

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** 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.

A copy of this document, being a prospectus relating to the New Santander UK Preference Shares to be issued pursuant to the Preference Scheme and prepared in accordance with the Prospectus Rules made under section 84 of the FSMA, has been filed with the FSA and is being and will be made available to the public as required by rule 3.2 of the Prospectus Rules.

Investors should only rely on the information contained in this document and any documents incorporated by reference. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representation must not be relied upon as having been so authorised.

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.

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## Santander UK plc

*(incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number 2294747)*



**£300,002,000**

### **Series A Fixed/Floating Rate Non-Cumulative Callable Preference Shares**

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Further information in relation to the Preference Scheme, including the action to be taken in respect of the Court Meeting, the A&L General Meeting and the Preference Class Meeting, is set out in the Preference Scheme Document. The Preference Scheme Document has been despatched to A&L Preference Shareholders through the Clearing Systems and is also available for viewing on the website of the Regulatory News Service operated by the London Stock Exchange plc (the **London Stock Exchange**) at [www.londonstockexchange.com](http://www.londonstockexchange.com). The Preference Scheme Document does not form part of this Prospectus.

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. 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 A&L Preference Shares should be given the opportunity to exchange their A&L Preference Shares for the New Santander UK Preference Shares to be issued by Santander UK on substantially similar terms to the A&L Preference Shares.

The exchange is intended to be implemented by way of a scheme of arrangement under sections 895 to 899 of the Companies Act 2006 (the **Preference Scheme**). 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 A&L 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 (as further described in Part I of this Prospectus ("*Information about the Preference Scheme*") and the Preference Scheme Document).

Under the terms of the Preference Scheme, subject to the satisfaction or, if permitted, waiver of the Conditions set out in paragraph 7 of Part I of this document and Part 3 of the Preference Scheme Document, A&L Preference Shareholders will receive:

**For every A&L Preference Share                      One New Santander UK Preference Share**

The terms and conditions of the New Santander UK Preference Shares will be substantially similar to the terms of the existing A&L Preference Shares. In particular in the period from (and including) the Issue Date to (but excluding) 24 May 2010, a dividend of £62.22 will accrue in respect of each New Santander UK Preference Share and, if declared, will be payable on 24 May 2010 in respect of each New Santander UK Preference Share. The Preference Dividend in respect of each New Santander UK Preference Share shall also include 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.

Thereafter, non-cumulative preferential dividends will accrue on a principal amount equal to £1,000 per New Santander UK Preference Share at a rate of 6.222 per cent. per annum in respect of the period from (and including) 24 May 2010 to (but excluding) 24 May 2019 (the **First Call Date**). From (and including) the First Call Date and thereafter, non-cumulative preferential dividends will accrue on the New Santander UK Preference Shares at a rate, reset quarterly, equal to 1.13 per cent. per annum above LIBOR. From (and including) 24 May 2010 to (and including) the First Call Date, dividends, if declared, will be paid annually in arrear on 24 May in each year. Subject as provided herein, the first such dividend payment date will be 24 May 2011 and the last such dividend payment date will be the First Call Date. From (but excluding) the First Call Date, dividends, if declared, will be paid quarterly in arrear on 24 August, 24 November, 24 February and 24 May in each year. Subject as provided herein, the first such dividend payment date will be 24 August 2019. See Part IV of this Prospectus ("*Description of the New Santander UK Preference Shares – Dividends*").

The New Santander UK Preference Shares will be perpetual securities and have no maturity date. Subject to the conditions described herein, Santander UK may, at its option, redeem the New Santander UK Preference Shares in whole, but not in part, on the First Call Date or on each Preference Dividend Payment Date thereafter. The amount payable on redemption will be an amount of £1,000 per New Santander UK Preference Share and any Preference Dividends accrued since the immediately preceding Preference Dividend Payment Date. If, at any time a Regulatory Event occurs, the Company may, at its option, also redeem the New Santander UK Preference Shares, in whole, but not in part, at a Make Whole Redemption Price, or substitute the New Santander UK Preference Shares with Qualifying Non-Innovative Tier 1 Securities, in either case, only if the FSA has indicated that it has no objection to such redemption or 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. For further information, see the sections titled "*Redemption*" and "*Substitution for Qualifying Non-Innovative Tier 1 Securities*" in Part IV of this Prospectus on pages 40 to 41.

The New Santander UK Preference Shares will rank as regards participation in profits: (i) in priority to ordinary shares in the capital of Santander UK and any other Junior Obligations; and (ii) *pari passu* with each other and the Parity Obligations. Dividends may be paid on the Existing Parity Obligations, regardless of whether or not the Board has exercised its discretion not to pay a dividend on the New Santander UK Preference Shares. A summary of the rights attaching to the New Santander UK Preference Shares is set out in the "*Description of the New Santander UK Preference Shares*" section in Part IV of this Prospectus commencing on page 37.

**Prospective investors should have regard to the factors described under the section headed "*Risk Factors*" in Part III of this Prospectus commencing on page 24.**

The New Santander UK Preference Shares are expected to be assigned, on issue, a rating of A- by Standard and Poor's, a rating of Baa3 by Moody's and a rating of A by Fitch. The A&L Preference Shares are rated, as of the date of this Prospectus, A- by Standard and Poor's, B1 by Moody's and A by Fitch. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

Application will be made to the FSA in its capacity as competent authority (the **UK Listing Authority**) under the FSMA for the New Santander UK Preference Shares to be admitted to the official list of the UK Listing Authority (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 regulated market (the **Market**). References to the New Santander UK Preference Shares being "listed" (and all related references) shall mean that such New Santander UK Preference Shares have been admitted to the Official List and have been admitted to trading on the Market. The Market is a "regulated market" for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive).

**12 March 2010**

Santander UK accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of Santander UK (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

A&L accepts responsibility for the information contained in this Prospectus set out (i) in the A&L half yearly unaudited financial report of A&L for the six months ended 30 June 2009 and audited consolidated annual financial statements of A&L for the financial years ended 31 December 2007 and 31 December 2008 (which are incorporated by reference in this Prospectus); (ii) in the “*Risk Factors*” section in Part III of this Prospectus on pages 24 to 36 (insofar as it relates to the A&L Group); (iii) under the heading “*Acquisitions – Alliance & Leicester plc*” in Part VI of this Prospectus on pages 47 to 48; (iv) under the heading “*Directors of Santander UK*” in Part VI of this Prospectus on pages 52 to 53; (v) in the significant or material change statement and the litigation statement under the headings “*Significant or Material Change*” and “*Litigation*” respectively in Part X of this Prospectus on page 62 (insofar as it relates to the A&L Group); (vi) under the heading “*Independent Auditors*” in Part X of this Prospectus on page 63 (insofar as it relates to the A&L Group) (together, the **A&L Information**). To the best of the knowledge and belief of A&L (which has taken all reasonable care to ensure that such is the case), the A&L Information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus comprises a prospectus for the purposes of article 3 of the Prospectus Directive and is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see the section entitled “*Documents Incorporated by Reference*” on page 8 below). This Prospectus shall be read and construed on the basis that such documents are so incorporated and form part of this Prospectus.

In connection with the issue of the New Santander UK Preference Shares, no person other than A&L in respect of the Preference Scheme Document is or has been authorised by Santander UK to give any information or to make any representation not contained in or not consistent with this Prospectus and any other information supplied in connection with Preference Scheme or New Santander UK Preference Shares, and if given or made, such information or representation must not be relied upon as having been authorised by Santander UK.

Neither this Prospectus nor any information supplied in connection with the issue of the New Santander UK Preference Shares (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by Santander UK that any recipient of this Prospectus or any other information supplied in connection with the New Santander UK Preference Shares should subscribe for the New Santander UK Preference Shares. Each investor contemplating purchasing or otherwise acquiring (within the Preference Scheme or otherwise) any New Santander UK Preference Shares should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of Santander UK. Neither this Prospectus nor any other information supplied in connection with the issue of the New Santander UK Preference Shares constitutes an offer of, or invitation by or on behalf of, Santander UK to any person to subscribe for or to purchase or acquire any New Santander UK Preference Shares.

The delivery of this Prospectus shall not, under any circumstances, imply that the information contained herein concerning Santander UK or the Santander UK Group is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Prospectus is correct as of any time subsequent to the date indicated in the document containing the same.

No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by UBS Limited (the **Financial Adviser**) as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by Santander UK or A&L in connection therewith. The Financial Adviser does not accept any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by Santander UK or A&L in connection with the New Santander UK Preference Shares or their distribution.

## IMPORTANT NOTICE

The distribution of this Prospectus 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 Prospectus 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 Prospectus does not constitute an offer or invitation to purchase or subscribe for any securities or a solicitation of an offer to buy any securities pursuant to this Prospectus or otherwise in any jurisdiction in which such offer or solicitation is unlawful.

This Prospectus has been prepared to comply with English law, the Prospectus Rules of the FSA 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 Prospectus had been prepared in accordance with the laws and regulations of jurisdictions outside England and Wales. This Prospectus, the Conditions and further terms set out in this Prospectus and any non-contractual obligations, are governed by English law and are subject to the jurisdiction of the English courts.

This document is not an offer of securities for sale in the United States. The New Santander UK Preference Shares have not been and will not be registered under the U.S. 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 Part VIII ("*Restrictions*") of this Prospectus. **Neither the U.S. Securities and Exchange Commission (the SEC) nor any state securities commission of any state or other jurisdiction has approved or disapproved of these securities or passed judgement 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.**

Capitalised terms used in this Prospectus have the meanings given to them in Part XI ("*Definitions*").

## PRESENTATION OF FINANCIAL INFORMATION

The consolidated annual financial statements of Santander UK and A&L for the financial years ended 31 December 2007 and 2008 were prepared in accordance with IFRS. The half yearly unaudited financial reports of Santander UK and A&L for the six months ended 30 June 2009 were prepared in accordance with International Accounting Standard 34. In the absence of authoritative guidance under IFRS for accounting for transactions between entities under common control, the transfer of A&L Ordinary Shares to Santander UK by Banco Santander effected on 9 January 2009 (as further described in Part VI under the heading “*Acquisitions – Alliance & Leicester plc*”), has been accounted for in a manner consistent with group reconstruction relief under UK GAAP. As a result, the transfer of the A&L Ordinary Shares has been accounted for by Santander UK with effect from 10 October 2008, the effective date of the scheme of arrangement under which Banco Santander acquired A&L. The consolidated balance sheet and related notes of the Santander UK Group at 31 December 2008 have been updated to reflect this treatment in the half-yearly financial report of Santander UK for the six months ended 30 June 2009. For the avoidance of doubt, this treatment is not reflected in the consolidated balance sheet and related notes of the Santander UK Group contained within the audited consolidated annual financial statements of Santander UK in the annual report and accounts for the year ended 31 December 2008. Santander UK changed its name from Abbey National plc to Santander UK plc on 11 January 2010. Santander UK accounts published prior to that date were therefore issued under the name of Abbey National plc.

In this Prospectus, all references to “billions” are references to one thousand millions. Due to rounding, numbers presented throughout this Prospectus may not add up precisely, and percentages may not precisely reflect absolute figures.

References in this Prospectus to “£” or “sterling” are to the lawful currency of the United Kingdom; references to “€” or “euro” are to the currency introduced at the start of the third stage of European Economic and Monetary Union, pursuant to the Treaty on the Functioning of the European Union, as amended from time to time; and references to “US\$”, “\$” or “US dollar” are to the lawful currency of the United States of America.

## CAUTIONARY NOTE: FORWARD-LOOKING STATEMENTS

This Prospectus 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 Prospectus 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, market position of A&L and Santander UK, earnings, cash flow, return on investments, changing business or market 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 statements, unless required to do so by the Prospectus Rules, the Listing Rules, the Disclosure and Transparency Rules or otherwise by law.

The statements contained herein are made as at the date of this Prospectus, 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.

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## DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published and filed with the FSA, shall be deemed to be incorporated in, and to form part of, this Prospectus:

1. the unaudited half-yearly financial report of Santander UK for the six months ended 30 June 2009;
2. the audited consolidated annual financial statements of Santander UK for the financial year ended 31 December 2008, which appear on pages 69 to 137 of Santander UK's annual report and accounts for the year ended 31 December 2008;
3. the audited consolidated annual financial statements of Santander UK for the financial year ended 31 December 2007, which appear on pages 60 to 125 of Santander UK's annual report and accounts for the year ended 31 December 2007 but excluding, for the avoidance of doubt, the comparative financial information for the financial year ended 31 December 2006 set out in these pages;
4. the unaudited half-yearly financial report of A&L for the six months ended 30 June 2009;
5. the audited consolidated annual financial statements of A&L for the financial year ended 31 December 2008, which appear on pages 43 to 101 of A&L's annual report and accounts for the year ended 31 December 2008; and
6. the audited consolidated annual financial statements of A&L for the financial year ended 31 December 2007, which appear on pages 42 to 103 of A&L's annual report and accounts for the year ended 31 December 2007 but excluding, for the avoidance of doubt, the comparative financial information for the financial year ended 31 December 2006 set out on those pages.

Any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a subsequent statement which is deemed to be incorporated by reference herein or contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified and superseded, constitute part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus pursuant to paragraphs 1 to 6 above can be obtained from the offices of Santander UK at 2 Triton Square, Regent's Place, London, NW1 3AN.

Please note that websites and URLs referred to herein do not form part of this Prospectus. To the extent that any document incorporated by reference in this Prospectus incorporates further information by reference, such further information does not form part of this Prospectus.

Santander UK and A&L will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any New Santander UK Preference Shares, prepare a supplement to this Prospectus.

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

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(1) If the Court Meeting, the A&L 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 A&L 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/or the A&L 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 I

### INFORMATION ABOUT THE PREFERENCE SCHEME

#### 1. Summary of the Preference Scheme

A&L announced on 25 February 2010 that, subject to the support of the FSA 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.

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 A&L 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.

Under the terms of the Preference Scheme, which will be subject to the satisfaction or if permitted waiver of the Conditions set out in Paragraph 7 of this Part I. A&L Preference Shareholders will receive

**For every A&L Preference Share      One New Santander UK Preference Share**

The terms and conditions of the New Santander UK Preference Shares are substantially similar to those of the existing A&L Preference Shares. However, certain provisions have been 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 to introduce an enhanced dividend right in certain limited circumstances. As at the Issue Date the terms of the New Santander UK Preference Shares reflect the current requirements of the FSA to ensure they are eligible to qualify as perpetual non-cumulative preference share capital and therefore treated as Non-Innovative Tier 1 Capital for regulatory capital purposes. The terms of the New Santander UK Preference Shares are set out in Part IV of this Prospectus.

Any dividends which are accrued on the A&L Preference Shares as at the date that the Preference Scheme becomes effective will be paid, subject to the terms of the New Santander UK Preference Shares, on the first scheduled Preference Dividend Payment Date thereafter under the New Santander UK Preference Shares. It is anticipated that the New Santander UK Preference Shares will be settled and tradable through the same Clearing Systems (as applicable) as the A&L Preference Shares.

#### 2. 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 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, as further described in paragraph 7 of this Part I and Part 3 of the Preference Scheme 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 A&L 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 regarding the Court Meeting, the A&L General Meeting and the Preference Class Meeting are set out in paragraph 3 of this Part I.

### 3. Description of the Preference Scheme

Notices of the Court Meeting, the A&L General Meeting and the Preference Class Meeting are set out in Part 9, Part 10 and Part 11, respectively, of the Preference Scheme Document. Only A&L Preference Shareholders who are entered on the A&L 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 A&L 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.

#### 3.1 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 2006, 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 A&L 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.

### **3.2 The A&L General Meeting**

The A&L 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 (including any share premium attached to them);
- (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 shall 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 approval required at the A&L 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 either present and voting in person or by proxy. The approval required at the A&L 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 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 either 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 A&L 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 A&L General Meeting.

### **3.3 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 A&L General Meeting have been 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; and
- (iv) reducing the share premium account of A&L by the sum of £299,701,998;

- (v) authorising the A&L Directors to take all such action as they consider necessary to implement the Preference Scheme.

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 either 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 Preference Shareholder who is present and voting 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.

### **3.4 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.

### **3.5 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. 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.

### **3.6 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 minute of related 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, reduction of capital 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.**

#### **4. Interests of the Santander Group**

Banco Santander (the parent company of Santander UK and 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 A&L 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 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 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 directors of A&L has 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 2006.

#### **5. 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.

#### **6. 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 Market. 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 of A&L at the Preference Scheme Record Time and, in the case of joint holders, to the holder whose name appears first in such register 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.

## **7. Conditions to the Preference Scheme**

The Preference Scheme will only be implemented if all the Conditions have been satisfied or, if permitted, waived. These Conditions are set out in Part 3 of the Preference Scheme Document, and are repeated below:

- (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 A&L 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.

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 proposed amendments to the terms of the A&L Preference Shares taking effect.

#### **8. 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 (the **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) be 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 and/or Clearstream at the Preference Scheme Record Time (including those in any Relevant Overseas Jurisdiction). Such New Santander UK Preference Shares will be held by the CD Nominee 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.

## PART II

### SUMMARY

*This summary must be read as an introduction to this Prospectus and any decision to invest in the New Santander UK Preference Shares or to vote in favour of the Preference Scheme should be based on consideration by an investor of this Prospectus as a whole, including the documents incorporated herein by reference. Following implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area, no civil liability will attach to Santander UK in any such Member State solely on the basis of this summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.*

<b>Issuer</b>	Santander UK is a significant financial services provider in the UK, being the second largest residential mortgage lender and the third largest savings brand.
<b>The New Santander UK Preference Shares</b>	£300,002,000 Series A Fixed/Floating Rate Non-Cumulative Callable Preference Shares of £1 each in the capital of Santander UK, each with a liquidation preference of £1,000.
<b>Issue Date</b>	The date on which the New Santander UK Preference Shares are issued, which is expected to be on or around 28 April 2010.
<b>Preference Dividends</b>	<p>In the period from (and including) the Issue Date to (but excluding) 24 May 2010, a dividend of £62.22 will accrue and if declared will be payable on 24 May 2010 in respect of each New Santander UK Preference Share.</p> <p>The Preference Dividend in respect of each New Santander UK Preference Share shall also include 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.</p> <p>From (and including) 24 May 2010 to (but excluding) the First Call Date, and if declared, non-cumulative preferential dividends will accrue on the New Santander UK Preference Shares at a rate of 6.222 per cent. per annum on a principal amount equal to £1,000 per New Santander UK Preference Share. Each such Preference Dividend will, if declared, be payable annually in arrear on 24 May in each year. Subject as provided herein, the first such Preference Dividend Payment Date will be 24 May 2011 and the last such Preference Dividend Payment Date will be the First Call Date.</p> <p>From (and including) the First Call Date and thereafter, non-cumulative preferential dividends will accrue on the New Santander UK Preference Shares at a rate, reset quarterly, of 1.13 per cent. per annum above LIBOR on a principal amount equal to £1,000 per New Santander UK Preference Share, and, if declared, will be payable in quarterly instalments in arrear on 24 August, 24 November, 24 February and 24 May in each year. Subject as provided herein, the first such Preference Dividend Payment Date will be 24 August 2019.</p>
<b>First Call Date</b>	24 May 2019
<b>Declaration of Preference Dividends</b>	Subject to and notwithstanding the availability of distributable profits and distributable reserves, any Preference Dividend is payable only if the Board shall resolve to make such payment.

If the Board in its sole and absolute discretion resolves, prior to any Preference Dividend Payment Date that the Preference Dividend (or part thereof) shall not be paid on that Preference Dividend Payment Date, then, as resolved by the Board, none or, as described under “*Partial Payments*” below, the Relevant Proportion only, of such Preference Dividend shall be paid.

The Board shall not be bound to give its reasons for exercising such discretion.

#### **Ranking for Dividends**

Holders of 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.

#### **Partial Payments**

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 of Santander UK during the Dividend Stopper Period (other than any payments payable on the Existing Parity Obligations), but the Board determines that there are sufficient distributable profits and distributable reserves so as to allow payment in part, the Board may determine to pay the Relevant Proportion of any such Preference Dividend.

To the extent that any payment of the Relevant Proportion of a Preference Dividend or of the distribution or dividend on any Parity Obligation would otherwise exceed the amount of distributable profits and distributable reserves immediately before such payment, such Relevant Proportion shall not be payable.

#### **Dividend and Capital Restriction**

In the event that 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.

In the event that 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 payments payable on any Existing Parity Obligation).

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 (subject as set out under “*Partial Payments*” above) of any distribution or dividend on any Parity Obligation (other than payments payable on any Existing Parity Obligation).

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.

For the avoidance of doubt, dividends, interest and other income distributions may be made on the Existing Parity Obligations in accordance with their terms and, where applicable, subject to

Legislation regardless of whether or not the Board has exercised its discretion not to pay a dividend on the New Santander UK Preference Shares.

### **Winding-up**

On a winding-up or other return of capital, a holder of the New Santander UK Preference Shares will rank in the application of the assets of Santander UK available to shareholders (i) equally in all respects with the rights against Santander UK in such circumstances in respect of the Parity Obligations and (ii) in priority to the holders of Santander UK Ordinary Shares and any other Junior Obligations.

Subject to such ranking, in such event holders of the New Santander UK Preference Shares will be entitled equally with each other to receive out of the assets of Santander UK available for distribution to shareholders, liquidation distributions in the amount equal to the aggregate of £1,000 per New Santander UK Preference Share and any Preference Dividends accrued for the then current Dividend Period to the date of the commencement of the winding-up or other such return of capital.

### **Redemption**

The New Santander UK Preference Shares are perpetual securities and have no maturity date. However, the New Santander UK Preference Shares are redeemable in whole, but not in part, at the option of Santander UK, if the FSA (if then required) has indicated that it has no objection to such redemption and Santander UK continues to satisfy its minimum regulatory capital adequacy requirements on and following redemption, on the First Call Date or any Preference Dividend Payment Date thereafter at a price per New Santander UK Preference Share equal to the aggregate of £1,000 per New Santander UK Preference Share and any Preference Dividends accrued since the immediately preceding Preference Dividend Payment Date.

### **Redemption or variation for regulatory reasons**

If, at any time, a Regulatory Event occurs, Santander UK may, at its option:

- (i) redeem the New Santander UK Preference Shares in whole, but not in part, at the Make Whole Redemption Price; or
- (ii) 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 or 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.

### **Form and Transfer**

The New Santander UK Preference Shares will be issued:

- (i) in the case of New Santander UK Preference Shares held in uncertificated form, in registered form and represented by a single global share certificate which will be deposited with and registered in the name of a nominee for the Common Depositary for Euroclear and Clearstream; or
- (ii) in the case of New Santander UK Preference Shares held in certificated form, in registered form and represented by individual share certificates.

**Payments of Distributions**

Preference Dividends and any other distributions received in respect of the New Santander UK Preference Shares will be:

- (i) in the case of New Santander UK Preference Shares held in uncertificated form, credited to the cash accounts maintained at Euroclear and Clearstream on behalf of the investors having accounts at Euroclear and Clearstream in accordance with the applicable regulations and procedures of Euroclear and Clearstream; or
- (ii) in the case of New Santander UK Preference Shares held in certificated form, paid by cheque to the registered holder of such shares,

in either case after deduction for applicable withholding taxes.

**Voting Rights**

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:

- (i) 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
- (ii) a resolution is proposed at the general meeting:
  - (A) for, or in relation to, the winding-up of Santander UK; or
  - (B) 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.

At any general meeting of which holders of New Santander UK Preference Shares are entitled to receive notice and at which they may attend, every holder of New Santander UK Preference Shares who is present in person and entitled to vote shall have one vote on a show of hands. On a poll, each holder of New Santander UK Preference Shares present in person or by proxy and entitled to vote shall have one vote in respect of each New Santander UK Preference Share held by him.

**No Senior Tier 1 Capital**

For so long as the New Santander UK Preference Shares are outstanding, Santander UK will not (i) issue any further non-cumulative preference shares or preferred securities or (ii) 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.

**Variation**

The rights, privileges, limitations or restrictions attaching to the New Santander UK Preference Shares may not be varied, altered or abrogated without:

- (i) the consent in writing of the holders of three-quarters in nominal value of the New Santander UK Preference Shares in issue; or

- (ii) the sanction of a special resolution passed at a separate general meeting of the holders of the New Santander UK Preference Shares.

#### **Use of Proceeds**

There will be no cash proceeds resulting from the issue of the New Santander UK Preference Shares. A&L Preference Shareholders who are entitled to receive New Santander UK Preference Shares pursuant to the Preference Scheme will receive their New Santander UK Preference Shares credited as fully paid in consideration of the cancellation of the existing A&L Preference Shares and resulting issue of New A&L Ordinary Shares to Santander UK (as further described in the Preference Scheme Document).

#### **Listing**

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 Market.

#### **Taxation**

The terms of the New Santander UK Preference Shares do not contain any grossing up provision.

#### **Risk Factors**

***Risks associated with Santander UK, including the ability of Santander UK to fulfil its obligations under the terms of the New Santander UK Preference Shares, are set out in full in Part III of this Prospectus.***

The Santander UK Group's risk management measures may not be successful.

Risks concerning borrower credit quality and general economic conditions are inherent in the Santander UK Group's business.

The soundness of other financial institutions could materially and adversely affect the Santander UK Group's business.

Risks associated with liquidity and funding are inherent in the Santander UK Group's business.

Any reduction in the Santander UK Group's credit rating could increase its cost of funding and adversely affect its interest margins.

Market risks associated with fluctuations in interest rates, bond and equity prices and other market factors are inherent in the Santander UK Group's business.

Risks associated with strategic decisions regarding organic growth, and potential acquisitions and disposals.

The Santander UK Group may incur unanticipated losses related to its recent business combinations and/or may fail to realise the anticipated benefits of its recent business combinations.

The Santander UK Group's business is concentrated in the United Kingdom and on the offering of mortgage related products and services.

The Santander UK Group's business is conducted in a highly competitive environment.

Operational risks are inherent in the Santander UK Group's business.

The Santander UK Group's business could be affected if its capital is not managed effectively.

The Santander UK Group relies on recruiting, retaining and developing appropriate senior management and skilled personnel.

Reputational risk could cause harm to the Santander UK Group and its business prospects.

The Santander UK Group's businesses are subject to substantial legislative, regulatory and governmental oversight.

In the United Kingdom members of the Santander UK Group are responsible for contributing to compensation schemes established under FSMA in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers.

The UK Banking Act 2009 may adversely affect the Santander UK's Group's business.

Under the UK Government Asset Protection Scheme, the government offers protection to participating institutions against credit losses incurred on one or more portfolios of defined assets. Following a detailed assessment, the Santander UK Group has determined that it does not wish to participate at this time.

The Santander UK Group is subject to regulatory capital and liquidity requirements that could limit its operations.

### ***Risks Associated with the New Santander UK Preference Shares***

Preference shares may not be a suitable investment for all investors.

Dividends may be paid on the Existing Parity Obligations and not on the New Santander UK Preference Shares.

Deferral or waiver of payment on any Existing Parity Obligation may prevent the redemption or purchase by Santander UK of the New Santander UK Preference Shares.

Deferral or waiver of payment on any Parity Obligation may prevent the payment by Santander UK of Preference Dividends on the New Santander UK Preference Shares and/or may prevent the redemption or purchase by Santander UK of the New Santander UK Preference Shares.

Preference Dividends on the New Santander UK Preference Shares are discretionary and will only be declared or paid if the Board so resolves in respect of any Dividend Period.

Dividends on the New Santander UK Preference Shares are non-cumulative.

If Santander UK is wound up distributions to holders of the New Santander UK Preference Shares will be subordinated to the claims of creditors. The claims of holders of New Santander UK Preference Shares will rank equally among themselves and with the claims of holders of Parity Obligations.

No limitation on issuing senior debt securities or *pari passu* shares.

The New Santander UK Preference Shares have limited voting rights.

Holdings may be required to bear the financial risks of an investment in the New Santander UK Preference Shares for an indefinite period.

Qualifying Non-Innovative Tier 1 Securities may be substituted for the New Santander UK Preference Shares.

In certain circumstances, the New Santander UK Preference Shares may be redeemed at the option of Santander UK.

The terms of the New Santander UK Preference Shares will differ from the terms of the corresponding A&L Preference Shares.

The liquidity and market prices for New Santander UK Preference Shares can be expected to vary with changes in the market and economic conditions and the financial condition and prospects of Santander UK.

Payments of dividends in respect of, and the transfers of, New Santander UK Preference Shares may give rise to certain United Kingdom tax liabilities.

No assurance can be given as to the impact of any possible change to English law.

Subsequent changes in market interest rates may adversely affect the New Santander UK Preference Shares.

Credit ratings may not reflect all risk.

Implementation of the Basel II risk-weighted asset framework may result in changes to the risk weighting of the New Santander UK Preference Shares.

Legal investment considerations may restrict certain investments.  
English.

## **Governing Law**

## PART III

### RISK FACTORS

Santander UK believes that the following factors may affect its ability to fulfil its obligations under the New Santander UK Preference Shares. Most of these factors are contingencies which may or may not occur, and Santander UK is not in a position to express a view on the likelihood of any such contingency occurring. In addition, risk factors which are specific to New Santander UK Preference Shares are also described below.

Santander UK believes that the factors described below represent the material risks inherent in investing in New Santander UK Preference Shares. However, the inability of Santander UK to pay dividends, principal or other amounts on or in connection with the New Santander UK Preference Shares may occur for other reasons which are not considered to be significant or which are currently unknown or which Santander UK is unable to anticipate and accordingly Santander UK does not represent that the statements below regarding the risks of holding the New Santander UK Preference Shares are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

#### **RISKS ASSOCIATED WITH SANTANDER UK, INCLUDING THE ABILITY OF SANTANDER UK TO FULFIL ITS OBLIGATIONS UNDER THE TERMS OF THE NEW SANTANDER UK PREFERENCE SHARES**

The Santander UK Group provides a comprehensive range of personal financial services, including savings, investments, mortgages, unsecured lending, banking, pensions, and life and general insurance products, to customers throughout the United Kingdom. The Santander UK Group also provides offshore operations in certain jurisdictions. Santander UK's ability to meet and perform its obligations may be affected by the performance of the Santander UK Group.

#### ***The Santander UK Group's risk management measures may not be successful***

The management of risk is an integral part of all of the Santander UK Group's activities. Risk constitutes the Santander UK Group's exposure to uncertainty and the consequent variability of return. Specifically, risk equates to the adverse impacts on profitability arising from different sources of uncertainty including credit risk (retail), credit risk (wholesale), market risk, operational risk, securitisation risk, interest rate risk in the banking book, concentration risk, liquidity risk, reputational risk, strategic risk, pension obligation risk and regulatory risk. The Santander UK Group seeks to monitor and manage its risk exposure through a variety of separate but complementary financial, credit, market, operational, compliance and legal reporting systems. While the Santander UK Group employs a broad and diversified set of risk monitoring and risk mitigation techniques, such techniques, and the judgements that accompany their application, cannot anticipate every unfavourable event or the specifics and timing of every outcome. Accordingly, the Santander UK Group's ability to successfully identify and balance risks and rewards, and to manage all material risks, is an important factor that can significantly affect the Santander UK Group's results of operations.

#### ***Risks concerning borrower credit quality and general economic conditions are inherent in the Santander UK Group's business***

Risks arising from changes in credit quality and the recoverability of loans and amounts due from borrowers and counterparties are inherent in a wide range of the Santander UK Group's businesses. Adverse changes in the credit quality of the Santander UK Group's borrowers and counterparties or a general deterioration in United Kingdom or global economic conditions, or arising from systemic risks in the financial systems, could reduce the recoverability and value of the Santander UK Group's assets and require an increase in the Santander UK Group's level of provisions for bad and doubtful debts. Likewise, a significant reduction in the demand for the Santander UK Group's products and services could negatively affect the Santander UK Group's business and financial condition. Since August 2007, the global financial system has experienced difficult credit and liquidity conditions and disruptions leading to less liquidity, greater volatility, an increase in general fraud and money laundering activity (first and third party), and general widening of spreads.

In September 2008, global financial markets deteriorated sharply following the bankruptcy filing by Lehman Brothers Holdings Inc. Since then, a number of other major financial institutions, including some of the largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies, have experienced significant financial difficulties.

This market turmoil and reduction of available credit have contributed to decreasing consumer confidence, increased market volatility, reduced business activity and, consequently, increasing commercial and consumer loan delinquencies. These market developments may further affect consumer confidence levels and may cause adverse changes in payment patterns, causing further increases in delinquencies and default rates, which may impact the Santander UK Group's charge-offs and provision for credit losses. These market conditions could materially and adversely affect the Santander UK Group's financial condition and results of operations.

***The soundness of other financial institutions could materially and adversely affect the Santander UK Group's business***

The Santander UK Group's ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. The Santander UK Group has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual funds and other institutional clients. As a result, defaults by, or even rumours or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by the Santander UK Group or by other institutions. Many of these transactions expose the Santander UK Group to credit risk in the event of default of the Santander UK Group's counterparty or client. In addition, the Santander UK Group's credit risk may be exacerbated when the collateral held by the Santander UK Group cannot be realised or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to the Santander UK Group. There is no assurance that any such losses would not materially and adversely affect the Santander UK Group's results of operations.

***Risks associated with liquidity and funding are inherent in the Santander UK Group's business***

Liquidity risks are inherent in any retail and commercial bank. While the Santander UK Group has implemented liquidity management processes to mitigate and control these risks, unforeseen systemic market factors in particular make it difficult to eliminate completely these risks. Adverse and continued constraints in the supply of liquidity, including inter-bank lending may materially and adversely affect the cost of funding the Santander UK Group's business and extreme liquidity constraints may affect the Santander UK Group's current operations as well as limit growth possibilities. These events may also have a material adverse effect on the market value and liquidity of bonds issued by the Santander UK Group in the secondary markets. From 2007 to date, the prime residential mortgage securitisation and covered bond markets have experienced severe disruption as a result of a material reduction in investor demand for these securities. These severe disruptions have resulted in extraordinary government intervention into the financial services sector as a whole. These markets, which are important sources of funding for the Santander UK Group, were effectively closed to new external issuances of securities. Global investor confidence also remains low and credit remains relatively scarce.

Continued or worsening disruption and volatility in the global financial markets could have a material adverse effect on the Santander UK Group's ability to access capital and liquidity on financial terms acceptable to it, if at all. If capital markets financing ceases to become available, or becomes excessively expensive, the Santander UK Group may be forced to raise the rates it pays on deposits to attract more customers. While central banks around the world have taken coordinated efforts to increase liquidity in the financial markets by taking measures such as increasing the amounts they lend directly to financial institutions, lowering interest rates and significantly increasing temporary reciprocal currency arrangements (or swap lines), it is not known how long these market conditions will continue or whether they will worsen or how long central bank schemes will continue or on what terms. The persistence of these adverse market conditions could have a material adverse effect on the Santander UK Group's liquidity and funding.

***Any reduction in the Santander UK Group's credit rating could increase its cost of funding and adversely affect its interest margins***

Credit ratings affect the cost and other terms upon which the Santander UK Group is able to obtain funding. Rating agencies regularly evaluate the Santander UK Group and their ratings of the Santander UK Group's short-term and long-term debt are based on a number of factors, including the Santander UK Group's financial strength as well as conditions affecting the financial services industry generally. In light of the difficulties in the financial services industry and the financial markets, there can be no assurance that the rating agencies will maintain the Santander UK Group's current ratings or outlooks. Any reduction in those ratings and outlooks could increase the cost of the Santander UK Group's funding and adversely affect the Santander UK Group's interest margins and/or affect its liquidity position.

***Market risks associated with fluctuations in interest rates, bond and equity prices and other market factors are inherent in the Santander UK Group's business***

The most significant market risks the Santander UK Group faces are interest rate and bond and equity price risks. Changes in the general level of interest rates, as well as changes in the shape of yield curves and basis spreads may adversely affect the interest rate margin realised between lending rates and borrowing costs in the Santander UK Group's banking operations. Dramatic declines in housing markets over the past three years have negatively impacted the credit performance of real estate-related loans and resulted in significant write-downs of asset values by many financial institutions. These write-downs, initially of asset-backed securities but spreading to other securities and loans, have caused many financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions.

As a result of these market forces, volatility in interest rates and basis spreads has increased, which has increased the Santander UK Group's borrowing costs, while decreasing values of global debt and equity markets have had an adverse effect on the value of the Santander UK Group's investment portfolio. Any such increase in capital markets funding costs or deposit rates could entail a re-pricing of loans, which would result in a reduction of volumes, and may also have an adverse effect on the Santander UK Group's interest margins. The Santander UK Group also sponsors a number of defined benefit staff pension schemes, and its obligations to those schemes may increase depending on the performance of financial markets. Although the Santander UK Group is undertaking measures to mitigate and control the effects of these conditions, there can be no assurances that such controls will insulate the Santander UK Group from deteriorating market conditions.

***Risks associated with strategic decisions regarding organic growth, and potential acquisitions and disposals***

The Santander UK Group allocates management and planning resources to develop strategic plans for organic growth and to identify possible acquisitions and disposals and the restructuring of the Santander UK Group's businesses. If the outcomes of these plans do not match expectations, the Santander UK Group's earnings may not develop as forecast.

***The Santander UK Group may incur unanticipated losses related to its business combinations***

In September 2008 Santander UK acquired the retail deposits, branch network and related employees of Bradford & Bingley plc. In January 2009, Banco Santander transferred its shares in A&L to Santander UK. The Santander UK Group's assessment of these business combinations is based on limited and potentially inexact information and on assumptions with respect to operations, profitability, asset quality and other matters that may prove to be incorrect. The aforementioned financial institutions have been adversely affected by the current financial crisis and A&L has material portfolios of securities that have suffered losses and could decline meaningfully in value. There can be no assurances that these businesses will not incur substantial further losses or that the Santander UK Group will not be exposed to currently unknown liabilities resulting from these business combinations. Any such losses or liabilities could have a material adverse effect on the Santander UK Group's business, financial condition and results of operations.

***The Santander UK Group may fail to realise the anticipated benefits of its recent business combinations***

The success of the Santander UK Group's business combinations will depend, in part, on the Santander UK Group's ability to realise the anticipated benefits from combining the Santander UK Group's business with the businesses of A&L and Bradford & Bingley plc that it has acquired. It is possible that the integration process could take longer or be more costly than anticipated or could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the ability of each company to maintain relationships with clients, customers or employees. In addition, these businesses are currently run by management and employees who have not previously been exposed to the Santander UK Group's business culture or philosophy. The Santander UK Group's efforts to integrate these companies are also likely to divert management attention and resources. If the Santander UK Group takes longer than anticipated or is not able to integrate the aforementioned businesses, the anticipated benefits of the Santander UK Group's business combinations may not be realised fully or at all, or may take longer to realise than expected.

***The Santander UK Group's business is concentrated in the United Kingdom and on the offering of mortgage-related products and services***

The Santander UK Group's business is principally concentrated in the United Kingdom and on the offering of mortgage-related products and services. As a consequence, the Santander UK Group's financial condition and results of operations are highly dependent on economic conditions in the United Kingdom, generally, and the United Kingdom property market, in particular. Beginning in the second half of 2008, United Kingdom and global economic conditions deteriorated significantly and global financial markets experienced acute turbulence. During the second half of 2008, the United Kingdom property market began a significant correction as a consequence of housing demand being constrained by a combination of subdued earnings growth, greater pressure on housing finances, rising unemployment, changes in interest rates, a decline in the availability of mortgage finance and the continued effect of global market volatility. United Kingdom and global economic conditions and uncertainties may have an adverse effect on the quality of the Santander UK Group's loan portfolio and may result in a rise in delinquency and default rates and charge-offs. There can be no assurance that the Santander UK Group will not have to increase its provisions for loan losses in the future as a result of future increases in non-performing loans or for other reasons beyond its control. Any increases in the Santander UK Group's provisions for loan losses could materially and adversely affect the Santander UK Group's financial condition and results of operations.

***The Santander UK Group's business is conducted in a highly competitive environment***

The market for United Kingdom financial services is highly competitive, and management expects such competition to intensify in response to competitor behaviour, consumer demand, technological changes, the impact of consolidation, regulatory actions and other factors. If financial markets remain unstable, financial institution consolidation may accelerate. Moreover, the United Kingdom government has effectively nationalised some of the country's largest banks, has announced the bank recapitalisation fund and has announced a programme to guarantee short-term and certain medium-term debt of financial institutions, among other measures. These measures could lead to increased government ownership and control over financial institutions in the United Kingdom and further consolidation in the financial industry, all of which could adversely affect the Santander UK Group's business, financial condition and results of operations. The Santander UK Group's financial condition and results of operations may be materially and adversely affected by competition, including declining lending margins or competition for savings driving up funding costs that cannot be recovered from borrowers. If the Santander UK Group is not successful in retaining and strengthening customer relationships, it may lose market share, incur losses on some or all of its activities or fail to attract new and retain existing deposits, which could materially and adversely affect its financial position and results of operations.

***Operational risks are inherent in the Santander UK Group's business***

Operational losses can result from fraud, criminal acts, errors by employees, failure to document transactions properly or to obtain proper authorisation, failure to comply with regulatory requirements and conduct of business rules, failure or breakdown of accounting, data processing

and other record-keeping systems, natural disasters, or failure or breakdown of external systems including those of the Santander UK Group's suppliers or counterparties.

Nothing in this risk factor should be taken to imply that Santander UK would be unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm regulated by the FSA.

***The Santander UK Group's business could be affected if its capital is not managed effectively***

Effective management of the Santander UK Group's capital position is important to its ability to operate its business, to continue to grow organically and to pursue its strategy. Any future change that limits the Santander UK Group's ability to manage its balance sheet and capital resources effectively or to access funding on commercially acceptable terms could have a material adverse effect on the Santander UK Group's financial condition and regulatory capital position.

***The Santander UK Group relies on recruiting, retaining and developing appropriate senior management and skilled personnel***

The Santander UK Group's continued success depends, in part, on the continued service of key members of its management team. The ability to continue to attract, train, motivate and retain highly qualified professionals is a key element of the Santander UK Group's strategy. The successful implementation of the Santander UK Group's growth strategy depends on the availability of skilled management, both at its head office and at each of its business units. If the Santander UK Group or one of its business units or other functions fails to staff their operations appropriately or loses one or more of its key senior executives and fails to replace them in a satisfactory and timely manner, its business, financial condition and results of operations, including control and operational risks, may be adversely affected. Likewise, if the Santander UK Group fails to attract and appropriately train, motivate and retain qualified professionals, its business may also be affected.

***Reputational risk could cause harm to the Santander UK Group and its business prospects***

The Santander UK Group's ability to attract and retain customers and conduct business transactions with its counterparties could be adversely affected to the extent that its reputation, or the reputation of affiliates operating under the "Santander" brand, is damaged. Failure to address, or appearing to fail to address, various issues that could give rise to reputational risk could cause harm to the Santander UK Group and its business prospects. Reputational issues include, but are not limited to: appropriately addressing potential conflicts of interest; legal and regulatory requirements; ethical issues; adequacy of anti-money laundering processes; privacy issues; record-keeping; sales and trading practices; proper identification of the legal, reputational, credit, liquidity and market risks inherent in products offered; and general company performance. The failure to address these issues appropriately could make customers unwilling to do business with the Santander UK Group, which could adversely affect its results of operations.

***The Santander UK Group's businesses are subject to substantial legislative, regulatory and governmental oversight***

The Santander UK Group is subject to financial services laws, regulations, administrative actions and policies in each location in which the Santander UK Group operates and, indirectly, in Spain, as a result of being part of the enlarged Santander Group. During the recent market turmoil, there have been unprecedented levels of government and regulatory intervention and scrutiny and changes to the regulations governing financial institutions. In addition, in light of the financial crisis, regulatory and governmental authorities are considering, or may consider, further enhanced or new legal or regulatory requirements intended to prevent future crises or otherwise assure the stability of institutions under their supervision in addition to those measures that have already been announced. For instance, the UK Government published a White Paper in July 2009<sup>1</sup> which contained a number of proposals for reforming the UK financial system, including more stringent capital and liquidity requirements for systemically significant firms, requirements for banks to develop detailed plans for winding down their businesses and enhanced regulatory powers for the FSA. A number of the proposals set out in the White Paper now form part of the Financial Services Bill that was published on 19 November 2009 and which is nearing the end of the UK Parliamentary approval process. In November 2009, the FSA also released the Banking Conduct of

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<sup>1</sup> HM Treasury paper "Reforming Financial Markets" (CM 7667) published 8 July 2009

Business sourcebook, a set of rules and guidance that regulate how authorised banks conduct business with their customers, including rules relating to communications, cancellation rights and information rights of customers.

Recent proposals and measures taken by governmental, tax and regulatory authorities and future changes in supervision and regulation, in particular in the United Kingdom, which are beyond the Santander UK Group's control, could materially affect the Santander UK Group's business, the products and services offered or the value of assets as well as the Santander UK Group's operations and result in significant increases in operational costs. Changes in United Kingdom legislation and regulation to address the stability of the financial sector may also affect the competitive position of the United Kingdom banks, including Santander UK, particularly if such changes are implemented before international consensus is reached on key issues affecting the industry, for instance in relation to the FSA's proposals on liquidity risk management (see the risk warning "*Santander UK is subject to regulatory capital and liquidity requirements that could limit its operations*" below for further details). Although the Santander UK Group works closely with its regulators and continually monitors the situation, future changes in regulation, fiscal or other policies can be unpredictable and are beyond the control of the Santander UK Group. No assurance can be given generally that laws or regulations will be adopted, enforced or interpreted in a manner that will not have an adverse effect on the Santander UK Group's business. The resolution of a number of issues, including regulatory investigations and reviews and court cases, affecting the United Kingdom financial services industry, including the Santander UK Group, could have a negative impact on the Santander UK Group's results on operations or of its relations with some of its customers and potential customers.

***In the United Kingdom members of the Santander UK Group are responsible for contributing to compensation schemes in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers***

In the United Kingdom, the Financial Services Compensation Scheme (the **FSCS**) was established under FSMA and is the United Kingdom's statutory fund of last resort for customers of authorised financial services firms. The FSCS can pay compensation to customers if an FSA authorised firm is unable, or likely to be unable, to pay claims against it (for instance, an authorised bank is unable to pay claims by depositors). The FSCS is funded by levies on firms authorised by the FSA, including Santander UK and other members of the Santander UK Group.

In the event that the FSCS raises funds from authorised firms, raises those funds more frequently or significantly increases the levies to be paid by such firms, the associated costs to the Santander UK Group may have a material impact on its results of operations or financial condition. The recent measures taken to protect the depositors of deposit-taking institutions involving the FSCS have resulted in a significant increase in the levies made by the FSCS on the industry and may do so in the future if similar measures are required to protect depositors of other institutions.

In addition, regulatory reform initiatives in the UK and internationally may result in further changes to the FSCS, which could result in additional costs and risks for the Santander UK Group. For instance, the UK Government has proposed a consultation on pre-funding the FSCS, which may affect the profitability of Santander UK (and other members of the Santander UK Group required to contribute to the FSCS), although it has made clear that pre-funding would not be introduced before 2012.<sup>2</sup> Furthermore, the FSA has proposed that UK deposit-taking institutions develop systems by 31 December 2010 to enable the institution to produce an aggregated view of each customer's eligibility for compensation in the event of a failure (a "Single Customer View"), which may require the Santander UK Group to incur significant costs arising from the development and implementation of systems and controls that would enable Single Customer Views to be produced.

To the extent that other jurisdictions where the Santander UK Group operates have introduced or plan to introduce similar compensation, contributory or reimbursement schemes, the Santander UK Group may incur additional costs and liabilities which may negatively impact its results of operations or financial condition.

***The UK Banking Act 2009 may adversely affect the Santander UK Group's business***

The UK Banking Act 2009 (the **Act**) came into force on 21 February 2009. The Act creates a special resolution regime (**SRR**) which provides H.M. Treasury, the Bank of England and the FSA

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<sup>2</sup> H.M. Treasury paper, "Reforming Financial Markets" (CM 7667) published 8 July 2009 (pages 66 to 67).

(the **Authorities**) with a variety of tools for dealing with UK institutions which are authorised deposit takers (such as Santander UK) which are failing, and in certain circumstances, their holding companies. The Act replaced the emergency powers contained in the Banking (Special Provisions) Act 2008 (which powers ceased to be exercisable on 21 February 2009, when the Act came into force).

The Act enables the Authorities, in specified circumstances, to: (i) take a bank or a bank holding company into temporary public ownership (**TPO**); (ii) transfer all or part of the business of a bank to a private sector purchaser (**PSP**); or (iii) transfer all or part of the business of a bank to a bridge bank owned by the Bank of England (**Bridge Bank**). The SRR also comprises a new insolvency procedure and a new administration procedure, each of specific application to banks. These measures may be used prior to the point at which an application for insolvency proceedings with respect to a relevant institution could be made.

TPO and PSP transfers may be effected via a compulsory transfer of securities in the affected entity (which includes preference shares). PSP and Bridge Bank transfers may be effected via a compulsory transfer of the affected entity's assets and liabilities.

SRR transfers are subject to the satisfaction of two general conditions. In summary, the FSA must determine that (i) the bank is failing or likely to fail to meet its regulatory threshold conditions (within the meaning of section 41(1) of FSMA); and (ii) having regard to timing and other relevant circumstances, it is not reasonably likely that (ignoring the stabilisation powers under the Act), action will be taken by or in respect of the bank that will enable the bank to satisfy the threshold conditions (ignoring for this purpose, H.M. Treasury or Bank of England financial assistance). There are additional trigger conditions that must be satisfied, the nature of which depends on the nature of the transfer and certain statutory objectives to which the Authorities must have regard in operating the SRR.

SRR transfers under the Act may affect the rights of transferors and third parties in relation to the affected institution. Legal or contractual rights which would operate to inhibit the transfer or which would otherwise be triggered by the transfer (and in certain other circumstances) can be disregarded and SRR transfers can take effect free from trusts, liabilities or other encumbrances. A PSP or Bridge Bank transfer may involve a partial transfer of the affected institution's property which could lead to the rights and obligations of counterparties of the affected institution being split between the transferor and transferee entity (although the Act and the Banking Act 2009 (Restriction of Partial Property Transfers) Order 2009 (as amended) do restrict partial property transfers to some extent including protection such that certain partial property transfers may not provide for the transfer of some, but not all, of the property, rights and liabilities which are, or form part of, a "capital market arrangement" (as that expression is currently defined in the UK Insolvency Act 1986) to which the relevant institution is a party).

The Act confers wide-ranging ancillary powers on the Authorities to enable SRR transfers and to ensure the continuity of the transferred business. In particular, H.M. Treasury is given the power to change the law, either generally or specifically and with immediate or with retrospective effect, if H.M. Treasury considers it is necessary or desirable to make a power under the SRR more effective. The Act includes provisions to effect the payment of compensation to transferors under an SRR transfer and third parties. In general, there is considerable uncertainty about the scope of the powers afforded to the Authorities under the Act and how the Authorities may choose to exercise them.

If an instrument or order were made under the Act in respect of Santander UK, such instrument or order (as the case may be) may (among other things) (i) result in a compulsory transfer of the New Santander UK Preference Shares and/or other securities or property of Santander UK and/or (ii) impact on the rights of the holders of the New Santander UK Preference Shares and/or result in the nullification or modification of the terms and conditions of the New Santander UK Preference Shares and/or (iii) result in the de-listing of the New Santander UK Preference Shares. In addition, such an order may affect various matters in respect of Santander UK and/or various other aspects of the New Santander UK Preference Shares which may negatively affect the ability of Santander UK to meet its obligations in respect of the New Santander UK Preference Shares.

As at the date of this Prospectus, no instruments or orders have been made under the Act in respect of the Santander UK Group and there has been no indication that any such order will be made, but there can be no assurance that this will not change and/or that holders of the New

Santander UK Preference Shares will not be adversely affected by any such order if made in the future.

### ***UK Government Asset Protection Scheme***

On 19 January 2009, the UK Government announced the implementation of a new asset protection scheme (the **APS**) pursuant to which, in return for a fee, H.M. Treasury will provide to each participating institution protection against credit losses incurred on one or more portfolios of defined assets to the extent that credit losses exceed a “first loss” amount to be borne by the institution. The APS aims to target those assets where there is the greatest amount of uncertainty about their future performance including commercial and residential property loans and structured credit assets.

It was further announced on 26 February 2009 that H.M. Treasury protection will cover 90 per cent. of the credit losses which exceed the “first loss” amount, with each participating institution retaining a further residual exposure of 10 per cent. of any credit losses exceeding this amount. The APS is being offered, in the first instance, to those United Kingdom incorporated authorised deposit-takers (including United Kingdom subsidiaries of foreign institutions) with more than £25 billion of eligible assets. Following a detailed assessment of the potential benefits and costs of participation in the APS, the Santander UK Group has determined that it does not wish to participate in the APS at this time.

### ***The Santander UK Group is subject to regulatory capital and liquidity requirements that could limit its operations***

Santander UK is subject to capital adequacy requirements adopted by the FSA for a bank, which provide for a minimum ratio of total capital to risk-adjusted assets both on a consolidated basis and on a solo-consolidated basis expressed as a percentage. If Santander UK fails to maintain its ratios, this may result in administrative actions or sanctions against it which may affect Santander UK’s ability to fulfil its obligations under the terms of the New Santander UK Preference Shares.

However, in response to the recent financial crises, the FSA has imposed, and may continue to impose more stringent capital adequacy requirements, including increasing the minimum regulatory capital requirements imposed on the Santander UK Group. For instance, the FSA has adopted a supervisory approach in relation to certain UK banks, including Santander UK, under which those banks are expected to maintain Tier 1 Capital in excess of the minimum levels required by existing FSA rules. The FSA is also consulting on changes to the eligibility criteria for Tier 1 Capital as well as requirements that may result in banks increasing the level of regulatory capital held in respect of trading book risks, implementing the recent amendments to the EU-wide capital adequacy requirements (as set out in the amended Directive 2006/48/EC and Directive 2006/49/EC, collectively referred to as the **Capital Requirements Directive**).

In December 2009, the Basel Committee on Banking Supervision also published and is currently consulting on a number of proposals to reform international capital adequacy and liquidity standards in order to increase resilience in the banking sector from financial and economic stresses. Proposals include phasing out innovative tier 1 instruments with incentives to redeem and implementing a leverage ratio on institutions in addition to current risk-based regulatory capital requirements. Measures are also proposed to promote the building of counter-cyclical capital buffers that may be drawn upon in stress scenarios, such as limiting the ability of institutions to distribute capital (dividend payments, discretionary bonus payments or share repurchases) in the event that the institution’s capital (over and above minimum capital adequacy requirements) fall under prescribed thresholds, thereby conserving capital in stress scenarios.

On 5 October 2009, the FSA published its new liquidity rules which significantly broaden the scope of the existing liquidity regime and are designed to enhance regulated firms’ liquidity risk management practices. As part of these reforms, the FSA is also expected to implement gradually requirements for financial institutions to hold prescribed levels of liquid assets and have in place other sources of liquidity to address the institution-specific and market-wide liquidity risks that institutions may face in short-term and prolonged stress scenarios.

These measures could have a material adverse effect on the Santander UK Group’s results of operations, financial condition and prospects. There is a risk that changes to the UK capital adequacy regime may result in increased minimum capital requirements, which could reduce available capital and thereby affect the Santander UK Group’s ability to pay dividends, continue organic growth or pursue acquisitions or other strategic opportunities (unless the Santander UK

Group were to reduce its balance sheet or alternatively raise additional capital but at increased cost and subject to the prevailing market conditions). In addition, changes to the eligibility criteria for Tier 1 Capital may affect the Santander UK Group's ability to raise Tier 1 Capital or the eligibility of existing Tier 1 Capital resources (although this risk may be mitigated if the FSA adopts measures to grandfather the regulatory capital treatment of existing Tier 1 Capital resources that do not comply with any revised criteria).

There is also a risk that implementing and maintaining enhanced liquidity risk management systems may incur significant costs and more stringent requirements to hold liquid assets and liquidity facilities may materially affect the Santander UK Group's lending business as more funds may be required to acquire or maintain liquidity resources.

## **RISKS ASSOCIATED WITH THE NEW SANTANDER UK PREFERENCE SHARES**

### ***Preference shares may not be a suitable investment for all investors***

Each potential investor in any of the New Santander UK Preference Shares must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the New Santander UK Preference Shares, the merits and risks of investing in the New Santander UK Preference Shares and the information contained or incorporated by reference in this Prospectus;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the New Santander UK Preference Shares and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the potential risks of an investment in the New Santander UK Preference Shares;
- (iv) understand thoroughly the terms of the New Santander UK Preference Shares and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

### ***Deferral or waiver of payment on any Existing Parity Obligation may prevent the redemption or purchase by Santander UK of the New Santander UK Preference Shares***

The terms of the Existing Parity Obligations restrict the redemption, reduction, purchase or other acquisitions of the New Santander UK Preference Shares where a dividend payable on any Existing Parity Obligation is not declared and paid in full in respect of the then most recently ended dividend period, without relevant approval by the holders of the relevant Existing Parity Obligation.

### ***Deferral or waiver of payment on any Parity Obligation may prevent the payment by Santander UK of Preference Dividends on the New Santander UK Preference Shares and/or may prevent the redemption or purchase by Santander UK of the New Santander UK Preference Shares***

The terms of Parity Obligations issued or entered into from time to time in the future by Santander UK may include terms restricting payments relating to the New Santander UK Preference Shares, including restrictions on the payment of Preference Dividends on the New Santander UK Preference Shares, and on redemptions, purchases, reductions or other acquisitions of New Santander UK Preference Shares, in circumstances such as a deferral or non-payment of a dividend on such Parity Obligations.

### ***Preference Dividends on the New Santander UK Preference Shares are discretionary and will only be declared or paid if the Board so resolves in respect of any Dividend Period***

The Board of Santander UK may resolve, in its absolute discretion, on or before any Preference Dividend Payment Date not to pay in full, or at all, the Preference Dividend on the New Santander UK Preference Shares for the Dividend Period to which that Preference Dividend Payment Date relates.

In any event under English company law Santander UK may pay dividends on the New Santander UK Preference Shares only if payment can be made in full out of the profits and reserves of Santander UK available for distribution and permitted to be distributed.

***Dividends on the New Santander UK Preference Shares are non-cumulative***

The dividends on the New Santander UK Preference Shares are non-cumulative. Accordingly, to the extent that any Preference Dividend or any part thereof is on any occasion not declared and paid for any reason, holders of New Santander UK Preference Shares will not have a claim in respect of the Preference Dividend accrued for the relevant Dividend Period or for interest on the Preference Dividend, whether or not Preference Dividends on the New Santander UK Preference Shares are declared for any future Dividend Period. However Santander UK will be subject to a dividend and capital restriction in such circumstances. See Part IV of this Prospectus (“*Description of the New Santander UK Preference Shares – Dividends*”).

***If Santander UK is wound up, distributions to holders of the New Santander UK Preference Shares will be subordinated to the claims of creditors. The claims of holders of New Santander UK Preference Shares will rank equally among themselves and with the claims of holders of Parity Obligations***

On a winding-up of Santander UK, whether voluntarily or involuntarily and whether in connection with insolvency proceedings or otherwise, holders of New Santander UK Preference Shares will be entitled to distributions in liquidation only after the claims of creditors of Santander UK and its subsidiaries have been satisfied, except that claims in respect of Parity Obligations rank *pari passu* with claims of the holders of the most senior class or classes of preference shares in the capital of Santander UK (including the New Santander UK Preference Shares).

***No limitation on issuing senior debt securities or pari passu shares***

There is no restriction on the amount of debt which Santander UK may incur which ranks senior to the New Santander UK Preference Shares or on the amount or terms of securities which Santander UK may issue or guarantee which rank *pari passu* with the New Santander UK Preference Shares. The issue of any such debt or creation of such obligations may reduce the amount recoverable by holders of the New Santander UK Preference Shares on a winding-up or other return of capital of Santander UK or may increase the likelihood of a suspension of distributions in respect of the New Santander UK Preference Shares.

***The New Santander UK Preference Shares have limited voting rights***

The holders of the New Santander UK Preference Shares will only be eligible to vote at general meetings of Santander UK in limited circumstances – see Part IV of this Prospectus (“*Description of the New Santander UK Preference Shares – Voting*”).

***Holders may be required to bear the financial risks of an investment in the New Santander UK Preference Shares for an indefinite period.***

The New Santander UK Preference Shares do not have a fixed final redemption date and investors will have no right to call for the redemption of the New Santander UK Preference Shares. Although the New Santander UK Preference Shares may be redeemed in certain circumstances, there are limitations on the ability to do so. In particular, any redemption of the New Santander UK Preference Shares would be subject to Santander UK receiving no objection from the FSA or, in respect of any redemption occurring prior to the fifth anniversary of the Issue Date, having received consent from the FSA in the form of a waiver (for so long as there is a requirement for such a waiver) (in either case, having given notice to the FSA for so long as there is a requirement for such notice to be given). Therefore, investors should be aware that they may be required to bear the financial risks of an investment in the New Santander UK Preference Shares for an indefinite period.

***Qualifying Non-Innovative Tier 1 Securities may be substituted for the New Santander UK Preference Shares***

If, at any time, a Regulatory Event occurs, Santander UK may, at its option, and only if the FSA has indicated that it has no objection to such substitution (having given notice to the FSA for as long as there is a requirement for such notice to be given), and provided that an independent investment bank appointed by Santander UK has confirmed that in its opinion the Qualifying Non-Innovative Tier 1 Securities 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, elect to substitute Qualifying Non-Innovative Tier 1 Securities for the New Santander UK Preference Shares. This would include mandatorily applying any redemption proceeds of the

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. Please refer to the risk warning “*Santander UK is subject to regulatory capital and liquidity requirements that could limit its operations*” set out above, which describes the potential changes that may be made to the FSA’s capital adequacy rules that may affect whether a Regulatory Event is likely to occur. (For further details of the substitution rights under the terms of the New Santander UK Preference Shares please refer to “*Substitution of Qualifying Non-Innovative Tier 1 Securities*” of Part IV of this Prospectus on pages 40 to 41).

***In certain circumstances, the New Santander UK Preference Shares may be redeemed at the option of Santander UK***

If the FSA has indicated that it has no objection to such redemption and subject to compliance with English company law requirements as to the manner of financing any redemption of redeemable shares, the New Santander UK Preference Shares may be redeemed at the option of Santander UK, in whole but not in part, on any Preference Dividend Payment Date falling on or after the First Call Date.

In such case, Santander UK may redeem the New Santander UK Preference Shares at a price equal to the aggregate of £1,000 and any Preference Dividends accrued since the immediately preceding Preference Dividend Payment Date.

The New Santander UK Preference Shares are also redeemable in whole, but not in part, at the option of Santander UK at a Make Whole Redemption Price, if the FSA has indicated that it has no objection to such redemption, at any time if a Regulatory Event occurs. Please refer to the risk warning “*Santander UK is subject to regulatory capital and liquidity requirements that could limit its operations*” set out above, which describes the potential changes that may be made to the FSA’s capital adequacy rules that may affect whether a Regulatory Event is likely to occur.

After the First Call Date, as Santander UK may elect to redeem the New Santander UK Preference Shares, the market value of those New Santander UK Preference Shares generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to the First Call Date. Santander UK may be expected to redeem the New Santander UK Preference Shares when its cost of raising Non-Innovative Tier 1 Capital is lower than the rate at which dividends accrue under the terms of the New Santander UK Preference Shares. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the dividend rate on the New Santander UK Preference Shares being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

***The terms of the New Santander UK Preference Shares will differ from the terms of the corresponding A&L Preference Shares***

The terms of the New Santander UK Preference Shares issued pursuant to the Preference Scheme will differ from the terms of the A&L Preference Shares which they replace. Such differences include: (i) changes to align the terms of the New Santander UK Preference Shares more closely with the Santander UK Articles; (ii) the introduction of an enhanced dividend right in certain limited circumstances (namely, 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); and (iii) other structural changes to comply with current FSA requirements to permit the New Santander UK Preference Shares to be eligible to qualify as perpetual non-cumulative preference share capital for regulatory purposes. Holders of the New Santander UK Preference Shares should consider the terms of the relevant class of New Santander UK Preference Shares prior to voting at the Court Meeting, the A&L General Meeting and the Preference Class Meeting.

***Liquidity***

Although application has been made for the New Santander UK Preference Shares to be admitted to trading on the Market, there can be no assurance that an active public market for New Santander UK Preference Shares will develop. The liquidity and the market prices for New Santander UK Preference Shares can be expected to vary with changes in the market and economic conditions, the financial condition and prospects of Santander UK and other factors that generally influence the market prices of securities.

The market price of the New Santander UK Preference Shares could be volatile and subject to significant fluctuations due to a variety of factors, including changes in sentiment in the market regarding the Santander UK Group, any regulatory changes affecting the Santander UK Group's operations, variations in the Santander UK Group's operating results, business developments of the Santander UK Group or its competitors, the operating and share price performance of other companies in the industries and the markets in which the Santander UK Group operates, or speculation about the Santander UK Group in the press, media or investment community. Stock markets from time to time, including recently and particularly with respect to certain financial institution shares, experience significant price and volume fluctuations which have affected market prices for securities which may be unrelated to the Santander UK Group's operating performance or prospects. Furthermore, the Santander UK Group's operating results and prospects from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of the New Santander UK Preference Shares.

In general, prospective investors should be aware that the value of an investment in Santander UK and the Santander UK Group may go down as well as up. The market value of the New Santander UK Preference Shares can fluctuate and may not always reflect the underlying asset value or prospects of the Santander UK Group.

***Payments of dividends in respect of, and transfers of, New Santander UK Preference Shares may give rise to certain United Kingdom tax liabilities***

Payments of dividends in respect of, and transfers of, New Santander UK Preference Shares may give rise to certain United Kingdom tax liabilities – see Part VII of this Prospectus (“*United Kingdom Taxation*”).

***Change of law***

The terms of, and rights attaching to, the New Santander UK Preference Shares are based on English law as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

***Interest rate risks***

Dividends on the New Santander UK Preference Shares will be payable at a fixed/floating rate. Investment in fixed/floating rate instruments involves the risk that subsequent changes in market interest rates may adversely affect the value of the fixed/floating rate instruments.

***Credit ratings may not reflect all risk***

The New Santander UK Preference Shares are expected to be rated by Standard and Poor's, Moody's and Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the New Santander UK Preference Shares.

***Implementation of the Basel II risk-weighted asset framework may result in changes to the risk-weighting of the New Santander UK Preference Shares***

Following the issue of proposals from the Basel Committee on Banking Supervision for reform of the 1988 Capital Accord, a framework has been developed which places enhanced emphasis on market discipline and sensitivity to risk. A comprehensive version of the text of the proposed framework was published in June 2006 under the title “*International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)*” (the **Basel II Framework**).

The Basel II Framework is not self-implementing and, accordingly, implementation dates in individual countries are dependent on the relevant national implementation process in those countries. To the extent that the Basel II Framework has not been implemented by the relevant national authorities the implementation of Basel II could affect risk-weighting of the New Santander UK Preference Shares for investors who are subject to capital adequacy requirements that follow, or are based on, the Basel II Framework. In addition, the Basel Committee and the European Commission have proposed a number of proposals for strengthening the regulatory framework in response to the current financial crisis (please refer to the risk warning “*Santander UK is subject to*

*regulatory capital and liquidity requirements that could limit its operations” set out above for further details). Prospective investors in the New Santander UK Preference Shares should consult their own advisers as to the potential consequences to and effect on them of the application of, or changes to, the Basel II Framework or the Capital Requirements Directive.*

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

The investment activities of certain investors may be subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (a) the New Santander UK Preference Shares are legal investments for it; (b) the New Santander UK Preference Shares can be used as collateral for various types of borrowing; and (c) other restrictions apply to its purchase or pledge of any New Santander UK Preference Shares. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the New Santander UK Preference Shares under any applicable risk-based capital or similar rules.

**SANTANDER UK HAS DESCRIBED ABOVE THOSE RISKS RELATING TO ITS OPERATIONS THAT IT CONSIDERS TO BE MATERIAL. HOWEVER, THE CONSIDERATIONS SET OUT ABOVE ARE NOT INTENDED TO BE AN EXHAUSTIVE LIST OF ALL CONSIDERATIONS RELEVANT TO A DECISION TO PURCHASE OR HOLD ANY OF THE NEW SANTANDER UK PREFERENCE SHARES. THERE MAY BE ADDITIONAL RISKS THAT SANTANDER UK CONSIDERS NOT TO BE MATERIAL OR OF WHICH SANTANDER UK IS NOT CURRENTLY AWARE, AND ANY OF THESE RISKS COULD ADVERSELY AFFECT THE TRADING PRICE OF THE NEW SANTANDER UK PREFERENCE SHARES OR THE RIGHTS OF INVESTORS UNDER THE NEW SANTANDER UK PREFERENCE SHARES.**

## PART IV

### DESCRIPTION OF THE NEW SANTANDER UK PREFERENCE SHARES

The following description of the terms and provisions of the New Santander UK Preference Shares does not purport to be complete and is subject to, and qualified by reference to, the Santander UK Articles and resolutions of a duly authorised committee of the Board passed on 10 March 2010. For so long as any of the New Santander UK Preference Shares are outstanding, copies of the aforementioned documents may be obtained during normal business hours at the registered office of Santander UK. The principal rights attaching to the New Santander UK Preference Shares are summarised below. Unless otherwise defined herein, defined terms used in this section have the meanings given to such terms under the section titled “*Definitions*” below.

#### 1. General

The New Santander UK Preference Shares will have a nominal value of £1 each and will be issued at a premium of £999 fully paid so that the total paid up amount of each New Santander UK Preference Share will be £1,000. The New Santander UK Preference Shares may be issued:

- (a) in the case of New Santander UK Preference Shares held in uncertificated form, in registered form and represented by a single global share certificate; or
- (b) in the case of New Santander UK Preference Shares held in certificated form, in registered form and represented by individual share certificates.

The Santander UK Global Share Certificate will be deposited with and registered in the name of a nominee for the Common Depositary.

For so long as the New Santander UK Preference Shares held in uncertificated form are represented by the Santander UK Global Share Certificate and Euroclear and Clearstream so permit, interests in the New Santander UK Preference Shares shall be tradable in principal amounts of £1,000.

Beneficial interests in the Santander UK Global Share Certificate will be evidenced by, and transfers thereof will be effected only through, records maintained by the participants in Euroclear and Clearstream. Beneficial interests in the Santander Global Share Certificate will be transferable only in accordance with the rules and procedures of Euroclear or Clearstream, as the case may be.

#### 2. Dividends

- (i) Subject as provided herein, each New Santander UK Preference Share shall entitle the holder thereof to receive out of the profits and reserves of Santander UK available for distribution and permitted by law to be distributed a non-cumulative preferential dividend (the **Preference Dividend**).

Holders of the New Santander UK Preference Shares will rank as regards participation in the profits of Santander UK:

- *pari passu* with each other and with the Parity Obligations; and
  - in priority to holders of the Santander UK Ordinary Shares and any other Junior Obligations.
- (ii) In respect of the period from (and including) the Issue Date to (but excluding) 24 May 2010, a Preference Dividend of £62.22 will accrue in respect of each New Santander UK Preference Share and if declared will be payable by Santander UK on 24 May 2010. The Preference Dividend in respect of each New Santander UK Preference Share shall also include 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.

In respect of the period from (and including) 24 May 2010 to (but excluding) the First Call Date, the Preference Dividend shall accrue at a rate of 6.222 per cent. per annum on the principal amount equal to £1,000 in respect of each New Santander UK Preference Share. Each such Preference Dividend will be payable, subject as provided below, annually in arrear

on 24 May in each year when, as and if declared by the Board. Subject as provided below, the first such Preference Dividend Payment Date will be 24 May 2011 and the last such Preference Dividend Payment Date will be the First Call Date.

The amount of Preference Dividend accruing in respect of any period commencing on or after 24 May 2010 but prior to the First Call Date will be calculated on the basis of (a) the actual number of days in the period from (and including) the date from which such Preference Dividend begins to accrue (the **Accrual Date**) to (but excluding) the date on which it falls due, divided by (b) the actual number of days from (and including) the Accrual Date to (but excluding) the next following Preference Dividend Payment Date.

- (iii) From (and including) the First Call Date and thereafter the Preference Dividend shall accrue at a rate, reset quarterly, equal to the aggregate of 1.13 per cent. per annum and LIBOR in respect of the relevant Dividend Period on the principal amount equal to £1,000 in respect of each New Santander UK Preference Share, which Preference Dividend will be payable in quarterly instalments in arrear on each Preference Dividend Payment Date when, as and if declared by the Board. Subject as provided below, the first such Preference Dividend Payment Date will be 24 August 2019.

The amount of Preference Dividend accruing in respect of any period commencing on or after the First Call Date will be calculated on the basis of the actual number of days elapsed in the relevant period divided by 365 or, in the case of a payment falling due in a leap year, 366.

The Paying Agent shall, upon determining the rate at which the Preference Dividend will accrue pursuant to this paragraph (iii), cause such rate, subject to the provisions of paragraphs (iv) to (vii), and the amount payable in respect of the relevant Dividend Period on each New Santander UK Preference Share, to be notified to any stock exchange on which the New Santander UK Preference Shares are listed and give notice in accordance with "*Notices*" below as soon as possible after the Dividend Determination Date, but in no event later than the fourth Business Day thereafter.

- (iv) If, on any Preference Dividend Payment Date, the distributable profits and distributable reserves of Santander UK are together insufficient to enable payment to be made of the instalment of the Preference Dividend payable on that date and, if applicable, of any payment payable on such date on any Parity Obligations of Santander UK, then the Board shall resolve that none of the said instalments shall be paid during the Dividend Stopper Period (other than any payments payable on the Existing Parity Obligations), or, if sufficient distributable profits and distributable reserves are available and the Board so resolves, the Relevant Proportion of such instalments shall be paid.
- (v) Subject to and notwithstanding the availability of distributable profits and distributable reserves as provided in paragraph (iv), any Preference Dividend is payable only if the Board shall resolve to make payment of such instalment.

If the Board in its sole and absolute discretion resolves prior to any Preference Dividend Payment Date that the Preference Dividend, or part thereof, shall not be paid on that Preference Dividend Payment Date, then, as resolved by the Board, none, or as described under (vi) below the Relevant Proportion only, of such Preference Dividend shall be paid.

The Board shall not be bound to give its reasons for exercising such discretion.

- (vi) If, whether by reason of paragraph (iv) or (v) above or any equivalent article or term of any Parity Obligation (excluding any Existing Parity Obligation), 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 Obligation during the Dividend Stopper Period (other than any payments payable on the Existing Parity Obligations), but the Board determines that there are sufficient distributable profits and distributable reserves so as to allow payment in part, the Board may determine, subject to paragraph (vii), to pay the Relevant Proportion of any such Preference Dividend.
- (vii) To the extent that any payment of the Relevant Proportion of a Preference Dividend or of the distribution or dividend on any Parity Obligation would otherwise exceed the amount of distributable profits and distributable reserves immediately before such payment such Relevant Proportion shall not be payable.
- (viii) Any such resolution by the Board pursuant to paragraph (v) or (vi) shall be passed no later than 20 Business Days before the relevant Preference Dividend Payment Date.

If less than a full Preference Dividend is to be paid, Santander UK will notify any stock exchange on which the New Santander UK Preference Shares are listed and give notice in accordance with “Notices” below by no later than the sixteenth Business Day before the relevant Preference Dividend Payment Date. Such notification will specify the amount, if any, of the Preference Dividend that will be paid on such Preference Dividend Payment Date.

The New Santander UK Preference Shares shall carry no further right to participate in the profits and reserves of Santander UK other than the declared Preference Dividend or, subject to paragraph (vii), declared Relevant Proportion. If on any occasion an instalment of the Preference Dividend is not paid for the reasons described above, the holders of the New Santander UK Preference Shares shall have no claim in respect of such instalment.

- (ix) In the event that less than the full amount of any Preference Dividend is paid on the 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.

In the event that 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 payments payable on any Existing Parity Obligation).

In the event that 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 (subject to paragraph (vii) above) of any distribution or dividend on any Parity Obligation (other than payments payable on any Existing Parity Obligation).

In the event that 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 and/or any Parity Obligation.

- (x) For the avoidance of doubt, any dividends, interest and other income distributions may be made on the Existing Parity Obligations in accordance with their terms and, where applicable, subject to Legislation regardless of whether or not the Board has exercised its discretion not to pay a dividend on the New Santander UK Preference Shares.
- (xi) Any Preference Dividend unclaimed after a period of 12 years from the date when it became due for payment shall be forfeited and shall revert to Santander UK and the payment by the Board of any unclaimed Preference Dividend or other sum payable on or in respect of a New Santander UK Preference Share into a separate account shall not constitute Santander UK a trustee in respect of it.
- (xii) No Preference Dividend or other monies payable on or in respect of the New Santander UK Preference Shares shall bear interest as against Santander UK.

### **3. Capital**

On a winding-up of Santander UK or other return of capital by Santander UK, the assets of Santander UK available to shareholders shall be applied:

- (i) equally in all respects with the rights against Santander UK in such circumstances in respect of the Parity Obligations; and
- (ii) in priority to any payment to the holders of Santander UK Ordinary Shares and any other Junior Obligations,

in payment to the holders of the New Santander UK Preference Shares of a sum equal to the aggregate of £1,000 per New Santander UK Preference Share and Preference Dividends accrued for the then current Dividend Period to the date of the commencement of the winding-up or other such return of capital.

If upon any return of capital or distribution of assets, the amounts available for payment are insufficient to cover the amounts payable in full on the New Santander UK Preference Shares and any Parity Obligations as regards participation in assets, the holders of the New Santander UK

Preference Shares and the holders of those Parity Obligations will share rateably in the distribution of surplus assets (if any) of Santander UK in proportion to the full amounts to which they are respectively entitled. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of the New Santander UK Preference Shares will have no right or claim to any of the remaining assets of Santander UK and will not be entitled to any further participation in such return of capital.

#### **4. Redemption**

Santander UK may, subject to: (i) Legislation; (ii) the Santander UK Articles; (iii) Santander UK (both at the time of, and immediately following, the redemption) being in compliance with its capital requirements as required by the FSA from time to time; and (iv) Santander UK giving at least one month's prior written notice to, and receiving no objection from, the FSA (or such other period of notice as the FSA may from time to time require or accept and in any event provided that such notice is required to be given), upon not less than 30 nor more than 60 days' notice, redeem the New Santander UK Preference Shares in whole, but not in part, on the First Call Date and on any Preference Dividend Payment Date thereafter. There shall be paid on each New Santander UK Preference Share so redeemed the aggregate of an amount equal to £1,000 and Preference Dividends accrued from (and including) the immediately preceding Preference Dividend Payment Date to (but excluding) the Redemption Date.

At any time if a Regulatory Event occurs, Santander UK may, at its option, subject to: (i) Legislation; (ii) the Santander UK Articles; (iii) Santander UK (both at the time of, and immediately following, the redemption) being in compliance with its capital requirements as required by the FSA from time to time; and (iv) Santander UK giving at least one month's prior written notice to the FSA (or such other period of notice as the FSA may from time to time require or accept and in any event provided that such notice is required to be given) and either the FSA having indicated that it has no objection to such redemption or having granted the appropriate waiver in accordance with the requirements of GENPRU in respect of such redemption prior to the fifth anniversary of the Issue Date (for as long as there is a requirement under GENPRU or any successor regulations to receive such a waiver), upon not less than 30 nor more than 60 days' notice, redeem the New Santander UK Preference Shares in whole, but not in part. There shall be paid on each New Santander UK Preference Share so redeemed the Make Whole Redemption Price. Prior to the publication of any notice of redemption pursuant to the foregoing, Santander UK shall deliver to the Paying Agent a certificate signed by two directors of Santander UK that a Regulatory Event has occurred.

In the event that payment of the redemption price in respect of any New Santander UK Preference Share is improperly withheld or refused, the Preference Dividend on such New Santander UK Preference Share shall continue to accrue, at the then applicable rate, from the Redemption Date to the date of payment of such redemption price. The New Santander UK Preference Shares shall not be treated as having been redeemed until the redemption monies in question together with the accrued dividend thereon have been paid whereupon the New Santander UK Preference Shares shall be treated as having been redeemed.

If the due date for payment of any amount of redemption monies is not a Business Day, then payment of such amount will be made on the next succeeding Business Day, without any interest or payment in respect of such delay unless such day shall fall within the next calendar month, whereupon such payment will be made on the preceding Business Day.

#### **5. Substitution for Qualifying Non-Innovative Tier 1 Securities**

At any time if a Regulatory Event occurs, Santander UK may, at its option, subject to: (i) Legislation; (ii) the Santander UK Articles; (iii) Santander UK complying with its capital requirements as required by the FSA from time to time following the substitution; and (iv) Santander UK giving at least one month's prior written notice to, and receiving no objection from, the FSA (or such other period of notice as the FSA may from time to time require or accept and in any event provided that such notice is required to be given), upon not less than 30 nor more than 60 days' notice, substitute Qualifying Non-Innovative Tier 1 Securities for the New Santander UK Preference Shares. Substitution of the New Santander UK Preference Shares shall be effected in such manner as may be authorised or permitted by law and as the Board shall from time to time determine, including by mandatorily applying any redemption proceeds in respect of New Santander UK Preference Shares redeemed in accordance with paragraph 4 to the subscription or

purchase on behalf of the holders of the New Santander UK Preference Shares of Qualifying Non-Innovative Tier 1 Securities on the Redemption Date provided that Santander UK has first delivered to the Registrar a certificate signed by two members of the Board certifying that the securities to be offered in substitution for the New Santander UK Preference Shares are, and that an independent investment bank agrees that they are, Qualifying Non-Innovative Tier 1 Securities.

## **6. Purchases**

Santander UK may at any time purchase, or cause to be purchased for its account, all or any of the New Santander UK Preference Shares, subject to the provisions of Legislation, the Santander UK Articles and the applicable rules of any stock exchange or exchanges on which any of its New Santander UK Preference Shares are listed from time to time, at any price. No purchase of New Santander UK Preference Shares will be made by or on behalf of Santander UK without the FSA having indicated that it has no objection to such purchases.

## **7. Form and Transfer**

### *(i) New Santander UK Preference Shares held through Euroclear or Clearstream in uncertificated form*

New Santander UK Preference Shares held in uncertificated form will be in registered form and represented by a single global share certificate which will be deposited with and registered in the name of a nominee of the Common Depositary.

If either or both of Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of legal holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, within 60 days of such closure or announcement, a number of New Santander UK Preference Shares corresponding to its book-entry interest in the New Santander UK Preference Shares represented by the Santander Global Share Certificate will be transferred to each holder of the New Santander UK Preference Shares, and each such holder will be registered as a holder of the New Santander UK Preference Shares in the Register and will receive a certificate made out in such holder's name. Other than in the circumstances referred to above, definitive share certificates will not be available to holders of the New Santander UK Preference Shares held through the Clearing Systems. Temporary documents of title will not be issued.

### *(ii) New Santander UK Preference Shares held in certificated form*

New Santander UK Preference Shares held in certificated form will be in registered form and represented by individual share certificates. Such New Santander UK Preference Shares may not be traded through Euroclear or Clearstream.

### *(iii) General*

Title to the New Santander UK Preference Shares will, subject to and in accordance with the Santander UK Articles, pass by transfer and registration on the Register.

Each exchange and registration of transfer of the New Santander UK Preference Shares of any series in registered form will be effected by entry on the Register kept by the Registrar at its office in the UK. See "*Registrar and Paying Agent*" below.

No fee shall be charged on registration of any instrument of transfer or other instrument relating to or affecting the title to the New Santander UK Preference Shares, but the person requesting such registration will be required to pay any related taxes, stamp duties or other governmental charges.

## **8. Payments**

Payments in respect of any amount payable by way of dividend or on redemption in respect of the New Santander UK Preference Shares will be made by cheque or warrant sent by post to the registered address of the holder or, in the case of joint holders, to the first named, or upon request of the holder or joint holders not later than ten Business Days before any date on which payment is scheduled, by bank transfer to a sterling account maintained by the holder, details of which are notified by the holder in writing to the Registrar.

Payment in respect of any Preference Dividend into any such bank account shall be made on the relevant Preference Dividend Payment Date. If the due date for payment of any amount of Preference Dividend or redemption monies is not a Business Day, then payment of such amount

will be made on the next succeeding Business Day, without any interest or payment in respect of such delay.

Payments in respect of amounts payable by way of dividend and on redemption on the Preference Shares will be subject in all cases to any applicable fiscal or other laws and other regulations.

## **9. Voting**

Holders of 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:

- (i) if 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
- (ii) if a resolution is proposed at the general meeting:
  - (A) for, or in relation to, the winding-up of Santander UK; or
  - (B) varying, altering or abrogating any of the rights, privileges, limitations or restrictions attached to the 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.

At any general meeting of which holders of New Santander UK Preference Shares are entitled to receive notice and at which they may attend every holder of New Santander UK Preference Shares who is present in person and entitled to vote shall have one vote on a show of hands. On a poll each holder of New Santander UK Preference Shares present in person or by proxy and entitled to vote shall have one vote in respect of each New Santander UK Preference Share.

## **10. Further Issues; No Senior Ranking Preference Shares or Preferred Securities**

Santander UK may from time to time create and issue further preference shares or preferred securities ranking as regards participation in the profits and assets of Santander UK *pari passu* with the New Santander UK Preference Shares and so that any such further preference shares or preferred securities may be denominated in any currency and may carry as regards participation in the profits and assets of Santander UK rights identical in all respects to those attaching to the New Santander UK Preference Shares.

For so long as the New Santander UK Preference Shares are outstanding, Santander UK will not (i) issue any further non-cumulative preference shares or preferred securities or (ii) 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.

## **11. Variation of Rights**

The rights, privileges, limitations or restrictions attaching to the New Santander UK Preference Shares may, whether or not Santander UK is being wound up, be varied, altered 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, or with the sanction of a special resolution passed at a separate general meeting of the holders of the New Santander UK Preference Shares.

To every such separate general meeting the provisions of the Santander UK Articles relating to general meetings shall apply but so that the necessary quorum shall be one person holding or representing by proxy at least one-third of the total nominal value of the New Santander UK Preference Shares in issue. If at any adjourned separate general meeting such a quorum is not present one person who holds any New Santander UK Preference Shares (or his proxy) shall be a quorum. Any holder of New Santander UK Preference Shares present in person or by proxy may demand a poll.

In the event that the rights, privileges, limitations or restrictions attached to the New Santander UK Preference Shares in issue should differ from the rights, privileges, limitations or restrictions attached to any other sterling denominated preference share in issue and:

- (i) some matter has arisen which would amount to a variation, alteration or abrogation of the rights, privileges, limitations or restrictions attached to the New Santander UK Preference Shares and such other classes of sterling denominated preference shares; and
- (ii) the effect of such variation, alteration or abrogation on the New Santander UK Preference Shares and such other classes of sterling denominated preference shares is in the opinion of the Board substantially the same,

the New Santander UK Preference Shares and such other classes of sterling denominated preference shares shall be treated as a single class to apply the procedures of the Santander UK Articles for the variation, alteration or abrogation of the rights, privileges, limitations or restrictions attaching to the New Santander UK Preference Shares and such other classes of sterling denominated preference shares.

The creation or issue of, or the variation, alteration or abrogation of or addition to the rights, privileges, limitations or restrictions attaching to any shares of Santander UK ranking after the New Santander UK Preference Shares as regards participation in the profits and assets of Santander UK and (provided that, on the date of such creation or issue, the most recent instalment of the dividend due to be paid on each class of preference share in the capital of Santander UK prior to such date shall have been paid in cash) the creation or issue of further preference shares ranking *pari passu* with the New Santander UK Preference Shares as provided for above shall be deemed not to be a variation, alteration or abrogation of the rights, privileges, limitations or restrictions attached to the New Santander UK Preference Shares.

## **12. Notices**

For so long as any New Santander UK Preference Shares are represented by the Santander UK Global Share Certificate deposited with and registered in the name of a nominee for the Common Depository, notices may be given in accordance with the rules of Euroclear and Clearstream.

Notices given by Santander UK will be given by the Registrar on its behalf unless Santander UK decides otherwise. A notice may be given by Santander UK to any holder by sending it by post to the holder's registered address. Service of the notice shall be deemed to be effected by properly addressing, prepaying and posting a letter containing the notice, and to have been effected on the day after the letter containing the same is posted (or the day after that if second class post is used). Where a holder's registered address is outside the United Kingdom, all notices shall be sent to him by air mail post.

A notice may be given by Santander UK to the joint holders of a New Santander UK Preference Share by giving the notice to the joint holder first named in the Register.

A notice may be given by Santander UK to the extent permitted by the Legislation and the UK Listing Authority by electronic communication, if so requested or authorised by the holder, the holder having notified Santander UK of an email address to which Santander UK may send electronic communications, and having agreed to receive notices and other documents from Santander UK by electronic communication. If a holder notifies Santander UK of an email address Santander UK may send the holder the notice or other document by publishing the notice or other document on a website, and notify the holder by email that the notice or other document has been published on the website. Santander UK must also specify the address of the website on which it has been published, the place on the website where the notice may be accessed and how it may be accessed and where the notice in question is a notice of a meeting, the notice must continue to be published on that website throughout the period beginning with the giving of that notification and ending with the conclusion of the meeting, save that if the notice is published for part only of that period then failure to publish the notice throughout that period shall not invalidate the proceedings of the meeting where such failure is wholly attributable to circumstances which it would not be reasonable to have expected Santander UK to prevent or avoid.

In addition, for so long as the New Santander UK Preference Shares are listed and admitted to trading on any stock exchange, notices shall be given in accordance with any requirements of such exchange.

## **13. Registrar and Paying Agent**

Santander UK has appointed Citibank, N.A. as Registrar and Paying Agent in connection with the issue of the New Santander UK Preference Shares. Under the terms of the Agency Agreement,

Santander UK has the right to terminate the appointment of the Registrar or Paying Agent and appoint a successor.

#### **14. Governing Law**

The creation and issue of the New Santander UK Preference Shares and the rights and obligations (including non-contractual rights and obligations) attached to them are governed by, and shall be construed in accordance with, English law.

## **PART V**

### **USE OF PROCEEDS**

There will be no cash proceeds resulting from the issue of the New Santander UK Preference Shares. Instead, the New Santander UK Preference Shares are being issued pursuant to the terms of the Preference Scheme between A&L and the Preference Scheme Shareholders. Under the terms of the Preference Scheme, the existing A&L Preference Shares will be cancelled and the reserve arising on such cancellation will be applied in paying up the 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 A&L Preference Shares, and the issue of the New A&L Ordinary Shares, Santander UK will issue New Santander UK Preference Shares to Preference Scheme Shareholders, credited as fully paid. Preference Scheme Shareholders will receive one New Santander UK Preference Share for each A&L Preference Share held by them at the Preference Scheme Record Time.

## PART VI

### SANTANDER UK AND THE SANTANDER UK 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 90 million customers and over 14,000 branches.

On 11 January 2010, the Company 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 (formerly known as Wealth Management)

Private banking offers private banking services, and other specialist banking services. On 10 March 2010, the self-invested personal pension plans and WRAP (portfolio management) service businesses 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 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 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 to 899 of the Companies Act 2006.

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 onto 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 is 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 and subsidiary undertakings (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 in the table on pages 52 to 53 under the heading, "*Directors of Santander UK*", which also sets forth the directors of Santander UK. The business address of each of the directors of A&L 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 UK 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 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 Bradford & Bingley, 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 Santander UK 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 Bradford & Bingley 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.

### Directors of Santander UK

The following table sets forth the directors of Santander UK.

<b>Position</b>	<b>Name</b>	<b>Other principal activities</b>
Chairman	Lord Terence Burns	Non-Executive Director, Banco Santander S.A.; Chairman, Glas Cymru Cyfyngedig (Welsh Water); Chairman, A&L Non-Executive Director, Pearson plc President, National Institute of Economic and Social Research; Fellow, London Business School; President of the Society of Business Economists; Companion of the Institute of Management; Vice President of the Royal Economic Society; Chairman, Channel Four Television Corporation.
Deputy Chairman and Non-Executive Director	Juan Rodríguez Inciarte	Chief Executive of Santander Consumer Finance, S.A.; Executive Vice President of Banco Santander, S.A.; Non-Executive Director, A&L; Director, ABN AMRO Holding N.V; Director, ABN AMRO Bank N.V; Director, Compañía Española de Petróleos; Director, NIBC Bank N.V.; Director, Banco Banif S.A.; Director, Vista Capital de Expansion S.A.; Director and member of the Executive Committee of Sovereign Bancorp in the U.S.
Chief Executive	António Horta-Osório	Chief Executive of A&L; Non-Executive Chairman, Banco Santander Totta S.A.; Director, Banco Santander de Negócios Portugal S.A; Director, Banco Santander Totta, SGPS; Executive Vice President, Banco Santander, S.A; Non-Executive Director of the Court of the Bank of England.
Executive Directors	Juan Colombás Calafat	Executive Director, A&L
	Antonio Lorenzo Munoz	Executive Director, A&L
	Alison Brittain	Executive Director, A&L
Non-Executive Directors	Jane Barker	Chief Executive Officer, Equitas Limited; Non-Executive Director, A&L.
	Roy Brown	Chairman, GKN plc; Non-Executive Director, A&L.

<b>Position</b>	<b>Name</b>	<b>Other principal activities</b>
	José María Carballo	Chairman, La Unión Resinera Española; Chairman, Vista Desarrollo; Director, Teleférico Pico del Teide, S.A.; Director, Vista Capital Expansión S.A. S.G.E.C.R.; Non-Executive Director, A&L.
	José María Fuster	Executive Vice President of Operations and Technology and Non-Executive Director of Banesto; Director, Ingeniería de Software Bancario S.L.; Chief Information Officer for Banco Santander, S.A.; Non-Executive Director, A&L.
	Rosemary Thorne	Non-Executive Director on the board of Smurfit Kappa Group plc; Non-Executive Director, A&L.
	Keith Woodley	Council Member and Pro-Chancellor, University of Bath; Non-Executive Director, A&L.

The business address of each of the above directors is 2 Triton Square, Regent's Place, London NW1 3AN with telephone number +44 (0) 870 607 6000.

#### **Conflicts of Interest**

The directors of Santander UK listed above have no potential conflicts of interest between their duties to Santander UK and their private interests or other duties.

#### **Material Interests**

None of the individuals listed under "*Directors of Santander UK*" above has a beneficial interest in the New Santander UK Preference Shares that is material to the issue.

#### **Corporate Governance**

Santander UK complies with the United Kingdom's corporate governance regime as an issuer of preference shares.

## PART VII

### UNITED KINGDOM TAXATION

The following is a summary of the United Kingdom tax treatment of the New Santander UK Preference Shares, and is based on current law and on the current published practice of HM Revenue and Customs. It is intended as a general guide and, unless otherwise stated, is intended to apply only to holders of New Santander UK Preference Shares who are resident, and (in the case of individuals) ordinarily resident and domiciled, in the United Kingdom for United Kingdom tax purposes, who hold New Santander UK Preference Shares as an investment and who are the absolute beneficial owners of their New Santander UK Preference Shares. The statements below may not apply to certain classes of holders, such as dealers in securities, insurance companies, collective investment schemes, individuals who are resident or ordinarily resident but not domiciled in the United Kingdom, and holders of New Santander UK Preference Shares who have (or who are deemed to have) acquired their New Santander UK Preference Shares by reason of their or another's office or employment. Such persons may be subject to special rules.

**Holders of New Santander UK Preference Shares 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.**

#### Taxation of Dividends

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 UK 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 UK 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.

### **Taxation of Capital Gains**

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 United Kingdom, 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.

### **UK Stamp Duty and Stamp Duty Reserve Tax (SDRT)**

#### *Issue of the New Santander UK Preference Shares*

SDRT should not be payable on the issue of the New Santander UK Preference Shares to a nominee for Euroclear or Clearstream, Luxembourg in exchange for the cancellation of the A&L Preference Shares held through Euroclear and Clearstream in uncertificated form pursuant to the Preference Scheme.

#### *Transfer of New Santander UK Preference Shares held through Euroclear and Clearstream in uncertificated form*

So long as, and to the extent that, the New Santander UK Preference Shares are held through Euroclear or Clearstream, Luxembourg, and provided that neither Euroclear nor Clearstream, Luxembourg 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).

#### *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.

## PART VIII

### RESTRICTIONS

The distribution of this document in jurisdictions other than the UK may be restricted by law and therefore persons into whose possession this document comes should inform themselves about, and observe, such restrictions. Any failure to comply with the restrictions may constitute a violation of the securities laws of any such jurisdictions.

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

#### ***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 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 the New Santander UK Preference Shares issued under the Preference Scheme without restriction under the Securities Act, 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 exceptions from the registration requirement or in a transaction not subject to such requirements (including a transaction that satisfied 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 her own legal advisers prior to any sales of New Santander UK Preference Shares received pursuant to the Preference Scheme.

#### ***Switzerland***

This Prospectus 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 Prospectus, 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 Prospectus does not constitute a prospectus within the meaning of Article 652a of the Swiss Code of Obligations.

#### ***General***

This Prospectus does not constitute, and may not be used for the purpose of, an offer or solicitation to the public or to anyone in any jurisdictions 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 nor the information incorporated by reference herein is intended to

constitute or should be construed as business, investment, legal, tax, accounting or other professional advice. This Prospectus 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.

## PART IX

### SUMMARY OF CERTAIN PROVISIONS OF THE SANTANDER UK ARTICLES

*The following is a summary of certain provisions of the Santander UK Articles in force as at the date of this Prospectus which may affect the terms of the New Santander UK Preference Shares.*

#### **Article 3: Form of Santander UK's share capital**

The Company's issued share capital at the date of this Prospectus (that is, prior to the issue of the New Santander UK Preference Shares) is comprised of the Santander UK Ordinary Shares of 10 pence each and redeemable sterling preference shares of £1 each.

#### **Article 4: Rights attaching to the Existing Preference Shares**

##### *General*

All Preference Shares rank *pari passu inter se* and are subject to the limitations set out in article 4 and such further rights (that are not inconsistent with the rights set out in article 4) as were attached to them by the Board prior to the allotment of such shares.

##### *Income*

If it shall subsequently appear that any dividend which has been paid to holders of preference shares should not have been so paid, then provided the Board shall have acted in good faith, the directors shall not incur any liability for any loss which any shareholder may suffer in consequence of such payment having been made.

In any calendar year, whether or not any preference dividend on any particular preference share has been paid in full and notwithstanding any other provision of the articles, the Board may, if it so resolves, pay (or set aside a sufficient sum for payment of) a special dividend not exceeding one penny per share on any shares in the capital of the Company in respect of which no dividend has previously been paid in that calendar year. References elsewhere in the articles to any dividend payable on any preference share shall not be treated as including a reference to any such special dividend paid on the preference share.

#### **Article 34: Power to issue different classes of shares**

Subject to the articles, but without prejudice to the rights attached to any existing share, the Company may issue new shares with any rights or restrictions attaching to them. These rights and restrictions may be decided by an ordinary resolution passed by shareholders. The directors of the Company can also take these decisions if they do not conflict with any resolution passed by the shareholders.

The Company may issue shares which are to be redeemed, or are liable to be redeemed at the option of Santander UK or the holder, and the directors may determine the terms, conditions and manner of redemption of any such shares.

#### **Article 35: Company not bound by less than absolute interests**

Except as required by law, no person is to be recognised by Santander UK as holding any share upon any trust, and except as otherwise required by law or the articles, Santander UK is not in any way to be bound by or recognise any interest in a share other than the holder's absolute ownership of it and all the rights attaching to it.

#### **Article 36: Certificates to be issued except in certain cases**

The Company must issue each shareholder with one or more certificates in respect of the shares which that shareholder holds except in relation to uncertificated shares, shares in respect of which a share warrant has been issued, or shares in respect of which the Companies Act 2006 permits the Company not to issue a certificate.

Except as otherwise specified in the articles, all certificates must be issued free of charge. No certificate may be issued in respect of shares of more than one class. If more than one person holds a share, only one certificate may be issued in respect of it. When the Company delivers a certificate to one joint shareholder, this is treated as delivery to all joint shareholders. The

Company can deliver a certificate to a broker or agent who is acting for a person who is buying the shares, or who is having the shares transferred to him.

#### **Article 37: Contents and execution of share certificates**

Every certificate must specify: (i) in respect of how many shares, of what class, it is issued; (ii) the nominal value of those shares; and (iii) either that the shares are fully paid or the amount paid up on each share. Certificates must have affixed to them the Company's common seal, or an official seal which is a facsimile of the Company's common seal with the addition on its face of the word "Securities", or be otherwise executed in accordance with the Companies Act 2006.

#### **Article 39: Replacement share certificates**

If a share certificate is damaged, defaced, lost, stolen or destroyed, a shareholder is entitled to be issued with a replacement certificate in respect of the same shares. A shareholder exercising the right to be issued with such a replacement certificate must return the certificate to Santander UK (if it is damaged or defaced) and must comply with such conditions as to evidence, indemnity and the payment of a reasonable fee as the directors of the Company decide.

#### **Article 40: Uncertificated shares**

Any share or class of shares of the Company may be issued or held in uncertificated form. The directors have power to take such steps as they think fit in relation to the evidencing of and transfer of title to uncertificated shares, any records relating to the holding of uncertificated shares, the conversion of certificated shares into uncertificated shares, or the conversion of uncertificated shares into certificated shares. The Company may at any time require uncertificated shares to be converted into certificated form or require certificated shares to be converted into uncertificated form.

If the articles give the directors power to take action, or require other persons to take action, in order to sell, transfer or otherwise dispose of shares and uncertificated shares are subject to that power, but the power is expressed in terms which assume the use of a certificate or other written instrument, the directors may take such action as is necessary or expedient to achieve the same results when exercising that power in relation to uncertificated shares.

Unless the directors determine otherwise, shares which a shareholder holds in uncertificated form must be treated as separate holdings from any shares which that shareholder holds in certificated form.

#### **Article 57: Procedure for declaring dividends**

The Company may by ordinary resolution declare dividends, and the directors may decide to declare or pay interim dividends. For the avoidance of doubt, the directors may decide to pay an interim dividend without first declaring it.

A dividend must not be declared unless the directors have made a recommendation as to its amount. Such a dividend must not exceed the amount recommended by the directors.

No dividend may be declared or paid unless it is in accordance with shareholders' respective rights.

Unless the shareholders' resolution to declare or directors' decision to declare or pay a dividend, or the terms on which shares are issued, specify otherwise, it must be paid by reference to each shareholder's holding of shares on the date of the resolution or decision to declare or pay it.

If the Company's share capital is divided into different classes, no interim dividend may be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrear unless the different class of shares provides otherwise.

The directors may pay at intervals any dividend payable at a fixed rate if it appears to them that the profits available for distribution justify the payment.

If the directors act in good faith, they do not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on shares with deferred or non-preferred rights.

**Article 58: Payment of dividends and other distributions**

Any dividend on any shares in registered form can be paid to the registered holder or holders of the shares at the close of business on a particular day stated in the resolution passed for payment of the dividend. Such dividend will be based on the number of shares registered on that day.

**Article 60: Deduction from dividends**

The directors may deduct from any dividend payable on or in respect of a share all sums of money presently payable by the holder to the Company on any account whatsoever.

## PART X

### GENERAL INFORMATION

#### 1. Authorisation

The issue of the New Santander UK Preference Shares was duly authorised by a resolution of the Santander UK Ordinary Shareholders at the annual general meeting of Santander UK dated 18 June 2009.

The allotment of the New Santander UK Preference Shares was duly authorised, subject to the Preference Scheme become effective in accordance with its terms, by a resolution of a duly authorised committee of the Board dated 10 March 2010.

#### 2. Listing

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 Market. Such listing and admission is expected to occur on the Business Day following the Issue Date.

#### 3. Settlement

*(i) New Santander UK Preference Shares held through Euroclear or Clearstream in uncertificated form*

The New Santander UK Preference Shares are expected to be accepted for clearance through Euroclear and Clearstream. The Common Code and the ISIN attached to such shares will be notified through a Regulatory News Service when such information becomes available. The address of Euroclear is Euroclear Bank SA/N.V., 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream is Clearstream Banking Société Anonyme, 42 Avenue JF Kennedy, L-1855 Luxembourg.

The New Santander UK Preference Shares represented by the Santander UK Global Share Certificate will be deposited with the Common Depository and credited to the respective securities accounts of purchasers in Euroclear or Clearstream and will be held in accordance with the terms and conditions governing use of Euroclear and Clearstream, the operating procedures of the Euroclear system (as amended from time to time) and the management regulations of Clearstream and the instructions to participants of Clearstream (as amended from time to time) as applicable.

Preference Dividends and any other distributions received in respect of New Santander UK Preference Shares held in uncertificated form will be credited to the cash accounts maintained at Euroclear and Clearstream on behalf of the investors having accounts at Euroclear and Clearstream, as the case may be, after deduction for applicable withholding taxes, in accordance with the applicable regulations and procedures of Euroclear and Clearstream.

Each of Euroclear and Clearstream may, at its discretion, take such action as it shall deem appropriate to assist investors having accounts at Euroclear or Clearstream in the exercise of voting rights in respect of the New Santander UK Preference Shares. Such actions may include (i) acceptance of instructions from investors to execute, or to arrange for the execution of, proxies, powers of attorney or other similar certificates for delivery to Santander UK or its agent; or (ii) voting of such New Santander UK Preference Shares by Euroclear or its nominees and Clearstream or its nominees in accordance with the instructions of investors having accounts at Euroclear or Clearstream.

Notwithstanding that the New Santander UK Preference Shares are shares, Santander UK understands that the trading of the Preference Shares between participants in Euroclear and Clearstream will be effected in the manner customary for debt securities.

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

New Santander UK Preference Shares held in certificated form cannot be traded through the Clearing Systems.

Preference Dividends and any other distributions received in respect of the New Santander UK Preference Shares held in certificated form will be paid by cheque to the registered holder of such shares.

#### **4. Significant or Material Change**

With the exception of the transfer of A&L to Santander UK being accounted for in a manner consistent with group reconstruction relief under UK GAAP (as further described in the section *Presentation of financial information* on page 6 of this Prospectus and note 24 to the unaudited half yearly financial report of Santander UK for the six months ended 30 June 2009), according to which the transfer of A&L has been accounted for by Santander UK with effect from 10 October 2008, the date on which Banco Santander acquired A&L (the consolidated balance sheet and related notes of the Santander UK Group at 31 December 2008 have been updated to reflect this treatment in the unaudited half-yearly financial report of Santander UK for the six months ended 30 June 2009) there has been no significant change in the financial or trading position of the Santander UK Group since 30 June 2009, being the date of the last half-yearly unaudited financial report of the Santander UK Group. There has been no material adverse change in the financial position or prospects of the Santander UK Group since 31 December 2008 being the date of the last audited consolidated statements of Santander UK.

#### **5. Litigation**

Santander UK, along with seven other financial institutions, has been involved in legal proceedings with the Office of Fair Trading (the **OFT**), regarding the legal status and enforceability of unarranged overdraft fees (the **OFT Proceedings**). The OFT Proceedings were concerned with whether certain of the financial institutions' terms and conditions are subject to the fairness test in the Unfair Terms in Consumer Contract Regulations 1999 (the **Regulations**) and whether they are capable of being 'penalties' at common law.

In April 2008 the High Court confirmed that Santander UK's then current terms and conditions were not capable of being penalties at common law. This finding was not appealed by the OFT. The High Court also found that the relevant terms were assessable for fairness under the Regulations. On 26 February 2009, the Court of Appeal dismissed the appeal against the High Court's judgment made by the relevant financial institutions and held that unarranged overdraft fees were assessable for fairness under the Regulations.

The House of Lords gave the relevant financial institutions permission to appeal this judgment. The hearing before the House of Lords took place on 23 to 25 June 2009. The Supreme Court (previously The House of Lords) gave its judgment on 25 November 2009 and ruled that the level of the unauthorised overdraft fees of the relevant financial institutions could not be assessed for fairness under the Regulations (to the extent that the terms pursuant to which the charges are levied are in plain and intelligible language), although they may be assessed for fairness on some other basis. On 22 December 2009, the OFT announced that it would not be continuing with its investigation into the fairness of unarranged overdraft fees.

Those companies in the Santander UK Group against whom complaints in respect of unarranged overdraft fees remained after the Supreme Court decision have rejected the vast majority of such complaints, and it is understood that the Financial Ombudsman Service has rejected the vast majority of complaints that it had had on hold since the commencement of the OFT Proceedings. It is presently anticipated that companies in the Santander UK Group will invite the County Courts to dismiss those claims against them, which have been stayed since the commencement of the OFT Proceedings and which relate to the issues covered in the OFT Proceedings.

The Santander UK Group is not, nor has it been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Santander UK or A&L is aware) which may have or have had, in the 12 months prior to the date hereof, a significant effect on the financial position or profitability of Santander UK or the Santander UK Group, or of A&L and its subsidiaries.

If there are any further significant developments in relation to the proceedings as set out above the Santander UK Group will make any necessary announcements.

#### **6. Material Contracts**

Neither Santander UK nor its subsidiaries have entered into any material contracts out of the ordinary course of business which could result in any member of the Santander UK Group being under an obligation or entitlement that is material in respect to Santander UK's ability to meet its obligations to the holders of the New Santander UK Preference Shares in respect of those shares.

## **7. Independent Auditors**

The consolidated annual financial statements of Santander UK and A&L for the years ended 31 December 2007 and 31 December 2008 herein included or incorporated by reference have been audited by Deloitte LLP, chartered accountants and registered auditors, as stated in their reports appearing therein.

## **8. Expenses**

Estimated fees and expenses incurred in connection with the issue of the New Santander UK Preference Shares will total approximately £500,000 (exclusive of VAT).

## **9. Documents**

The following documents will be available for inspection at 2 Triton Square, Regent's Place, London NW1 3AN while the New Santander UK Preference Shares remain outstanding:

- (A) the Santander UK Articles and the resolutions of a duly authorised committee of the 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;
- (B) the unaudited half-yearly financial report of Santander UK for the six months ended 30 June 2009;
- (C) the audited consolidated financial statements of Santander UK in respect of the financial years ended 31 December 2007 and 31 December 2008;
- (D) the unaudited half-yearly financial report of A&L for the six months ended 30 June 2009;
- (E) the audited consolidated financial statements of A&L in respect of the financial years ended 31 December 2007 and 31 December 2008;
- (F) the Agency Agreement;
- (G) a copy of this Prospectus together with any Supplementary Prospectus; and
- (H) the Preference Scheme Document.

This Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com](http://www.londonstockexchange.com).

## **10. Indication of Yield**

On issue, the New Santander UK Preference Shares will have a yield of 6.222 per cent.

## PART XI

### DEFINITIONS

<b>A&amp;L</b>	means Alliance & Leicester plc.
<b>A&amp;L Articles</b>	means the articles of association of A&L in force at the date of this Prospectus.
<b>A&amp;L General Meeting</b>	means the general meeting of A&L Ordinary Shareholders and 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, Regents Place, London NW1 3AN to consider and, if thought fit, approving certain resolutions in connection with the Preference Scheme, and any adjournment thereof.
<b>A&amp;L Global Share Certificate</b>	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.
<b>A&amp;L Group</b>	means A&L and its subsidiaries and subsidiary undertakings collectively.
<b>A&amp;L Ordinary Shareholders</b>	means the registered holders of A&L Ordinary Shares and <b>A&amp;L Ordinary Shareholder</b> means any one of them.
<b>A&amp;L Ordinary Shares</b>	means the ordinary shares of 50 pence each in the capital of A&L and <b>A&amp;L Ordinary Share</b> means any one of them.
<b>A&amp;L Preference Shares</b>	means the A&L Series A Fixed/Floating Rate Non-Cumulative Callable Preference Shares of £1 each in the capital of A&L and <b>A&amp;L Preference Share</b> means any one of them.
<b>A&amp;L Preference Shareholders</b>	means the holders of A&L Preference Shares (whether holding such shares in certificated form or through the Clearing Systems in uncertificated form) and <b>A&amp;L Preference Shareholder</b> means any one of them.
<b>A&amp;L Preferred Securities</b>	means the £300,000,000 5.827 per cent. Step-Up Callable Perpetual Preferred Securities originally issued by A&L with ISIN 0188550114.
<b>Abbey</b>	means Abbey National plc (now Santander UK)
<b>Admission</b>	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.
<b>Admission and Disclosure Standards</b>	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.
<b>Agency Agreement</b>	means the agreement between Santander UK and the Paying Agent dated on or about 12 March 2010.
<b>Banco Santander</b>	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.
<b>Board</b>	means the board of directors of Santander UK, and includes any sub-committee thereof or person or persons to whom the Board has delegated authority in accordance with the Santander UK Articles.

<b>Bradford &amp; Bingley or B&amp;B</b>	means the savings business of Bradford & Bingley plc which was transferred to Banco Santander under the Banking (Special Provisions) Act 2008.
<b>Business Day</b>	means a day (excluding Saturdays, Sundays and public holidays in the United Kingdom) on which banks are generally open for business in London.
<b>CD Nominee</b>	means Citivic Nominees Limited as nominee for Euroclear and Clearstream.
<b>Clearing Systems</b>	means Clearstream and Euroclear and <b>Clearing System</b> means either one of them.
<b>Clearstream</b>	means Clearstream Banking, <i>société anonyme</i> , Luxembourg.
<b>Common Depository</b>	means Citibank, N.A.
<b>Company or Santander UK</b>	means Santander UK plc.
<b>Conditions</b>	means the conditions to the implementation of the Preference Scheme as set out in paragraph 7 of Part I of this document and Part 3 of the Preference Scheme Document.
<b>Court</b>	means the High Court of Justice in England and Wales.
<b>Court Meeting</b>	means the meeting of A&L Preference Shareholders as convened by order of the Court under section 896 of the Companies Act 2006 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.
<b>Direct Participants</b>	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 <b>Direct Participant</b> means any one of them.
<b>Disclosure and Transparency Rules</b>	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).
<b>Dividend Determination Date</b>	means, in relation to each Dividend Period commencing on or after the First Call Date, the first day of such Dividend Period.
<b>Dividend Period</b>	means the period from (and including) a Preference Dividend Payment Date (or the Issue Date) to (but excluding) the next succeeding Preference Dividend Payment Date.
<b>Dividend Stopper Period</b>	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 the Preference Dividend 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.
<b>Effective Date</b>	means the date on which the Preference Scheme becomes effective in accordance with its terms.
<b>Electronic Voting Instructions</b>	means the electronic voting and blocking instructions 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 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**

means:

- (i) the 200,000,000 10<sup>3</sup>/<sub>8</sub> per cent. Non-Cumulative Sterling Preference Shares of £1 each issued by Santander UK with ISIN GB0000064393;
- (ii) the 125,000,000 8<sup>5</sup>/<sub>8</sub> 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 1 preferred income securities issued by Santander UK with ISIN XS0152838586,

each of which has been admitted to the Official List of the UKLA and admitted to trading on the London Stock Exchange.

**Financial Adviser or UBS**

means UBS Limited, the financial adviser to Santander UK.

**First Call Date**

means 24 May 2019.

**Fitch**

means Fitch Ratings Limited.

**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.

**GENPRU**

means the General Prudential Sourcebook for Banks, Building Societies, Insurers and Investment Firms (as amended from time to time) or any successor publication.

**IFRS**

means the International Financial Reporting Standards.

**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**

means:

- (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.

<b>Legislation</b>	means the Companies Act 2006 and all other laws and regulations applying to Santander UK.
<b>LIBOR</b>	means, in relation to a Dividend Period, the offered rate for three month deposits in sterling as at 11.00 a.m. London time on the relevant Dividend Determination Date appearing on the display designated as page LIBOR 01 on the Reuters Service (or such other page or service as may replace it to display such information) as determined by the Paying Agent.
<b>Listing Rules</b>	means the Listing Rules of the UK Listing Authority.
<b>London Stock Exchange</b>	means the London Stock Exchange plc or its successor.
<b>Make Whole Redemption Price</b>	means, in respect of each New Santander UK Preference Share, (a) £1,000 or, if redemption occurs before the First Call Date and this is higher, (b) the price, expressed as a percentage (rounded to four decimal places, 0.0005 being rounded upwards), at which the gross redemption yield (as calculated on the basis set out by the United Kingdom Debt Management Office in the paper "Formulae for Calculating Gilt Prices from Yields" page 4, Section One: Price/Yield Formulae Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date (published 8/6/1998)) on the New Santander UK Preference Shares, if they were to be purchased at such price on the third dealing day prior to the Redemption Date, would be equal to the gross redemption yield on such dealing day of the Reference Bond plus 0.735 per cent. on the basis of the middle market price of the Reference Bond prevailing at 11.00 a.m. (London time) on such dealing day as determined by a leading investment or commercial bank appointed by Santander UK for such purpose, together in the case of (a) or (b) with any Preference Dividends accrued since the immediately preceding Preference Dividend Payment Date (or Issue Date if no Preference Dividend Payment Date has occurred).
<b>Market</b>	means the main market of the London Stock Exchange.
<b>Meetings</b>	means the Court Meeting, the A&L General Meeting and the Preference Class Meeting and <b>Meeting</b> means any one of them.
<b>Moody's</b>	means Moody's Investors Service Limited.
<b>New A&amp;L Ordinary Shares</b>	means the new ordinary shares of 50 pence each in the capital of A&L to be issued to Santander UK in accordance with the provisions of the Preference Scheme.
<b>New Santander UK Preference Shares</b>	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 <b>New Santander UK Preference Share</b> means any one of them.
<b>Non-Innovative Tier 1 Capital</b>	means Tier 1 Capital which does not comprise Innovative Tier 1 Capital.
<b>Official List</b>	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 Santander UK and A&L on 25 February 2010.

**Paying Agent**

means Citibank, N.A.

**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 to consider and, if thought fit, approving certain resolutions in connection with the Preference Scheme, and any adjournment thereof.

**Preference Court Order**

means the order of the Court sanctioning the Preference Scheme under sections 895 to 899 of the Companies Act 2006 and confirming the reduction of capital under section 648 of the Companies Act 2006 provided for by the Preference Scheme.

**Preference Dividend**

has the meaning set out in paragraph 2(i) of Part IV of this Prospectus ("*Description of the New Santander UK Preference Shares*").

**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 2006 between A&L and 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 as summarised in Part I of this Prospectus and detailed in Part 8 ("*The Scheme of Arrangement*") of the Preference Scheme Document.

<b>Preference Scheme Court Hearing</b>	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 2006 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 2006.
<b>Preference Scheme Document</b>	means the document issued by A&L dated 12 March which sets out the proposal (and terms thereof) for the cancellation of A&L Preference Shares, and the issue of New Santander UK Preference Shares by Santander UK.
<b>Preference Scheme Record Time</b>	means 6.00 p.m. on the Business Day of the Preference Scheme Court Hearing.
<b>Preference Scheme Shareholders</b>	means holders of the A&L Preference Shares at the Preference Scheme Record Time and <b>Preference Scheme Shareholder</b> means any one of them.
<b>Prospectus</b>	means this prospectus which constitutes a prospectus under the Prospectus Rules and which has been compiled in accordance with the Prospectus Directive.
<b>Prospectus Directive</b>	means the EU Prospectus Directive (Directive 2003/71/EC).
<b>Prospectus Rules</b>	means the prospectus rules made by the UK Listing Authority pursuant to Part VI of FSMA.
<b>Qualifying Non-Innovative Tier 1 Securities</b>	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"> <li>(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</li> <li>(ii) are listed on a recognised investment exchange (as defined in the FSMA).</li> </ul>
<b>Redemption Date</b>	means the date fixed for redemption of the New Santander UK Preference Shares, being a date on which the New Santander UK Preference Shares may be redeemed as set out in Part IV of this Prospectus (" <i>Description of the New Santander UK Preference Shares</i> ").
<b>Reference Bond</b>	means, in relation to any calculation of the Make Whole Redemption Price, the 4.75 per cent. Treasury Stock due 2020, or if such security is no longer in issue or is no longer used in the pricing of bonds with a maturity falling near the First Call Date,

such other United Kingdom government security as Santander UK may, with the advice of the Reference Dealers, determine to be appropriate for determining the Make Whole Redemption Price.

<b>Reference Dealers</b>	means three brokers of gilts and/or gilt-edged market makers selected by Santander UK, or such other three persons operating in the gilt-edged market as are selected by Santander UK.
<b>Register</b>	means the register of members of Santander UK maintained by the Registrar on behalf of Santander UK.
<b>Registrar</b>	means Citibank, N.A.
<b>Registrar of Companies</b>	means the Registrar of Companies in England and Wales.
<b>Regulatory Event</b>	means any change to the rules and guidance of the FSA relating to Tier 1 Capital that results in securities of the nature of, and including, the New Santander UK Preference Shares ceasing to qualify as Non-Innovative Tier 1 Capital.
<b>Regulatory News Service</b>	means the service authorised by the FSA to disseminate regulatory announcements from time to time.
<b>Relevant Proportion</b>	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 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.
<b>Santander UK Global Share Certificate</b>	means the single global share certificate, deposited with and held by the Common Depositary and representing the New Santander UK Preference Shares held through the Clearing Systems in uncertificated form.
<b>Santander Group</b>	means Banco Santander and its subsidiaries and subsidiary undertakings collectively from time to time.
<b>Santander UK</b>	means Santander UK plc.
<b>Santander UK Articles</b>	means the articles of association of Santander UK in force from time to time.
<b>Santander UK Group</b>	means Santander UK and its subsidiaries and subsidiary undertakings collectively which, for the avoidance of doubt, includes A&L.

<b>Santander UK Ordinary Shares</b>	means the ordinary shares of 10 pence each in the capital of Santander UK and <b>Santander UK Ordinary Share</b> means any one of them.
<b>Santander UK Ordinary Shareholders</b>	means the registered holders of Santander UK Ordinary Shares and <b>Santander UK Ordinary Shareholder</b> means any one of them.
<b>Securities Act</b>	means the US Securities Act of 1933, as amended.
<b>SFEL</b>	means Santander Financial Exchanges Limited, a wholly-owned subsidiary of Banco Santander.
<b>Standard and Poor's</b>	means Standard and Poor's Rating Services, a division of The McGraw-Hill Companies, Inc.
<b>sterling, £, pence and p</b>	means the lawful currency of the UK.
<b>Subsidiary</b>	has the meaning ascribed under the Companies Act 2006.
<b>Subsidiary undertaking</b>	has the meaning ascribed under the Companies Act 2006.
<b>Supplementary Prospectus</b>	means a supplementary prospectus containing details of a new significant new factor, material mistake or inaccuracy relating to the information included in this Prospectus issued pursuant to section 87G of FSMA.
<b>Tier 1 Capital</b>	has the meaning given to the term from time to time by the FSA.
<b>UK GAAP</b>	means generally accepted accounting principles in the United Kingdom.
<b>UK Listing Authority</b>	means the FSA in its capacity as competent authority under the FSMA.
<b>UK or United Kingdom</b>	means the United Kingdom of Great Britain and Northern Ireland.
<b>US or United States</b>	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 Colombia.
<b>Voting Record Time</b>	means the time fixed for determining the entitlement to vote at the Court Meeting, the A&L General Meeting and the Preference Class Meeting, which will be 5.00p.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.

## **ISSUER**

**Santander UK**  
2 Triton Square  
Regent's Place  
London  
NW1 3AN

## **REGISTRAR AND PAYING AGENT**

**Citibank, N.A.**  
Citigroup Centre  
Canada Square  
Canary Wharf  
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E14 5LB

## **LEGAL ADVISERS**

*To Santander UK as to English law*

**Slaughter and May**  
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*To the Financial Adviser as to English Law*

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## **FINANCIAL ADVISER**

**UBS Limited**  
100 Liverpool Street  
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EC2M 2RH

## **AUDITOR**

**Deloitte LLP**  
Chartered Accountants and Registered Auditors  
2 New Street Square  
London  
United Kingdom  
EC4A 3BZ