&L Preference Shares and will endeavour to vote in accordance with your instructions.

- (5) To be valid, any form of proxy, together with the authority (if any) under which it is executed or a certified copy of such authority, must be lodged with the registrars of the Company, Citibank, N.A. at Citibank Agency and Trust, c/o Lucid Issuer Services Limited, Leroy House, 436 Essex Road, London N1 3QP, by no later than 12.00 p.m. on 29 March 2010, or, in the event that the meeting is adjourned, not less than 48 hours before the time appointed for any adjourned meeting. Proxy forms returned by fax or email will not be accepted.
- (6) The return of a completed proxy form will not prevent a shareholder from attending and voting in person at the meeting.
- (7) To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company as at 5.00 p.m. on 28 March 2010 or, if the meeting is adjourned, on the date which is two days prior to the date of any adjourned meeting. Changes to the Register of Members after the relevant deadline will be disregarded in determining the right of any person to attend and vote at the meeting.
- (8) As at 11 March 2010, (the latest practicable date prior to the publication of this notice), the Company's issued ordinary share capital consists of 1,857,083,127 A&L Ordinary Shares carrying one vote each and the Company's issued preference share capital consists of 300,002 A&L Preference Shares carrying one vote each. Therefore, the total voting rights in the Company as at 11 March 2010 are 1,857,083,127 in respect of A&L Ordinary Shares and 300,002 in respect of A&L Preference Shares in respect of resolutions 1, 2, 3(a), 3(b) and 3(e), and 1,857,083,127 in respect of A&L Ordinary Shares in respect of resolutions 3(c) and 3(d).
- (9) Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
- (10) Voting on all resolutions will be decided on a poll. This means that shareholders who attend the meeting, as well as those who are not able to attend but have sent proxy forms may have their votes taken into account according to the number of shares they hold. Details of the results of the poll will be announced through the Regulatory News Service.

PART 11

NOTICE OF SEPARATE CLASS MEETING OF PREFERENCE SHAREHOLDERS

ALLIANCE & LEICESTER PLC

Registered in England and Wales

(No. 3263713)

NOTICE IS HEREBY GIVEN that a separate class meeting of the holders of Series A fixed/floating rate non-cumulative callable preference shares of £1 each in the capital of Alliance & Leicester plc (the “**Company**”) (the “**A&L Preference Shares**”) will be held at 2 Triton Square, Regent’s Place, London NW1 3AN on 30 March 2010 at 8.55 a.m. (or as soon as the Court Meeting and the General Meeting (as defined in the circular to the Company’s shareholders dated 12 March 2010, have been concluded or adjourned) for the purpose of considering and, if thought fit, passing the following resolutions, which will be proposed as special resolutions:

SPECIAL RESOLUTIONS

1. THAT, subject to and conditional on the resolution set out in the notice of the meeting of the holders of A&L Preference Shares convened by the Court and the resolutions set out in the notice convening the general meeting of the Company (both dated 12 March 2010) and the resolutions set out in this notice of separate class meeting being passed, and forthwith upon the passing of this resolution, the holders of the A&L Preference Shares hereby sanction the passing and carrying into effect of resolution 1 set out in the notice convening the general meeting of the Company dated 12 March 2010 and the implementation of the matters referred to therein.
2. THAT, subject to and conditional on the resolution set out in the notice of the meeting of holders of A&L Preference Shares convened by the Court and the resolutions set out in the notice convening the general meeting of the Company (both dated 12 March 2010) and the resolutions set out in this notice of separate class meeting, being passed, and forthwith upon the passing of this resolution, the holders of the A&L Preference Shares hereby sanction the passing and carrying into effect of resolution 2 set out in the notice convening the general meeting of the Company dated 12 March 2010 and the implementation of the matters referred to therein, and hereby consent to each and every variation, modification or abrogation of the rights or privileges attached to the A&L Preference Shares which is or may be thereby effected.
3. THAT, subject to and conditional on the resolution set out in the notice of the meeting of the holders of A&L Preference Shares convened by the Court and the resolutions set out in the notice convening the general meeting of the Company (both dated 12 March 2010) and all the other resolutions set out in this notice of separate class meeting being passed, and for the purposes of giving effect to the Preference Scheme (as such term is defined in the Company’s circular to shareholders dated 12 March 2010) (the “**Preference Scheme**”) in its original form or subject to any modification, addition or condition which represents an improvement in the value and/or terms of the Preference Scheme to the holders of Preference Scheme Shares as may be approved by the Company, Santander UK, and the Court:
 - (a) the share capital of the Company be reduced by cancelling and extinguishing the Preference Scheme Shares (as defined in the Preference Scheme);
 - (b) the share premium account of the Company be reduced by the sum of £299,701,998; and
 - (c) the directors of the Company be authorised to take all such additional actions as they consider necessary for carrying the Preference Scheme into effect.

By order of the Board

Karen M Fortunato
Group Secretary
Alliance & Leicester plc

12 March 2010

Registered Office:

Carlton Park
Narborough
Leicester
LE19 0AL

Notes:

- (1) A registered holder of the A&L Preference Shares is entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice.

- (2) If you hold your interest in A&L Preference Shares through Euroclear and/or Clearstream in uncertificated form, please arrange for the Direct Participant through which you hold such shares to submit Electronic Voting Instructions on your behalf to Euroclear and/or Clearstream before 5:00 p.m. on 26 March 2010 or such earlier deadline as may be specified by Euroclear and/or Clearstream.

The receipt of such Electronic Voting Instructions by Euroclear and/or Clearstream will be acknowledged in accordance with the standard practices of Euroclear and/or Clearstream (as applicable) and will result in the blocking of the relevant shares in the holder's account with Euroclear and/or Clearstream so that no transfers may be effected in relation to such A&L Preference Shares.

You must take the appropriate steps through Euroclear and/or Clearstream so that no transfers may be effected in relation to such blocked A&L Preference Shares at any time after the date of submission of such Electronic Voting Instructions, in accordance with the requirements of Euroclear and/or Clearstream and the deadlines required by Euroclear and/or Clearstream. By delivering Electronic Voting Instructions through the Clearing Systems to the Tabulation Agent, Direct Participants are deemed to authorise the relevant Clearing System to disclose their identity, the aggregate principal amount of Preference Shares the subject of their Electronic Voting Instructions and their Clearing System account details to the Tabulation Agent for disclosure to A&L, the Registrar and the Solicitation Agent.

If you are a Direct Participant, please submit Electronic Voting Instructions to Euroclear and/or Clearstream on behalf of holders who hold A&L Preference Shares through Euroclear and/or Clearstream in uncertificated form before the 5:00 p.m. on 26 March 2010 or such earlier deadline as may be specified by Euroclear and/or Clearstream (as applicable). The CD Nominee, in the case of A&L Preference Shares held through Euroclear and/or Clearstream in uncertificated form, is the registered holder of such A&L Preference Shares and will endeavour to vote in accordance with your instructions.

- (3) To be valid, any form of proxy, together with the authority (if any) under which it is executed or a certified copy of such authority, must be lodged with the registrars of the Company, Citibank, N.A. at Citibank Agency and Trust, c/o Lucid Issuer Services Limited, Leroy House, 436 Essex Road, London N1 3QP, by no later than 12.00 p.m. on 29 March 2010, or, in the event that the meeting is adjourned, not less than 48 hours before the time appointed for any adjourned meeting. Proxy forms returned by fax or email will not be accepted.
- (4) The return of a completed proxy form will not prevent a shareholder from attending and voting in person at the meeting.
- (5) To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company as at 5.00 p.m. on 28 March 2010 or, if the meeting is adjourned, on the date which is two days prior to the date of any adjourned meeting. Changes to the Register of Members after the relevant deadline will be disregarded in determining the right of any person to attend and vote at the meeting.
- (6) As at 11 March 2010, (the latest practicable date prior to the publication of this notice) the Company's issued preference share capital consists of 300,002 A&L Preference Shares carrying one vote each. Therefore, the total voting rights in the Company as at 11 March 2010 in relation to the resolutions to be considered at this meeting are 300,002.
- (7) Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
- (8) Voting on all resolutions will be decided on a poll. This means that shareholders who attend the meeting, as well as those who are not able to attend but have sent proxy forms may have their votes taken into account according to the number of shares they hold. Details of the results of the poll will be announced through the Regulatory News Service.

