Recommended Offer for Alliance & Leicester

14 July 2008

Abbey

Santander

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Description of the deal

Strategic rationale

Financial impact

Summary

A full and fair offer

- 1 Santander share for every 3 A&L shares(1)
- The value of 299 pence per A&L share plus an 18 pence per share interim dividend
- 36.4% premium to closing price on 11 July 2008
- 9.3% premium based on average share prices over 4 weeks prior to 11 July 2008
- Significant premium to peer group based on P/E multiples

Recommended by A&L's board

(1) Based on approximately 421m A&L shares outstanding, approximately 140m Santander shares will be issued

Additional information

- Structured as Scheme of Arrangement
- Subject to
  - Santander EGM to approve share issuance
  - A&L shareholder approval and UK court sanction
  - Regulatory and anti-trust approvals
- The Board of A&L will declare an interim dividend of 18 pence per share prior to completion
- A&L shareholders will receive Santander dividends following completion of the transaction

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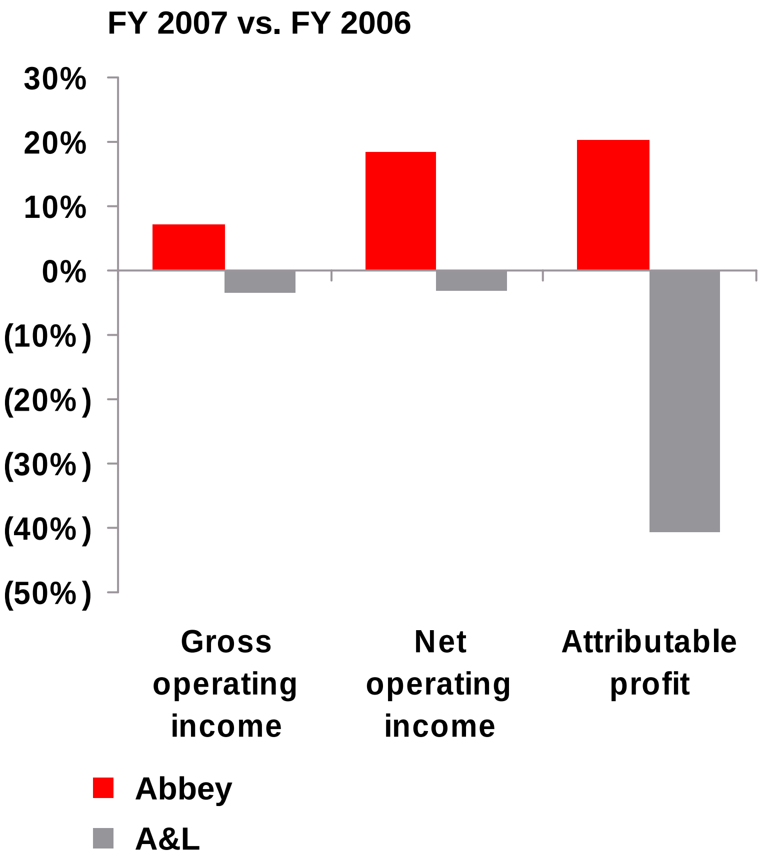
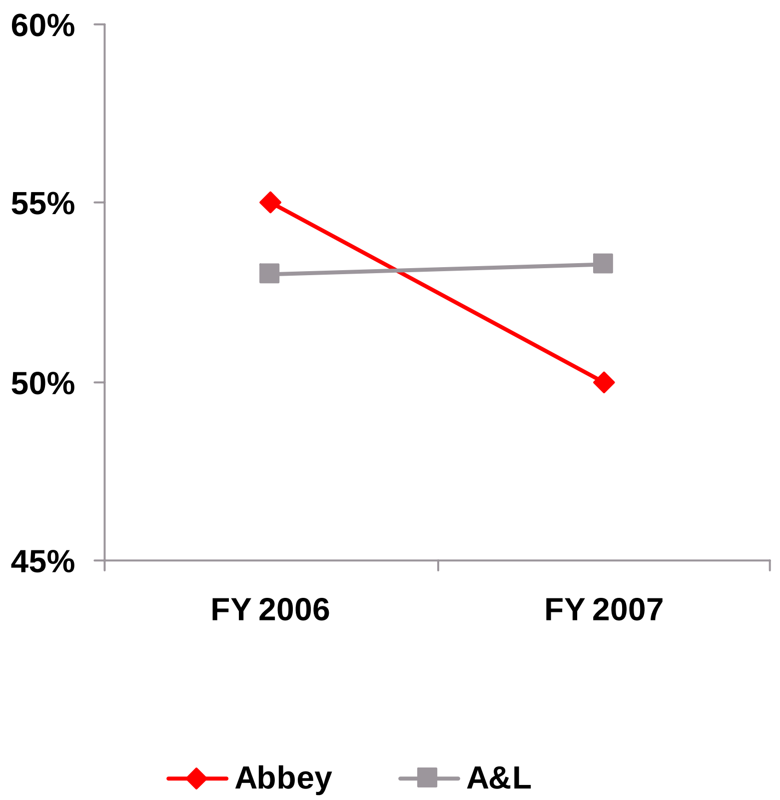
Strong strategic rationale for A&L shareholders to accept the offer

- Santander believes that A&L’s business is affected by current market conditions and cannot take full advantage of growth opportunities
  - Write-downs of treasury assets impacting regulatory capital position
  - Treasury portfolio is relatively large and balance sheet is reliant on wholesale funding
- Santander considers there is a risk of franchise deterioration for A&L as a standalone business in a higher risk environment

Abbey has performed well with Santander's business model



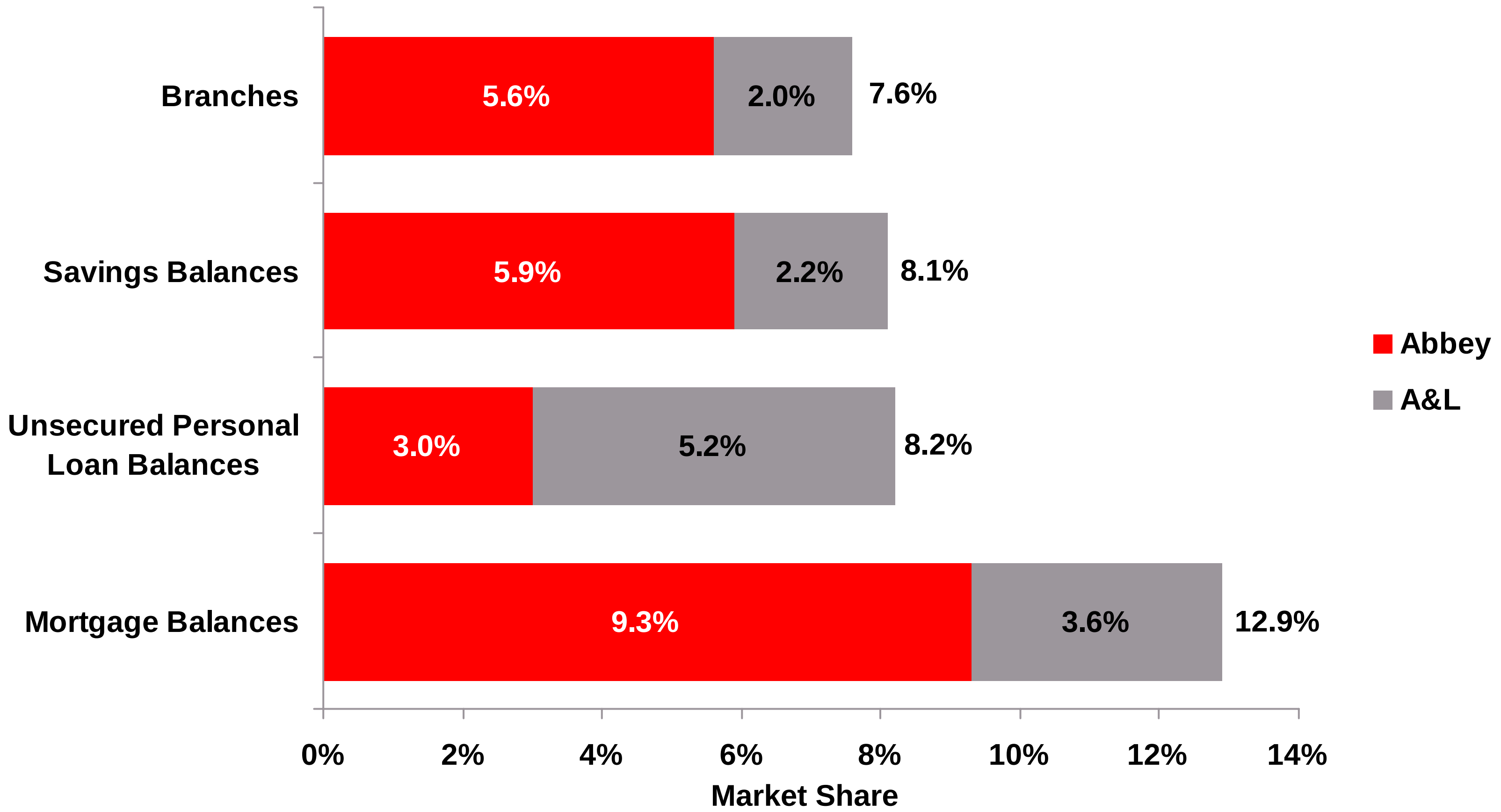
Cost/Income ratio



Strong strategic rationale for Santander

1. Increased critical mass in the UK market (as part of our “Vertical Strategy”)
2. In-market synergies (migration to Partenon, integration of back office functions)
3. Good geographic fit - better market reach
4. Acceleration of Abbey’s planned expansion in SME / commercial market by 2-3 years

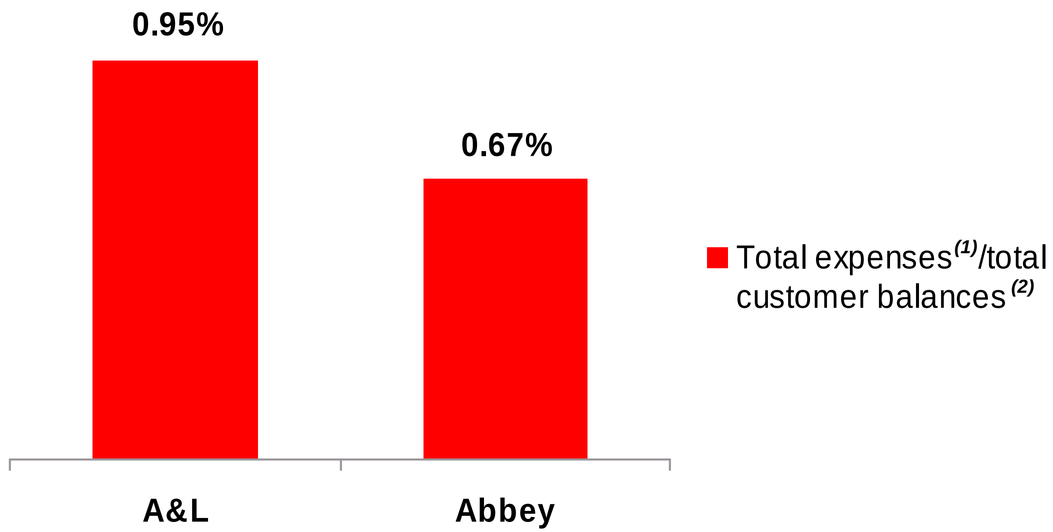
1 Increased critical mass in the UK market (as part of our "Vertical Strategy")



Note: Data as at December 2007

2 We believe A&L's efficiency can be improved through best practices

Benchmarking: operating expenses (2008)

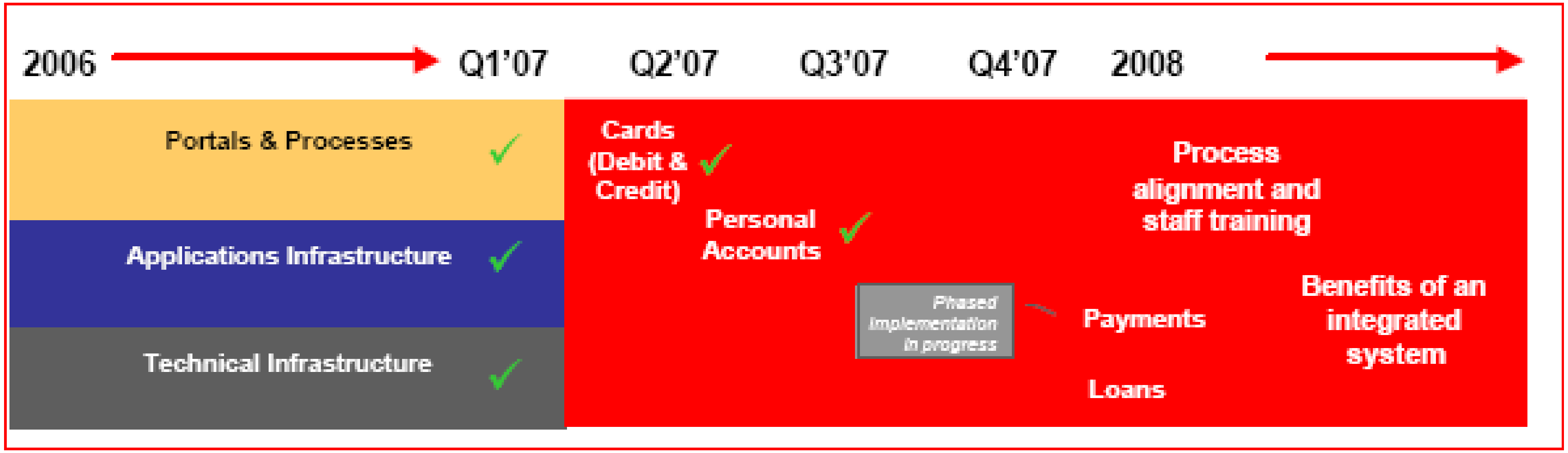


Adjusting for differences in business mix, we believe there is a £30-50m opportunity on a standalone basis, before integration cost synergies are taken into account

(1) Including depreciation and amortisation
(2) Total customer balances are defined as total mortgage, unsecured personal loan, corporate loan and customer deposit balances at 31 December 2007

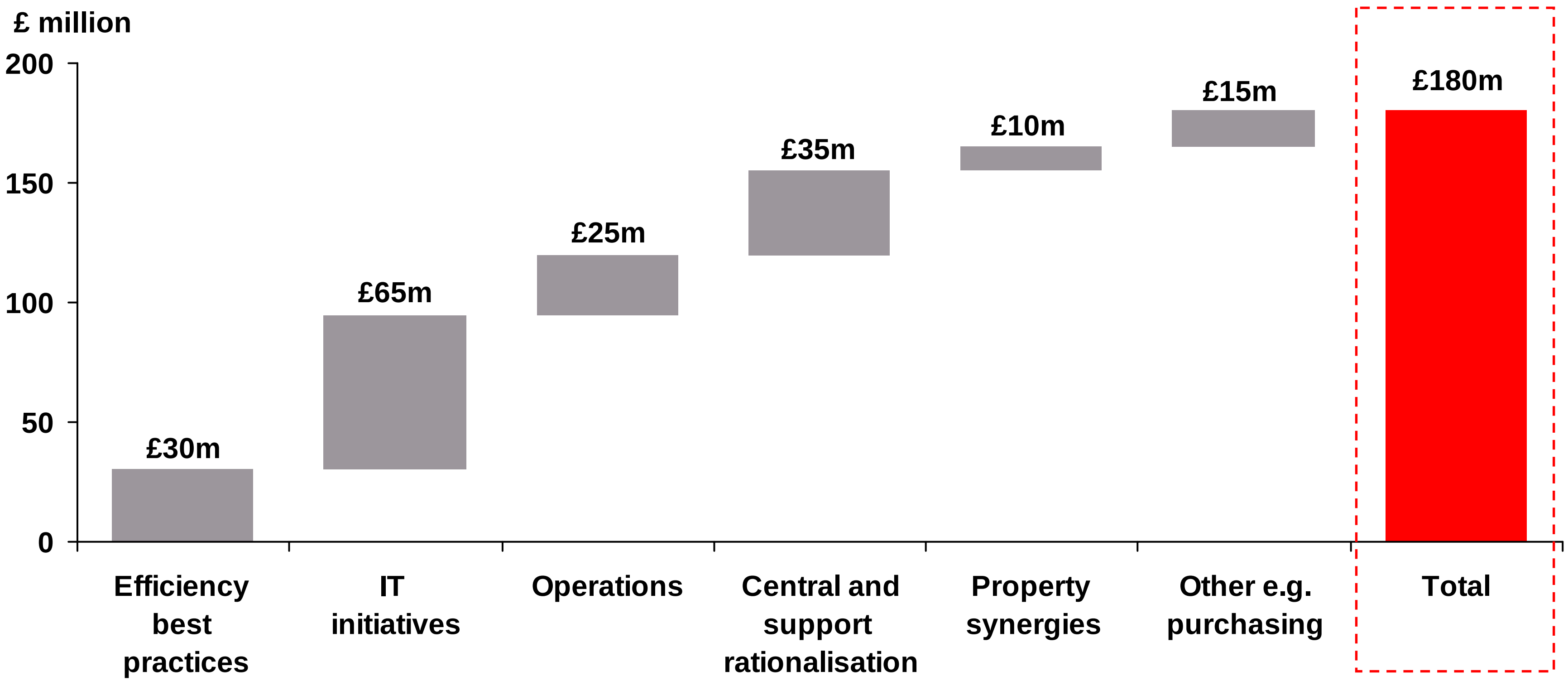
2 In-market synergies: migration to Partenon, integration of back office functions

Implementation of Partenon reaching final stages



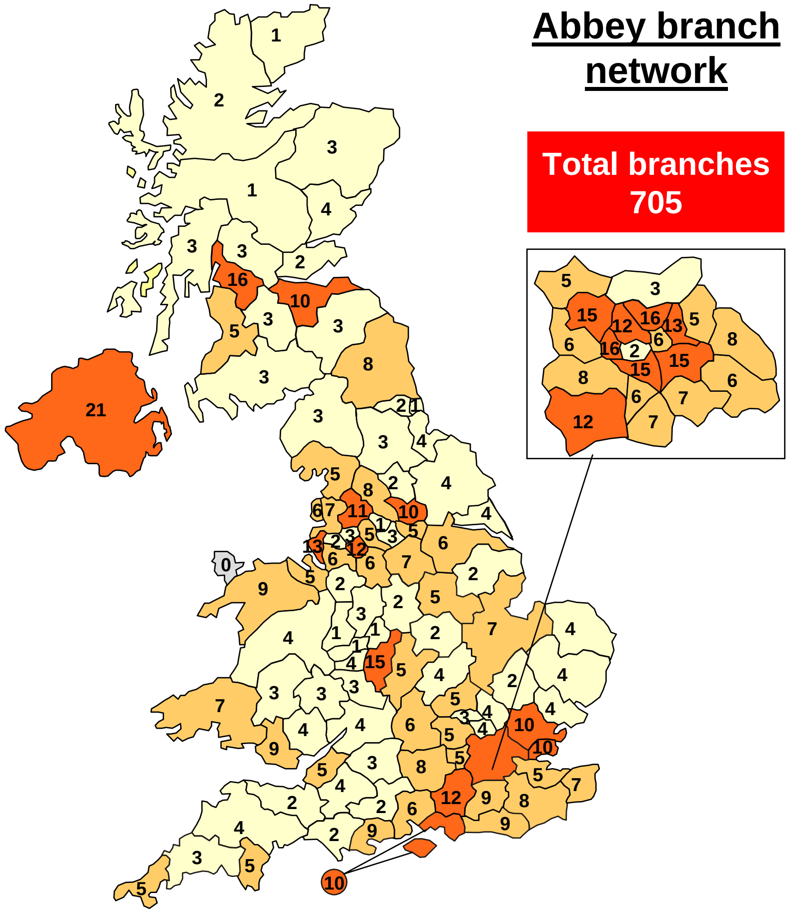
… we are now ready to integrate A&L with low execution risk

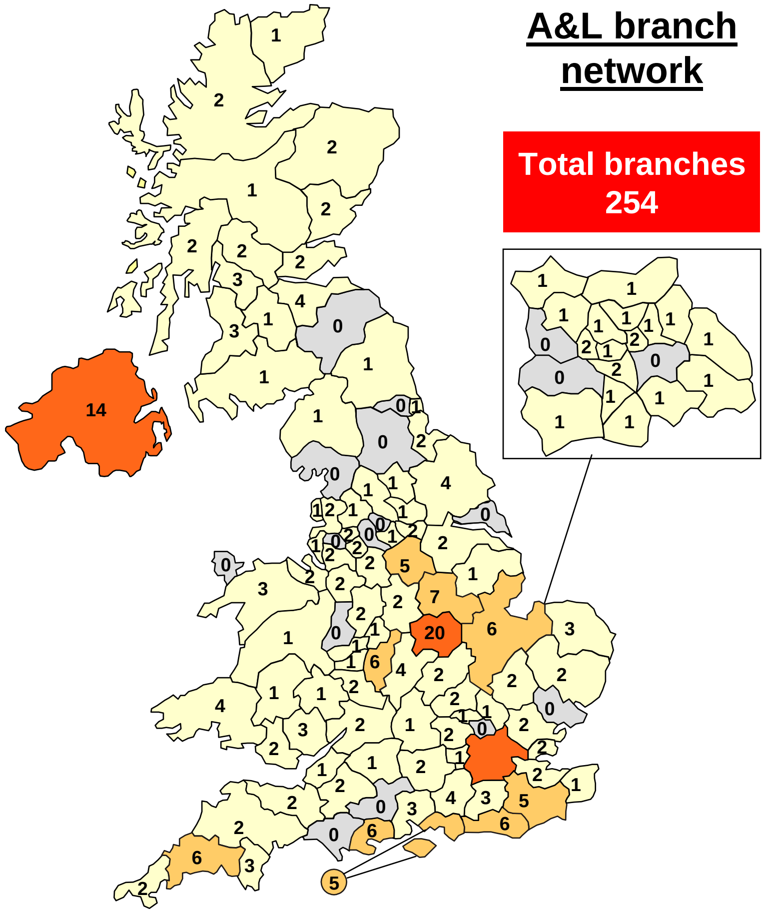
2 These initiatives will allow Santander to capture approximately £180 million in pre-tax cost synergies



- Top-down analysis conducted by Santander based on experience of prior transactions (including the acquisition of Abbey)
- £70m of synergies expected by end of 2009, £140m by end of 2010 and approximately £180m by end of 2011
- Estimated cost synergies represent 23% of A&L's 2007 cost base

3 Good geographic fit - better market reach



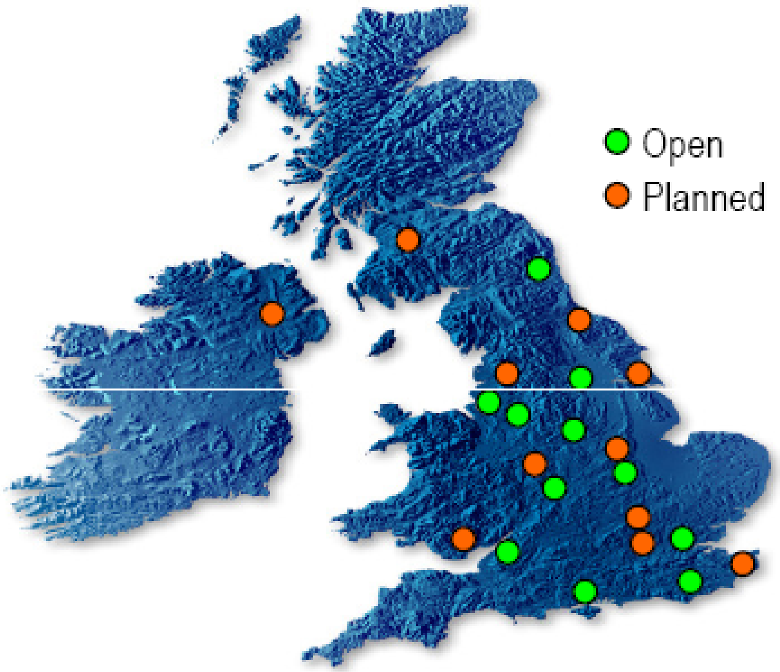


- Abbey network strengthened by the addition of 254 A&L branches, particularly in Central England, the South Coast and Northern Ireland
- A&L branch network fits extremely well with Abbey's existing plans to open 300 new branches, accelerating planned build-out by several years

Note: Maps show 699 out of total 705 Abbey branches and 246 of total 254 A&L branches

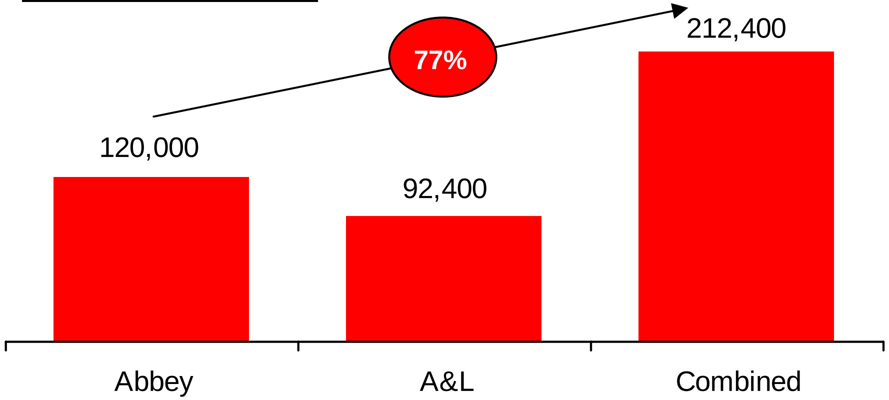
4 Acceleration of Abbey's planned expansion in SME / commercial market by 2-3 years

A&L's business centre network

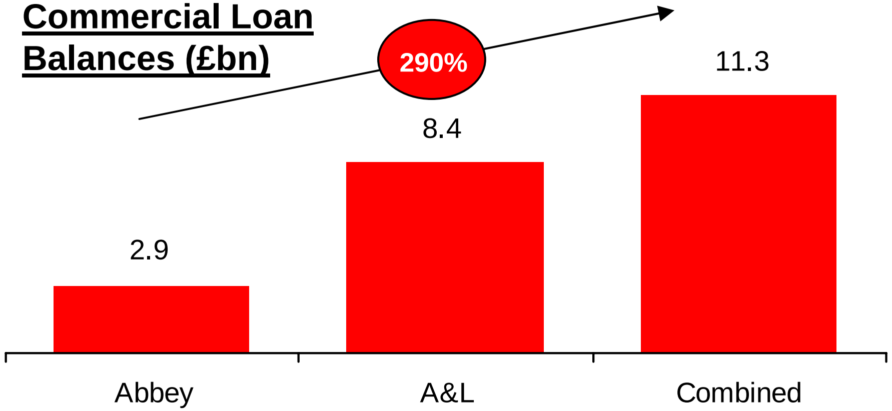


Business banking franchise

Active Customers



Commercial Loan Balances (£bn)



Measures will be taken to manage potential risks

Risks	Mitigants
Credit and liquidity ■ Increasing Santander's exposure to the UK… ■ … at a time where asset quality across the market may be softening ■ Relatively large liquidity gap and exposure to short-term funding in A&L as a standalone business	1. Increase A&L regulatory capital ratios to higher levels 2. Incremental provisions factored into our P&L projections 3. Increase coverage ratios to Abbey's standards 4. Projected assets of combined A&L and Abbey reduced by approximately £20-30bn over two years (deleveraging impact factored into our P&L projections)

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In current market conditions, Santander's conservative approach would imply that an additional £1bn of capital is required

- Santander will allocate £1 billion of capital against balance sheet strengthening and integration costs
  - Protection against future adverse development of treasury portfolio
  - Previous mark-to-market losses on AFS portfolio have not been deducted from regulatory capital to date
  - Anticipated increased credit impairments through the cycle
  - Improvement of coverage ratios and other balance sheet strengthening
  - Restructuring charges associated with integration

Funding gap in A&L will be addressed

- Significant funding gap in A&L's balance sheet currently due to size of treasury and loan portfolios versus retail deposits
- Has created challenges for A&L in less benign market conditions
- Santander intends to close the funding gap by reducing the projected total assets of the combined A&L and Abbey by approximately £20-30 billion over two years

Santander's estimate of potential adjustments to profits under its prudent approach in current environment

Net Profit	
Adjust for: higher provisions	Increase provisioning by 17 bps by 2010 over average of analyst estimates of 44bps
Adjust for: cost of de-leveraging	Projected assets of combined A&L and Abbey reduced by approx. £20-30bn over 2 years
Adjust for: lower "extraordinary" cost of funding	Lower funding costs (due to reduced funding gap, stronger balance sheet)
Adjust for: synergies	Estimate of £180m (pre-tax)
Adjust for: reduced incremental costs at Abbey	Mainly expansion into SME market (£35m benefit pre-tax)
Adjust for: net yield from additional capital	£1bn invested in risk-free instruments
Net profit incl. synergies and other adjustments	

Financial impact: the deal meets our financial criteria

1 Santander share for every 3 A&L shares			
Price proposed per share	299p		
Total equity valuation	£1.26bn		
Plus: additional capital	£1.00bn		
Total cost	**£2.26bn**		
Core Tier 1 impact[(1)]	**(7)bps**		
	2009	**2010**	**2011**
Net attributable profit inc. synergies and other adjustments[(2)]	£309m	£372m	£419m
Return on investment	**14%**	**16%**	**19%**

- Accretion in Santander's earnings per share including synergies (before restructuring costs) expected from 2009[(3)]
- These figures are not based on A&L estimates and have not been approved by A&L

The banking sector's cost of equity has clearly gone up over the past 12 months - higher ROIs are expected

(1) Resulting core Tier 1 based on pro forma core tier 1 as of 1Q08 (initial impact, not assuming deleveraging). Assuming A&L 2007 year end core Tier 1 capital net of goodwill of £1,666m (Basel 2) adjusted for £346m AFS reserves as at 30 April 2008, £189m reduction in fair value and impairment losses (pre-tax) in four months to 30 April 2008, £24,082m of risk-weighted assets and assuming a tax rate of 28%. If the full amount of additional capital (£1 billion) were assumed to affect Santander's core capital, the impact would be 19bps

(2) Adjusted for items listed on slide 20

(3) This statement as to financial accretion is not intended to mean that Santander's future earnings per share will necessarily exceed or match those of any prior year

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Summary

The acquisition of A&L makes sense from an "industrial" point of view…

- Higher economies of scale / commercial reach
- In-market synergies (IT migration, integration of back offices)
- Recapitalisation

… and meets Santander's financial criteria

- Return on investment of 19% in 2011
- Earnings accretion from 2009[(1)]

However, we are aware of the risks involved

- Credit / risk concentration
- Liquidity risk

We are taking clear measures to address these risks

- Higher provisions factored into our projections
- £1bn additional capital
- The funding gap will be closed over the next 2 years

(1) This statement as to financial accretion is not intended to mean that Santander's future earnings per share will necessarily exceed or match those of any prior year

We believe the proposed offer represents a good balance between risks and opportunities…

… and it offers value for both A&L's and Santander's shareholders

Estimated Timetable '08

14 July	Announcement of transaction
29 July	Santander and Abbey interim results
1 August	A&L interim results
August	Scheme documents posted to A&L shareholders
September	A&L shareholder meetings Santander shareholder meeting
October	Final UK court hearing to approve Scheme of Arrangement Scheme of Arrangement effective / Transaction completes

Appendix

P&L and Balance Sheet

(2007)	Abbey	A&L	Aggregate
Profit and loss (£m)			
Net interest income	1,597	801	2,398
Total revenue	2,635	1,426	4,061
Total expenses	1,312	774	2,086
of which staff costs	*709*	*267*	*976*
Impairment losses	214	100	314
Profit before tax	1,110	399	1,509
Net profit attributable to shareholders	822	257	1,079
Balance sheet (£bn)			
Mortgages	110.5	42.8	153.3
Commercial loans	2.9	8.4	11.3
UPLs and other	3.2	3.7	6.9
Subtotal	116.6	54.9	171.5
Customer deposits	65.2	30.8	96.0
Gross mortgage lending	35.6	13.0	48.6
Redemptions and other movement	(26.9)	(8.2)	(35.1)
Net mortgage lending	8.8	4.8	13.6
Total assets	199.4	79.0	278.3
Franchise			
Customers (m)	16.4	5.5	21.9
Branches	705	254	959

Note: The figures in the column entitled "Aggregate" have been calculated by summation of the figures in the columns entitled "Abbey" and "A&L", do not constitute pro forma information and have not been adjusted for any differences in accounting policies nor reviewed by independent accountants

Sources and Bases

- Historical financial information relating to Santander has been extracted from its audited annual accounts for the years to which such information relates and the interim and quarterly unaudited financial statements as published by Santander for the relevant periods, all of which are prepared in accordance with IFRS.
- Historical financial information relating to A&L has been extracted from its audited annual accounts for the relevant periods and the interim unaudited financial statements for the relevant periods as published by A&L, all of which are prepared in accordance with IFRS.

Slide 4

- Value of 299 pence per A&L shares and 36.4% premium based on closing share prices of Santander and A&L on 11 July 2008 of €11.23 and 219.25 pence respectively and exchange rate £/Eur: 0.7989 (Source: Bolsa de Madrid and Official List)
- 9.3% premium based on average closing share prices of Santander and A&L for the 4 week period up to and including 11 July 2008 of €11.77 and 284.55 pence respectively and average exchange rate £/Eur: 0.7926 (Source: Factset)
- Statement regarding peer group trading multiples based on a peer group comprising RBS, Barclays, Lloyds TSB, HBOS and Bradford & Bingley and on closing share prices on 11 July 2008 (Source: Official List) and consensus earnings estimates (Source: IBES estimates from Datastream)

Slide 11

- Forecasts for 2008 relating to A&L are derived from reports published by Goldman Sachs (16 May 2008), Merrill Lynch (14 May 2008), Lehman Brothers (14 May 2008), ABN AMRO (14 May 2008), Citi (14 May 2008) and Deutsche Bank (13 May 2008)

Slide 14

- Number of A&L branches is derived from A&L annual report 2007
- Locations of A&L branches are derived from the A&L website

Slide 15

- Locations of A&L business centres are derived from A&L presentation to the Merrill Lynch Bank & Insurance Conference (2 October 2007)
- The figure of 92,400 for A&L represents active business banking accounts as at 31 December 2007 (Source: A&L 2007 Annual Report and Accounts) and the figure of 120,000 for Abbey represents active SME customers as at 31 December 2007
- The figure of £8.4bn for A&L represents Commercial Banking division lending balances as at 31 December 2007 (Source: A&L 2007 Annual Report and Accounts) and the figure of £2.9bn for Abbey represents commercial mortgages as at 31 December 2007 (Source: Abbey presentation to investors regarding results for the year to 31 December 2007) (these figures are also included on slide 26)

Slide 21

- Value of 299 pence per A&L share and total equity valuation based on closing share prices of Santander and A&L on 11 July 2008 of €11.23 (Source: Bolsa de Madrid) and 219.25 pence (Source: Official List) respectively, exchange rate £/Eur: 0.7989 (Source: Official List) and 420.9 A&L shares outstanding (Source: A&L announcement on 1 July 2008) assuming no dilution from the exercise of options

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