



# Corporate Social Responsibility Report 2004



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Corporate social responsibility (CSR) is about how a company can perform to its best in a socially responsible way. Abbey is committed to being a good corporate citizen and to treating all those who come into contact with us in a fair and ethical manner. We take into account how we deal with our customers and employees, how we manage our ethical and environmental responsibilities, and how we support the communities we work in.

## Executive statement

Welcome to our fifth CSR Report which summarises our performance in 2004 and sets out our commitments for 2005.

We're beginning to see positive results from our efforts to turnaround the business and 2004 marked the year that Abbey returned to profit. It has also been a year of challenges, with the acquisition of Abbey by Banco Santander Central Hispano, S.A., part of Grupo Santander, and significant new regulatory requirements. In this report's four chapters: Marketplace, Workplace, Community and Environment we have outlined how our CSR work has contributed to meeting the challenges and opportunities of 2004.

- Two new key areas of Financial Services Authority regulation have come into effect, for mortgages and general insurance, designed to standardise the information given to customers, to make it easier for them to understand the products. Abbey has made a significant effort in order to implement these regulations - we recognise that it is good for consumers and helps build trust. This principle has been at the heart of our approach to customers - to sell the right products to the right customer. In the Marketplace section you can read more about our progress in this area.
- We've continued our involvement with national diversity interest groups and we were pleased that our work was recognised last year when for the first time Opportunity Now awarded us the Gold Standard in its benchmarking index on gender equality. The Workplace section gives information on some of our key projects this year including a new performance process to link employee contributions to reward.



- Our community involvement programme has seen over £2.5m donated to good causes through employee fundraising efforts, company donations and volunteering schemes. This year we piloted a more in-depth feedback survey to establish what long-term benefits our support provides. The results of the study and examples of our work with communities can be found on pages 20 to 25.
- And within the Environment section we have outlined our approach to managing the impacts of our business on the world around us. Also included are the results of the commitment we made last year to trial an enhanced environmental procurement policy with one of our key suppliers.

In the year ahead, we will be working with Grupo Santander's CSR team in Spain to align our CSR approach. CSR is one of Grupo Santander's strategic priorities, demonstrating the commitment they place on sustainable development.

We value your feedback on our progress and in the back of the report is a form for any comments or questions you may have.

A handwritten signature in dark ink, appearing to read 'T. Burns'.

Lord Burns  
Chairman

## Company profile

Abbey is one of the leading providers of mortgages, savings, protection and self-invested personal pensions in the UK. We are the 6th largest bank in the UK and the 2nd in mortgages.

Our main sites are in:	Our products include:	Our service is provided:
<ul style="list-style-type: none"> <li>– London</li> <li>– Milton Keynes</li> <li>– Bradford</li> <li>– Glasgow</li> <li>– Belfast</li> <li>– Sheffield</li> </ul>	<ul style="list-style-type: none"> <li>– Bank accounts</li> <li>– Mortgages</li> <li>– Savings</li> <li>– Investments</li> <li>– General insurance</li> <li>– Life assurance</li> </ul>	<ul style="list-style-type: none"> <li>– In branches</li> <li>– By phone</li> <li>– By internet</li> <li>– From cash machines</li> <li>– Through independent financial advisers</li> <li>– Through retail partners</li> </ul>

Our range of well-known brands provide services to over 18 million UK customers and expatriates:





## Business update

Abbey returned to profit in 2004 and in the latter part of the year we started to see signs of our revenue stabilising. Operating performance was resilient given the level of change experienced by the business and the impact of the takeover activity in the second half of 2004.

New business flows in 2004 were mixed, with mortgage new business and investment sales lower than in 2003, but we saw a turnaround in savings and good performances in terms of unsecured lending and bank account openings.

A new high-level management structure, headed by our new Chief Executive Francisco Gómez-Roldán, is now in place and a new executive team is complete, with the experience and energy to meet the goals for 2005 and beyond. We have established a simpler structure which sees IT and Customer Operations combined in a new division called Manufacturing, and our Customer Sales and Customer Propositions functions merged into one Sales & Marketing division.

We have aligned our corporate identity with the one used by Grupo Santander across 40 countries. The familiar Abbey brand name will continue to be used with Grupo Santander's flame symbol, showing that we are now part of a powerful group.

Our aim for 2005 is to improve sales productivity while at the same time reduce costs to bring Abbey's efficiency closer to that of other UK banks. The importance placed on improving the customer experience remains and we are confident we will demonstrate good progress through the coming year.

With the acquisition by Grupo Santander, Abbey is now part of one of the largest global banking groups in the world. We know our business has huge potential and we can realise this using Grupo Santander's strength and by placing a strong emphasis on execution.

Detailed information about our business performance and activities is available on our corporate website at [www.aboutabbey.com](http://www.aboutabbey.com)

## Economic contribution

	2004	2003
<b>Operating highlights (£m)</b>		
Pre-tax profits	273	(686)
Trading profit from personal financial services	814	1,021
Net attributable income	32	(759)
<b>Balance sheet (£m)</b>		
Reserves	4,924	5,331
Equity Tier 1	4,246	4,342
Total assets	169,741	176,775
Total customer funds	78,850	74,401
<b>Management ratios (%)</b>		
PFS trading ROE	12.1	14.2
PFS trading cost: income ratio	61.5	56.5
Tier 1 ratio	10.1	10.9
<b>Key data</b>		
Number of customers (million)	18	18
Number of employees (full-time equivalent)	24,361	27,726
Number of branches	724	740
<b>Social contribution (£m)</b>		
Salaries and other staff costs	820	815
Taxes on ordinary activities	144	(42)
Community contribution	2.5	2.2

# Taking responsibility

## Corporate governance

Our Corporate Governance Framework sets out how we organise, direct and control the company. With the acquisition by Banco Santander Central Hispano, S.A. on November 12 2004 Abbey ordinary shares ceased to be traded on the London Stock Exchange. As a company without listed ordinary shares, we are no longer required to comply with the Combined Code or make the same detailed disclosures relating to Directors' remuneration in the Annual Report and Accounts. However, our corporate governance framework is still designed to make sure that our decision-making is clear, controlled, accountable and consistent with our aims.

Our Board must:

- Have members with sound judgement and a good mix of experience
- Make sure no person or group of people dominates the decision-making process
- Decide our purpose and values, and put a strategy in place to achieve them
- Review and assess the effectiveness of our strategies, policies and business plans.

Our framework also sets out the following:

- The role of Board and management committees and how authority flows through the company, including the responsibilities of senior management
- The processes which let the Board perform its responsibilities relating to managing risks
- Our financial management and assurance processes
- How we manage risks relating to staff and make appropriate arrangements to get the best possible performance
- The arrangements and policies we have to meet relevant laws and regulations
- Internal Audit's role in assessing how appropriate and effective our systems and controls are
- How we make sure our stakeholders interests are considered, and how best to communicate with them.

## Managing corporate social responsibility

The Executive Director, Human Resources has responsibility for CSR at Board level. Our CSR management framework follows the guidelines recommended by Business in the Community and is governed across the four CSR areas of Workplace, Marketplace, Environment and Community.

Abbey aims to comply with industry standards including the Association of British Insurers disclosure guidelines on social responsibility, the Department of Trade and Industry Company Law Review and the Accounting for People report recommendations.

We are a member of the FORGE Group, a consortium of the largest UK banks and insurers which has pooled their CSR expertise since 1998. The group produces advice and guidance for the financial sector on CSR issues. In 2002 the group formalised a structured approach for the management and reporting of corporate social responsibility issues for the sector. Current members of the FORGE group include Abbey, Aviva, Barclays, HBOS, Lloyds TSB, Prudential, Royal Bank of Scotland and Royal & SunAlliance.

In 2004 the FORGE group sought to develop a set of CSR performance indicators for the financial services sector. Following a series of meetings with internal and external stakeholders, FORGE agreed a set of headline indicators which reflect the areas of most relevance, impact and importance to the sector. Going forward these will be used to monitor CSR progress within each of the member organisations.

In the year ahead, we will be working with Grupo Santander's CSR team in Spain to align our CSR approach. CSR is one of Grupo Santander's central strategic priorities and their goal is to seek continuous improvements in relations with their stakeholders. The main change to our programme will be to review our key performance indicators in light of Grupo Santander's use of the Global Reporting Initiative guidelines for sustainability reporting. The work carried out through the FORGE group will provide a valuable guide in defining appropriate measures for Abbey's operations.

## Business principles

Our ethical policies are set out in How We Do Business. This document was reviewed and updated by the Board in 2003 and is due to be reviewed during 2005. A full copy of our ethical policies is available on our website at [www.aboutabbey.com](http://www.aboutabbey.com), the main sections are outlined opposite.



## How We Do Business - policy extract

### Regulatory environment

We work in a highly regulated industry. Our main regulator is the Financial Services Authority (FSA). The FSA expects regulated companies to behave in an ethical way, and it has published a list of key principles. These form the basis of how we are regulated. We aim to keep to all relevant laws and regulations and have taken appropriate steps to make sure that our people are aware of:

- Anti-money laundering and anti-terrorism requirements
- The Disability Discrimination Act 1995, and
- Other laws about fair treatment of customers and employees.

We also take part in the Financial Ombudsman Scheme and have signed up to the codes of practice issued by the following organisations:

- British Bankers' Association
- Council of Mortgage Lenders
- Association of British Insurers
- Finance and Leasing Association.

Any employees that regularly receive information which may affect the Santander share price are bound by Abbey's Share Dealing Code (which takes into account the Model Code, an annexure to the UK Listing Rules) and Grupo Santander's Share Dealing Code. The insider dealing rules in the Criminal Justice Act 1993 apply to all our employees, as do the market abuse provisions in the Financial Services and Markets Act 2000. We also support the Principles of Good Governance and Code of Best Practice (or the Combined Code), which is part of the UK Listing Authority's requirements.

We keep to the relevant regulations of the United States Securities and Exchange Commission and the Sarbanes-Oxley Act of 2002. This Act aims to protect investors by improving the accuracy and reliability of information that companies make available to the public. Under the Act, companies must say whether they have a code of ethics (for the Chief Executive and senior financial officers) that promotes:

- Honest and ethical conduct
- Full, fair, accurate, and understandable information provided in good time
- Keeping to relevant laws, rules and regulations
- Quickly reporting instances where the code is not followed, and
- Being responsible for keeping to it.

### Treatment of customers

We've made a public commitment to improving the way we treat all our customers. When customers are not satisfied with the service they have received, a customer relations unit is available to help resolve issues. If a solution cannot be agreed through this process, customers can raise concerns with the Financial Ombudsman Scheme.

### Promoting partnership with employees

We are committed to treating all employees as partners in the business and encouraging them to hold shares. We value communication and an atmosphere of openness and approachability. We expect our employees to behave in a professional way towards one another and we do not tolerate unfair treatment or discrimination at work. There is a framework for dealing

with staff concerns at work. This process covers raising concerns relating to treatment of individuals (such as discrimination or harassment) and keeping to our ethical statements and the law. We encourage employees to follow these procedures if they have evidence that our ethical or environmental principles have been broken.

### Investment in the community

We believe in investing in our local communities and we manage this through our Community Relations programme. We aim to build upon the interests we share with others in the community. We encourage staff to be involved in charities and other organisations that meet the community's needs. The programme includes a scheme to give employees time off to match the time spent on community work. We have set up a Charitable Trust that gives money and other help to registered charities. We do not try to improperly influence the government and do not support or give money to political parties.

### The environment

We consider the environmental impacts (that is effects and consequences) of our business activities. We are committed, as a leading financial services provider, to adopt sound environmental management practices, and our environmental management system underpins this. Abbey has signed the United Nations Environment Programme statement for financial institutions.

### Ethical investment guidelines

These guidelines aim to make sure that we consider ethical concerns when investing company assets. They do not apply to our pension schemes or funds in investment products where they relate to third parties. Our investment decisions reflect our own high ethical standards and the consideration of the social impact of our activities. We consider investments on a case-by-case basis:

- Where there are concerns about adherence to international human rights treaties and protocols, including the Universal Declaration of Human Rights and the International Labour Organisation's principles
- Companies or projects operating in the defence sector
- Activities where there is a high degree of risk to the environment
- Activities that could have a negative impact on public health, including production of tobacco products
- Investments that could involve mistreatment of animals
- Companies involved in producing or distributing pornographic materials.

### Business partners

We will not knowingly do business with organisations that do not share our commitment to dealing with stakeholders fairly and ethically. We aim to work to the highest ethical standards and expect our suppliers to do the same.

### Reviewing our principles

We will review our statement of ethical principles every two years to make sure that it reflects:

- Changing attitudes of society
- Developments in our policies, and
- Issues raised by introducing the principles and commitments set out in this statement.



# Marketplace

## Understanding customers

Understanding our customers has always been something Abbey has prided itself on, particularly at a local, branch level. Since the business relaunch in 2003, we have put the approach at the heart of our strategy, in the full realisation that it meets regulation requirements and provides us with a potential competitive advantage.

We devote considerable time and money to finding out customer views and requirements. In 2004 we carried out research with around 20,000 consumers, including over 100 focus groups and 17,000 interviews. Some of the things we asked about were:

- Satisfaction with recent events such as taking out a mortgage or using their bank account in a branch
- Consumer perceptions of Abbey versus our main competitors
- Customer satisfaction with the service received from Abbey's call centres
- Consumer feedback on Abbey's internet site
- Views on communication material and whether the messages were written in plain English

- Most important features to include when designing products, such as house insurance cover levels and savings account terms and conditions.

The findings from our research programme are acted upon and feed directly into Abbey's business plans - through changes to products and services, setting up staff training programmes and altering systems to improve customer processes.

### Meeting needs

Our business will only be successful if we provide products and services that meet customer needs. It also means we will be more likely to sell the right products to the right customers - the key to making sure we treat customers fairly. Through 2004, Abbey continued to focus on the basics, with the emphasis on enhancing key products. For example, we added a pass-book and base-rate guarantee to our Flexible Saver, making it the best instant access savings account in the high street.

The two most significant additions to our product range during the year were in the mortgage and savings categories. Reward Mortgage, a product for people who don't want to re-mortgage frequently, rewards long-term loyalty with the payment of a cash bonus every two years. Our Fixed Rate Monthly Saver, which paid a high rate of interest in return for a commitment to regular monthly saving, recognised that customers needed an extra incentive to start saving regularly.



## Recognition in 2004



### Life events guides

In 2004 Abbey created finance guides for people facing major life events. These customers have very specific financial needs and we wanted to provide them with something that would help to tackle the accompanying financial issues head on, improving their relationship with money as a result.

The guides were Saving for a child, Splitting up and Bereavement. They demonstrated to customers that we understand the circumstances and financial implications that they are experiencing. The guides offered practical guidance, bringing together what people needed to know, and suggested solutions. Each guide was written with a partner organisation if appropriate, for example we partnered with Relate for the Splitting Up guide.

### Helping small businesses

In 2002, we relaunched our small business bank account with free banking and interest when the account is in credit. We recently revised our Free Business Banking Forever account to include even more free transactions, a move which has been extremely well received by customers.

We've now captured 4% of the market by continuing to compete strongly and offering better deals for small businesses. Our research shows that we have a high level of satisfaction, reflecting the success of our approach, and we now have over 135,000 customers within this market. We intend to build on this steady growth in 2005.

Small business customer satisfaction	62% rate our service as excellent or very good
	90% rate our service as excellent, very good or good
Average satisfaction score (1- 5)	3.76

The Competition Commission previously recommended a number of actions to make competition fairer between the clearing banks in the small business market. One of these actions was to make sure customers switching from their existing bank should be able to do so within a set timescale. In 2004 we improved on our procedures by becoming involved in the industry-wide ToDDaSo initiative - Transfer of Direct Debits and Standing Orders. All mandate details are now transferred electronically rather than by post, making it easy for any of our customers to switch to another bank should they wish to.

### Regulatory compliance

Abbey has made a significant effort during the year in order to implement two new key areas of Financial Services Authority regulation. Mortgage business and general insurance business were brought within the scope of the FSA on 31 October 2004 and 14 January 2005 respectively. They are designed to standardise the information given to customers, to make it easier for them to shop around and understand the products they have bought. Abbey has enthusiastically implemented these regulations, in the knowledge that it is good for consumers and helps to build trust.

### Fighting financial crime

We took very seriously the fine by the FSA in 2003 which identified problems with some aspects of our procedures to combat financial crime. In response we appointed a Head of Anti-Money Laundering in early 2004 to improve our approach, reviewed our policies and established new systems. More than 16,000 employees completed anti-money laundering training in 2004, new account opening procedures were introduced and a helpline was established for customer-facing staff to deal with any problems and concerns. This emphasis will continue in 2005 to ensure Abbey plays its role in the fight against criminal activity and international terrorism.



### Maidstone Housing Trust

Abbey, in association with the Trust, was delighted to be able to support Beacon Furniture, a partnership between the Beacon Church and YMCA. Beacon Furniture operates a recycling scheme which provides affordable furniture for people in need, many of whom are tenants of Maidstone Housing Trust.

### Social housing lending

Our specialist Social Housing Finance unit is a market leader in long-term finance solutions for Registered Social Landlords (often called Housing Associations).

Registered Social Landlords are regulated, non-profit-making, community-based organisations which provide housing and related services to people who are unable to purchase or rent their homes on the open market. They also undertake wider initiatives designed to support the drive towards building sustainable communities.

In 2004 we provided additional finance to over 30 Registered Social Landlords, including new organisations set up to take over housing stock transferred from Local Authorities. Our loan facilities are now in excess of £5 billion.

In early 2003 the tenants of Maidstone Borough Council voted in favour of transferring their homes to a new Registered Social Landlord, Maidstone Housing Trust.

In February 2004, the Trust purchased 6,300 homes from the Council at a cost of £30m. Abbey provided loan finance totalling £91m to fund the initial purchase price and the improvement programme which includes the regeneration of two large estates. The delivery of promises made to tenants to repair and improve homes is now well underway.

## Accessibility

Part of understanding customers is knowing where, when and how we can help them. Abbey has a heritage of offering people from all walks of life the opportunity to get more from their money.

In 2004, we reviewed the identification requirements for opening all our accounts; we were keen to provide greater flexibility so that customers without traditionally accepted ID were not automatically excluded from opening an account. We provide a telephone reference number for customers who feel that they may not be able to provide the usual forms of ID and a team within our helpdesk advises branches on how to work with customers to find a suitable way forward.

### Basic banking

We provide services for people who may have difficulty accessing mainstream banking services through the Abbey basic bank account. It has proved very successful, with the total number of accounts in December 2004 up 160% year on year. We also revised our staff reference manual in November, adding specific information on the basic account for customer-facing staff.

### Capability and inclusion

Abbey fully supports the objectives of the Government and the Financial Services Authority in developing a National Strategy for Financial Capability. We contributed to the development of the Strategy in 2004 via membership of its steering group, on which Abbey's former Chief Executive Luqman Arnold serves. Abbey also provides representatives to the Generic Advice and Workplace working groups, which are developing specific proposals to help deliver the strategy. Abbey is a member of the Advisory Group for Pfeg, the Personal Finance Education Group.

## Money advice

In addition to providing our customers with advice on managing their finances, Abbey helps to fund the Consumer Credit Counselling Service. We also contribute to Payplan which offers a free and professional debt counselling service.

One of the priorities of Abbey's Charitable Trust is supporting disadvantaged people through financial education and advice that helps them to manage their money. Amongst the projects the Trust funded in 2004, was one to Help the Aged for the production of 250,000 leaflets that provide advice to older people on claiming benefits.

Funding from the Trust's regional budget has supported a number of other relevant charities including IMPACT, which helps protect people in Sheffield from high interest doorstep lending and supports local credit unions and a low-interest loan company.

## Bringing banking to work

Through our Abbey at Work team we have relationships with over 3,000 organisations - private and quoted companies, trade unions, professional bodies, and organisations working in the public sector (such as health authorities, government departments, universities, emergency services and the armed forces). We provide financial services programmes which enhance their employee benefits packages.

Through this approach we aim to improve access to our accounts and services. For example, we give employees the opportunity to use financial

services in their workplace, often with the added benefit of special terms. To date, we've offered Shareplans (saving schemes that allow contributions direct from salaries) and discounted or enhanced versions of some of our main accounts and services. To compliment this, Abbey at Work sponsors ProShare, the charitable body which promotes share ownership by employees.

## Disability services

Abbey takes its responsibilities to equal services for all very seriously and we need to ensure we do not either consciously or inadvertently discriminate against disabled customers. As well as fulfilling legal requirements, this approach forms a crucial part of helping all our customers get on top of their money and improves the customer experience.

On 1 October 2004 the Disability Discrimination Act's (DDA) access to services section came into force. We have been working with disability groups, including the Disability Rights Commission, and upgrading branches to ensure that physical barriers are removed. Access works have been completed at the majority of our sites. We have unfortunately experienced a number of delays due to challenges from local planning authorities however the task is due to be completed by June 2005.

A pack has also been developed for staff covering best practice and good working procedures when dealing with disabled customers. All branch staff have now completed our DDA 'e-learning' training and this will be updated every 6 months.



## Caudwell Group

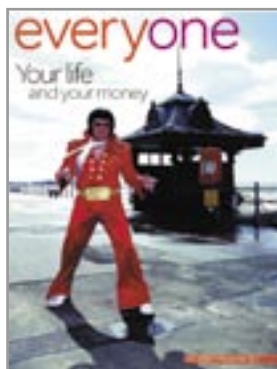
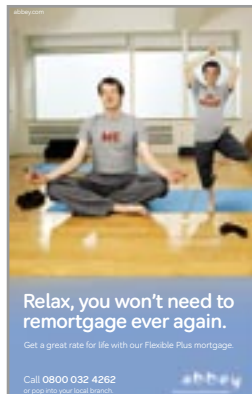
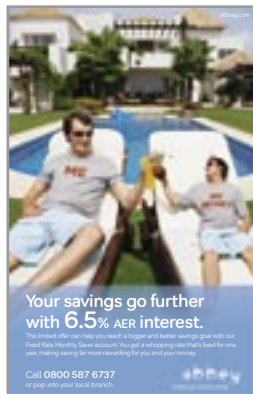
During 2004 we worked closely with the Caudwell Group in offering a savings scheme to their 7,800 employees. The Group runs high street store Phones 4 U. Abbey at Work strengthens the relationship by supporting The Caudwell Charity, making a donation each time an Abbey account is set up. The Caudwell Charity supports children who have disabilities or are suffering from serious or terminal illnesses.

## Being straightforward

In 2003, we introduced a new tone of voice that promised to end bank jargon and talk to people in a more human, common sense way, tackling money issues head on. This is an important part of Abbey being straightforward with customers, so they know what we might need from them and why. We rewrote over 5,000 letters in this new style and in the process removed hundreds of unnecessary letters. Our aim is to be known as a bank that sends less, making what we do send that bit more important.

### Communications

Our focus in 2004 has been to move to more straightforward and product focused communications, delivered in a way that demonstrates to people how they can improve their relationship with money. The 'Me and My Money' campaign was launched in September 2004, with the first TV execution focusing on Deal For Life Mortgage. We also produced the 'Everyone' customer magazine, which talked about financial issues using real life situations and case studies. In each case we highlighted an important 'truth' in people's lives to help people to see the benefit of doing the right thing with their money.



### Customer service

During 2004, Abbey carried out research with customers to identify the most important things for us to get right in order to increase customer satisfaction. We identified these for: Abbey customers overall; branch customers; and customers using our telephone service. This allowed us to put in place research studies to track how we are doing against the things that matter to our customers, so that issues can be identified and resolved.

The studies showed that in the last quarter of 2004, 55% of Abbey customers said they were completely or very satisfied with Abbey, higher than the average of our main competitors at 54%.

Customers told us that one of the most important things for them was the speed with which their call was answered, so we put plans in place in the second half of last year to improve this. As a result of the changes made, customer satisfaction with telephone answering speed went up 10% between September and December 2004. In terms of satisfaction with our telephone service, 73% of customers calling Abbey in December were extremely or very satisfied.

Individual customer satisfaction	55% are completely or very satisfied
	82% are completely, very or quite satisfied
Average satisfaction score (1- 7)	5.5

### Managing complaints

Abbey's vision for managing complaints is to: "Actively seek and effectively manage feedback in order to continually exceed expectations and deliver customer delight". In order to do this, a two-phased approach will be adopted. The first phase will be rolled out through 2005 and early 2006 and will focus on creating a 'fit for purpose', compliant, complaint handling framework that gets the basics right and can be delivered and monitored throughout Abbey. This will be implemented whilst looking out for simple opportunities to improve the customer experience.



An example is the recent implementation of direct telephone contact with customers during complaint investigation, which is now a key tool for understanding customer concerns and issues. This simple change has been well received by customers.

In 2004 we received 97,251 calls, letters and emails in to Abbey (not including our life companies). The most common query related to the selling of endowment policies. The following table sets out the top 5 reasons for complaints within 2004 by complaint type and product:

Detailed category	Total
Sales advice - misleading	47,298
Instructions not actioned	6,823
Processing error	6,115
Other	4,987
Amount contested	4,034
<b>FSA product</b>	
Mortgage endowment	44,074
Current account	17,228
Loan secured on land	13,003
Deposit and savings account	5,282
General insurance - property	5,208

Whilst endowment complaints are largely in response to historical problems, the Customer Satisfaction Centre maintains a dedicated team of people who are engaged in specific business improvement activities for other types of complaints. The Business Improvement Team examine the root cause of the most frequent and serious complaints, devising approaches in partnership with the area of Abbey originating the complaint. The aim of this team is to reduce the reasons why customers complain.

## Looking forward

- In 2005 Abbey will be taking further steps to ensure that all our customer-facing staff are fully trained in identifying basic account needs and in the appropriate provision of information to customers
- Our access works to ensure we comply with the Disability Discrimination Act will have been completed at all our sites by the end of June 2005.



## Suppliers

Each year we spend around £700 million on buying goods and services from other organisations. This spending is overseen by our Procurement team, and meets our ethical policy How We Do Business (see page 7). Our policy promotes competition when offering contracts and dealing with suppliers in a fair and open way. We look to work with companies who share our commitment to continuous improvement.

We expect all our employees to maintain the highest standards of honesty and good ethics when dealing with suppliers. Employees can't use their own authority or position for their own interests, and they cannot receive gifts of significant value. Under our policy, each department must keep a record of any gifts and hospitality it has received, and this record must be available for inspection.

### Payment policy

We don't have a single payment policy for all types of suppliers. Each individual business area is responsible for agreeing terms and conditions for suppliers, and giving the supplier details of these.

It is our general policy to make sure we make payments for goods and services in line with the agreed terms and conditions. Our practice on paying suppliers has been set out under the terms of the Companies Act 1985 (Directors Report) (Statement of Payment Practice) Regulations 1997. Based on the ratio of amounts invoiced by trade creditors during the year to amounts of trade creditors at 31 December 2004, trade creditor days were 12 - down from 19 days in 2003.



# Workplace

Our aim is to make Abbey a place people want to join, give their best, love to stay and are proud to be part of.

We believe the key to success is transferring strong people management capability to our line managers and creating a culture where everyone can contribute, regardless of their individual differences.

## Human rights – policy extract

Our Employee Relations Policy keeps to the International Labour Organisation's fundamental human rights conventions. The policy states:

- We will not employ or use forced labour in any of our companies
- We will not employ or use child labour in any of our companies
- Our equal opportunities and diversity policies apply to all our employees
- All our employees are free to form and join trade unions and bargain collectively.

## Equality and diversity

Abbey has shown a lasting commitment to workforce diversity and has had some form of diversity policy since the early 80s. Our diversity policy, 'Valuing People as Individuals', is consistent with the values that underpin our culture. The policy is available on our website at [www.aboutabbey.com](http://www.aboutabbey.com)

Throughout 2004 we've continued our involvement with national diversity interest groups. We were pleased that our work in this area was recognised last year when for the first time Opportunity Now awarded us the Gold Standard in its benchmarking index on gender equality.

We have also supported the Employers Forum on Disability (EFD), the Employers Forum on Age, and Race for Opportunity. Last year in the pilot EFD Global Inclusion Disability Benchmark, Abbey was ranked 4th out of 68 leading organisations. We were awarded a Bronze Award in the Race for Opportunity benchmark and took an active part in the research and development of the Disability Standard which was launched in November 2004.



## Equal pay audit

Employee group	Number of females	Number of males	Total	Percentage of workforce who are female	Average female salary (compared to male salary)
1	12,466	3,877	16,343	76.3%	107.7%
2	3,971	2,951	6,922	57.4%	89.9%
3	787	1,279	2,066	38.1%	92.6%
4	36	102	138	26.1%	91.8%

Roles in Group 1 are typically entry point roles to Abbey and roles in Group 4 are typically senior management positions or department heads. 'Salary' means full time equivalent salary, to account for difference in working hours between employees. Results are based on data extracted on 31st December 2004.

In 2004, we undertook an equal pay audit for the fourth consecutive year. We've changed the way we categorise the make up of the employee groups from 2003 to give us a more accurate picture of our workforce. The results showed that overall pay levels of men and women remain within 10% of each other. For the whole company, the pay differential between men and women has reduced by 2.3% (since July 2003).

## Diversity

We're committed to the Disability Discrimination Act and are proud to use the Employment Service 'Positive about Disabled People' symbol. We have a partnership agreement with the Employment Service Disability Service to provide access to work for people with disabilities. This aims to make sure that new and existing staff get the necessary aids and equipment to make their working lives easier.



Our Disability Employment Action Team (DEAT) has continued to focus on setting up a strong framework for the employment of disabled people. This team helps to make sure we progress towards our goal of making Abbey an employer that disabled people want to work for.

Abbey maintains strong links with local disability networks and supports the Employers Network on Disability (ENOD) in Milton Keynes for instance. The Network is a partnership between employers, disabled people and service providers to encourage greater understanding of each other's needs. Over the last year joint projects between Abbey and the Network have included: ENOD's exhibition of assistive technology supported by the Abbey facilities and occupational health departments; Abbey's occupational health adviser presenting at ENOD's AGM; and Abbey staff offered free places on ENOD sponsored disability training.



## Employers Network on Disability

Since the Network started in 1992 Abbey has been an enthusiastic supporter. An Abbey employee is on the Board, providing business knowledge and expertise, our Charitable Trust has provided a significant element of the Network's core funding, and for the past two years we have provided the charity with office and IT facilities. Abbey has benefited from the Network's disability expertise in terms of contact with local and national networks, experience of working with a range of disabilities and knowledge of funding streams.

Alice Maynard, Chair, ENOD says of the partnership: "The relationship between ENOD and Abbey is an excellent example of two organisations working together to achieve change. ENOD's aim is to enhance the employment opportunities for disabled people, by working with employers to make change happen. Abbey provides vital support for this work. At the same time, ENOD helps Abbey to improve its own approach to employing disabled people in practical ways, such as support for their mentoring scheme."



In 2003, we reported on the success of an open day held in our Bradford offices to promote employment opportunities within Abbey and raise awareness of Abbey as an employer for people with hearing disabilities.

We have 14 hearing impaired people working in our Customer Account Service Excellence (CASE) team. Although we have interpreters who attend team meetings and help as and when needed, communication on a day-to-day basis needed improving. Arrangements were made for interested employees to receive sign language training. The training was carried out in employee's own time, after work at the office. It was delivered by a hearing impaired colleague who is a qualified teacher, free of charge. In 2004, two eight-week training sessions were carried out. This training was so well received, we plan to arrange a one-year course for interested employees to train for stage one British Sign Language. Successful completion of this will result in employees holding an externally recognised qualification.

### CASE team

"Employees from all levels have attended the training and everyone has found it enjoyable." Says team manager Kath Potter. "Priority for the classes has been given to anyone who works closely with a hearing impaired person. We still have a waiting list of people who want to do the training."

Rebecca Kendall, Technical Advisor says of the training "I found the whole experience extremely rewarding. I have two hearing impaired people in my team and it's made it easier for me to talk to them. It has made me very aware of the hurdles hearing impaired people have to face, it also makes you appreciate the effort they put into their work and communication with other people in the workplace."

Jyotika Wahi from the CASE team says "The classes were very stimulating and it was a great eye opener. It has helped me communicate with my deaf colleagues. A course well worth my time."



## Health and safety

We believe healthy employees working in a safe environment enhance the business and the achievement of our objectives. Ensuring this is good business practice and a positive investment, protecting our people who are our most valuable asset.

### Occupational health

In early 2004, we restructured our occupational health team providing a streamlined, business-focussed service to help managers reduce sickness absence in Abbey. Our strategy aims to reduce absence by targeting three key areas:

- Recruiting healthy staff
- Building managers' capability to manage short-term absence
- Managing long-term sickness absence better, so our employees get the right help and support when they need it.

To improve service delivery to the business we've introduced a system for electronic case referrals. We've also negotiated a new contract for confidential medical reporting across the UK with a national supplier, Interact Health Management Ltd.

### Safety at work

In January 2004, we issued a new health and safety policy statement across Abbey. To make sure our policy is implemented we've undertaken the following:

- Further developed our health and safety management system, clearly defining the roles and responsibilities of managers and staff
- A new health and safety bulletin has been designed and is issued to every member of staff twice a year
- We've improved our arrangements for accident reporting and recording. We now provide detailed, quarterly health and safety reports to the nominated director, including recommendations for improvement.
- Detailed work has been undertaken to make sure our new branches comply with health and safety regulations and meet modern ergonomic standards. This is important to protect our people from the risk of developing long-term upper limb disorders.
- We've issued new guidelines and procedures on road safety to line managers across the business as road traffic accidents are a significant cause of serious injury for employees



- Our arrangements for fire safety have been reviewed and we've developed a new, in-house training course for staff that undertake the important role of a fire warden
- We've prepared a written "asbestos management plan" which sets down the measures we're going to take to manage the risk from asbestos-containing materials in our buildings.

Following a review of our arrangements for first aid, we've set up a national contract for first aid training with St John Ambulance, a leading supplier in the UK and a registered charity.



### Health and safety performance

At Abbey, accidents are reported to our occupational health and safety function on-line so that the required statutory reports can be completed and quarterly statistics prepared. We're pleased to report that no health and safety enforcement actions were taken against Abbey during 2004. See page 19 for details of our health and safety data.

### Healthy attitudes

We're committed to helping individuals achieve a reasonable balance between their home and working life. We understand that people must be valued and supported through the various stages of their lives. As a result, we offer a wide range of flexible working options, including part-time work, job-sharing, home working, career breaks and extended maternity and adoption arrangements.

Our employees' health and well-being is very important to us and we want to support them as much as we can. Experience has shown us that staff need help in a number of ways and our Employee Advice Line provides a range of support. We give employees the right help in the right way – or point them towards someone who can. Abbey also provides post trauma counselling.

## Working in partnership

Since 1976 we have recognised ANGU (Abbey National Group Union) to represent all employees below Director Group level in Abbey businesses in

the UK. The relationship is managed in line with a formal partnership agreement. ANGU are affiliated to the Trade Union Congress (TUC), employ their own staff and advisors and operate from their own offices in Hertfordshire.

During 2004, ANGU have been involved in many Abbey initiatives, and we continue to consult them on significant proposals within the business. Consultation takes place at both national and local levels. We hold regular relationship management meetings to make sure that communication is open and two-way.

### Employee communications

We believe that involving employees is key to being successful which means effective communication is vital to everything we do. We publish a magazine every other month, 'read', that is sent to every employee. It focuses on work related issues and gives information about our competitors and the wider industry. We were very pleased to receive the Communicators in Business Award for the magazine in 2004.



We hold 'talk' sessions where senior management, including the chief executive and the chairman, answer staff questions face to face. Almost all employees have access to our intranet. We also use more traditional methods of communication, such as team meetings, to make sure employees are fully informed of news and developments that interest or may affect them.

### Staff survey

A confidential opinion survey was sent to 25,800 employees in 2004. Although the response rate to the survey fell this year from 54% to 47%, we were pleased that we've made improvements in several key areas.

The survey highlighted that we take customers seriously, whether the focus is on an internal or an external customer, but we need to focus on getting our people more actively involved in how we implement change. When asked if their manager worked with them to improve their performance – 71% of those who replied felt that they did – an increase on 10% from last year.

We achieved high levels of satisfaction on all our diversity questions - 10% more respondents than in 2003 believe that development opportunities are equal regardless of individual differences, 9% more respondents feel that Abbey supports people with disabilities and 8% more think that individual differences are respected by the company. The survey also showed high levels of satisfaction in our employees' ability to strike a good balance between home and work.

## Performance development

We're committed to developing our employees' ability to perform at their best, continually stretching them to deliver better service to our customers and supporting each other by removing obstacles and using their talent to produce better results. In 2003, we re-designed our performance management system to ensure we have a high performance culture.

Our approach to performance development is simple and straightforward. We believe everyone can give of their best and be successful. Employees are responsible for their own performance and their manager is responsible for making sure they are clear about what they need to do to perform to their best – and support them to achieve it. And when they've done this, employees will be recognised and rewarded for their contribution.

We focused on embedding this in 2004 and refined some of the key elements. Almost all of our employees now have a performance development plan in place.



### Linking reward to performance

In 2004, we set out how employee reward would be directly related to performance; firstly through the annual pay review and secondly through an annual performance bonus. We used the performance bonus scheme to make a clear link between what people contribute and what reward they get in return.

Managers award a rating for what their employees have achieved (their do rating) and how they achieved it (their be rating). These scores are plotted into a reward band – this then links to how much they get in bonus.

We're deliberately differentiating between high performance, good performance and poor performance. People who go above and beyond the basics of their role and really make a difference will receive better bonuses.

## Recruitment and retention

Last year we completely reviewed our recruitment process to make sure we attract the right people to help us deliver our strategy. Our previous recruitment process was labour intensive and inconsistent and was a factor in high levels of employee turnover. Recruitment was taking longer than industry average and the process restricted easy access to previous candidates who may be suitable for current / future opportunities.

To resolve these issues we developed a system to help us to build and manage a resourcing pipeline - a method to track a talent pool which meets the needs of the business, providing the right people at the right time. The new system now provides:

- Development of a candidate pool
- Improved website for candidates, fully compliant with DDA legislation
- Pre-screening facility for resourcing consultants
- Automation of candidate management
- CVs held and viewable online
- Live reporting of management information
- Appointed candidates captured into the payroll database.

The system also allows us to collect and report on gender, disability, ethnic group and marital status. For each of these areas, information can be reported for individuals who have applied, been interviewed, received an offer, and been hired.

The candidate experience is now improved by the professional approach of the initial application procedure. Candidates are communicated to at every stage along the process via email. Once an offer is accepted we have a new website ([www.jobsatabbey.com/lovetojoin](http://www.jobsatabbey.com/lovetojoin)) which candidates are encouraged to use prior to starting to help them hit the ground running.



## Looking forward

- We will be launching My Performance, an on-line tool that will enable us to track the overall performance of our employees and to look at how well we're embedding our high performance culture in the business
- We plan to distribute an English translation of Grupo Santander's employee magazine, 'Carácter' to all Abbey employees.



### Employee data\*

<b>Total employees</b>	24,361
Total female employees	15,623
Total male employees	8,738
Total full-time employees	20,599
Total part-time employees	3,762
Total ethnic minority employees	1,655
Employees aged 50 and under	22,195
Employees aged over 50	2,166
<b>Training</b>	
Total number of training days	211,358
Average number of training days per employee	8
Average invested in training per employee (£)	805
<b>Health and safety</b>	
Total number of reported accidents	319
Total number of accidents reported to enforcing authorities	20
Total number of adjustments to workplace	608
Workplace adjustments for disabled employees	128
<b>Satisfaction</b>	
Total employee satisfaction (%) (as measured by the employee opinion survey)	56
Average length of service for all employees (years)	7
Average days absent per employee	8
Employee turnover (%)	22
Total number of staff grievances (at final stage)	7

\*As at 31 December 2004.



# Community

## Contributing to communities

Abbey's interest in the community was formally established back in 1990 with the launch of the Charitable Trust. Since then we've donated over £17 million to good causes in the UK and Northern Ireland.

Our policy now, as it was then, is to become involved in the communities where we have a significant presence. Today, our activities cover a wide range of initiatives from company donations through the Trust and community volunteering schemes, to employee fundraising for national charity campaigns.

The total value of the support we provided to charities and the voluntary sector in 2004 was £2,515,995 including £2,342,087 in cash donations, mainly through our Charitable Trust.

## Measuring success

Each year we invite charities that have asked us for support to give us their feedback on the process and tell us about the difference that our donation has made.

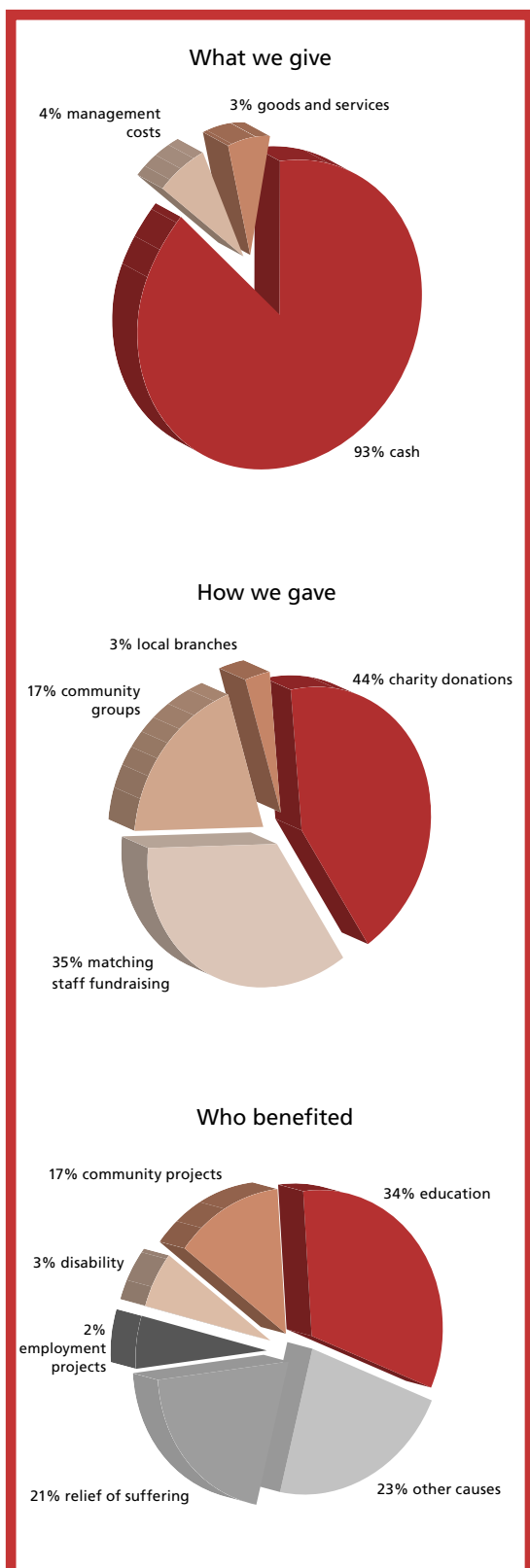
This year we looked into the long-term effects and contacted a representative sample of 100 charities that had received a donation more than a year before and asked them to give us additional information.

From the 37 responses received we found out that:

- When asked about the long lasting benefits achieved with our donation, 14% rated these as acceptable, 59% reported them as significant and 27% rated them as exceptional
- The charities had used the £218,517 that we had given to gain a further £234,769 of funding
- 20,353 school age children, 6,660 people from ethnic minority groups, 4,535 disabled people and 1,405 older people directly benefited from these donations.

We're now looking at putting this system in place for a sample of our donations each year to help us measure the impact of our contributions more effectively.





## Priority areas

In January 2004 we introduced a new set of charitable priorities to reflect our new business strategy. These changes took place only after we had consulted with our stakeholders – charities, employees and our Board.

The Abbey Charitable Trust is committed to supporting local communities and disadvantaged people based on the following three priority areas:

- Education and training
- Money advice
- Local regeneration.



## Groundwork

Groundwork, the environmental regeneration charity, has been working with residents of the Ingestre Road neighbourhood in Camden on a project to turn a neglected woodland area into a local nature reserve. With a £20,000 donation from Abbey the aim is to transform the area to provide a woodland nature trail, conservation area, habitat boxes and a wild flower meadow with seating. The ultimate beneficiaries of the work - residents of a nearby housing estate and children from the local school - will take a leading role in the project, helping in the clean up and transformation works.



We use the London Benchmarking Group reporting model to calculate our contributions to good causes. The LBG model provides a standardised way of managing and measuring a company's community involvement.



### Citizens Advice

The Citizens Advice Financial Skills for Life project is focused on financial literacy skills for adults. A donation of £47,000 from Abbey was gained to help identify how bureaux might best support financial capability in the classroom. Citizens Advice will now be working with the Personal Finance Education Group (Pfeg) to produce a good practice guide and generate recommendations on the role local bureaux can play. "We have a real interest in developing effective policies and practice that will help equip young people to take control of their money. This project will be an excellent springboard" explains Patrick Salaun, Corporate Partnerships Manager at Citizens Advice.

Photographer: Justin Piperger  
Copyright: Citizens Advice

### In partnership

Throughout the year we actively promoted our new priorities, talking to charities, especially in those areas where we have a Community Partnership Group (CPG). These Groups are based in Camden, Belfast, Glasgow, Bradford, Sheffield, Teesside and Milton Keynes - the locations of our major UK offices and where we have a significant number of employees. The CPGs are made up of current and retired employees, with a representative from a charity, and they have responsibility for considering donation requests in their local area.

During 2004 we selected one CPG each quarter and made an additional £100,000 available to help fund larger donations in these key regions. The areas selected were Sheffield, Camden, Bradford and Glasgow. We promoted the new funding opportunities by setting up a series of briefing events and attending local funding fairs and utilising funding networks.

Applications were shortlisted centrally with the local CPG making the final recommendations on which causes were successful. The selection process was targeted at making sure that local, smaller charities were beneficiaries and where donations were agreed for national charities they were for local projects delivering local benefits.

We attracted over 700 applications in the four areas through the year and successfully donated an additional £400,000 through the process. One of the additional benefits of the initiative was that we were able to accelerate the process of communicating to charities our new Trust priorities.



### Parkinson's Disease Society

The Parkinson's Disease Society applied to the Charitable Trust to fund a pilot 'befriending' scheme supporting people with Parkinson's in Stockton. The recruited befrienders included four student doctors from Durham University undertaking volunteer placements as part of their course.

"As a result of the donation from Abbey the Society was able to help local people with Parkinson's and build a very fruitful relationship with the University" says Sian Newton of the Parkinson's Disease Society. "The students found the placements particularly worthwhile. They were able to learn about a very complicated condition and felt that they were able to make a positive difference to the people they befriended."

Through the Glasgow CPG (pictured below) the Abbey Charitable Trust has given over £480,000 to local projects since 1999, so we were pleased to be able to offer this significant amount of extra funding to good causes throughout Scotland. Glasgow saw an innovative bid from a consortium of five Citizens Advice Bureaux. The application made a case for the use of tablet PCs to enable their advisors to give face-to-face advice in an interview room while being able to remotely access specialist information databases. This also meant that the advisors' hand written notes could be instantly transcribed. The outcome of this use of technology would mean that the charity could see more clients in a working day. Two other successful applications included Contact a Family and Rainer - meeting our financial advice and training priorities.



### Contact a Family

Contact a Family, the charity for families with disabled children, has a welfare rights specialist project, based in Glasgow. A recent survey showed that around half of the families were experiencing financial difficulties and the charity approached the Glasgow CPG for a donation to help increase the advice they could offer via their free helpline. With a grant of £9,000 from Abbey, the charity can now produce a new leaflet and fund specialised training for their welfare rights advisor. "This will allow us to improve the information and advice we provide on money management and coping with debt to families with disabled children in Scotland." commented Derek Sinclair, Contact a Family.



### Rainer

Rainer works with more than 12,500 people a year, running over 60 projects across the country which are geared towards helping under supported young people to develop confidence, learn new skills and find work. Rainer Sheffield provides ex-offenders with opportunities to prepare themselves for education, training and work. An application agreed by the Sheffield CPG enabled the charity to set up a new room which can be used by clients accessing the project. Nic Cole from Rainer Sheffield explains why the money is needed: "We already have on average 70 learners a week accessing the project and we are full to capacity. The new learning resource room will enable us to offer these facilities to more of our beneficiaries."



## Volunteering

To support and encourage staff to get involved with charitable causes, Abbey offers a 'matched time' scheme where we give up to 35 hours a year to employees who help their favourite charities.

Local hospices and international organisations such as Oxfam are some of the charities that have benefited from Abbey employees' generosity of spirit in the past year. We also co-ordinate a number of Abbey projects for those who are looking for inspiration on how to get involved.

### Primary support

Working with primary schools in Milton Keynes, Sheffield and London, Abbey employees have been participating each week in a scheme to improve children's confidence with mental arithmetic.

The volunteers go to the school and play a selection of specially designed board games which encourage the children to think through problems and find the solution.

The scheme is proving very successful for both staff and children alike, providing an opportunity to formalise our interest in developing education-based volunteering opportunities and sharing the knowledge and skills of our staff.



### Preparing for the world of work

Our work with schools also involves older pupils and several mentoring and e-mentoring schemes have been established to help students prepare for the world of work. The schemes aim to give the students valuable information on preparing CVs and acquiring interview techniques. Abbey staff have also worked with the pupils on their course work, helping them to gain accreditation for their GCSEs and business awards.



Iain Jamieson and his colleagues based in Glasgow were so moved by the Tsunami Disaster that they decided to give some of their time to support Oxfam, one of the charities involved with getting relief to Asia. Iain said "I'm sure everyone felt as we did – so sad for the victims and the countless thousands of people who lost their families, friends and their homes, and as a team we just wanted to offer assistance".

Each volunteer spent a day helping out in one of the shops in Glasgow – clearing the donations, replenishing stock and serving customers. They all felt they got a lot of out their involvement and Iain said "We were humbled by our experiences, the number of people who handed in both monetary and clothes donations, it was a very heart warming experience".

### Sharing experience

As well as working with students, our staff have also used their expertise to provide charities with business insight and guidance. The programme works by pairing employees who have a particular skill with charities that have a particular business need. The relationship runs for a year and both parties have an agreed goal to work towards. This has helped charities grasp business fundamentals and enabled staff to appreciate the charity environment.



Our Mays Meadow call centre in Belfast has a large number of dedicated fundraisers and each year they choose a different charity to support. In 2004 Sargent Cancer Care for Children was chosen and the staff raised an amazing £41,483. One of the events was an abseil down the Europa Hotel last May raising £10,500 for the charity. Marianne Creaney, Chief Fundraising Co-ordinator says "We aim to promote teambuilding and boost staff morale by holding a wide variety of creative fundraising events to put the fun into fundraising."



### Raising money

One aspect of volunteering which is very popular with staff is fundraising. Abbey promotes key fundraising initiatives throughout the year and has a policy to match staff fundraising. Since 1990 we have matched approximately £4 million of staff fundraising, supporting a huge number of varied and diverse causes from small, local charities to well-known national organisations.

### Recognising contributions

To acknowledge and reward the thousands of Abbey employees who volunteer their time and efforts to charity we launched the Abbey People Awards in 2004. The scheme invited nominations from staff across the business and the response was overwhelming with over 100 people nominated. The entries were of an exceptional standard and five winners were chosen including Hilary O'Brien profiled here. They each received a £1,000 donation to a charity of their choice, as well as a Red Letter Day reward for themselves.

Hilary O'Brien is a Samaritans volunteer, helping people going through emotional crises like relationship break-ups, stress and redundancy. "I was on a management course in the late 1980s and they felt that I had good counselling and listening skills, and that's what the Samaritans are all about. I had been thinking of it anyway and it spurred me into action." Hilary gives more than 50 hours a month of her spare time and she finds the work very rewarding. "It's particularly nice when people say 'Thank you, you helped me at a difficult time'".



## Looking forward

With 2005 being Year of the Volunteer we hope to increase Abbey's involvement in the community and utilise our vast wealth of knowledge and skills. Our experience so far has shown volunteering to be rewarding and valuable, providing opportunities to learn and grow for both Abbey employees and the charities. This year our targets for 2005 will be to:

- Increase the number of volunteers taking part in our matched time scheme
- Set up new initiatives for our dedicated volunteering programmes
- Promote payroll giving through our key office locations.



# Environment

Our environmental management approach seeks to reduce the direct impacts of our day-to-day activities and to manage the indirect risks and opportunities linked to our core business. The changes we have made to our business strategy mean that our environmental priorities are very different today than they were two years ago.

Now, our main focus is on managing the impacts linked to carrying out retail financial services activities and the environmental risks associated with lending and investing. Our key environmental issues are the impacts of climate change, improving the energy efficiency of our operations and managing other risks, for example liabilities from contaminated land.

We recognise that this year's environmental report shows more limited progress than in previous years, while the business change activities and acquisition by Grupo Santander have been the focus of our attention. We have made progress in some key areas and during 2004 we updated our environmental management system and reviewed our exposure to environmental risks.

We are now in the process of developing a more detailed approach to environmental management and reporting for 2005. Our environmental policy, strategy and objectives will be revised and aligned with the new business focus and to reflect Grupo Santander's model.

## Environment policy - policy extract

It is our policy to:

- Identify, assess and manage environmental risks associated with lending and investments by developing strong frameworks for managing risks
- Consider environmental risks, where appropriate, when making fund-management decisions
- Monitor new business opportunities in line with our environmental risk management objectives
- Assess how we can affect, and be affected by, climate change
- Consider environmental issues when buying resources and services
- Monitor and work to reduce the impacts of business-related travel
- Reduce the amount of energy and water used in buildings
- Reduce the amount of waste produced, dispose of waste responsibly and, where economical, recycle as much as possible
- Consider environmental issues when buying, designing and building premises
- Take reasonable measures to prevent accidental pollution at our sites.

Our policy applies to all business units, covers all significant environmental impacts and risks, and provides the basis for our system of managing environmental risks. We encourage the organisations we work with to support our environmental policy. We will review this policy at least every three years to take account of all relevant developments.

## Environmental management structure

Our Board approves our environmental policy, and the Chief Risk Officer is responsible for making sure management acts in line with its principles. In turn, senior managers across Abbey are responsible for making sure all employees act in line with the environmental principles by including them in appropriate policy documents and risk management procedures. For instance, the property function has a Safety, Health & Environmental Working Group that meets regularly to discuss matters and progress made, and raise issues with senior management where appropriate.

The risk department oversees how our environmental policy is put into practice. Environmental impacts are identified and assessed through the operational risk process, and those that are significant can be reported directly to our Board and Risk Committee monthly. Any significant events that occur are escalated to the Chief Risk Officer, as part of a formal daily incident report. Our Legal

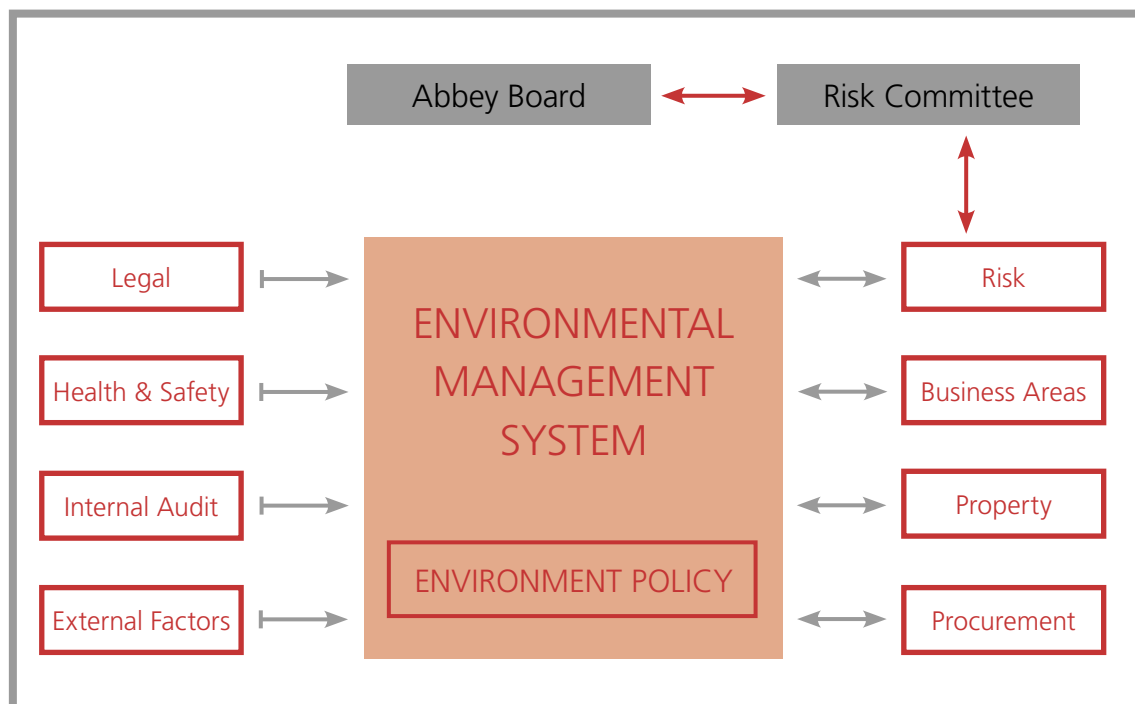
Services team monitors external developments, keeping the environmental risk manager abreast of the law and any changes to regulation that may affect how we manage the environment.

Environmental risk is part of Internal Audit's work programme. The control framework for environmental management is monitored and, each year, this section of the CSR report is independently checked to make sure all the information in it is accurate and fair.

### Environmental management system

Our environmental management system follows the principles of the international environmental management standard ISO 14001. Updates to the system introduced towards the end of 2004 will be embedded during 2005. These improvements strengthen the continuous identification and management of important environmental risks, as well as simplifying the reporting of our direct impacts. Our environmental management system will take into account the recommendations of emerging industry initiatives and benchmarks, independent management reviews, and feedback we receive from our stakeholders.

### Environmental risk management structure



## Business in the Community ENVIRONMENT INDEX 2004

A benchmark of our environmental management and performance is provided by Business in the Community's environment index. The average score in 2004 increased by over 5%. We retained our placing of 16th out of 34 companies from the financial services industry, and were ranked 8th for the fourth year running, out of the 13 banks taking part.

## Business-related travel

We provide interest-free season ticket loans for employees to encourage use of public transport. Our travel recording systems allow us to collect company-wide information on business travel by rail, air and road. This gives us a clear idea of travel patterns and associated emissions, and areas where we could reduce environmental impacts and costs. The number of short haul air miles - to and from Spain - is likely to increase considerably during 2005.

Teleconferencing has become an increasingly important means of communication for our staff, reducing the number of journeys that would otherwise have been needed. Uptake in use of teleconferencing increased almost 50% between the last quarter of 2003 and the last quarter of 2004.

## Direct impacts

Our direct environmental impacts are linked to the day-to-day activities of running the business. They are predominantly associated with the branch network and office locations, for example our use of energy and other resources such as paper.

### Waste

Our target for waste management was to recycle at least 60% of our waste. At the time of preparing this report, the full year data for waste management was not available and the target may not have been achieved for the whole year. Confidential waste paper amounted to 2,012 tonnes in 2004, all of which was shredded and recycled. An additional 375 tonnes of plastic cups and cardboard was also recycled. During 2005 we will implement improvements to the way we monitor waste from all buildings and reconsider our recycling targets.

### Water

There has been a general increase in water consumption of around 6.5%. Analysis has not been undertaken during 2004 but to understand better the changes in consumption, water use will be monitored more closely over the next 12 months. Water will form part of a future employee environmental awareness campaign.

## Energy

Electricity consumption has increased in most of our buildings with a greater use of IT. In particular, two large head offices that account for 25% of the total electricity consumption have increased usage by approximately 9% over 2003. Due to internal reorganisations, there has not been a strong focus on energy consumption, although an energy awareness poster campaign for employees was undertaken towards the end of 2004.

We have made some progress with raising awareness of environmental issues internally but recognise there is still more to do during the year ahead. Energy reduction targets will be agreed for the period through to the end of 2007.





We buy renewable energy from two sources. Our head office in Triton Square has renewable energy provided by London Energy and our branch network in Northern Ireland uses renewable energy from Airtricity, which provides energy generated solely from wind power.

Our Life business operations are based in Glasgow and are served by electricity from Combined Heat and Power supplies.

## Emissions

We have reduced our overall CO<sub>2</sub> emissions by almost 11% since 2001 (which is when we started accounting for all emissions from staff business travel, as well as our use of buildings). Although reduction in staff numbers and sites is a major factor in this reduction, the up-take in use of communications media such as teleconferencing facilities has made a positive contribution.

Total carbon dioxide emissions from use of buildings and business travel have reduced slightly from 3.61 tonnes per person in 2003 to 3.08 tonnes in 2004. This is still much higher than in 2002, when the figure was 2.75 tonnes per person. The biggest difference is in staff travel.

The 27% increase in short haul air miles is due largely to additional travel following our acquisition by Grupo Santander. The off-shoring of two call centres to India has contributed significantly to the 237% increase in long haul air miles.

## Carbon Disclosure Project

We supported the Carbon Disclosure Project again in 2004. This Project is an initiative backed by 95 large investors who want more information about how the companies they invest in are managing climate-related impacts, risks and the opportunities associated with climate change. The Project also lets company management know the concerns shareholders have about the impact these risks can have on company value.

A Climate Leadership Index was introduced for the first time this year, containing the 50 companies assessed as providing the best responses. We were placed among the 50 leaders, following our earlier commitments to reducing greenhouse gas emissions, setting targets for improvement and assigning management responsibility. We look forward to demonstrating progress against these commitments in the coming years.



## Progress against targets in 2004

Target	Progress
Reduce energy consumption by 5% on 1999 levels at our properties by 2004	Unfortunately, we have increased our energy consumption by almost 6% since 1999. We will consider where improvements can be made in future and ensure that our revised targets are designed to challenge us to improve further
Reduce our CO <sub>2</sub> emissions by 5% on 1999 levels by 2004	We have met our target, as CO <sub>2</sub> emissions have reduced by 5%
Obtain 10% of our energy requirements from renewable energy by 2010	We have exceeded our target, with almost 11% of the energy we use in our buildings now coming from renewable sources
Actively increase the proportion of energy sourced from CHP plant year-on year	We have met our target, having increased the percentage of energy sourced from Combined Heat and Power sources from 9.6% to 11.07% between 2003 and 2004. The 2003 reported figure of 1.6% covered November and December only. If extrapolated across all of 2003, it is 9.6%. Comparable figures therefore show a 1.23% improvement

## Waste, water, travel and energy data

		2004	2003	2002
<b>Waste recycled</b>				
Paper from HO and branches	Tonnes	2,012	5,059	4,113
<b>Water</b>	Cubic metres	222,749	192,699	185,566
<b>Business travel</b>				
Air travel - short haul UK & Europe	km	13,628,018	10,694,586	8,412,603
Air travel - long haul	km	8,271,973	2,454,339	2,890,552
Car	km	31,140,794	31,184,190	47,697,673
Rail	km	10,920,642	9,000,948	-
Video-conference facilities		42	50	50
<b>Energy</b>				
Electricity	MWh	154,381	155,470	129,704
Gas	MWh	37,642	45,421	34,447
% from renewable sources	%	10.70	9.60	6.0
Combined heat and power supply	%	10.83	1.60	-
Total energy use from buildings	MWh	192,023	200,891	164,151

## Carbon dioxide emissions data

		2004	2003	2002
<b>CO<sub>2</sub> from energy use</b>				
CO <sub>2</sub> released	Tonnes	64,691	67,204	62,617
<b>CO<sub>2</sub> from business travel</b>				
Air travel - short haul UK & Europe	Tonnes	2,453	1,925	1,514
Air travel - long haul	Tonnes	910	270	318
Car	Tonnes	6,228	6,237	10,493
Rail	Tonnes	655	540	-
Total CO <sub>2</sub> release	Tonnes	<b>74,937</b>	<b>76,176</b>	<b>74,942</b>
Total CO <sub>2</sub> released per FTE	Tonnes	<b>3.08</b>	<b>3.61</b>	<b>2.75</b>

Dashes in the tables show that information is not available. Figures for carbon dioxide released from energy use cover our wholly owned and controlled sources in the UK, accounting for over 98% of our employees. Figures for emissions from business travel covers 100% of our employees. Emissions are calculated using conversion factors in the DEFRA guidelines for greenhouse gas reporting (2002) at [www.defra.gov.uk/environment/envrp/gas/](http://www.defra.gov.uk/environment/envrp/gas/). Previous reports have separated First National energy consumption from the Abbey Group so we could monitor progress against 1999 targets. With changes in the Abbey portfolio and the sale of First National, we have moved to reporting the total Abbey consumption. 2003 figures have been re-stated without First National, to form more meaningful comparisons.

## Climate-related risks

Developments in recent years have highlighted social and economic costs of climate change on our environment, with risks and business opportunities being created around the world. The environmental impacts of climate change remain a greater risk to our medium-to long-term profitability. Abbey is potentially exposed to damages because of climate change for example, flooding and subsidence affecting our business premises, buildings we take mortgages on, and buildings we own as investments, as well as to the costs of greenhouse gases being released.

We contribute directly to climate change through the gases released from the energy and transport we use in our day-to-day business activities. We also contribute to climate change indirectly through our lending, investment activities and by buying goods and services. We have had measures in place to monitor and assess the risks of climate change and initiatives, including the Climate Change Levy and Emissions Trading. Although we are not currently engaged in it, we will monitor the emissions trading market to consider the benefits of engaging in future. The Climate Change Levy amounts to almost 10% of our energy spend.

### Climate Change Working Group

We have signed up to the United Nations Environment Programme Finance Initiative. As an active member, we continue our participation in the working group on climate change.

Activities of this group during 2004 included the production of a briefing note for chief executives on finance for carbon solutions, concentrating on the clean development mechanism for international climate policy. It is available at [www.unepfi.org/work\\_programme/climate\\_change](http://www.unepfi.org/work_programme/climate_change)



## Lending and investment

During 2004, the Risk department has continued to work with the relevant business units to identify how effective processes are for controlling environmental risks in each area.

At James Hay, our pension company, literature and procedures have been revised to highlight at-risk properties during the acquisition process. In the SIPP (Self Invested Personal Pensions) division, where our Trustee Company is sole owner of the properties, an environmental database has been set up for the existing portfolio of properties. An inspection programme is currently underway to look at properties that might be classified as high risk and it is planned to be completed during 2005.

## Fund management

The activities of the in-house ANAM (Abbey National Asset Management) team were outsourced during 2004. Although the accountability for ensuring the risk management processes are effective still rests with Abbey, the appointed fund managers are responsible for meeting the reasonable expectations of investors by achieving their return and risk targets as efficiently as possible. We do not insist that these managers screen for social, ethical or environmental factors and do not have processes in place to highlight UK companies that are failing to meet the guidelines from the Association of British Insurers on socially responsible investment. However, Abbey does consider social, ethical and environmental factors more generally if these could harm a company financially.

## Buying goods and services

Abbey's procurement policy requires that environmental factors be considered when choosing which suppliers we use. The areas we spend money on that have the highest environmental impacts are paper, printing, IT hardware, travel and packaging.

We did not carry out a detailed review of our environmental management arrangements in our Procurement department during 2004 but we will consider it as part of our wider review during 2005. In our last environmental report, we said we would trial a more detailed purchasing policy and during 2004 we carried this out with one of our key suppliers, to encourage it actively to champion materials and processes with environmental benefits. The process also contained a way for the supplier to assess its own sub-contractors, to encourage all parties to work towards continuous environmental improvement.

Detailed environmental reports on 23 sub-contractors were completed, covering a wide variety of issues, including factory wastage, energy use, transport and staff training policies. The policy has not yet been rolled out to our other suppliers.

We would like to see progress in several important areas in 2005 including:

- Introducing the more detailed procurement policy to more of our suppliers
- Raising the awareness of environmental factors in the buying considerations of all staff
- Including environmental questions in all work that we tender for
- Considering products that have positive environmental impacts as part of our overall buying strategy.

### Meeting the law

We continue to be registered under the Producer Responsibility Obligations regulations for the packaging waste we produce, including credit card carriers, coin bags and promotional items.

Wandsworth Magistrates Court found Abbey in breach of the 1990 Environmental Protection Act, following complaints received from London Borough of Wandsworth about an incident in November 2004 where some rubbish sacks had been left on public land. The Court imposed a fine of £400, and ordered Abbey to pay costs of £203.98. To ensure all staff in our retail branch network are aware of our waste disposal responsibilities, the requirements for appropriate disposal of non-secure waste will form part of an environmental awareness raising campaign in 2005.

## Looking forward

We will be re-aligning our environmental objectives with our business strategy in 2005. As a result of this, key areas of focus will be to:

- Revise our environmental policy, to reflect changes to our business and to align our approach with Grupo Santander
- Review environmental management and performance reporting procedures
- Revise our performance targets, to achieve continuous environmental improvements
- Review and strengthen how we manage our direct environmental impacts
- Continue to improve the quality of information and analysis of our performance
- Monitor the climate-change agenda and related risks and opportunities

- Introduce our more detailed procurement policy to more of our suppliers
- Raise employee awareness about environmental management.

We renew our commitment to continually improve our environmental management and meet our stakeholders' reasonable expectations of us.

### INDEPENDENT VERIFICATION STATEMENT

#### SGS United Kingdom Ltd's report on the environmental activities included in Abbey plc's 2004 Corporate Social Responsibility Report

##### Nature and scope of the verification

SGS United Kingdom Ltd was commissioned by Abbey plc to conduct an independent verification of the Abbey plc's 2004 Corporate Social Responsibility Report. The scope of the verification, based on the SGS Sustainability Report Assurance methodology, included the text and data in accompanying tables in the Environmental section of this report on pages 26 to 32. No other sections of the report were included in this verification process.

The information in the Corporate Social Responsibility Report of Abbey plc and its presentation are the responsibility of the directors and management of Abbey. SGS United Kingdom Ltd has not been involved in the preparation of any of the material included in the report.

Our responsibility is to express an opinion on the environmental section within the scope of verification set out below.

The SGS Group has developed a set of protocols for the Assurance of Sustainability Reports based on current best practice guidance provided in the Global Reporting Initiative Sustainability Reporting Guidelines (2002) and the AA1000 Assurance Standard (2003).

The verification comprised a combination of interviews with relevant employees, documentation and record reviews and validation with external sources where relevant.

##### Statement of Independence and Competence

The SGS Group of companies is the world leader in inspection, testing and verification, operating in more than 140 countries and providing services including management systems and service certification; quality, environmental, social and ethical auditing and training; environmental, social and sustainability report assurance. SGS United Kingdom Ltd affirm our independence from Abbey plc being free from bias and conflicts of interest with the organisation, its subsidiaries and stakeholders.

The verification team was assembled based on their knowledge, experience and qualifications for this assignment and comprised an EMAS Verifier and EMS Lead Auditors.

##### Opinion

On the basis of the methodology described and the verification work performed, we are satisfied that the information and data contained within the Environmental Section of this report is accurate, reliable and provides a fair and balanced representation of Abbey plc's environmental activities in 2004.

We believe that the organisation has chosen an appropriate level of assurance for this stage in their reporting.

Signed:



For and on behalf of SGS United Kingdom Ltd  
Pauline Earl  
Business Manager  
April 2005



# Feedback

Your feedback on this report or any aspect of our CSR activity would be very useful. Please complete this questionnaire and post or fax it back to us.

## General impression of this report

☐

Poor

☐

Average

☐

Good

Please tell us why?


## What is your opinion of the content of information provided in each section of this report?

	Insufficient	Can be improved	Sufficient
Chairman's statement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Company profile	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Business update	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate governance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Abbey and its customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Abbey and its suppliers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Abbey and its employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Abbey and the community	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Abbey and the environment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

How would you suggest we can improve this report?


Any other comments?


About yourself

Name
Company
Address

Are you:

☐

Abbey shareholder

☐

Abbey employee

☐

Abbey customer

☐

Abbey supplier

☐

Other interested person (please specify)

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Thank you very much for your feedback.

Please send this questionnaire to Community Relations, Abbey, Abbey National House,  
2 Triton Square, Regent's Place, London NW1 3AN or fax it to 0207 756 5635.







## Contact details

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