



Corporate Social
Responsibility
Report 05



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.



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Executive statement

In the year in review we established a clear vision for Abbey - to be the best bank in the UK. Over the next three years we have plans to transform Abbey from its historical focus on mortgages and savings, to a full retail bank.

A key part in achieving our goal is our approach to the management of the stakeholders in our business; of primary importance are our customers and employees. It is also important that we consider the relationships we have with our suppliers, the contribution we can make to local communities and the impact we have on the environment. How successful we are in becoming the best bank in the UK will depend on maintaining positive relationships with these groups and in this, our sixth CSR Report, we have summarised our performance in 2005 and set out our commitments for 2006.

A new CSR Committee has been established, with senior representatives from key business areas, and it has overseen a review of the CSR programme to ensure our activities are compatible with the Santander approach. One significant area of change has been to follow the recommendations of the Global Reporting Initiative, the sustainability reporting guidelines, and we have extended the use of independent assurance to our community disclosures.

Customer focus

The Financial Services Authority's Treating Customers Fairly initiative was an important part of our CSR work in the year. A high level approach for implementing the principles was agreed by the Executive Committee in Spring 2005 and objectives were delivered to individual business areas to establish a co-ordinated and consistent approach. Our aim is for the principles to be embedded in the culture and business practices at Abbey. We also focused on issues surrounding financial exclusion: helping improve access to financial services through projects addressing the introduction of Chip and Pin; basic bank account improvements; and involvement in piloting a financial education in the workplace project.

Employee engagement

Improvements in our approach to employee management included the launch of new reward, recognition and benefits programmes with every employee sent a personalised 'You & Abbey' pack containing information about the benefits available to them. We also produced an updated employee handbook and launched a new performance development system in response to employee feedback. We were pleased to have our approach to encouraging a diverse workforce recognised when we were awarded a Silver standard benchmark for the first time in 2005 by Race for Opportunity.

Community involvement

We provided support to charities and the voluntary sector in 2005 valued at £1,778,160, mainly through our Charitable Trust. Abbey's re-branding exercise at the beginning of the year also gave us the opportunity to distribute redundant clothing and stationery items to developing countries. Our promotion of effective staff giving was recognised when Abbey achieved the Payroll Giving Gold Award from HM Government and the Institute of Fundraising for helping more than 10% of our staff to make this regular commitment.

Environmental awareness

2005 has seen great strides forward in embedding our Environmental policy with all Abbey facilities managers receiving comprehensive training on the new Environmental Management System. A specific intranet site was created for all Abbey employees to access and share related documents, details of environmental events, such as training sessions, and contact information, to ensure everyone has the opportunity to see what is expected and how they can contribute. We worked with The Carbon Trust to enhance our in-house energy management capabilities and identified areas for improvement.

In 2006 we will be looking to increase the benefits of our CSR activities through greater co-ordination of existing good practice across our business divisions.



Lord Burns
Chairman



Company profile

Abbey is the UK's second largest residential mortgage lender and is one of the leading providers of savings, protection and self-invested personal pensions in the country. Our range of well-known brands provides services to around 18 million UK and expatriate customers.



Our main sites are in:

London

Milton Keynes

Bradford

Glasgow

Belfast

Sheffield

Our products include:

bank accounts

mortgages

savings

investments

general insurance

life assurance

Our service is provided:

in branches

by phone

by internet

from cash machines

through independent financial advisers

through retail partners

Abbey's organisational structure consists of three business divisions:

- Retail Banking – responsible for all direct sales (branches, telephone, internet banking) and intermediary channels as well as marketing
- Insurance and Asset Management – responsible for the long-term savings and life insurance business together with asset management activities
- Finance and Markets – includes Abbey Financial Markets, Finance and provides treasury services to the Group.

In addition there are the following support divisions:

- Human Resources
- Manufacturing – responsible for all information technology and operations activity including customer service centres
- Risk
- Strategy and Planning
- Legal, Secretariat, Tax and Regulatory Affairs
- Communications.

Business update

In the first full year since the acquisition by Santander, Abbey has made good progress in rebuilding the business.

At the start of the year we set clear targets:

- stabilise Personal Financial Services (PFS) trading revenues after a period of decline
- accelerate cost savings, with a reduction of £150 million

We have exceeded the targets we set – PFS trading revenues were up 1% and we've made excellent progress in reducing costs with savings of £224 million achieved. Our 2005 results clearly show that we are on track in our efforts to turn Abbey around:

- Statutory profit before tax of £596 million (2004: £(21) million), with profit after tax of £420 million (2004: £(54) million).
- Trading profit before tax of £775 million for our Personal Financial Services business, up 34% compared to £579 million in 2004
- Reduction in the PFS trading cost:income ratio of 9.3% to 60.6% (2004: 69.9%).

Our market share of new business in mortgages and savings has improved and our efforts to compete in areas where we have significant opportunities - such as current accounts, unsecured personal loans and investments - are building momentum. There are clear signs of sustainable revenue

growth. Across all product lines we are focusing on profitable business, whilst maintaining good credit quality.

Underpinning our progress are improvements in sales capacity and productivity. The number of staff authorised to sell in our branches has increased by 28% from the start of the year. In addition, service issues that were hindering performance in the intermediary channel have been successfully addressed.

We have a clear vision to be the best retail bank in the UK in terms of service and efficiency. Over the next three years we have plans to transform Abbey from its historical focus on mortgages and savings, to a full retail bank offering. We have set ourselves clear targets, and we will build on the momentum we have established in 2005 and expect further improvements in customer service and business efficiency in 2006.

We've made a good start towards achieving our three-year turnaround and long-term goal of becoming the best retail bank in the UK.

Detailed information about our business performance and activities is available on our corporate website at www.aboutabbey.com

Economic Data

	2005	2004*
Operating highlights (£m)		
Pre-tax profits	596	(21)
Trading profit from personal financial services	775	579
Net attributable income	420	(151)
Balance sheet (£m)		
Shareholders equity	3,110	3,720
Tier 1 Capital	5,614	5,828
Total assets	207,034	184,733
Total customer funds	65,889	78,660
Management ratios (%)		
PFS trading cost: income ratio	60.6	69.9
Tier 1 ratio	10.0	10.4
Key data		
Number of customers (million)	18	18
Number of employees (full-time equivalent)	20,642	24,361
Number of branches	713	724
Social contribution (£m)		
Salaries and other staff costs	908	1,019
Taxes on ordinary activities	176	33
Community contribution	1.7	2.5

* 2004 restated result due to implementation of International Financial Reporting Standards (IFRS)



Operational update

Preparation for Partenon

Partenon is the core banking system used throughout the Santander group. It is a proprietary system, based on a single customer database and a single product catalogue.

The system will be introduced at Abbey through a series of phased implementations over the next two and a half years. This is a large transformation project and as a result, the focus for 2005 has been on the technical and strategic planning phase for the eventual Abbey wide roll out of Partenon.

Once introduced, this will transform our systems and the way we work bringing:

- improved sales tools and processes
- better customer relationship management
- improved service and quality of sales process
- better control, e.g. reducing risks in day to day work and improving project launches
- faster product development
- enhanced management information
- reduction in the cost of new business.

Intranet launch

One of the principle enablers to Partenon has been the introduction of a new intranet at Abbey, providing the technical platforms needed. It is an important change because, eventually, the new intranet will allow staff access to the new systems and applications that Partenon will be introducing – all through a single sign on process. This means staff will use just one set of details to access the tools they need to do their job – as well as information about company policies and their well being at work.

Security

2005 saw some significant mainland security events affecting the UK, as well as the ongoing threat of similar attacks. These have the potential to affect Abbey and our day-to-day operations. In light of this we reviewed and further improved our emergency staff notification processes, a key outcome of which was issuing each staff member a personal 'emergency contact and staff information card'. This tells staff what to do in the event of an emergency, and provides key telephone numbers for staff to call.

We continued to introduce a series of additional security measures during the course of the year, all of which help us to make Abbey a safe place to be for our staff and customers.



Taking responsibility

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.

Corporate governance

Our Corporate Governance Framework sets out how we organise, direct and control the company. It is designed to make sure that our decision-making is clear, controlled, accountable and consistent with our aims. Our framework sets out the following:

- the role of Board and management committees and how authority flows through the Abbey group of companies, 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 Director, Human Resources has responsibility for CSR. As a result of our CSR review in 2005 we have established a new management framework and introduced a senior-level CSR Committee. The framework now reflects the Santander model based on the key CSR areas of Customers, Employees, Environment, Suppliers and Community. The Committee met in the second half of the year to review the level of comparability between Abbey's activities and Santander's. In many areas Abbey has extensive activity such as diversity, social housing and financial inclusion. There are a small number of elements of the Santander CSR model that are not reflected by Abbey and we have taken action to ensure we align our activity where appropriate.

The most significant change is the use of the Global Reporting Initiative (GRI) as a standard for reporting on CSR and we dedicated resources in the year to review the 97 GRI indicators and identify a set that is relevant to Abbey. We have included the GRI as a core element in our approach to CSR and our application of the model can be viewed at the end of this report (pages 35-37).

Ethical policy

Abbey's CSR policy is set out in 'How we do Business', our statement of ethical principles. This document, which is approved by and has the full support of the Abbey Board, brings together a number of the company's policy statements and principles, stating the commitments we make to our stakeholders to do business in an ethical way. It is available on our corporate website. The policy will be reviewed and updated in 2006.

Industry partnership

We are a member of the FORGE group, a consortium of the largest UK banks and insurers that has pooled CSR expertise since 1998. The group produces advice and guidance for the financial sector on CSR issues. In 2005 the focus was on the requirements of the proposed Operating and Financial Review (OFR) disclosures. The group developed a model for identifying which CSR risks and opportunities are important enough to warrant disclosure as a significant impact to the business. Whilst the specific OFR requirements have been withdrawn, the recommendations are still considered to represent good practice and the process developed by the FORGE group is a useful tool for identifying material impacts.



Paul Lomas
Director, Human Resources



Progress against 2005 commitments

Customers

Commitments

- Improve service quality for customers
- Innovate in product range to deliver value to customers
- Address historic lack of investment in branch network
- Contribute to addressing issue of financial exclusion

Progress

- Service quality improvement programme initiated. Internal measures, reporting and Customer Plans launched
- Range of new products and product enhancements launched including market-leading current account offer
- Branch refurbishment and renovation programme continued with over 500 sites improved
- Basic bank account information and staff training improved
- Involvement in working group to pilot financial education in the workplace
- Completion of disabled access works to branch network

Employees

Commitments

- Standardise remuneration terms and conditions
- Develop new initiatives to support employee well-being
- Strengthen links with union representatives

Progress

- New reward arrangements in place, significantly enhancing consistency
- Job roles classified and new benefit bands approved
- Range of additional benefits launched with personalised packs sent to all staff
- Interactive 'Healthwise' programme launched
- Well-being roadshows run in key Abbey sites
- Employee Assistance Programme agreed
- Joint Negotiating and Consultative Framework signed
- Santander European Works Council attendance

Community

Commitments

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

Progress

- 2005 was Year of the Volunteer. We established 8 new initiatives for our volunteering programmes in Camden, Sheffield, Milton Keynes and Belfast
- The new programmes brought 85 new volunteers into the matched time scheme
- Actively promoted payroll giving to staff and gained a Gold Award

Environment

Commitments

- Recycle 60% of waste produced by 2007, (excluding non-confidential waste from the retail network)
- Reduce electricity consumption by 7% on 2004 levels by 2007
- Obtain in excess of 10% of electricity from renewable sources each year
- Reduce CO₂ emissions per FTE and achieve a 7% reduction on 2004 levels by 2007 (excluding travel)
- Reduce water use in line with specific per m³ targets for buildings
- Raise staff awareness of environmental activities

Progress

- Exceeded the target, achieving a 72% recycling rate during 2005 and will seek further improvement in 2006
- Target not on track. Energy consumption has risen by 3.8% since last year
- Gas use increased for heating during the colder weather
- Engaged The Carbon Trust to assist with enhancing our energy management capabilities
- Target met, with plans to renew the contract and increase the amount during 2006 and 2007
- Target not on track. We will prioritise initiatives to correct this during 2006
- Water consumption has declined by 5% overall following improvements in housekeeping
- Environmental Ideas mailbox for staff established
- Articles in staff magazine and intranet including 'Saving money by saving the Earth'
- Poster campaigns on energy and recycling advice
- Presentations to Branch Managers to identify areas for environmental improvements
- Achieved. We continue this commitment through the EMS



Abbey

Customers



A focus on customers, their needs and requirements, and the service we provide them with, is fundamental to the health of our business. Understanding our customers has always been something Abbey has prided itself on, particularly at a local, branch level, and we believe this is a core requirement to deliver our objective of being the best bank in the UK.

Understanding customers

We devote considerable time and money to finding out customer views. In 2005 we carried out research with around 40,000 customers, including telephone interviews with over 30,000 people who use Abbey branches.

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 marketing communications to make them more understandable and relevant.

Customer service

Excellence in customer service is a key priority. In order to achieve this, in 2005 Abbey set up a service quality improvement programme to provide real focus to our activity. We have taken the following steps to start to improve service quality:

- identify the key drivers of customer satisfaction – the most important elements of service we must get right for our customers
- establish internal measures that can help us understand the level of service we are providing, such as time branches take to answer the phone
- agree one simple way to report these measures so that staff across Abbey understand the level of service we are providing for the things that really matter to our customers
- in the areas where we are not performing as well as we would like to, set up a "Customer Plan" – setting out specific elements of customer service we will devote time and effort to improving
- embed service quality measures into staff reward.

The results of our first branch customer satisfaction survey at the end of 2005 were encouraging. The survey told us that 67% of our branch customers were very or extremely satisfied, with 94% of branch customers being satisfied to some degree. However, it also told us that we have work to do when queues build up in branches, and in getting back to customers when we say we will.

At the end of 2005, the Customer Plan for branches had been set up, and targets for service embedded into all senior retail managers' bonus schemes for 2006. Plans were also in place to set up a quality of service programme in all telephone sites, and also in the centres that provide services to mortgage and life intermediaries.



Delivering value

Abbey is committed to delivering products and services that meet the needs of our customers. This makes good business sense and ensures we sell the right products to the right customers – key to making sure we treat customers fairly.

Product highlights in 2005 included our Flexible Plus mortgage. We were able to offer customers a real alternative to the 2 year fixed mortgage deal, with our Flexible Plus Deal for Life mortgage. This offers a mortgage rate fixed for the mortgage term at 0.49% above the Bank of England base rate so that customers don't need to remortgage every 2 years. With additional flexible features including under and overpayment, it is a product that represents real value to customers.

Our new 6% current account and regular monthly saver offer also represents good value, giving a high rate of interest in the first year on our current account that reverts to a competitive standard rate, while encouraging savings through a fixed rate monthly savings deal also offering 6% for the first year.



Helping small businesses

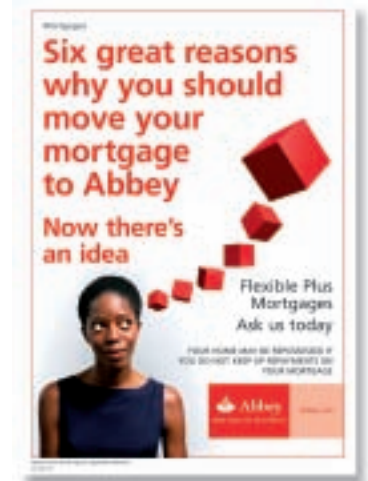
Our 'Free Business Banking' commitment to small businesses, offering a bank account with free banking, and interest when the account is in credit continues to be popular. Particularly since we set no time limits and no minimum balance requirements.

Our market share of small business banking is 4%, however this increases to 5% amongst start-up businesses. Our research shows that our small business customers believe that Abbey provides good value for money with 90% rating Abbey excellent or good. Additionally, high levels of customer satisfaction (81% rating Abbey as good or higher), mean that Abbey is more likely to retain these customers in the long term and in the short term we are benefiting from high levels of recommendations. Seventy nine percent said they would probably/definitely recommend Abbey to business colleagues, friends or acquaintances.

Improving clarity

2005 saw the implementation of the new Abbey brand, introduced to reflect the corporate identity of Santander. This meant an extensive programme of changes to our branches featuring a new logo and the colour red, and a completely revised look for our communications.

We continue to use a straightforward tone of voice that focuses on our product features and benefits. The adoption of a red cube device in advertising has enabled us to highlight product features and benefits in an engaging way that also builds brand recognition. Our new endline, 'More Ideas for Your Money', has also been rolled out and we look to communicate products and services increasingly in terms of 'ideas' that make or save customers money.



During the year we fully refurbished 123 of our branches, 400 more were renovated and we improved the way we display our adverts and literature – as well as re-branding 2,000 ATMs. This work has been popular with customers and staff alike, and we will continue these refurbishments throughout 2006.





Transparency

There has been a strong focus on the need to improve transparency in financial services during 2005. Abbey supports this agenda, particularly where it improves competition by enabling customers to better understand products and services. All Abbey's credit card statements and marketing materials now include summary boxes which provide consumers with consistent and succinct information on the key product features and any fees and charges, enabling them to compare different products more easily.

Abbey continues to be involved in industry discussions on common definitions for interest rate calculation.

On ATM fees, we believe there is already considerable transparency as evidenced by the small proportion of transactions made at surcharging ATMs. However, we have rolled out new signage to our network to ensure that customers are clear that we do not charge - this will be completed in 2006.

Treating customers fairly

The Treating Customers Fairly (TCF) initiative is a prime focus for our regulator the Financial Services Authority (FSA). TCF aims to achieve capable and confident consumers, simple and understandable information for customers, and firms that treat their customers fairly.

We are well into the implementation phase of our TCF programme and have adopted a detailed process to carry out our commitments across the business.

A high level approach was agreed by the Abbey Executive Committee in Spring 2005 and objectives set. These have

been delivered to individual business areas to establish a co-ordinated and consistent approach. The aim is to fully embed the actions into business as usual processes. This is an on-going process and the longer-term aim is for the TCF principles to be embedded in the culture and business practices of all parts of Abbey.

Social housing lending

Our specialist Social Housing Finance unit is a market leader in delivering 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 that support the drive towards building sustainable communities.

In 2005 we agreed to provide additional finance to approximately 30 Registered Social Landlords, including new organisations set up to take over housing stock transferred from Local Authorities. Our loan facilities are now approaching £6 billion.

Newlon Housing Trust

Abbey increased its loan commitment to £80m to support Newlon Housing Trust's ongoing development programme in 2005. The Trust has been an Abbey customer for over 12 years and is one of the top 20 developers of social housing in England. Newlon work closely with communities in parts of north and east London, providing new and better homes, and answering some of the long term problems facing communities by supporting training, increasing work skills and improving the environment.

Newlon is a vital participant of the Arsenal Regeneration team, improving the community around Highbury. Over 2,000 new homes will be provided, more than 1,000 of which will be affordable homes from Newlon. Three hundred of these homes are already available for key workers. It is estimated that the overall regeneration project will create 1,800 permanent jobs in the immediate area. This will be a major example of bringing parts of industrial London back into use with a vibrant community of housing, shops, health centres and community facilities.



Managing complaints

Abbey's vision for managing complaints is to actively seek and effectively manage feedback. During 2005 we developed a 'fit for purpose' complaint handling framework that gets the basics right. In the year we received 103,796 visits, calls, letters and e-mails (excluding our life companies and mortgage endowment remediation).

In May 2005, Abbey was fined £800,000 by the Financial Services Authority for mishandling mortgage endowment complaints. Abbey undertook to conduct a review of all mortgage endowment complaints rejected since 1 January 2000. This review is now largely complete. Our programme of remediation involved reviewing 43,500 previous mortgage endowment complaints and contacting customers to advise them of any change in the outcome.

The Complaints department contains a team which is engaged in identifying trends and examining root causes on all recorded complaints. The team works proactively to share learning and champion changes in policy, process or procedures with a view to improving the customer experience and reducing the likelihood of further complaints.

An example of this is the work undertaken from October 2005 to January 2006 for the 6% banking campaign where the team looked at the volumes and trends of complaints from previous campaigns and worked with the banking project team to improve communication, processes and capacity levels in readiness for the new campaign. We then monitored the volumes of complaints received, which proved significantly lower than in previous campaigns.

Responsible lending

As has been widely reported, the amount of unsecured borrowing has hit record levels in the UK. We take this issue seriously and we have seen an increasing number of applications from customers who are highly indebted, as well as increasing incidences of personal bankruptcy. In response, we have been reviewing the way we test customers' ability to repay unsecured loans, and the credit performance of our most indebted customers. We have now introduced changes to simplify and strengthen lending policy, and will continue to develop more effective lending and credit limit management as the Partenon program rolls out.

We follow standards laid down by the Banking Code Standards Board, and have worked with the Finance and Leasing Association to develop a common position and standards for managing indebtedness. We are pro-active about sharing credit data with other lenders, and we were the first bank to ask our longstanding customers for consent to share their data where this wasn't given when they opened their account, in order to manage customer debt responsibly.

We also contribute to funding the Consumer Credit Counselling Service and Payplan, organisations that provide professional debt counselling free to consumers.





Financial inclusion

Abbey is keen to understand more about the steps we can take to genuinely improve access to financial services. In 2005 we met with a number of consumer bodies to hear their views and experiences, as well as with SAFE (Services Against Financial Exclusion) who were commissioned by the Department for Work and Pensions (DWP) to help vulnerable people open bank accounts. Abbey also provided self-advocacy group Speak Up access to one of our branches to film a DWP DVD that provides simple guidance to help people with learning difficulties or language barriers open and operate a bank account. One of Abbey's Charitable Trust priorities is supporting disadvantaged people through financial education and advice that helps them to manage their money. (See page 21 for further details.)

Basic banking

Abbey continues to improve access to financial services via the provision of our basic account. The account continues to have strong take-up, with our total number of accounts in December 2005 up 61% year on year. Importantly, Abbey has also taken steps to improve information about the account, make account opening easier and ensure all customer-facing staff understand the importance of basic accounts. We have revised our literature, improved training to new staff and provided refresher training to existing staff. Abbey has also produced a leaflet detailing the different forms of identification that we accept; helping people who do not have traditional forms of ID understand what is needed to open an account.



Bringing banking to work

During 2005 we supported the work of the FSA in improving financial capability in the UK through our involvement in a working group that has been piloting financial education in the workplace. Through literature and workplace seminars, employees in 12 pilot companies have had the opportunity to learn more about budgeting, managing debt, the value of protection and insurance, as well as the need for long term financial planning.

The remit of the FSA working group has been expanded for 2006/7 with a goal to reach 200,000 employees.

Disability services

Abbey is committed to ensuring that, where possible, all of our customers can access our branch network. A programme of works was completed in early 2005 to ensure that over 94% of our branches are accessible to customers with disabilities. In the remaining branches Access Statements have been individually formulated that tell our customers about alternative services. In addition, we linked up with 'Direct Enquiries', a website that tells the public about access for customers with disabilities. The site features a full list of all our branches along with the services and the access provided.

Abbey has been working hard to ensure that the introduction of 'Chip and PIN' technology does not cause problems for customers with disabilities. From November 2005 promotional literature, customer letters on the introduction of Chip and PIN and bank statements have all clearly stated that there are alternatives for those unable to use PINs, and have provided contact details to discuss the options.



Chip and PIN

Unclaimed assets

Through the British Bankers Association, Abbey has been involved in negotiations with the Treasury on how banks can best release the funds held in dormant accounts. We are keen to find a solution that achieves the release of funds whilst ensuring that the right of customers to reclaim their money is protected absolutely. Abbey supports the use of unclaimed assets to invest in deprived communities, with an emphasis on youth services and financial education and inclusion.

Commitments for 2006

- In 2006 we will be identifying organisations that provide affordable credit in under-privileged areas and discussing with them projects that Abbey can support to improve financial inclusion.
- Refurbishments are planned for a further 300 branches in the year.
- We will launch a new Saving for Retirement Advice Service as part of the Pensions A-Day changes, in force on 6 April 2006 to simplify pension rules, to help customers prepare for their retirement.



Abbey
Employees



Achieving our goal to be the best bank to work for in the UK is dependant on us being able to provide a positive working experience for our employees. Considerable effort has been made in 2005 to improve the basics of our employee management with new reward, recognition and benefits packages introduced. We produced an updated employee handbook and launched a new performance development system in response to employee feedback.

Employee reward

Our approach to employee reward and benefits was changed during 2005 and we delivered the first phase of a new total reward strategy to standardise terms and conditions for all our employees, to create consistency and fairness regardless of length of service.

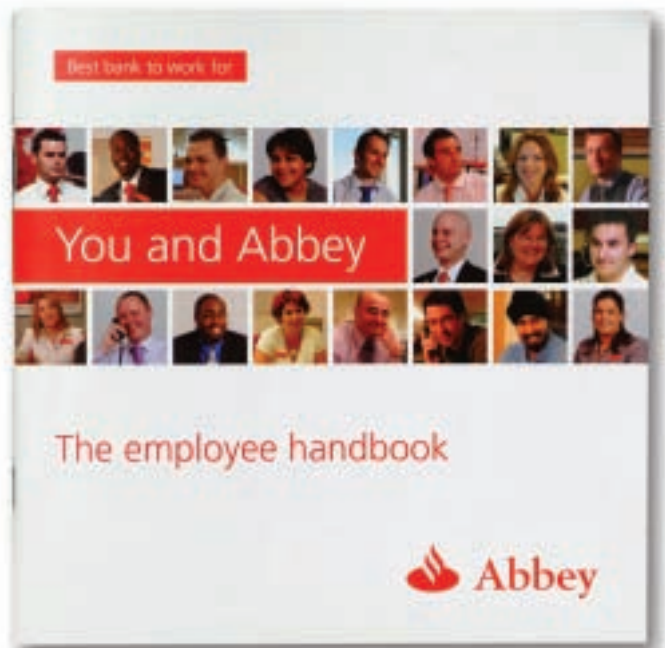
As part of this new approach, we also undertook work to classify roles and introduced four new benefits bands to give us a more up-to-date and consistent way of managing reward. Introducing the bands will help to bring Abbey into line with other major financial services companies and means we can better tailor how we reward people at different levels.

At the end of 2005, we launched a new range of generic benefits that included:

- Abbey Products – we believe that we have some of the best financial services products in the market, so we put together a range of special rates, discounts and additional features in many of our main products specifically for employees.
- Retail Vouchers – employees can now buy retail vouchers at a discount to their face value for use in major high street stores.
- Flexi-Holidays – employees will now be able to buy additional holiday through our flexi-holidays scheme.
- Childcare Vouchers – a third party provider will provide vouchers to help with the costs of childcare.

Every employee was sent a personalised 'You & Abbey' pack that contained information about the benefits available to them.

At the same time we launched our new Employee Handbook, an essential guide to working for Abbey. It sets out the details of our key policies and procedures and helps our employees understand what they can expect from Abbey and what Abbey expects from them. We also standardised our approach to holiday entitlement and notice periods to more closely reflect the external market.



Managing change

As part of the goal to become more efficient around 4,000 job roles were removed during 2005 resulting in a reduction of headcount at Abbey. These were due to more effective working practices and closing of smaller sites.

Approximately 60% resulted from redundancy, the remainder being achieved through natural wastage and early retirement. At all times, Abbey has adhered to its agreement with the Abbey National Group Union to protect employees and reduce the anxiety that these reduction programmes can cause in the work force.

Equality and diversity

Abbey wants to benefit from the full range of knowledge and skills society offers. We recognise, respect and value individual differences, and acknowledge the distinctive contribution that each person makes to the success of the business. Abbey's policy "Valuing People as Individuals" sets out our approach to creating a workforce that reflects that diversity. Everyone at Abbey is selected, promoted and treated on the basis of their relevant aptitudes, abilities, and skills. We want employees to be able to give their best and be successful.

Working with others

Abbey is an active member of a number of national campaigns that aim to improve opportunities for under represented groups. These include the Employers Forum on Age, Opportunity Now, Race for Opportunity and Employers Forum on Disability. At a local level, Abbey is involved in a number of diversity initiatives, often in partnership with other local employers, for example, providing structured work induction programmes for ethnic minority school students and working with job brokering agencies for disabled people. We were awarded a Silver standard benchmark for the first time in 2005 by Race for Opportunity, recognising our efforts in this important area.



Abbey has 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 are given any necessary aids and equipment to enable them to work effectively. Abbey has processes in place to help recruit, develop and retain employees with disabilities and we are proud to be able to use the Employment Service "Positive about Disabled People" symbol.

Parentworks

Abbey and Sheffield First for Investment/Action worked together to run a four-week Parentworks programme that helps single parents polish their skills and re-enter the workforce. The scheme enables delegates to improve their skills to make them better equipped to undertake a job. Abbey's involvement focused mainly on the call centre opportunities, where we have the largest number of vacancies, but a visit to the local branch was incorporated to give delegates the opportunity to think about wider roles within the bank. To date 33 delegates have completed the programme. Sixteen have applied for jobs and five have been offered jobs.

Communication and consultation

Abbey aims to involve and inform employees on matters that affect them. Abbey publishes a magazine every other month for employees - "Read", and almost all employees have access to our intranet. Abbey also uses more traditional methods of communication, such as team meetings. All these channels are designed to keep employees fully informed of news and developments which may have an impact on them, and to keep them up to date on financial, economic and other factors which affect the company's performance.

Working in partnership

During 2005 our relationship with Abbey National Group Union (ANGU) was further strengthened by the signing of a new Joint Negotiating and Consultative Framework, developed through a process of joint working. We believe that continuing to develop strong relationships with our trade union colleagues is critical. A key part of this is through the building of trust and respect, joint problem solving and creating an environment within which positive employee relations can flourish. The new framework sets out how our relationship with ANGU operates, enabling consultation on a range of issues. The framework also includes details of Abbey's collective bargaining arrangements.

Representatives from ANGU and Abbey's management team attended the Santander European Works Council in Madrid, along with colleagues from across Europe, to discuss pan-European employee issues.

Employee Opinion Survey

We want Abbey to be a place where everyone can express their views and feel that they are listened to, and in Autumn 2005 we conducted a company wide Employee Opinion Survey. The response rate from staff was 70% and the results of the survey, available in early 2006, will be used to measure employee engagement across Abbey and help us understand how employees view us in a number of key areas. It will also enable us to monitor progress in achieving our goal of becoming the best bank in the UK. For the first time, we will be able to track results to individual business units so that we can then target initiatives to improve the working lives of all our employees. We will be conducting a survey annually, so that we can also benchmark our results against other high performing organisations.



Developing our people

Abbey wants to create a high performance culture. This means we are committed to developing employees' ability to perform at their best. Abbey continually encourages staff to deliver better service to customers, support each other by removing obstacles and use their talent to produce improved results.

Performance development

Abbey's approach to performance development is simple and straightforward. Employees will understand what's expected of them and get the right development and support to allow them to succeed. And when they've done this, they are recognised and rewarded for their contribution.

Employees are responsible for their performance and their manager is responsible for making sure they are clear about what they need to do to perform to their best, and for supporting them to achieve it. Abbey strives to ensure that the Performance Development Framework continues to meet everyone's needs. With this aim we conducted an extensive company wide survey of its effectiveness and as a result of this we will be making improvements to the process for 2006.

Learning solutions

Abbey's Learning and Development team works in partnership with each business area to provide training and development that is effective, efficient and responsive.

In 2005 a number of significant organisational projects required staff training in new systems and procedures. The largest involved delivering more than 8,500 face-to-face training days in initiatives to improve sales and service in the branch network. Training was also co-ordinated to support improvements in the Customer Satisfaction Centre, including helping complaint-handling staff to gain appropriate financial services qualifications. In addition, we carried out training across Abbey to implement industry-wide regulatory requirements, such as depolarisation and the launch of the Child Trust Fund.



A series of new e-learning solutions were developed, including anti-money laundering training courses and on-line assessments, as new processes and procedures were introduced to meet regulatory requirements. In addition, health and safety courses were introduced for managers and employees across Abbey, to help ensure that all legislative requirements were understood.

Initiatives in the branch network to increase the number of staff able to give advice to customers were supported by on-line authorisation courses and tests in banking, savings, mortgages and insurance. Overall, Abbey staff completed more than 200,000 on-line courses in 2005.

Health and safety

Our goal of "health and safety excellence" is put into practice through a clear statement of our policy on health and safety at work, and the development of a new Health and Safety Management System for Abbey. The table below shows that our approach to accident prevention is consistent and effective. However, we have set ourselves a goal of a zero accident rate and we will continue to work towards achieving that target.

Well-being

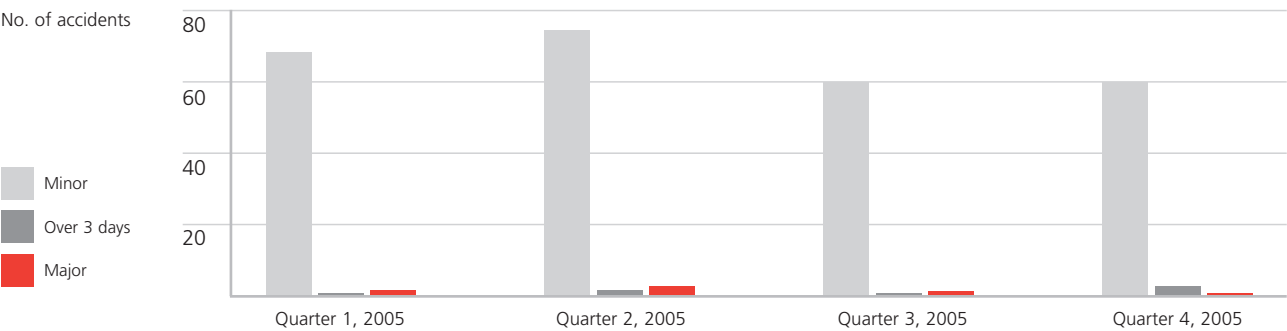
We developed a range of benefits and services to help employees look after their well-being, most of which are free. Abbey's Well-being website has been updated and now includes an interactive programme 'Healthwise' which helps employees to assess their lifestyle risks and develop a plan to improve their health. There is also a programme available designed to improve understanding of how to sustain a healthier lifestyle and roadshows were run in Abbey locations across the country giving practical advice and information. Gymnasiums are available in some Abbey sites and where these are not available we have negotiated discounted rates at gymnasium facilities across the country.

During 2005, we launched an Employee Assistance Programme (EAP) as a new benefit for all our employees. The EAP is a free, impartial telephone advice service for all Abbey employees and their immediate families. The service is operated by an expert third party supplier and gives staff access to counsellors who offer professional, independent, confidential support on a range of issues.

Work-life balance

Abbey is committed to supporting individuals in achieving a reasonable balance between their home and working life. Abbey respects and understands that people have a wide range of commitments outside of work. As a result, we offer flexible work options including part-time work, job sharing, home-working, compressed working arrangements, career breaks and flexible holiday options which include time off for religious observance. The new childcare vouchers introduced this year offer tax savings for our employees on childcare costs incurred with registered or approved childcare providers for children under the age of 16.

Accident severity 2005



Well-being Roadshows

In 2005, Well-being roadshows took place at six locations around the UK to promote the healthier lifestyle message to staff. Information on discounted offers for gym membership, alternative and complimentary therapies, health advice and information were available. Staff were offered a free personal lifestyle review covering exercise, weight, blood pressure, body fat, healthy eating, drinking and smoking.

Claire Burvill, Domestic and International Payment Processing, attended a London roadshow and commented "I found the whole thing very informative and helpful. The information supplied answered a lot of questions I have about my general health but would not give myself the time to go to the doctors to find out. Although only 4 days into my new healthier eating diet, I am keen to keep it up. The roadshow provided me with the push I needed to be healthier."

Roadshows are planned for 2006 in Bournemouth, Sheffield, Teesside, Coventry, London and Milton Keynes.



Offshoring

Abbey carries out some operational activities, such as banking enquiries, in India. Abbey is sensitive to concerns from stakeholders about the hosting of jobs outside of the UK operation. Msource, our contractor in India, has a proven track record in treating employees fairly and with respect.

Commitments for 2006

- New age legislation comes into effect in October 2006 and we will be reviewing our processes to make sure our approach to the employment of older workers is consistent with the new requirements.
- The results of the employee opinion survey will be analysed and we will be taking action to address areas of concern that staff raise and implementing department action plans to enable local teams to take ownership of change.
- We will make greater use of e-learning tools and look at ways to improve interactivity and make sure learning fits in with everyday work. A key focus area will be supporting Partenon and we will develop the training curriculum in response to the changes the new system brings.
- An informal ‘managing pressures’ course will be included as part of the Well-being roadshows to give staff simple, practical measures to manage their everyday work pressures effectively.
- Partnership Shares will be introduced to give employees the opportunity to buy shares in Banco Santander from their pre-tax salary and receive tax relief on contributions.

Employee data

	2005	2004
Total employees*	20,642	24,361
Total women employees	13,102	15,623
Total men employees	7,540	8,738
Total full-time employees	16,884	20,599
Total part-time employees	3,758	3,762
Ethnic minority employees (% of total)	6	7
Employees aged 50+ (% of total)	9	9
Average days absent per employee	7	8
Employee turnover (%)	22	22
Average length of service for all employees (years)	7	7
Total staff grievances (at final stage)	10	7
Training		
Total number of training days	154,276	180,974
Average number of training days per employee	7	7
Average £ invested in training per employee	£527	£805
Health & safety		
Total number of reported accidents	275	319
Total number of accidents reported to enforcement authorities	10	20

* Total number of UK employees, at 31 December 2005, on a full-time equivalent basis.



Abbey

Community



Contributing to communities

Our strategy for 2005 was to encourage the involvement of staff in supporting those communities where Abbey has a significant presence. This was realised through support for staff fundraising, volunteering and donations to local charities made by our seven Community Partnership Groups.

The total value of the support we provided to charities and the voluntary sector in 2005 was £1,778,160 including £1,556,947 in cash donations, mainly through our Charitable Trust. This was a reduction from the previous year, due to the cost challenges faced by Abbey, however the level of support for 2006 has been increased.

Support for the Tsunami and Asia Earthquake appeals was substantial in 2005 and is reflected in the 36% increase in the amount given to the relief of suffering this year, mainly through the staff matched donation scheme. 290 donations were made within our three charitable priorities, which accounts for over 57% of our giving, with £474,000 made to education projects and £150,000 to support financial literacy.

The re-branding exercise gave us the opportunity to distribute out-of-date clothing and stationery items to developing countries and increased the amount of support given through goods and services by 18%.

Our matched donation scheme saw over £569,000 distributed to causes supported via staff fundraising. In January 2006 our promotion of effective staff giving was recognised when Abbey achieved the Payroll Giving Gold Award from HM Government and the Institute of Fundraising for helping more than 10% of our staff to make this regular commitment.

Priority areas

The Abbey Charitable Trust was set up in 1990 and is committed to supporting local communities and disadvantaged people based on the following three priority areas:

- Education and training
- Financial advice
- Cross community regeneration

These priorities were formulated after extensive consultation with a cross section of our stakeholders - charities, employees and customers.

Community data

	2005	2004
What we give (£)		
Cash	1,556,947	2,342,087
Goods & services	75,229	63,908
Management costs	145,914	110,000
Total community contribution	1,778,160	2,515,995
How we gave (£)*		
Central donations	347,016	732,520
Matching staff fundraising	569,004	586,793
Community Partnership Groups	374,288	278,410
Local Branches	17,531	46,239
Who benefited (£)*		
Education	474,359	576,608
Community regeneration	132,216	281,985
Financial advice	150,249	319,382
Disability	35,626	54,329
Employment	250	33,189
Relief of suffering	478,860	351,791
Other causes	36,280	73,818
Number of donations*	1,490	1,658

* Data for Charitable Trust donations only

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.





Community partnership

Our seven Community Partnership Groups (CPG) are based in areas where we have major UK offices and a significant number of employees. They are made up of current and retired staff as well as a representative from a local charity. We have groups in Camden, Belfast, Glasgow, Bradford, Sheffield, Teesside and Milton Keynes. These groups have a key role in appraising local charity requests and in visiting the successful applicants. More importantly they are members of their local communities and therefore have a good understanding of the issues faced by the charities working in their areas.

A system for capturing the impact of our donations has been put in place and is helping us to assess the effectiveness of our grant making. Each year we invite charities that we have supported to give us feedback on our grant giving process and to tell us about the lasting differences that our donations have made.

Throughout 2005 we continued to promote our charitable priorities by attending funding fairs and other events organised by local networks. These events give funders and fundraisers the rare opportunity to have a two-way discussion, hopefully gaining a better understanding of each other's requirements in the process. In 2006 we intend to adopt a more proactive approach to grant making by approaching appropriate charities and helping them to fully understand our priorities and then inviting them to make an application.

Carr Gomm

Carr Gomm supports vulnerable people with mental health needs, learning disabilities or addiction problems. The charity found the inability to manage money was a key issue inhibiting people's development and ability to live independently.

Clients had requested help in understanding how to budget and how to manage their financial commitments. Concerns included opening bank accounts, setting up direct debits, using cash points and being susceptible to fraud. There were also worries about going to banks: not understanding what they would have to do and being too scared to ask for help.

Budgeting and managing money was identified as the main concern and Carr Gomm worked with clients to plan the content of a workshop and create materials. These were designed to be as realistic and colourful as possible and the charity found that these materials were crucial in attracting clients to the workshop.

"The grant from Abbey Charitable Trust has enabled us to support vulnerable and disadvantaged people to have a better understanding of budgeting. By being able to create such attractive and interactive materials and to plan specific workshops we have really been able to support clients to be more aware and have more control of their finances."

Virginia Lawrence, Fundraising Officer.





Age Concern

Age Concern Training has created the 'WorkWise' project to identify, influence and promote work opportunities and options for people aged 50 and over. The project has been informed by many years of experience working with employers, workforce development organisations, the Department of Work and Pensions and older people.

Working with Age Concern St Helens and other local partners the project will help unemployed people aged 50 and over make informed choices about their options which could include improving their employability, full or part time work, developing their personal skills or starting their own business.

The WorkWise pilot project, which has been supported by a £100,000 donation from Abbey, will run in St Helens over a period of one year. This unique initiative will work closely with local employers to create sustainable opportunities for older workers and ensure long-term retention and a good skills match, consequently influencing policy and employee's attitudes. The scheme will coincide with new age discrimination legislation due to become effective in autumn 2006.



St Christopher's Fellowship

St Christopher's Fellowship runs Blackheath Crescent Supported Housing project in Milton Keynes, and support services for disadvantaged young people at risk of homelessness in the town. These schemes help many young people from the area, through equipping them with the support and skills needed to successfully move on to live independent lifestyles.

As part of this provision, St Christopher's Fellowship has established a comprehensive 'LifeSkills' Project, made possible with a £20,000 grant from Abbey, to better equip residents to make the transition into independent living, and engage with further educational opportunities. In 2005, over 40 young people have benefited from the scheme and 17 young people have received intensive support, undertaking writing, art and CV workshops, basic skills work, and receiving help accessing further training opportunities, qualifications and employment. This support is vital to reduce social isolation whilst increasing self-esteem, social skills, and capacity to participate more fully in community life.

Volunteering

Abbey's commitment to volunteering spans over 16 years, with opportunities co-ordinated in our seven key locations. We launched eight new initiatives this year in Camden, Sheffield, Milton Keynes and Belfast bringing 85 new volunteers into the programme. To support staff that volunteer we offer a matched time scheme where we give up to 35 hours a year of paid work time to enable employees to help their favourite causes. In 2005 this ranged from Scout and Girl Guide groups to hospitals, hospices, prisons and schools.

School programmes

We have worked with the charity Young Enterprise for over three years, providing volunteering opportunities for staff in Belfast, Bradford, Sheffield and Milton Keynes. Young Enterprise provides educational programmes which cater for children from 5 to 18 years, and our staff help pupils understand the world of work and the dynamics of running a business.

We also work with primary schools in Camden and Milton Keynes, organising a Number Partners scheme, and employees have been participating each week to improve children's confidence with mental arithmetic. The volunteers go to the school and play a selection of specially designed board games. These games encourage the children to think through problems and find the solution.



In 2005 we introduced a Reading Partners programme in a local primary school in Camden. Every week staff work one-to-one with a child helping them gain confidence in their reading ability. Volunteer Dan McLoughlin summarised his involvement, "It's great fun and a breath of fresh air to step out of the office and into a classroom. It helps you think about your communication skills and the kids keep you on your toes with all their questions. It's great when they tell you they've been waiting all week for you to come in and listen to them read, and as they get better it's nice to think that I've helped them with that".

Our work with schools also involves older pupils, with several mentoring and e-mentoring programmes. These have been created to help students prepare for the world of work, assisting students in preparing CVs and acquiring interview skills.

Fundraising

Abbey staff have always provided tremendous support for both UK and international charities and our aim is to maximise this enthusiasm. Through the matched donation scheme we can increase the amount of money employees raise and provide vital support to many worthwhile causes.

Last year there were 1,200 requests for matched donations, equating to over £569,000. This means that together Abbey and our employees donated over £1million to good causes in 2005.



Major national fundraising initiatives are supported throughout the year including the Marie Curie Cancer Care daffodil appeal, Cancer Research UK and Comic Relief. It is rewarding for staff to know that through their efforts they have contributed to helping charities support people with terminal cancer, research treatments for the disease and help disadvantaged people overseas.

Two of the most popular events supported last year were Macmillan Coffee Morning, with staff raising over £14,000 by hosting coffee events in head office and branch locations, and Children in Need with over £13,500 raised to help children in the UK.



Recognition of staff

To recognise this valuable, and entirely voluntary contribution, the Abbey People Awards highlight staff who dedicate their own time and energy to charities and their local community. The three 2005 winners have given over 30 years of volunteering between them.

Beryl Wooldridge works for Scottish Provident in the Isle of Man and has dedicated the past 12 years to working with the Special Olympics team there. Over the years she has raised around £70,000 for the organisation.



Mark O'Sullivan, an analyst in the Protection & Life Business, based in Glasgow, raised over £5,000 for Maggie's Cancer Care Centre by hiking the Inca Trail along the Andes for seven days.



Stockton Branch Manager Janet Watkins has been volunteering her time to helping charities in the Teesside area through her work with the local Community Partnership Group. Janet's spare time is taken up with reviewing donation requests, deciding on funding and visiting charities to make sure funds go to projects which will make a lasting impact.



Commitments for 2006

In 2006 we will develop a more proactive approach to grant giving through the following means:

- by identifying and talking with appropriate charities and inviting them to apply
- actively involving our branches in identifying suitable local charities that meet our priorities
- increasing the proportion of funds allocated to the seven Community Partnership Groups
- generating further support to organisations that promote financial inclusion.

Our staff activity will be focused on maximising the motivational and team-building benefits of fundraising to help support the best bank to work for strategy. We will be concentrating on a small number of key partnerships with UK charities in order to target our resources and increase involvement across the branch and head office network.

Independent Assurance Statement

Abbey is an active member of the LBG (London Benchmarking Group). The LBG model helps businesses to improve the management, measurement and reporting of their corporate community involvement programmes. It moves beyond charitable donations to include the full range of contributions (in time, in kind and in cash) made to community causes, and assesses the actual results for the community and for the business. (See www.lbg-online.net for more information).

As managers of the Group, we have worked with Abbey to ensure that it understands the LBG model and applies its principles to the measurement of community involvement programmes. Having conducted an assessment, we are satisfied that this has been achieved. Our work has not extended to an independent audit of the data.



The Corporate Citizenship Company
www.corporate-citizenship.co.uk
March 2006



Abbey
Suppliers



Each year we spend around £700 million on buying goods and services from other organisations. This spending is overseen by our Procurement team with our largest contracts supporting our day-to-day operations in the areas of print, paper supply, marketing, facilities management, IT equipment and employment agencies.

In 2005 we reduced our supplier base from 9,858 to 4,813 active 'recognised suppliers' – in order to help the company objective of reducing our cost income ratio – and introduced a new Cost Management & Procurement process to better control our spending. We trialled electronic tendering in the year and expect this form of 'e-procurement' to be used increasingly for certain suppliers going forward.

Working with the group's Global Purchasing division we are now able to harness the buying power of Santander and have recently combined with other markets in the group to arrange advertising and marketing services. We will continue to look at ways to achieve efficiencies of scale and to integrate the group purchasing model through 2006.

Relationship management

Our Procurement policy promotes competition when offering contracts and sets out guidelines to ensure we deal with suppliers in a fair and open way. The key principles state that:

- we aim for the highest ethical standards and expect our suppliers to do the same
- we will only do business with organisations that share our commitment to treating all stakeholders fairly and ethically
- we reserve the right to check the ethical standing of our suppliers

We work to encourage our joint venture and outsourcing partners to also support this policy.

All staff have to follow the Abbey Code of Conduct for purchasing, which details how to manage relationships with prospective and current suppliers. The Code of Conduct is based on the ethical code issued by the Chartered Institute of Purchasing and Supply but amplifies some issues of particular concern to Abbey. It aims to ensure that the company operates to the best industry standards and that staff are protected from obligation to or undue influence by suppliers. The Code of Conduct covers:

- principles to adopt when dealing with suppliers
- declaration of interest
- confidentiality
- business gifts/lunches/trips/visits
- hospitality

Abbey expects all employees to maintain high standards of honesty and good ethics when dealing with suppliers. Employees may not use their authority or position for their own interests and they may not receive gifts of significant value.

Extending influence

Through a new agreement for dealing with redundant computer equipment we are now supporting both environmental and diversity objectives, an example of how Abbey is integrating CSR into business as usual activities.

Commitment for 2006

Our Procurement policy will be updated in early 2006, to reflect the commitment made by Santander to the United Nations Global Compact, and will be issued to our recognised supplier list.



Life Cycle Services Ltd (LCS) processes equipment to enable it to be recycled, refurbished and redeployed, securely disposing of information and communication technology. LCS actively targets employment for disabled people through a strategic alliance with Remploy, a Government owned organisation. Remploy is the leading employer of people with disabilities in the UK, operating from over 80 sites, and LCS currently run six processing facilities within them. Retired PCs, laptops, servers and printers are processed for re-use, re-sale or environmental disposal. Every unit that Abbey processes with LCS will generate employment within Remploy, and ensure we deal with this form of waste in a responsible way.



Abbey

Environment



Environmental management

Abbey is committed to creating strong business growth that isn't achieved at the expense of the environment. This means integrating environmental considerations into our day-to-day business operations. Environmental management forms part of our CSR objectives and confirms our commitment, as a leading financial services provider, to adopt sound, sustainable environmental management practices. As well as managing our direct impacts on the environment, we endeavour to ensure our principles and the spirit of our Environmental policy are adopted by our outsourcing partners and third parties.

Policy

Our Environmental policy relates to the direct impacts of our day-to-day operations and the indirect impacts of our core business. The policy was reviewed at the end of 2005 and will be relaunched in 2006. In future, we will review it annually, to ensure alignment with legal and relevant regulatory requirements and organisational developments. The current policy can be found at www.aboutabbey.com

Strategy

Our environmental management strategy is to reduce our direct impacts and to manage the indirect risks and opportunities. Abbey maintains a commitment to continuous improvement in environmental matters and to meeting reasonable stakeholder expectations of a good corporate citizen. Current key issues for us are improving the energy efficiency of our operations and managing the risks associated with lending and investing, for example liabilities from contaminated land.

Responsibility and co-ordination

An environmental management system (EMS) has been established that clearly defines responsibilities, the fulfilment of which support the policy's implementation. The Safety, Health & Environmental (SH&E) Working Group ensures progress is delivered in line with these responsibilities. Regular participants of these meetings include managers from Services Management, Risk, Occupational Health & Safety and Procurement departments. SH&E Management Group meetings are either held quarterly to update on progress or when key decisions need to be made by senior management.

Measurement and monitoring

Environmental regulations, laws and codes of practice that Abbey is committed to are regarded as the minimum standards of environmental performance. Where practical to do so, we set targets for pro-actively improving environmental management (see page 7 for progress in 2005). This year we set targets through to 2007, focusing on our main environmental impacts, using key performance indicators aligned with Santander.

Communication & training

We recognise that communication is key to successfully managing and improving our corporate environmental management. Employees have been kept up-to-date with key activities through intranet and magazine articles. The introduction of a dedicated 'Environmental Ideas' mailbox has proved popular with employees. Improvement initiatives suggested by staff are evaluated and progressed via the SH&E Working Group. All Abbey Facilities Managers received comprehensive training on the new EMS and the complementary Health & Safety Management System during 2005.

Buying goods and services

A new programme commenced in the last quarter of the year to ensure more active management of the environmental aspects of our contracts. We will complete this programme in 2006, informing our recognised and prospective suppliers of our expectations. In addition, we will undertake a more detailed assessment of where there are risks of high environmental impacts and will work with our recognised suppliers to raise awareness and performance in this area.

Meeting the law

We received no environmental prosecutions during the year. We did experience an unfortunate oil leak at a head office site in March. The Environment Agency and Local Authority were satisfied that our efficient response demonstrated appropriate procedures were in place to deal with it. We take this matter very seriously. A thorough review of all oil storage facilities across our sites has highlighted where further improvements may be made and work is underway to address these.

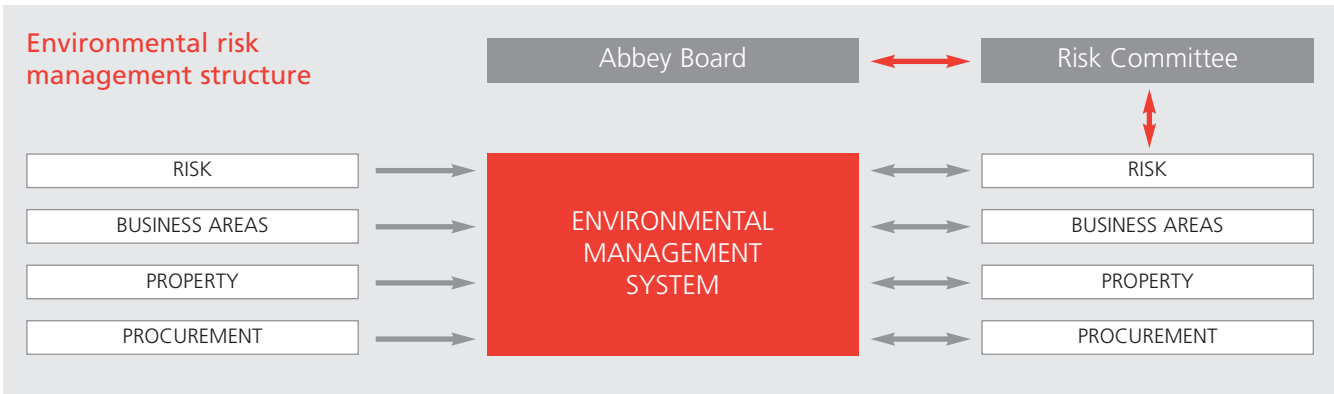
Changes to our operations during 2005 enabled us to reduce our packaging waste by more than 50%. As a result of this, we are no longer required to report under the Producer Responsibility Obligations for packaging waste.



Environmental Management System

During 2005 we have been embedding the EMS we introduced towards the end of 2004. The EMS follows the principles of the international environmental management standard ISO 14001 and has been up-dated to reflect changes to our operations and relevant legislation. We will continue to take into account the recommendations of emerging industry initiatives and benchmarks, independent management reviews and feedback we receive from our stakeholders.

2005 has seen great strides forward in embedding our Environmental policy and procedures have been refined to reflect this. A specific intranet site allows all Abbey employees to access and share related documents, details of environmental events, such as training sessions, and contact information, to ensure everyone has the opportunity to see what is expected and how they can contribute.



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 head office locations, for example our use of energy and other resources such as paper. This is reflected in the challenging targets we have set during 2005, enabling us to demonstrate meaningful improvement in our areas of biggest impact.

Waste

During 2005 we achieved a 72% recycling rate, far exceeding our 60% target. We will drive forward the 'reduce, re-use, recycle' message across the company during 2006. Initiatives include extending a highly successful "no desk bins" site trial to other head office locations and standardising recycling facilities.

Water

The 2004 trend of increased water usage was reversed in 2005. Despite a marginal increase in consumption in the branch network, which accounts for 29% of Abbey's total usage, improvements in housekeeping resulted in an overall reduction in consumption of 5%.

Business-related travel

We provide interest-free season ticket loans for employees to encourage use of public transport. Company-wide information is collected on business travel by rail, air and road. This gives us a clear picture of travel patterns and associated emissions, helping to identify where we could reduce our environmental impacts. For example, we achieved a reduction of three quarters in long-haul air travel and almost a 15% reduction in short-haul air travel in 2005. A reduction in the number of staff employed by Abbey coupled with the consolidation of some head office buildings contributed to decrease the amount of business travel by car and train.

Abbey operates DriverChoice, a company car scheme for eligible employees. In 2005 we restricted the selection of cars available, insisting staff use smaller engine cars - in insurance group 12 or lower - that are more energy efficient. 406 employees currently take advantage of this scheme.



Use of teleconferencing facilities increased almost 20% between the last quarters of 2004 and 2005. This has remained an important tool for staff, reducing the number of journeys that would otherwise have been needed. The reduction in the number of videoconferencing facilities follows the closure of some buildings and removing facilities that were not used.



Energy

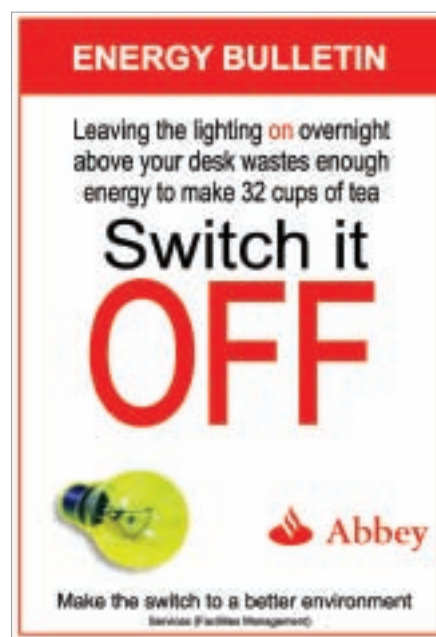
We experienced an upturn in energy use during the year; consumption rose almost 4% overall. While the branch network experienced a marginal increase, most of the increase in energy use was from three large head office buildings. Peaks in some buildings are attributable to the larger numbers of staff and additional IT equipment now operating from those locations.

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

An Energy Action Team was established in 2005 to identify and drive forward energy reduction throughout Abbey. The team is spearheading a range of technical solutions and business initiatives, supported by facilities management contractors and energy champions in Head Offices. An Abbey employee within each branch will champion energy management as part of a "Switch it Off" campaign. Energy reduction measures will remain at the forefront of our environmental improvement activities during 2006.

Emissions

The use of electricity from combined heat and power (CHP) reduced in 2005 following a change of supplier. We put new arrangements in place in November 2005 that should see CHP use increase to over 25% in 2006. There was a decrease of almost 1% in total CO₂ emissions this year. Our benchmark measure of performance was less favourable, with emissions per full-time equivalent member of staff rising from 3.08 to 3.67 tonnes each per year.



Switch it Off

We have been liaising with The Carbon Trust to enhance our in-house energy management capabilities. Facilities Managers received comprehensive training enabling them to identify areas for improvement and to cascade good practice to colleagues across the branch network. An energy awareness campaign is planned for 2006 featuring eye-catching posters in head office locations, supported by articles on the intranet and in the staff magazine.

Waste, water, travel and energy data

	2005	2004	2003
Waste recycled (Tonnes)			
Paper	3,449	2,012	5,059
Water (m³)	247,902	260,865	192,699
Business Travel (km)			
Air travel - short haul UK & Europe	11,679,899	13,628,018	10,694,586
Air travel - long haul	2,201,036	8,271,973	2,454,339
Car	25,931,523	31,140,194	31,184,190
Rail	9,597,728	10,920,642	9,000,948
Video-conference facilities (number)	34	42	50
Energy			
Electricity (MWh)	158,505	154,381	155,470
Gas (MWh)	38,875	37,642	45,421
from renewable sources (%)	10	10.70	9.60
Combined Heat and Power supply (%)	8.1	10.83	1.60
Total energy use from buildings (MWh)	197,380	192,023	200,891

Carbon dioxide emissions

	2005	2004	2003
CO₂ from energy use (Tonnes)			
CO ₂ released	67,082	64,691	67,204
CO₂ from business travel (Tonnes)			
Air travel - short haul UK & Europe	1,752	2,453	1,925
Air travel - long haul	242	910	270
Car	4,927	6,228	6,237
Rail	384	655	540
CO ₂ released	7,305	10,246	8,972
Total CO ₂ released	74,387	74,937	76,176
Total CO ₂ released per FTE	3.67	3.08	3.61

- As with utilities data reported in previous years, the 2005 data is based on supplier billing received for Abbey properties, with adjustments to account for billing reconciliations for previous October-December estimates. 16% of branches do not report electricity use directly as it is included in the rent or service charge for leased premises. Water usage is not recorded for a third of premises, as that is included in the rent or service charge.
- General waste data (e.g. kitchen waste, etc.) is not available for branches, as this is collected by local arrangements.
- 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 (2005).

Indirect impacts

Fund management

The activities of the Abbey National Asset Management team were outsourced during 2004. Although the accountability for ensuring the risk management processes are effective still remains 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. There is no requirement for these fund managers to screen for social, ethical or environmental factors. However, Abbey does consider these factors more generally if these could harm a company financially.

Lending and investment

During 2005 the Risk department has continued to work closely with individual business units to ensure adequate processes are in place for controlling environmental risks in each area.

In the SIPP (Self Invested Personal Pensions) division of James Hay, one of our pensions companies, a comprehensive environmental database is now in place for the existing portfolio of properties. A risk profile is recorded for all new purchases of commercial properties held there. In 2005 an inspection programme, looking at properties previously classified as high risk, was completed successfully. To ensure compliance with current legislation and Abbey Risk policy, James Hay's Environmental Risk Management policy for property acquisitions is subject to regular review.

Climate-related risks

The potential effects of climate change featured prominently in politics and the media during 2005. We recognise that the environmental impacts of climate change remain a greater risk to our medium- to long-term profitability. Abbey remains potentially exposed to greater damages from, for example, flooding and subsidence affecting our business premises, buildings we take mortgages on, and buildings we own as investments, as well as the costs of greenhouse gases released.

We contribute directly to climate change through the energy we use in our day-to-day business activities and travel. The UK Climate Change Levy amounts to almost 10% of our energy spend. 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 have no plans to engage in the emissions trading market at present.

Climate Change Working Group

We have signed up to the United Nations Environment Programme Finance initiative and have remained an active member of the Climate Change Working Group during 2005. Building on the work done in previous years, activities of this group during 2005 included the production of a briefing note for Chief

Executives on the future of climate change policy from the financial services sector perspective. It is available at www.unepfi.org



Commitments for 2006

We have set challenging targets for environmental improvement and will focus on the areas of greatest impact. Some key areas of focus for the coming year will be to:

- Re-launch our Environmental policy in 2006 and review annually
- Reduce the volume of unnecessary paper coming into the company by prioritising electronic communications
- Standardise recycling facilities available at our buildings
- Extend the centralised bins model to the remaining head office locations, enabling waste streams to be segregated further
- Undertake a company-wide employee awareness campaign on recycling and energy management
- Assess potential environmental impacts of new products and services we use via environmental questionnaires
- Progress towards our 2010 target of eliminating Hydrochlorofluorocarbons (HCFCs) from air conditioning systems in Abbey buildings
- Monitor the climate-change agenda and related risks and opportunities
- Maintain the EMS and continue to improve the quality of information on and analysis of our performance



INDEPENDENT VERIFICATION STATEMENT

SGS United Kingdom Ltd's report on the environmental activities included in Abbey National plc's 2005 Corporate Social Responsibility Report:

Nature and scope of the verification

SGS United Kingdom Ltd was commissioned by Abbey National plc ("Abbey") to conduct an independent verification of the Abbey 2005 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 Environment section of this report on pages 28 to 33. No other sections of the report were included in this verification process.

The information in the Corporate Social Responsibility Report of Abbey 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 Environment 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 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 EMAS Verifiers 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's environmental activities in 2005.

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, Systems and Services Certification
March 2006

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Member of the SGS Group (Société Générale de Surveillance)

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CSR Indicators – GRI contents table

KEY	
NA	Not applicable: the indicator is not applicable to Abbey's operational activity
NR	Not reported: the indicator is not currently disclosed in Abbey's CSR Report, predominantly due to space restrictions.
ARA	Annual Report and Accounts: the indicator information is disclosed in the Abbey Annual Report and Accounts

Economic performance indicators

GRI Indicator		CSR Report page
EC-1	Net income	4
EC-2	Geographic breakdown of markets	3
EC-3	Cost of all goods, materials and services	27
EC-4	Contracts paid according to agreed terms	NR
EC-5	Total payroll and benefits	4
EC-6	Distributions to providers of capital	NA
EC-7	Retained earnings	4
EC-8	Total sum of taxes	4
EC-9	Subsidies received	NA
EC-10	Community donations	21
EC-11	Supplier breakdown	27
EC-12	Total spent on non-core business infrastructure	NR
EC-13	Indirect economic impacts	NR

Social performance indicators: employment practices

GRI Indicator		CSR Report page
LA-1	Breakdown of workforce	19
LA-2	Net employment creation and average turnover	19
LA-3	Independent trade union representation	NR
LA-4	Policy and procedures on organisational change	16
LA-5	Practices on recording accidents	18
LA-6	Formal joint health and safety committees	NR
LA-7	Injury and absentee rates	19
LA-8	Description of policies or programs on HIV/AIDS	NA
LA-9	Average hours of training	19
LA-10	Equal opportunity policies and programs	16
LA-11	Senior management and corporate governance bodies	ARA
LA-12	Employee benefits	15
LA-13	Representation of workers in decision-making	16
LA-14	Compliance with the ILO Guidelines for Occupational Health Management Systems	NR
LA-15	Agreements with trade unions covering health and safety	16
LA-16	Programs to support and manage career endings	NR
LA-17	Policies and programs for skills management	17

Social performance indicators: human rights

GRI Indicator	CSR Report page
HR-1 Human rights policies and management	NR
HR-2 Human rights in investment and procurement	33,27
HR-3 Human rights performance within the supply chain	NR
HR-4 Global policy for preventing discrimination	NA
HR-5 Freedom of association policy	16
HR-6 Description of policy excluding child labor	NA
HR-7 Description of policy to prevent forced / compulsory labor	NA
HR-8 Employee training on human rights	NR
HR-9 Description of appeal practices	NR
HR-10 Description of employee grievance system	NR
HR-11 Human rights training for security personnel	NA
HR-12 Description of policies to address needs of indigenous people	NA
HR-13 Community grievance mechanisms	NR
HR-14 Share of operating revenues redistributed to local communities	21

Social performance indicators: society

GRI Indicator	CSR Report page
SO-1 Managing impacts on communities	NR
SO-2 Systems for addressing bribery and corruption	NR
SO-3 Managing political lobbying and contributions	ARA
SO-4 Awards for social, ethical and environmental performance	16
SO-5 Payments to political parties	ARA
SO-6 Court decisions regarding anti-trust and monopoly regulations	ARA
SO-7 Systems for preventing anti-competitive behavior	NA

Social performance indicators: product responsibility

GRI Indicator	CSR Report page
PR-1 Customer health and safety	NR
PR-2 Product information and labeling	10-11
PR-3 Consumer privacy	NR
PR-4 Non-compliance with regulations on customer health and safety	NR
PR-5 Number of complaints upheld by official bodies regarding health and safety of products and services	NR
PR-6 Voluntary code compliance, product labels or awards with respect to social and/or environmental responsibility	NR
PR-7 Non-compliance with regulations concerning product information and labeling	NR
PR-8 Mechanisms related to customer satisfaction	9-13
PR-9 Adherence to standards and voluntary codes related to advertising	NR
PR-10 Number and types of breaches of advertising and marketing regulations	NR
PR-11 Number of substantiated complaints regarding breaches of consumer privacy	NR



Environmental performance indicators

GRI Indicator		CSR Report page
EN-1	Total materials use other than water, by type	32
EN-2	Materials used that are wastes	32
EN-3	Direct energy use segmented by primary source	32
EN-4	Indirect energy use	NA
EN-5	Total water use	32
EN-6	Land owned, leased or managed in biodiversity-rich habitats	NA
EN-7	Impacts on biodiversity associated with products and services	NR
EN-8	Greenhouse gas emissions	32
EN-9	Use of ozone-depleting substances	32
EN-10	NOx, SOx, and other significant air emissions by type	NR
EN-11	Total amount of waste by type and destination	32
EN-12	Significant discharges to water, by type	NA
EN-13	Significant spills of chemicals, oils, and fuels	NA
EN-14	Significant environmental impacts of products and services	NA
EN-15	% of the weight of products sold that is reclaimable	NA
EN-16	Non-compliance with regulations associated with environmental issues	29
EN-17	Initiatives to use renewable energy and increase energy efficiency	31
EN-18	Energy consumption footprint	NA
EN-19	Indirect energy use and implications	32
EN-20	Water sources and related ecosystems/habitats significantly affected by use of water	NA
EN-21	Withdrawals of ground and surface water	NA
EN-22	Total recycling and reuse of water	NR
EN-23	Total amount of land owned, leased or managed for production activities or extractive use	NA
EN-24	Impermeable surface as a % of land purchased or leased	NA
EN-25	Impacts of activities and operations on protected areas	NA
EN-26	Changes to natural habitats resulting from activities	NA
EN-27	Programs for protecting native ecosystems	NR
EN-28	Number of IUCN Red List species with habitats in areas affected by operations	NA
EN-29	Business units operating in or around protected or sensitive areas	NA
EN-30	Indirect greenhouse gas emissions	32
EN-31	Waste deemed "hazardous" under the terms of Basel Convention Annexes I, II, III, and VIII	NA
EN-32	Water sources and related ecosystems/habitats significantly affected by discharges of water and runoff	NA
EN-33	Performance of suppliers relative to environmental programs	29
EN-34	Significant environmental impacts of transportation used for logistical purposes	NA
EN-35	Total environmental expenditures	NR

Contact details

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