



## CORPORATE SOCIAL RESPONSIBILITY REPORT 2006



Abbey

PART OF THE SANTANDER GROUP

*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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This is Abbey National plc's seventh annual CSR Report. It covers activities relating to Abbey's operations in the UK for the period January to December 2006 and takes into account developments at the beginning of 2007 where they have a bearing on the content of the report.

# CHAIRMAN'S STATEMENT

*Abbey made strong progress in 2006 as we increased revenue growth and continued to reduce costs across the business. We are on track to meet our 3-year plan targets and to transform Abbey into a full-service retail bank.*

Our Corporate Social Responsibility (CSR) activities also progressed well in the year and our approach was strengthened by the development of a long-term strategy for the programme. We have outlined a vision for CSR and agreed priority actions across the five CSR stakeholder areas.

We recognise the importance of building good relationships with stakeholders – customers and employees, communities and business partners. As we work to achieve our business goals, the CSR programme provides an ethical perspective that ensures we take account of the impact our day-to-day business has on the world around us.

Through the course of 2006 we continued to address some of the most important social issues facing the financial services sector.

## Customers

Financial exclusion: we are committed to improving and expanding access to financial services and we established a Financial Inclusion and Capability Group to further develop our work in this area. In 2006, for the first time, we supported a number of projects that will help to expand access to affordable credit.

Customer service: over 200,000 customers were surveyed during the year to gain feedback in order to help improve customer satisfaction. We implemented a service quality improvement programme across all customer-facing areas of the bank with each business area setting service improvement priorities and action plans.

## Employees

Diversity: the new legislation regarding age discrimination saw Abbey set up a steering group to review our HR processes, policies and practices to remove age bias. The project team worked closely with the external campaign group The Employers Forum on Age and the Abbey National Group Union.

Development: we launched a new 'Your Development at Abbey' curriculum consisting of seven comprehensive programmes and during the year spent over £8million on developing our people.

Well being: we joined the Business in the Community 'Business Action on Health' programme in 2006 and have been working with practitioners from a range of industries to develop a fully integrated well being strategy.

## Communities

Donations: we provided over £2million in cash donations through our Charitable Trust, helping hundreds of charities throughout the UK.

Fundraising: our employees were involved in organising events for many of the UK's leading charities including Macmillan Cancer Relief, Children in Need, Cancer Research UK and Marie Curie Cancer Care raising over £560,000.

## Suppliers

The Abbey Procurement Policy was updated to align it with Grupo Santander's principles, and it now includes a United Nations Global Compact reference.

## Environment

Energy: 2006 saw a decrease in gas and electricity consumption of 5.4% across the property portfolio as the impacts of our investment in new technology and refurbishments helped to improve our management of energy.

Emissions: use of electricity from Combined Heat & Power sources (CHP) increased to over 25% and there was a decrease in overall CO<sub>2</sub> emissions of more than 4% in 2006.

2007 will see the implementation of the first year of our 3-year CSR plan. This will bring an increase in resources and attention dedicated to the area in order to pave the way for a greater level of involvement in social and environmental issues in the future. We are committed to being a responsible company, and as our business becomes more successful, sharing that success with the society on which we depend.



Lord Burns  
Chairman

# COMPANY PROFILE



*Abbey is the UK's second largest residential mortgage lender and is one of the leading providers of banking services, savings, protection and self-invested personal pensions in the country. Our range of well-known brands provides services to around 17 million customers.*



Retail products	Channels	Major offices
Bank accounts Mortgages Savings Investments and Pensions General insurance Loans and Credit cards Life protection	Branches Phone Internet Cash machines Independent financial advisers	London Milton Keynes Bradford Glasgow Belfast Sheffield

## ORGANISATIONAL STRUCTURE

### Business divisions

- Retail Banking – offers residential mortgages, savings, banking and other personal financial products, managed across three channels: direct, intermediary and e-commerce.
- Wealth Management – comprises primarily the self-invested pension plan business and WRAP service of James Hay, together with the specialist banking services Cater Allen and Abbey International.
- Financial Markets – provides treasury services, including managing funding, liquidity and capital; providing risk management services; as well as manufacturing retail structured products.

### Support divisions

- Retail Products and Marketing – responsible for integrating and gaining the maximum value from Abbey's products, marketing and brand communications.
- Human Resources – responsible for all human resources strategy and employee support.

- Manufacturing – responsible for all information technology and operations activity (including customer service centres).
- Risk – responsible for ensuring an appropriate risk policy and control framework.
- Internal Audit – responsible for supervising the compliance, effectiveness and efficiency of internal control systems.

There are four further units – Strategy and Planning; Legal, Secretariat and Compliance; Communications; and Finance.

### Corporate governance

Abbey is a wholly owned subsidiary of Banco Santander Central Hispano, S.A. The Abbey Board comprises a chairman, three executive directors including the chief executive, and seven non-executive directors. The roles of chairman and chief executive are separated and clearly defined.

The Board currently has two standing committees: the Audit and Risk Committee and the Remuneration Committee.

# BUSINESS UPDATE

*Abbey's transformation to a full-service retail bank made further progress during the year. We introduced a premium banking service, increased our business banking operation and, in the second half of the year, we launched a new buy-to-let mortgage range.*

We increased revenue growth in 2006 and continued to reduce costs across the business, with cumulative cost savings of almost £300m – one year ahead of target. Abbey is well on track to meet its 3-year plan financial targets.

Our business performance has also been strong: we have more than doubled our market share of net mortgage lending compared to 2005, our share of bank account openings has also increased and bank account liability balances were 10% higher than 2005. Across all product lines, the focus has been on balancing growth with good margin management whilst also maintaining a prudent approach to credit. We continued to make operational improvements across the business in terms of productivity and made good progress in the implementation of Partenon, Grupo Santander's core banking platform.

We completed the sale of our life insurance businesses to Resolution plc allowing a greater focus on our core retail banking operations.

## Key financial highlights

- Statutory profit on continuing operations before tax of £428m (2005: £362m), with a profit after tax of £313m (2005: £254m).
- Reduction in the Personal Financial Services trading cost: income ratio to 55.5% (2005: 61.3%).

We have made progress in 2006 in a highly competitive market. With the dedication of our people, the competitiveness of our products and the loyalty of our customers, together with the continuing support of Santander, we are confident that we will continue to progress throughout 2007, and achieve our goals for the year.

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

Economic data	2006	2005*
<b>Operating highlights (£m)</b>		
Pre-tax profits on continuing operations	428	362
Net attributable income	68	420
<b>Balance sheet (£m)</b>		
Reserves	3,116	3,110
Equity Tier 1	5,040	5,614
Total assets	191,805	207,034
Total customer funds	66,519	65,889
<b>Management ratios (%)</b>		
PFS trading cost: income ratio	55.5	61.3
Tier 1 ratio	8.0	10.0
<b>Key data</b>		
Number of customers (million)	16.9	16.6
Number of employees (full-time equivalent)	16,395	20,642
Number of branches	712	713
<b>Social contribution (£m)</b>		
Salaries and other staff costs	766	856
Taxes on continuing operations	115	108
Community contribution	2.8	1.8

\* 2005 numbers restated where necessary to agree to 2006 comparatives.

# OPERATIONAL UPDATE



*In January 2007, Abbey held an employee convention where we presented the five key themes to our future success:*



## Channel management

In Retail Banking we increased the focus on channel management by creating separate direct and intermediary divisions. The focus for both channels has been to increase sales productivity and we made good progress during 2006. Within the branch network, for example, mortgage advisors increased productivity by 44%. At the same time the intermediary sales force improved the number of mortgage applications per sales consultant by 19%.

## Business development

Abbey's share in net mortgage lending more than doubled in 2006 to 7%. Sales of flexible mortgages were over 60% higher than 2005 and, in the latter part of 2006, the first-time buyer proposition was improved and a new buy-to-let range was launched.

We are growing in areas where we are under-represented in the personal financial services market such as current accounts and investments. Bank account openings were boosted by a high interest current account offer as well as changes to the branch incentive schemes, and account openings were up by 17%.

In the Wealth Management division, James Hay rebranded its self-invested personal pension ('SIPP') schemes (retirement and portfolio management products) and WRAP IT platform, resulting in improved sales performance.

Significant progress has been made in the establishment of a new credit card business. We have leveraged the global

experience and expertise of Santander in the development of a credit card product to be offered by Abbey and expect to launch it during 2007.

## Partenon implementation

Partenon is the proprietary Santander banking system, based on a single customer database and a single product catalogue. During 2006, several of the commercial tools were rolled out, including:

- Corporate intranet: providing access to Santander information and new Partenon functionality.
- Single customer database: providing a single view of the customer
- Commercial and customer portals: providing an integrated vision of the customer (products and relationships) and improving sales productivity
- Branch, savings and channel Management Information Systems: giving improved information on performance by channel / product

Selling and servicing portals (simplifying and improving sales processes) have been rolled out in Q1 2007.

In 2007, the focus will be on the continued rollout of the front-end and back-end applications, including credit cards, mortgages, unsecured personal loans, banking, savings and payments. This will enable front-line employees to better meet customer needs and build customer relationships.

# TAKING RESPONSIBILITY

*Corporate social responsibility 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.*

## Management framework

The Director, Strategy and Planning has executive-level responsibility for CSR at Abbey. The management framework consists of a senior-level CSR Committee, supported by a CSR Working Group. Each comprises representatives from across the business for the five CSR areas of customers, employees, environment, suppliers and communities. The Abbey Board is provided with an annual update on CSR activities.

## CSR 3-year plan

Following the CSR review in 2005, a series of initiatives were co-ordinated during 2006 to inform the development of a long-term approach for Abbey:

- Research was carried out with key areas of the business to identify where good practice activity was in place and where gaps were apparent. This has resulted in prioritisation of seven elements which will form the basis of the plan going forward (see diagram opposite).
- A roadmap was developed to ensure Abbey's CSR commitments will be managed in tandem with Abbey's 3-year plan. This will see the CSR plan run at a pace that ensures the achievements we want to make can be resourced effectively. As Abbey becomes more successful, greater investment in CSR activities can be made.
- Identification of three themes to provide focus for the CSR programme: financial health, education support and housing.

These elements have been brought together into the CSR 3-year plan which was agreed by the Abbey Executive Committee at the end of 2006.

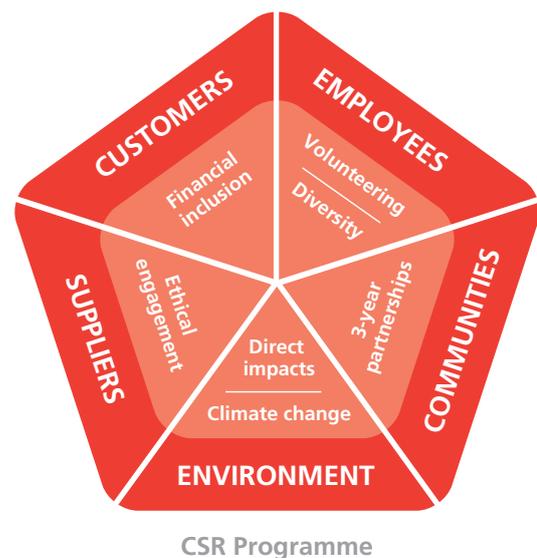
The first year of implementation will see Abbey increasing communications around the programme. An internal communications campaign will run through the course of 2007 to drive employee awareness and understanding of Abbey's approach to CSR. This is intended to encourage take up and support – employee engagement is key to the success of many of the planned CSR activities.

In addition, we will begin to promote our good practice externally to ensure customers, and wider stakeholders, are aware of the work that Abbey is already doing in this area and the importance we place on being a responsible company.

## CSR model

The Abbey CSR model is based on five stakeholder areas: customers, employees, communities, suppliers and environment.

The seven priority areas agreed as part of the 3-year plan are now incorporated into the model.





### CSR policy

Abbey's CSR policy was reviewed and updated in the year. It sets out the commitments we make to our stakeholders to do business in an ethical way.

### Reporting model

The Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (Version 3.0) were referenced in the production of the 2006 Abbey CSR Report. According to the GRI Application Level criteria this report achieves level C+. We believe this level is appropriate given the type of business we are in and our reporting approach which aims to provide disclosure on CSR issues within a concise format. We have cross-referenced the GRI indicators that are relevant to Abbey at the back of the report (p.36).

The CSR Working Group has responsibility for defining the content for the report and each representative prepares material for the stakeholder group they represent – customers, employees, communities, environment and suppliers. Additional information is gathered to ensure our wider



stakeholders – regulators, government, the media and consumer groups – and their views are taken into account. This ensures that we cover issues that not only do we believe are important to our business but also those that are deemed as material by society as a whole.

The report is made available to all our stakeholders via the internet - [www.aboutabbey.com](http://www.aboutabbey.com) > csr – and is available in a summary format for those who are looking for less detailed information.

### Industry partnership

We are a member of the FORGE group, a consortium of the largest UK banks and insurers that looks to share expertise and develop advice and guidance for the financial sector on CSR issues. In 2006 the group met to discuss potential new project areas for attention and agreement was reached on the subject matter for 2007: climate change (p.33).

### Universities programme

Over the last ten years, the Santander Universities programme has been the keystone of the group's CSR programme. Since it was established in 1996, Santander has signed co-operation agreements with 540 universities in Spain, Latin America and Portugal, representing a community of eight million university students. The agreements establish various spheres of collaboration: teaching and research, international cooperation, transfer of knowledge and technology, among others.

During 2006 Abbey worked with the universities team in Spain to review the opportunities for extending the scheme to



the UK. We signed the first agreements with Cass Business School and University College London (pictured above) in early 2007 and expect to establish further relationships with universities through the course of the year.

Santander and Abbey share a single objective with the university sector: to contribute towards the development and prosperity of society. We anticipate that the universities programme will become a flagship part of the Abbey CSR programme during the next three years.

# PROGRESS AGAINST 2006 COMMITMENTS

Customers	Commitments	Status	Progress	Page No
	Provide affordable credit funding in order to improve financial inclusion	✓	In 2006, for the first time, Abbey supported five projects that will help to expand access to affordable credit.	15
	Branch refurbishment programme to roll out to 300 further sites	✓	The branch refurbishment plans continued throughout 2006 with an additional 215 branches completed.	–
	New 'saving for retirement' advice to support A-Day pension changes	✓	A dedicated leaflet was produced for customers outlining the changes to the legislation and the impact on pension options.	–

Employees	Commitments	Status	Progress	Page No
	Review HR policies and processes of employment	✓	All HR processes, policies and practices reviewed to remove any age bias. Age awareness communication campaign delivered across the business. Workshops delivered to brief HR staff on the impact of the new age legislation.	19
	Address concerns raised through the 2005 employee opinion survey	✓	Results of the survey made available at all levels of the organisation and used to drive the development of actions.	20
	Make greater use of e-learning tools to improve access to training	✓	We launched a new approach to learning in 2006 - 'Your Development at Abbey' combining face-to-face and online courses. Over 90% of employees completed a form of e-learning in 2006.	20
	Introduce managing pressure course to well being programme	✓	We updated and expanded our well being intranet site so that everyone can access a range of information about their general health and well being.	23
	Introduce Partnership Shares for employees	✓	In January 2006 we introduced a Partnership Shares scheme. Employees can invest up to a maximum of £1,500 of pre-tax salary per tax year.	–

Communities	Commitments	Status	Progress	Page No
	Develop a more proactive approach to grant-making	✓	We have become more proactive in our grant making by making the first approach to appropriate charities, explaining our priorities and inviting them to make an informed application.	25
	Actively involving our branches in identifying suitable local charities	✗	We did not reach this goal as giving through branches only rose marginally in 2006. To address this in 2007 we will be making 150 donations through the branches, worth a total of £375,000, to celebrate Santander's 150th anniversary.	27
	Increasing the proportion of funds allocated to the seven Community Partnership Groups.	✓	This increased by 72% to £644,250	25
	Providing further support to organisations that promote financial inclusion.	✓	Our support to charities involved in addressing financial exclusion increased by 160% to £390,054. We also made funding available to organisations working on affordable credit.	25
	Focus staff activity on fundraising support	✓	For the first time we co-ordinated a month-long campaign that involved both head office and branch staff in fundraising for Marie Curie Cancer Care which raised almost £32,000.	27



Suppliers	Commitments	Status	Progress	Page No
	Update the procurement policy to include the UN Global Compact	✓	The policy was updated and sent to all recognised suppliers in 2006. It is now aligned with the group's principles and references the UN Global Compact.	29

Environment	Commitments	Status	Progress	Page No
	Re-launch our environment policy	~	The environmental policy was reviewed and updated during 2006. It will be re-launched in 2007 along with the environmental management system.	31
	Reduce the volume of unnecessary paper by prioritising e-comms	~	We didn't take direct action in this area during the year but will include it as part of our communications plan in 2007.	-
	Standardise recycling facilities and extend centralised bins to all head office locations	X	This was not achieved in 2006, however we intend to address this as part of our review of waste management in the coming year.	-
	Undertake an employee awareness campaign on energy	✓	We ran a communications campaign in the branch network and offices, including a "Switch It Off" campaign promoted through posters. We will continue this activity in 2007 through a similar campaign in selected head office buildings.	31
	Assess impacts of new products and services we use	✓	We sent an environmental questionnaire to a proportion of the supplier base, representing almost half of our most significant contracts in terms of financial value.	29
	Progress towards our 2010 target of eliminating HCFCs from air conditioning units	✓	The programme of replacing air conditioning units in the branch network has continued. The first phase for Abbey's main data centre and the office in Glasgow were also completed. Replacement of air conditioning units in other head office sites will continue in 2007.	32
	Maintain the EMS and continue to improve the quality of information on our performance	~	With the change in our business a new environmental management system will be developed during 2007.	31

KEY	
✓	Achieved
~	In progress / partially achieved
X	Not achieved



# CUSTOMERS



*Customers are at the heart of Abbey's business. We recognise the impact and responsibilities we have as a major financial services provider in the UK and ensure we support initiatives that widen access to financial services.*

With this in mind we devote considerable time and money to find out customers' views, conducting research with hundreds of thousands of customers to understand what they want from financial products and services, and how Abbey can meet those needs.

We believe it is critical that we provide a good service to our customers, encouraging them to stay with us and deepen their relationship by taking out additional products.

## Understanding customers

Towards the end of 2006, we undertook a large-scale project to better understand customers and their lifestyles, and more specifically their financial services needs. This qualitative study had the objective of providing a deeper understanding so we can create more value for customers and continue to improve the relationship that we have with them. This consumer research will heavily influence both our products and our communications in 2007.

## Treating customers fairly

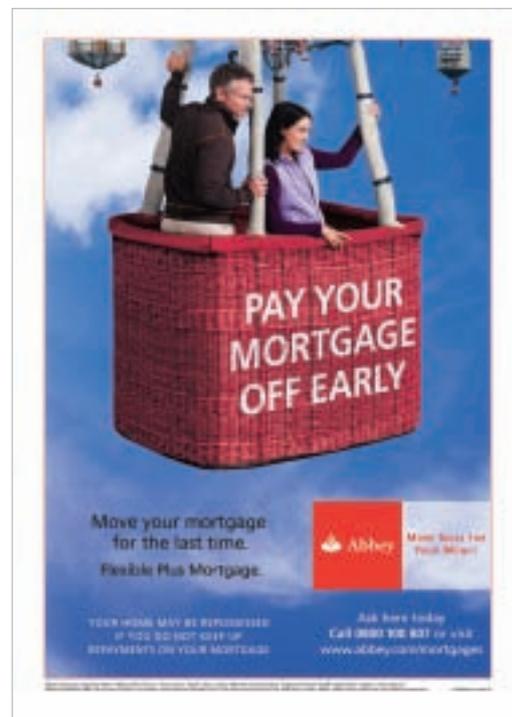
Treating customers fairly (TCF) continues to be a key focus for our regulator the Financial Services Authority (FSA) in its quest to improve 'outcomes' for consumers of financial products, and as part of a move to more principles-based regulation. The TCF principles align with our aim to make Abbey a better bank for our customers, specifically through our efforts to improve service quality and customer communications. During 2006, which was the main implementation phase for TCF at Abbey, progress was centred on incorporating TCF considerations into our policies and procedures, particularly in relation to product development and financial promotions. Efforts are continuing to embed TCF as business as usual throughout Abbey to ensure that the customer is at the heart of how we do business.

## Delivering value

We are committed to improving our products and services in order to provide greater value for customers. This is an essential part of Abbey's long-term strategic positioning in the market, and as we become more efficient as a business we'll look to pass on greater value products and services to our customers.

Early in 2006 Abbey launched a current account that gave over 6% interest to customers switching to Abbey, and a standard current account that paid up to 25 times more interest than many of the similar accounts offered by competitors. We encouraged regular savings with a competitive fixed rate monthly saver product.

In mortgages we launched a Flexible Plus mortgage – which we believe was the best product in the market, at that time, in terms of both the features and the rates. The marketing campaign promoting the product asked people to take the Flexi Challenge. At the end of the year Abbey re-launched the First Time Buyers mortgage range, making it more appealing to this important customer segment. Income multiples were increased enabling Abbey to lend up to 5 times income on mortgages, according to the customer's ability to pay.



## Helping small businesses

Abbey's highly competitive 'Free day-to-day Business Banking' commitment to small businesses continues to be popular. With a generous allowance for free 'paper' transactions and unlimited free electronic transactions (with no time limit or minimum balance requirements) along with a good in-credit interest rate, Abbey customers can focus their energy on growing their business. During 2006 Abbey's market share of small business accounts has grown an additional percentage point to around 5%. Our plans for 2007/2008 will see a number of product and service developments: 6% in-credit offer for customers switching to Abbey, unsecured personal loans for business purposes, and new lending products such as a secured overdraft, credit card and business loan.

## Customer service

Excellence in customer service remains an important area of focus across the Santander group. In 2006 Abbey implemented a service quality improvement programme across all customer-facing areas of the bank. A huge investment in customer feedback was undertaken, with over 200,000 customers being surveyed to identify how satisfied they were with their branch or call centre adviser, and the reasons behind any dissatisfaction. Our intermediary partners were also surveyed to gather their views of Abbey.

As a result of this customer and intermediary feedback, each retail business area has been set three service improvement priorities. Specific actions taken to improve customer satisfaction include the following:

- Implementing "Prime Time" in each branch - identifying the busiest time of the day and ensuring all staff are on the counter or in the banking hall and not taking breaks during that period
- Embedding service measures in all staff performance management and reward schemes
- Visiting the branches which scored lowest in customer satisfaction, to assess the service issues and identify actions needed to improve service
- Identifying service best practice and sharing this with all branches and teams
- Setting up specialist teams in call centres to deal with the more complicated or difficult calls

- Improving the telephony system in offices that deal with intermediaries, and developing an automated system to update them on the progress of mortgage applications

A highly successful part of this programme has been in the Abbey For Intermediaries business area, where a clear focus on service has moved mortgage intermediary satisfaction with Abbey up from being towards the bottom of the competitor set in the first quarter of 2006 to towards the top in November.\*

The service quality programme is continuing into 2007 and beyond, with even more customers being asked for feedback, and the service initiatives are expanding to the processing areas of the bank.

\* Survey run by BDRC research company, based on a sample of around 180 intermediaries per month.

## Social housing lending

Social housing is housing owned and managed by either UK local authorities or not-for-profit organisations, known as Registered Social Landlords (RSLs). Homes are typically available for rent at an affordable price, and efforts are made by the landlords to ensure high standards of building and maintenance and to encourage a sense of community among the tenants.

2006 was a record year for the Abbey Social Housing Finance team, with loan commitments increasing by £1.2 billion and new lending facilities provided for more than 40 RSL customers. Among these were loan facilities of £100m for Sovereign Housing Association and £75m for Twynham Housing Association. The funds will be used to maintain and improve properties and to support the development of new affordable housing.

### Sovereign Housing Group

Sovereign, a customer of Abbey's for over 17 years, is one of the country's major social housing developers. It is the only social landlord working on the housing programmes for both of southwest England's major regeneration areas at Devonport in Plymouth and Barton Hill in Bristol. In the Barton Hill 'New Deal for Communities' area, work is underway on a £50m project to make sustainable improvements to education, health, employment and the environment in an area previously dominated by tower blocks. The first phase of new family houses and public spaces has been completed and residents have been closely involved throughout - influencing design plans, producing a 'good neighbour' charter and helping develop an exciting public arts project to bring a greater sense of place to the area. A Construction Links Co-ordinator is also helping to develop training opportunities in the area and make sure local companies are awarded work through contracts requiring the use of local labour.





## FINANCIAL INCLUSION

Abbey continues to work towards improving and expanding access to financial services. In 2006 we established a Financial Inclusion and Capability Group comprising representatives of all the key business areas and chaired by the Director of Direct Retail Channels. The group is further developing Abbey's work in this area and aims to ensure a co-ordinated approach across the business.

During 2006 we contributed to a Financial Services Authority working group which has developed a programme to promote financial education in the workplace. Over the next four years the goal is that four million UK employees will have access to the FSA programme which includes financial education seminars in the workplace on budgeting, protection, savings and loans.

Abbey keeps up to date with best practice on financial inclusion through representation on the BBA's Financial Inclusion Advisory Panel and through one-to-one meetings, for example, with representatives of the government's Financial Inclusion Taskforce. We are taking action in all three of the government's priority areas:

- Basic banking
- Money advice
- Affordable credit

### Basic banking

Abbey is a major provider of basic bank accounts. Basic accounts are an important first account for many people who have not operated a bank account before or who are not confident in managing their money. They offer many of the same benefits as other current accounts, such as being able to receive and make payments electronically, without the worry of more complex features such as overdrafts. Our total number of basic bank accounts has increased 40% since 2005. In order to ensure that our customer-facing staff understand the importance of basic accounts and provide great service we have introduced incentives for these account openings for the first time. We have also introduced our own internal mystery shopping to ensure service is consistently high quality.

### Money advice

One of Abbey's Charitable Trust priorities is supporting disadvantaged people through financial education and advice that helps them to manage their money. This enables us to fund projects that contribute to improving both financial inclusion and financial capability. In 2006 Abbey increased the proportion of funding spent on this priority, reflecting its importance and enabling us to make more major donations. In total we donated over £390,000 to financial projects in the year.

### Affordable credit

Affordable credit refers to access to relatively small loans at reasonable interest rates from responsible lenders, such as credit unions. These loans, usually of a few hundred pounds, are crucial in helping people on low incomes manage their cash flow without resorting to high-cost alternatives or

unscrupulous lenders. In 2006, for the first time, Abbey supported a number of projects that will help to expand access to affordable credit.

### Outreach loans in Glasgow

Abbey funded the work of community development finance initiative Scotcash which operates in Glasgow and is supported by Glasgow Housing Association and City Council. Our donation of £33,744 will fund a loan management system that will establish and administer Scotcash's loan book and a new purpose-built exhibition trailer that will enable Scotcash to offer loans in communities that are not served by other outreach work.

Glasgow contains many of the most deprived areas in Scotland; an estimated 45,000 Glaswegians use high-cost home credit and thousands more use illegal and unregulated money-lenders. Scotcash intends to provide around £42m in small loans to over 60,000 people in the local community over the next 20 years, contributing significantly to financial inclusion and making total estimated savings of £29m for low-income families.

### Financial awareness programme in Camden

In Camden, Abbey is supporting the provision of a programme of events aimed at tackling financial exclusion. The events will be delivered by Camden Credit Union, Community Housing Group, Services Against Financial Inclusion (SAFE) and YoungBiz. They will target young and adult residents of Camden housing estates, with some tackling general financial awareness and some focusing specifically on 'a safer means of borrowing'.

Camden incorporates some of the most deprived neighbourhoods in England\* and, of the target population for this project, 55% are unemployed, 65% are benefit claimants and 28% requested financial advice and guidance when asked by Community Housing Group\*\*. It is envisaged that Abbey's donation of £22,018 will enable up to 300 residents to attend these workshops and seminars, increasing their financial knowledge and confidence.

### Affordable credit research in Milton Keynes

In Milton Keynes, Abbey is supporting Midsummer Housing and Milton Keynes Citizens Advice Bureau in undertaking a 100% survey of the Conniburrow social housing estate. The survey will examine experiences of, attitudes to and knowledge of financial services, in particular credit products, amongst residents.

As well as being utilised by Midsummer Housing, the findings of the survey, including data on how residents prefer to receive and manage credit and why, will be shared in order to inform the work of other organisations providing financial inclusion services or affordable credit to social housing tenants. Abbey's donation of £29,069 will cover the publication and distribution of the findings as well as the conduct of the survey by qualified CAB advisers.

\* ODPM Indices of Multiple Deprivation 2004  
\*\* CHG resident profiling exercise 2004

### Responsible lending

The key issue for responsible lending remains over-indebtedness. Record levels of unsecured lending have led to an increasing number of applications from customers who are very heavily indebted, as well as rapidly increasing incidences of personal bankruptcy. We have reviewed the way we test customers' ability to repay their loans, the way we validate their personal income, and the way we credit-score applications for large loan amounts in particular, and have implemented improved controls in each case. We continue to be at the forefront of industry moves to share more information for more customers via credit bureaux, and are the only bank to have asked our long-standing customers for consent to share their data where this wasn't given when they opened their account. This will help all lenders manage customer debt responsibly.



Our decision to offer loans to customers at up to 5 x income multiples was taken only after a detailed review of customers' ability to repay these loans, and the introduction of improved, automated controls on the levels of indebtedness that we will tolerate. Given the rapid recent growth in house prices, we are taking further steps to ensure that customers understand the implications of the commitment they make when taking out a mortgage. This is particularly important where the proposed mortgage extends beyond the customer's planned retirement date, or where the customer pays only the interest due on the mortgage and makes separate arrangements to repay the capital advance.

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 have been an active participant in industry forums developing more consistent and effective approaches for managing indebtedness. We also contribute to funding the Consumer Credit Counselling Service and Payplan, organisations that provide professional debt counselling free to consumers.

### Unauthorised overdraft fees

There has been a significant amount of media coverage regarding unauthorised overdraft fees in recent months and the Office of Fair Trading (OFT) recently undertook a fact-finding exercise to understand more about them. At Abbey when a customer attempts to make a payment (for example by card or direct debit) but does not have enough money in their current account to meet that payment, we will often choose to lend the customer the additional money rather than allow the payment to fail.

This service can help customers to ensure, for example, that they do not default on mortgage or utility payments or that they are not refused service in the supermarket. Abbey, like other banks, charges customers a fee when they utilise this service. The OFT believes that fees for this service may be too high and subsequently announced an in-depth study into retail bank pricing. Abbey assisted the OFT with their initial review and we are keen to contribute to a solution which is workable for banks and which retains this valuable service for customers.

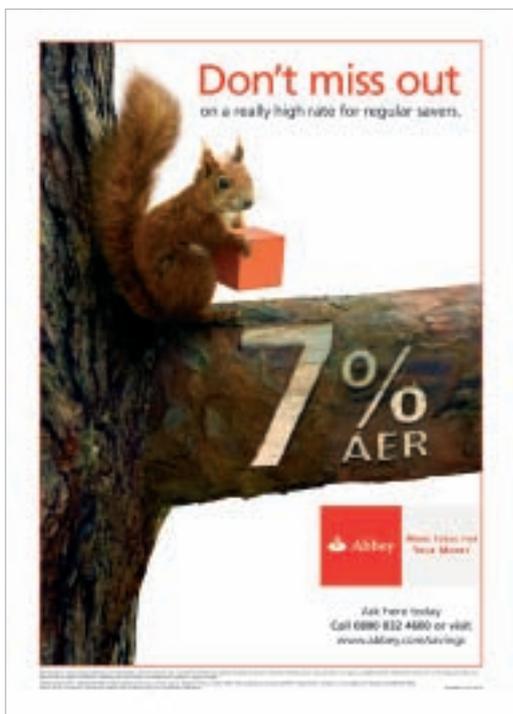


### Accessible services

Abbey is committed to ensuring that, where possible, all our customers can access our branch network. Over 94% of our branches are accessible to customers with disabilities and in the remaining branches 'Access Statements' have been individually formulated that tell our customers about alternative services.

We want customers to be able to communicate with us as easily as possible and we understand some may need a choice in how they read, talk to or hear us. We provide the following services across our customer channels:

- Induction loops – for customers who have hearing difficulties all of our branches have hearing loops fitted at the counters.
- Different formats – if reading standard print is difficult we provide a choice as to how our leaflets are presented. We can provide large print (as recommended by RNIB), Braille, Audio tape and PC disk.
- Auxiliary aids – if customers need practical help seeing our forms etc, we can supply magnifying sheets, clipboards or cheque writing templates.
- Text phone service – we have special phone lines available if customers find it hard to talk or hear our staff using standard phone lines.



### Managing complaints

Abbey's vision for managing complaints is to actively seek and effectively manage feedback. During 2006 we cemented the 'fit for purpose' complaint-handling framework we had implemented in 2005. Throughout the year we received 129,975 visits, calls, letters and e-mails (FSA Reportable).

Due to extensive media attention and the investigation by the Office of Fair Trading, bank charge related complaints increased dramatically during 2006. Extensive work was undertaken to review handling of these complaints and to ensure that these complaints are dealt with consistently and fairly across Abbey.

The Complaints department contains a team which is engaged in identifying trends; examining root causes on all recorded complaints and complaints prevention. They proactively 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. A good example of this was the Fixed Rate Monthly Saver, where the application process was reviewed and updated, resulting in a dramatic fall in complaints.

### Commitments for 2007

In 2007 it is essential Abbey continues to improve its understanding of customers, so that we can build deeper, more sustainable relationships with them. Key areas of focus will therefore be:

- Implementation of learnings from our 'understanding customers' qualitative research, particularly in the areas of product development and communications
- Continued close monitoring of customer service performance and a programme of improvement
- Clear and engaging communications
- Increased activity in the area of financial inclusion and capability.



# EMPLOYEES



*Through the course of the year there has been a focus on improvements to our core HR processes in the areas of talent management, development, resourcing and health & safety. With new employment legislation coming into effect at the end of the year on age discrimination, it was appropriate for Abbey to take a fresh look at a broad range of HR policies.*

## Policy review

In May 2006 Abbey launched a strategic review of a number of contractual employment policies. The key drivers of this review were the need to ensure that our policies were compliant with legislative changes combating age discrimination in the workplace and mirrored best practice where feasible. The changes we implemented also responded to feedback from Abbey's 2005 Employee Opinion Survey in which employees stated that some of our policies could be simpler. In Phase 1, nine contractual policies were reviewed:

- Diversity Policy
- Bullying and Harassment Policy
- Sickness Absence Policy
- Disciplinary Policy
- Capability Policy
- Grievance Policy
- Probation Policy
- Leaving the Company Policy
- Holiday Policy

All the policies were benchmarked against our major competitors, and where appropriate, comply with the ACAS Code of Practice and relevant employment legislation. These re-launched policies clearly communicate what we offer employees as a large employer and also set out our expectations of them in return. Abbey worked in partnership with our recognised trade union - Abbey National Group Union (ANGU) – to develop the policies and agreement was reached on the content through a series of formal consultation meetings.

Phase 2 of the policy review will take place during 2007. The main focus of the project will be the review of Abbey's flexible working policies, particularly in light of the new maternity and paternity rights being introduced by the government early in the year.

## EQUALITY & DIVERSITY

We know that respecting employees as individuals and valuing the unique contribution that each person makes will impact positively on our business. We therefore strive to create an environment responsive to different cultures and groups.

Employing people from diverse backgrounds adds value to the way we do business and Abbey believes in equality of opportunity in all areas of employment. Selection and promotion is based on the relevant aptitudes, abilities and skills to do the job.

Abbey is a member of a number of partnership organisations including:

- Employers Forum on Age
- Opportunity Now
- Race for Opportunity
- Employers Forum on Disability
- Stonewall

These organisations help us to understand the issues surrounding diversity in employment and we are proud to be working with them.

## Age project

On 1st October 2006, the Employment Equality (Age) Regulations made it illegal to discriminate against employees on the grounds of age. The new age law is the most significant piece of employment legislation introduced in the UK for a number of years and Abbey welcomes it.

Early in 2006, in anticipation of the legislation, Abbey set up a steering group comprising representatives from HR and Legal with the aim of reviewing all our HR processes, policies and practices to remove any age bias. The project team worked closely with the external campaign group the Employers Forum on Age to ensure that our approach met the requirements of the new legislation.

We fully consulted ANGU on the changes that we needed to make in resourcing, to our reward practices and our job security arrangements. Workshops were delivered to brief HR staff on the impact of the legislation and Abbey's approach so they were able to confidently respond to queries from across the business.

A communications campaign was developed and implemented to raise employees' awareness of what Abbey was doing to comply. This included posters, news stories and regular updates via the intranet to senior managers. The key message communicated was that Abbey believes in an environment where employees are valued for themselves and their contribution to the business rather than where assumptions are made about them because of their age.

## COMMUNICATION & CONSULTATION

Abbey believes effective communication is key in order to ensure teams are engaged and motivated, and understand their role in helping to deliver Abbey's strategy.

We use a range of communication channels to keep employees fully informed of news and developments in the company. Our primary channel is the intranet which provides stories from across the Santander group as well as Abbey-specific news. We also issue an Abbey-wide bi-monthly magazine giving employees a detailed background and understanding of the company, its strategy and its people.

In 2006 we developed a new Communications Toolkit designed to help managers communicate with their teams - and with other areas of Abbey. The toolkit explains the importance of the manager's role as a communicator, and how and when to deliver messages. It also gives advice on where to find other resources, and provides useful reference material - such as a guide to writing clearly.

In October 2006, we launched a new communications channel - Branch Radio. This fortnightly, ten-minute programme is accessed via telephone and allows branches to hear about the latest developments taking place, direct from the people involved. Branches dial-in as a team, during their Branch Development hour. One of the most important parts of each programme is an interview with someone from a branch, talking about an area where they've been successful. It is an important way to share best practice and give ideas to other staff.

### Working in partnership

During 2006 our relationship with Abbey National Group Union has grown stronger as we have seen the Joint Negotiating and Consultative Framework (jointly developed in 2005) embedded across the organisation. Maintaining positive relationships with our trade union colleagues is critical to Abbey's success and working in partnership with ANGU has delivered many benefits during 2006. Through constructive dialogue we have jointly agreed workable solutions to many issues.

The Employee Relations Framework has enabled consultation, communication and negotiation to take place on topics ranging from specific business unit issues to wider reaching areas including reward, changes to working practices and business re-structures.

### Employee opinions

The Employee Opinion Survey (EOS) is a key process which is used to improve business performance. It provides detailed data on employees views on working life at Abbey and also measures levels of employee engagement. The survey consists of 100 questions covering a broad range of themes that are consistent with Abbey's 3-year plan and strategic priorities.

The 2005 Employee Opinion Survey achieved the highest response rate ever for an employee survey at Abbey, with 77% completing it. The results for the survey are made available at all levels of the organisation and are used to drive the development of robust actions around Abbey's five key themes - meritocracy, teamwork, customer loyalty, quality of service and efficiency. The action planning process is sponsored by the Executive Committee and designed to address key areas where the survey has highlighted the need for improvement.

Trend analysis allows us to measure the progress we have made towards our goal of becoming the UK's best retail bank. Additionally, data from financial services organisations and high performing companies allows us to benchmark our results against external comparators.

## DEVELOPING OUR PEOPLE

To transform Abbey into a successful company, we need to continue to improve our performance. This means we need to:

- Develop everyone's ability to perform at their best
- Continually stretch performance to deliver better service to our customers
- Be adaptable in managing our performance to support changes in our business
- Build management capability for the future

### Performance management

Abbey's approach to performance management begins with the objective setting process so that employees understand what is expected of them, and are developed and supported to enable them to be successful in their roles. Our reward strategy is designed to recognise and reward high performance, based on a system of meritocracy.

We have made significant progress in managing employee performance and linking reward to outcomes. Employees have a clear understanding of how their performance is reviewed and that they are held accountable for delivering results.

### Development at Abbey

Following a review of the performance development process we launched a new approach in 2006. The 'Your Development at Abbey' curriculum consists of seven comprehensive programmes aimed at different levels of staff.



The primary package is an induction programme which provides a consistent and informative welcome to Abbey and Santander. A Personal Effectiveness Skills course provides a series of packages which are available as 'e-learning' and covers themes such as communications, personal impact, finding solutions and personal organisation.

Two programmes – Essentials of People Management and Fundamentals in People Management – develop managers' understanding and application of key HR policies and provide the basic knowledge and skills required to be a successful manager. The courses are targeted at new and existing managers and almost 600 took part during the year.

For middle managers a dedicated programme helps to develop operational management knowledge and skills through both face-to-face training and distance learning modules. During 2007 a senior manager programme will be launched aimed at those employees who are involved in managing complex operations, strategic implementation and business finance.

Through our new approach we have increased the efficiency of delivering our training – achieving a reduction in cost of 3.8% and at the same time increasing the amount of training per employee by 2.9%. In total over 90% of our employees had completed a form of e-learning through the course of the year and over £8million was invested in developing our people.

### **Talent management**

In 2006 Abbey's approach to talent management was reviewed and a new process developed to focus on identifying professional and leadership potential in employees. Its aim is to ensure appropriate internal recruitment, targeted development and preparation for future roles.

Selection into the talent process starts with line managers who attend talent review meetings to discuss nominations of high potential direct reports. This is the first step in agreeing views on potential and helps managers to benchmark their own good people across other units and divisions. The initial selection is followed with further assessments and an external benchmark to help participants focus on their development plans.

Activities such as networking opportunities and mentoring and coaching from senior management are co-ordinated. Through succession planning we also look to place people into opportunities that provide the right development and a stepping-stone to unlocking their potential.

We are introducing a series of metrics to track and understand how effective our new talent management process is measured through internal promotions, retention of high potential staff and individuals' assessment of development programmes.



### **Young talent**

Abbey is working with the UK Career Academy Foundation, a charity which works to raise the aspirations of 16 to 19 year olds who are looking for a career in business.

In 2006 Abbey provided six-week internships for five students in the London branch network. The students were allocated their own coach at each branch and provided with an Interns Guide. The feedback from the school and local branch staff has been positive with both pleased at the level of contribution the students had been able to provide. The scheme also resulted in two students recruited to work in the branches as Saturday staff.

Tutor Nathan Da Garis said, "I've been amazed at what the Abbey interns have been able to be involved in. This has far exceeded our experience of previous two-week work placements and we're very impressed with the level of insight our students have been able to gain."

### **Resourcing**

Our approach to resourcing changed in 2006 and we outsourced elements of the recruitment and selection process to a series of appointed suppliers, retaining key administrative functions and payroll in-house. This move has allowed Abbey to align itself with a number of specialist resourcing companies and professionals to ensure we maintain and improve our employment proposition and attract the best people for the job.

As part of the ongoing drive to become a more efficient bank around 4,000 job roles were removed during 2006 resulting in a reduction of headcount at Abbey. 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.

## HEALTH & SAFETY

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

### Safety at work

Our overall objective is to achieve 'health and safety excellence' across the business. Throughout 2006 we've undertaken a number of initiatives to help us do this, in partnership with ANGU.

### Health and safety management

We completed the preparation of a formal Health & Safety Management System (HSMS) for Abbey in 2006. This provides managers and staff with the guidelines, standards and procedures they need to manage safety effectively within our branches and offices. A fundamental part is a series of risk assessment pro-forma that managers complete to make sure they've identified and controlled important health and safety risks within their area.

Abbey employs a team of three professionally qualified Safety and Health Consultants to help managers implement our HSMS. They provide face-to-face, telephone and on-site coaching and support to managers. Our Safety and Health Consultants carry out regular health and safety auditing to make sure Abbey is meeting its obligations. During 2006 a sample of 68 branches were subject to formal audit.

In Abbey we divide accidents into three categories, determined by severity of injury and using criteria set down by the Health and Safety Executive. The table below confirms we have a very good health and safety performance with very few 'over three day' or 'major' injuries reported each quarter. Abbey was not subject to formal legal action for health and safety offences during 2006.

### Occupational health

We aim to identify the full range of health risks that may affect our people and to make sure they're effectively managed in the business. During 2006 we completed a review of our first aid provision across the branch network and in our head offices to make sure we have adequate cover for both our staff and customers. We also renewed our contract for first aid training with St John Ambulance; the leading UK provider, and a registered charity.

### Managing absence

In 2006 line managers were provided with formal training to manage both long and short-term sickness absence in their teams. We provided managers with ongoing coaching and an Occupational Health Consultant gave medical advice and support.

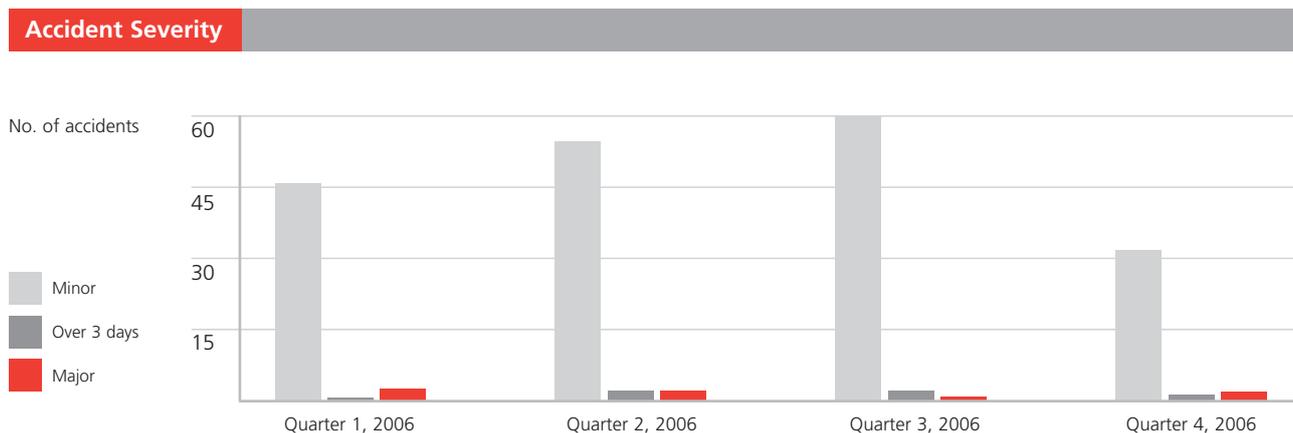
Musculo-skeletal disorders are one of the top three causes of occupational injury and ill health across the UK. New, ergonomically designed workstations are now being installed across the branch network as part of our standard refurbishment programme. The re-designed branch counters make them more user-friendly and reduce risk to staff. We are aiming to replace the majority of our branch counters by the end of 2007.

### Employee well being

At Abbey, we know the importance of protecting and promoting the well being of our people and in 2006 we joined the Business in the Community 'Business Action on Health' programme. Working with practitioners from a range of industries has helped us develop a fully integrated well being strategy. In 2006 we undertook some key initiatives in this important area.

### Information and advice

We have updated and expanded our well being intranet site so that everyone can access a range of information about their general health and well being. Abbey has developed an in-house computer-based, interactive lifestyle assessment tool called 'Healthwise'. We encourage employees to complete an assessment and get a personal health profile, including recommendations for lifestyle improvements. Abbey also





supports the government's 'Health for Life' campaign and we negotiated a number of free places for employees on their distance-learning course in 2006.

### Abbey gyms

We have in-house gyms in three of our main office buildings and during 2006 we invested in new fitness equipment and higher standards of equipment maintenance and repair. For staff not based at one of our main office sites we have negotiated discounted rates with a number of national health clubs.

### Work-related stress

We know that pressure at work is an increasing part of everyday life and it is important employees know how to manage the pressures of their work effectively. We have written guidelines for staff and more detailed information for line managers on managing work-related stress.

"The guidelines describe the proactive things managers can do to make sure stress doesn't become a problem" explains Dave Moore, Head of Occupational Health & Safety. "They are supported by an e-learning course that everyone can access and our Safety and Health Consultants are available to provide on-site coaching and support."

### Employee assistance

Abbey has a comprehensive employee assistance programme in place. Staff and immediate members of their family have

free access to a confidential telephone help line that is available 24 hours a day, seven days a week. Face-to-face counselling is also available for staff in appropriate cases.

### Commitments for 2007

- Continue to build our relationships with ANGU as a key stakeholder, through joint working on a range of issues.
- Roll out the Health & Safety management system and ensure every manager completes basic training in managing safety at work.
- Extend our programme of health and safety auditing across the business.
- Improve the level of initial and ongoing support we provide to disabled applicants to Abbey.
- Complete the review and updating of the remaining HR policies.
- Improve levels of employee engagement by addressing the key areas from the 2006 Employee Opinion Survey results.
- Review our policies on flexible working to enable employees to balance the demands of work and home life.
- Raise employee awareness of Abbey's commitment to diversity through training and a programme for senior managers.

Employee data	2006	2005
<b>Total employees<sup>1</sup></b>	<b>16,395</b>	<b>20,642</b>
Total female employees	67% 10,913	64% 13,102
Total male employees	33% 5,482	36% 7,540
<b>Total full-time employees</b>	<b>83% 13,558</b>	<b>82% 16,884</b>
Total part-time employees	17% 2,837	18% 3,758
<b>Total ethnic minority employees<sup>2</sup></b>	<b>11% 1,151</b>	<b>6% 1,302</b>
Total employees aged over 50	10% 1,645	9% 1,913
Average days absent per employee	6	7
Employee turnover (%)	24	22
Average length of service for all employees (years)	7	7
Total staff grievances (at final stage)	39 <sup>3</sup>	10
<b>Learning<sup>4</sup></b>		
Total number of training days	130,685	154,276
Average number of training days per employee	7.2	7
Average £ invested in training per employee	£507	£527
<b>Health &amp; Safety</b>		
Total number of reported accidents	209	275
Total number of accidents reported to enforcement authorities	12	10

<sup>1</sup> Total number of UK and overseas employees, at 31 December 2006, on a full-time equivalent basis. Male/female, full-time/part-time and 50+ breakdowns use an assumption for 178 overseas-based employees, as profile data is not available. All other data does not include the overseas employees.

<sup>2</sup> Based on c. 10,000 employees who complete the self-declaration option on profile monitoring forms.

<sup>3</sup> Increase reflects improved data capture, change in dispute regulation legislation and four relating to a company-wide contractual change initiative.

<sup>4</sup> Based on average employees, January to December 2006.



# COMMUNITIES



*Our strategy for 2006 was to increase our support for charities in those areas where we have a Community Partnership Group and particularly to support projects that promote financial inclusion and capability.*

Throughout the year we have become more proactive in our grant-making, approaching appropriate charities, explaining our priorities and inviting them to make an informed application. As a direct result we have received more applications that are a good fit with our criteria and increased the size of our average donation by 41%.

The total value of the support that we provided to charities and the voluntary sector in 2006 was £2,779,235 including £2,164,441 in cash donations made mainly through our Charitable Trust. This was an increase of 56% on the contribution made in 2005.

Community data	2006	2005
<b>What we gave (£)</b>		
Cash	2,164,441	1,556,947
Goods & services	444,462	75,229
Management costs	170,332	145,914
Total community contribution	2,779,235	1,778,090
<b>How we gave (£)*</b>		
Central donations	695,976	347,016
Matching staff fundraising	563,397	569,004
Community Partnership Groups	644,250	374,288
Local branches	19,575	17,531
<b>Who benefited (£)*</b>		
Education	817,709	474,359
Community regeneration	248,401	132,216
Financial advice	390,054	150,249
Relief of suffering	353,765	478,860
Other causes	113,269	72,156
<b>Number of donations</b>	<b>1,532</b>	<b>1,490</b>

\* Data for Charitable Trust 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.

It is clear from this data that we met our commitment to increase the amount of donations made by our employee-led Community Partnership Groups and that encouraging these groups to directly approach charities led to a greater proportion of successful applications. It is also clear that we need to do much more to engage our network of branches in helping to identify suitable local charities that meet our priorities.

Thirty per cent of our giving is through matching fundraising undertaken by Abbey staff and pensioners. Staff are free to raise funds for any UK registered charity and this is why 24% of our donations are for causes other than our three charitable priorities. However, most of our support is still effectively targeted on helping disadvantaged people through education, financial advice and community regeneration.

### Measuring success

Since 2004 we have been inviting a representative sample of charities that have received support from Abbey Charitable Trust to tell us about the lasting differences made by our donations. From the 60 replies we received in 2006 we know that:

- 13% rated these as acceptable, 72% reported them as significant and 13% rated them as exceptional.
- The charities had gained a further £655,538 of extra resources as a direct result of our funding.
- 3,888 school age children, 1,652 people from ethnic minority groups, 4,526 disabled people, 6,991 older people and 5,631 people from other groups benefited from these donations.

With 85% of beneficiaries reporting long term impacts that are significant or exceptional it demonstrates that charities are very successful in maximising the social return on the investment and that our donations strategy is proving effective. What we have also learned from this feedback is that it doesn't necessarily take a large donation to make a big difference:

- South Derbyshire Citizens Advice Bureau – £2,500: "We have moved on significantly from when we first approached Abbey for help. We have now secured funding for three years to employ a financial inclusion development officer, as well as several other linked projects designed to tackle the underlying causes of debt. This has been as a direct result of the Abbey grant, and demonstrates the value of small grants to support innovative projects such as this in the early stages. A strictly output-driven grants process would not have given us the opportunity we had to consult with stakeholders, take risks and adopt a longer-term perspective on financial inclusion."
- Worldwrite – £2,000: "Although £2,000 does not seem a lot it has allowed us to make a huge leap by improving our capacity to offer our award-winning film facility and training programme to more disadvantaged young people. It is worth saying that we were unsure whether developing our training programme would pay off. Young people demanded we try. It was Abbey's support, and willingness to take a risk with us, that made our subsequent success possible."

Our major donations programme has also delivered some highly effective outcomes as illustrated below.



#### Citizens Advice Bureau – £100,000

The Financial Skills for Life programme has been developed to help vulnerable young people combat financial exclusion. Established in 2002 the project has gathered best practice from over 80 bureaux throughout England and Wales delivering financial skills to disadvantaged groups within their communities. The funding from Abbey will help to:

- Improve the skills of young people in making informed decisions across the range of practical areas such as budgeting, choosing credit, dealing with debt, basic banking and getting started with saving.
- Increase the number of bureaux engaged in this kind of work.
- Improve further the quality of financial capability training by bureaux.
- Establish a model capable of being replicated throughout the bureaux networks.

“Citizens Advice Bureaux are well placed to do this type of work as small locally based community organisations that enjoy significant public trust and confidence. The 462 CABx in England and Wales deliver advice in over 3,000 locations. As 1 in 4 problems concern debt, projects like this are essential to help people to avoid difficulties in the first place.”  
John Rhodes, National Association of Citizens Advice Bureaux.

#### Increased funding

As part of the CSR 3-year plan Abbey has made additional funding available to the Abbey Charitable Trust. This will allow our grant-giving programme to be enhanced in 2007.

Firstly, we will be able to increase the amount of money given through the staff matched donation scheme by raising the existing limits from £500 for each individual to £700 and from



#### In Kind Direct – £10,000

Abbey has been working with In Kind Direct since 1998 donating surplus goods to good causes via the charity. The charity wanted to develop a new community warehouse and approached Abbey for help.

“Over the last 9 years we have distributed £45 million worth of supplies and equipment to good causes. We know that we can do more, but we want to create sustainable growth – this means improving our current operating model and actively investigating alternatives: the Community Warehouse is one of these alternatives.”

The warehouse, located in Paisley, provides triple community benefits:

- Warehousing and retail training for troubled youths.
- Delivery of low cost supplies to groups supporting local regeneration.
- Saving useable new goods from going to landfill.

The project also offers community groups a local service to choose the goods they require.

“We anticipate that this type of youth training will form an integral part of In Kind Direct’s work in the future. The fantastic benefits in the form of training and changed lives of troubled youths are more than evident. Eventually we could foresee a network of regional and local community warehouses delivered in partnership with social enterprises.” Robin Boles, In Kind Direct

£2,500 for groups of four or more to £3,500. Secondly, we will be able to offer long-term funding for charities – something we have previously not been able to commit to with a smaller budget. And finally, we will be able to increase our support to organisations that are based in areas of the UK outside of our seven Community Partnership Groups (where we have traditionally prioritised funding).



## EMPLOYEE ENGAGEMENT

We endeavour to help as many organisations as possible through our volunteering and fundraising activities. By supporting our employees through these schemes we show a commitment to the interests of our staff and to the communities in which we operate and together contribute to many more good causes.

### Volunteering

Our volunteering schemes focus on providing educational support to schools. Number Partners has been running for four years, helping primary school children with their mental arithmetic. Volunteers play specially designed board games that encourage the children to find the solutions to simple mathematical problems.

We have a long-standing partnership with Young Enterprise, a charity that provides educational business initiatives to schools. Staff in Milton Keynes, Bradford and Sheffield have supported pupils on various projects including The Company Programme which sees the volunteers commit to working for an entire academic year with the students.

Team challenges have grown in popularity in 2006 and enabled staff to support local community organisations. Employees in Milton Keynes created a quiet area for a local school and took a holistic approach to their involvement by raising money to provide plants, seats and fencing as well as constructing the garden itself. "Organising the fundraising and building the quiet area has brought us closer together as a team. We feel a great sense of achievement from completing this project to benefit children in our local area," commented team leader Dawn Morland.

Extra time is given to employees who volunteer and up to 35 hours per year can be requested to support community work.



### Fundraising

We raised over £65,000 for our chosen charity campaigns in 2006 with staff involved in organising events for many of the UK's major causes. Donut Days were hosted in two of our key sites to support Macmillan's Coffee Morning, which raised nearly £6,000 to provide specialist nursing care for cancer patients. Over £18,000 was raised for Children in Need through dress-down days, snooker tournaments and shoe-shine events.

For the first time we co-ordinated a month-long campaign that involved both head office and branch staff in fundraising for Marie Curie Cancer Care. The month of March was dedicated to the Daffodil Appeal and through pin-badge sales, raffles and events almost £32,000 was raised.

Celine Gomez, Corporate Development Executive at Marie Curie Cancer Care said: "We were absolutely overwhelmed by the response we had from Abbey staff. The campaign far exceeded our expectations and will help to provide 1,600 hours of home nursing for people suffering from cancer."

### Recognition

The Abbey People Award is an annual scheme that rewards employees who make a significant contribution to a charity or community organisation. Altogether, the five winners in 2006 have been volunteering for over 50 years.

Overall winner Anne Peachey has worked with the Samaritans for five years. As well as supporting people in crisis, she has specialised in working with inmates in a prison, training them to become 'listeners' to other prisoners. Anne said, "The transformation is amazing – it's often the first time the prisoners have felt respected." Anne donated the £1,000 prize money to the Samaritans.

After losing both her mother and a friend to cancer Therese Leslie decided to raise money for the hospice that supported the people she had lost. She raised a staggering £11,500 by running the marathon and hosting fundraising events.

Harsukh Soni visited India 15 years ago and was inspired by the work of Sanatan Seva. The charity runs a school and supports orphans and impoverished older people. Harsukh has fundraised for the past 12 years and has raised over £20,000.

Phil Simons has run a football team for the past seven years for boys and girls in Milton Keynes. "For a lot of the kids, football is one of the better things in their lives and being part of a team gives them hope and keeps them off the streets."

Jon Walls has travelled to Lourdes as a helper with the charity ACROSS for nearly 30 years. ACROSS takes severely disabled people on pilgrimages and John has made over 30 trips.

### Commitments for 2007

- To increase the role of branches in helping their local communities – we will encourage our local staff to nominate charities for support by making 150 donations through our branches.
- To develop three-year funding partnerships with charities – these donations will concentrate on developing financial capability and inclusion.
- To increase the take up and engagement in volunteering events by developing new forms of employee community activities.



# SUPPLIERS



*Running a UK-wide retail bank sees Abbey being a significant purchaser of goods and services. We spend around £700 million every year with our business partners and as we look to become a more efficient business the importance of centralising our purchasing has grown.*

In 2006 we embedded our new Cost Management & Procurement process to improve control over our spend. The cost management disciplines introduced are based on a strong budgetary process and close management of external spend. Historically our approach has been solely within the individual business and division structure. With the creation of Cost Management Units (CMUs) we now have a horizontal view across the company. The CMUs work closely with Procurement and Finance to plan and control spend within Abbey. This means we have oversight by cost category in addition to the historic view of spend by department. There are 10 cost management categories, based around our areas of significant spend:

- Marketing & Promotions
- Legal
- Group expenses
- Office
- Central
- Technology
- Finance
- Employment
- Capital
- Operations

Our largest suppliers are those who provide facilities management support to our property portfolio, those who support our products through print and marketing services, and those who provide basic office provisions such as IT equipment and paper.

We now have just over 4,000 active 'recognised' suppliers aligned to the CMUs. With a smaller number of suppliers we are able to negotiate better commercial terms by pooling our spend into more attractive volumes. This is overseen by our Procurement team of 15 buyers, with the cost management principles integrated into each business division. We are increasingly using electronic tendering and expect this efficient form of procurement to extend even further in 2007.

## Procurement policy

The Abbey Procurement Policy was updated and sent to all recognised suppliers in 2006. The policy is now aligned with the Santander group's principles, and as Santander is a signatory to the United Nations Global Compact, it now carries specific reference to this in a number of areas. Our policy is clear that:

- We will only do business with organisations that share our commitment to treat all stakeholders fairly and ethically in accordance with the United Nations Global Compact on human rights, labour regulations, protection of the environment and anti-corruption
- We aim for the highest ethical standards and expect our suppliers to do the same

## Supplier relationships

We look to deal with suppliers in a fair and open way and our procurement policy promotes competition when offering contracts. The key principles state that the policy protects our commercial interests and reputation by:

- Ensuring good business-to-business conduct
- Providing strong financial control
- Providing sound contract terms
- Allowing sound risk management

In addition to our procurement policy, the Abbey Code of Conduct for purchasing provides staff with guidelines on how to manage supplier relationships, from the initial investigative stage through to ongoing partner management. The code aims to provide protection from obligation or undue influence, for both Abbey and our business partners. Included are principles to adopt in order to maintain high standards of honesty, integrity and ethics such as declarations of interest, confidentiality and business gifts.

## Environment supplier survey

During the process of issuing the updated procurement policy to suppliers we took the opportunity to send an environmental questionnaire to a proportion of the contacts. The target list was developed through analysis of our supply base with over 500 partners selected to take part. This sample represents almost half of our most significant contracts in terms of financial value.

"We were pleased with the response from our business partners" stated Andy Sayers, Head of Procurement. "We're now in the process of following up with those suppliers and are looking at ways of joint working with the intention of identifying areas of commonality which will help both parties improve our management of environmental issues."

This approach will be embedded as part of business as usual activity in Abbey's procurement process going forward.

## Commitment for 2007

- An increased emphasis on embedding the United Nations Global Compact into our procurement procedures
- Continuing to focus on how our suppliers adhere to the requirements of our policies.





*Abbey's approach to environmental management is to reduce our direct impacts and to manage the indirect risks and opportunities.*

The Abbey Environmental Policy covers both the direct impacts of our operations and the indirect impacts of our business. Key issues for Abbey are improving the energy efficiency of our buildings and managing the environmental risks associated with lending and investing. We endeavour to ensure our business partners reflect our principles.

## DIRECT IMPACTS

Abbey's day-to-day business has a direct impact on the environment, primarily through maintaining a branch network and a head office property portfolio. The largest areas of impact are in our use of electricity and gas for heating/cooling and lighting, generation of waste and our use of resources such as paper.

In 2006, Abbey's branch network remained static at around 710 sites but a process of rationalisation in the number of head office buildings has reduced the floor area the business occupies resulting in:

- A reduction in Abbey's environmental footprint.
- More effective use of Abbey's strategic buildings where effort and resource can be focused to minimise their environmental impact.

### Environmental oversight

The Abbey Environmental Management System (EMS) provides a framework for defining responsibilities and processes. The EMS was last updated in 2005 and will be the subject of a review during 2007 to ensure it remains effective as well as efficient.

Our business has changed in the past two years and as our new requirements become better understood and defined it is important to make sure we focus time and resources on managing the environment, not managing the system.

### Waste

Abbey recycled 79% of the measured waste we produced in 2006 – a significant achievement over our target of 60%. However we saw a decrease of 7% in the amount of waste recycled across the branch and head office portfolio. Although the amount of waste recycled has reduced, efforts continue to be made to ensure recycling is a key consideration of occupiers in Abbey's buildings and this will be a focus for 2007.

### Energy

2006 saw a decrease in gas and electricity consumption of 5.4% across the property portfolio as a whole with the majority of the reduction from head offices. The branch network saw a considerable reduction of 34% for gas consumption although there was a 4% increase in electricity consumption.

Investment was made in both the branch network and office buildings during 2006 to continue to improve management of energy:

- A trial of energy optimisation equipment at an office in Salisbury has indicated a 2% reduction in electricity consumption; close monitoring will continue to determine the wider application of this equipment.
- 110 branches have been fitted with more energy efficient air conditioning systems.
- 154 branches have been provided with new energy efficient lighting and controls, with light sensitive elements being fitted to branches with illuminated signs.

In our Milton Keynes and Glasgow sites high frequency lighting linked to movement detection, thermostatic controls raised by 1°C to reduce cooling requirements and installation of more energy efficient air conditioning have contributed to energy consumption reductions in the offices.

A pilot scheme introducing remote energy monitoring to branches began in 2006 and has already provided valuable data, allowing investment to be focused in those areas that produce the greatest benefits in terms of energy reduction.

One of the key drivers for the reduced consumption in Abbey's buildings is the continuing support of employees in managing use of energy and a strong campaign in the branch network and offices has contributed to the reduction.

Initiatives have included:

- "Switch It Off" campaign promoted through posters and directly with local management in the branch network.
- Branch energy champion roles developed and staff provided with energy saving checklists.
- Maintenance programmes for branches focused solely on energy reduction.
- Annual energy surveys in branches to prioritise resource and effort.

This partnership approach to energy reduction will be pursued in 2007. Improvements in plant and equipment will be introduced in tandem with energy reduction initiatives targeted at employees.

Renewable energy is provided at Triton Square, Abbey's head office in London; regrettably Abbey's supplier of renewable energy to the branch network in Northern Ireland took a decision to withdraw as a supplier of energy solely generated from wind power. We are committed to continuing to identify sources of renewable energy wherever feasible and cost effective to do so.

### **Business travel**

As a UK focused bank our employee-related travel is predominantly made up of car and train journeys, mainly comprised of road journeys due to the wide geographical spread of our branch network.

Our use of short-haul flights, particularly to Europe, increased marginally in the year and is a reflection of the growing integration with the Santander group. However overall our impact on the environment as a result of business travel reduced during 2006, as a result of the cost saving measures we have introduced and the lower number of staff employed in the year. This equated to a decrease of 10% in our CO<sub>2</sub> emissions resulting from travel.

### **Emissions**

The programme of replacing air conditioning units in the branch network will continue until 2010 and will ensure that we meet our target of eliminating Hydrochlorofluorocarbons (HCFCs) from Abbey buildings. The programme for office buildings will begin in earnest in 2007, building on the first phase of replacing equipment in Abbey's main data centre and the office in Glasgow in 2006.

The use of electricity from Combined Heat & Power sources (CHP) increased to over 25% through a change in supplier for the office portfolio for the period between 2005/06 and there was a decrease in total overall CO<sub>2</sub> emissions of more than 4% in 2006.

The amount of carbon dioxide emitted per employee increased from 3.67 tonnes in 2005 to 4.36 tonnes in 2006. As we reduce the number of people working for Abbey there is an inevitable time lag between consolidating employees into retained buildings and disposing of vacant buildings; during that period there is a requirement to continue to provide services to part or wholly vacant buildings. However the position will be monitored to determine whether, as Abbey reduces the buildings it occupies to match its reduction in staff numbers, the CO<sub>2</sub> emitted also falls.

A further change in supplier in 2006 will result in a reduction in electricity generated from CHP and a consequent increase in CO<sub>2</sub> emissions for energy for 2007.

### **Water**

Water consumption decreased by 3.6% between 2005 and 2006 based on like-for-like comparisons, a reflection of the lower headcount.

### **Meeting the law**

Abbey received one environmental prosecution during 2006 – a plea of guilty was entered for the unlawful deposit of litter under section 87 of the Environmental Protection Act 1990 following a branch cleaner leaving waste on a pavement.

### **Commitments for 2007**

Abbey will continue to pursue its goal of reducing the direct impact on the environment in 2007 through the following ways:

- Investing in technology that reduces energy consumption.
- Continuing to replace air conditioning with plant that uses less energy and reduces the impact of refrigerants.
- Evaluating opportunities to better understand energy consumption e.g. remote monitoring of branch energy consumption.
- Seeking opportunities to procure energy from renewable and CHP sources, if feasible and cost effective, to reduce CO<sub>2</sub> emissions for 2008.
- Evaluating the benefits of the EMS to ensure that the revised model is effective as well as efficient.
- Monitoring the climate-change agenda and related risks and opportunities.



## INDIRECT IMPACTS

### Climate change

With the release of the Stern Review in October 2006 the issue of climate change took a major step forward in the UK. The independent report, commissioned jointly by the Prime Minister and Chancellor, was led by Sir Nicholas Stern, a former World Bank Chief Economist, and looked into the economics of climate change. The report examined the evidence and economics of climate change and considered the complex policy changes involved in managing transition to a low carbon economy. It recognised the now overwhelming scientific evidence: that climate change presents serious global risks that demand urgent attention, and that the poorest people and countries are predicted to suffer earliest and worst from the effects.

The report moves thinking on, asserting that environmental, social and governance issues are economic factors in their own right. The key finding is that the benefits of strong, early action far outweigh the costs - doing nothing could cost 20% of GDP or more, reducing emissions now could cost around 1%.

This key piece of thinking led to the government's Climate Change Bill which was outlined in the Queen's Speech in November 2006. The bill will form a fundamental part of the UK's strategy to tackle climate change and address the issues raised by the Stern Review. In addition, at the end of the year the Treasury Select Committee announced its inquiry into 'Climate change and the Stern Review: the implications for HM Treasury policy on tax and the environment'. These actions will no doubt impact on government policy and we will maintain a watching brief as they develop.

### Industry action

Through the FORGE group, a consortium of UK banks and insurers that looks at CSR related issues, we are involved in the FORGE V project: financial sector climate change response. This project will look to review the risks associated with climate change in relation to the financial services sector and identify the opportunities for involvement in direct action.

The FORGE group acknowledges the strategic implications of climate change for the financial services sector, and accepts that it has a role to play in the transition to a low carbon economy. The members have elected to work together on the FORGE V project, to further develop the financial services sector's response to climate change.

FORGE V will focus on climate change mitigation through two key vehicles:

- A guidance framework on climate change risk mitigation. The guidance will provide advice on embedding an effective response in key corporate functions. It will be designed as a practical toolkit which financial services institutions could use internally to establish baselines, responses and priorities for action.

- An employee engagement "action pack", which will equip FORGE members to create motivational employee engagement campaigns, aimed at raising awareness and energising individuals to take personal action to reduce their carbon footprint. The focus will be on enabling and motivating individuals to catalyse behavioural change both in the workplace and beyond.

In shaping the FORGE V project and deciding upon deliverables, the group took into account the wealth of climate change related initiatives already in the marketplace, as well as those which are forthcoming. An assessment of the key initiatives provided valuable context to help ensure that FORGE V addresses legitimate gaps, whilst building on the progress already made through other initiatives.

### Lending and investments

In our commercial lending units – Specialist Mortgage Services, Commercial Mortgages, and Corporate Banking – we take account of environmental risks through a number of mechanisms including environmental sections within commercial valuations.

James Hay is part of our Wealth Management Division, focusing on Self Invested Pension Plans and the WRAP intermediary market. A comprehensive database is maintained for the existing portfolio of properties and where applicable annual site inspections have now been instigated. A risk profile is recorded for all new commercial properties purchased and as part of the initial assessment process environmental reports are obtained. Regular reviews are undertaken to ensure compliance with current legislation and the Abbey Risk Policy.

### Fund management

Abbey's asset management companies were incorporated into Santander Asset Management UK in January 2007. This sees the activities of Abbey National Asset Managers, Inscape, Abbey National Multi-Managers and Abbey National Unit Trust Managers incorporated into the Santander group structure.

Utilities data	2006	2005	2004
<b>Waste (tonnes)</b>			
Waste collected	4,038	N/A	N/A
Waste recycled	3,197	3,449	2,012
<b>Water (m<sup>3</sup>)</b>	238,998	247,902	260,865
<b>Energy</b>			
Electricity (MWh)	152,465	158,505	154,381
Gas (MWh)	34,205	38,875	37,642
Total energy use by buildings (MWh)	186,670	197,380	192,023
% from renewable sources	9.8	10	10.70
% Combined Heat & Power	26	8.1	10.83

Travel data	2006	2005	2004
<b>Business travel (km)</b>			
Air travel - short haul UK & Europe	11,238,086	11,679,899	13,628,018
Air travel - long haul	1,700,909	2,201,036	8,271,973
Car	22,289,291	25,931,523	31,140,194
Rail	8,906,171	9,597,728	10,920,642
Video-conference facilities	34	34	42

Emissions data	2006	2005	2004
<b>CO<sub>2</sub> from energy use (tonnes)</b>			
CO <sub>2</sub> released	64,219	67,082	64,691
<b>CO<sub>2</sub> from business travel (tonnes)</b>			
Air travel - short haul UK & Europe	1,692	1,752	2,453
Air travel - long haul	187	242	910
Car	4,338	4,927	6,228
Rail	356	384	655
CO <sub>2</sub> released	6,573	7,305	10,246
Total CO <sub>2</sub> released	70,792	74,387	74,937
Total CO <sub>2</sub> released per FTE	4.36	3.67	3.08

As with utilities data reported in previous years, the 2006 data is based on supplier billing received for Abbey properties, with adjustments to account for billing reconciliations for previous October-December estimates. End of year utilities data is sometimes estimated using 2005 data for gas consumption and 3-month average data for electricity and water consumption. 1.5% 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 20% of branches 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. Plastic credit cards recycled at branch level are not included in waste totals.

Figures for carbon dioxide released from energy use cover almost all of our commercial property portfolio in the UK, accounting for over 98% of our full-time equivalent 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).

FTE number used is 16,218. This excludes 178 overseas employees as environmental reporting does not cover the three offices where the employees are based.



## INDEPENDENT ASSURANCE STATEMENT

### **SGS United Kingdom Ltd's report on the sustainability activities included in Abbey's Corporate Social Responsibility Report 2006:**

#### Nature and scope of the assurance

SGS United Kingdom Ltd was commissioned by Abbey to conduct an independent assurance of the Abbey Corporate Social Responsibility Report 2006. The scope of the assurance, based on the SGS Sustainability Report Assurance methodology, included the text and data in accompanying tables included in the report. However, data relating to previous years was not included in the assurance 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 report within the scope of assurance 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).

This report has been assured using our Level 1 protocol for content veracity. The assurance did not include assessment against the GRI Sustainability Reporting Guidelines and as such the CSR Indicators on pages 36 & 37 and the GRI Application Level referenced on page 9 were not included in the assurance process.

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

Financial data was drawn directly from independently audited financial accounts and has not been checked back to source as part of this assurance process.

#### 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 assurance team was assembled based on their knowledge, experience and qualifications for this assignment and comprised an IRCA Registered Sustainability Assurance Practitioner, IRCA and IEMA Registered Lead Auditors and an EMAS Verifier.

#### Opinion

On the basis of the methodology described and the verification work performed, we are satisfied that the information and data contained within the Abbey Corporate Social Responsibility Report is accurate, reliable and provides a fair and balanced representation of Abbey's sustainability activities in 2006.

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**  
**May 2007**

# CSR INDICATORS

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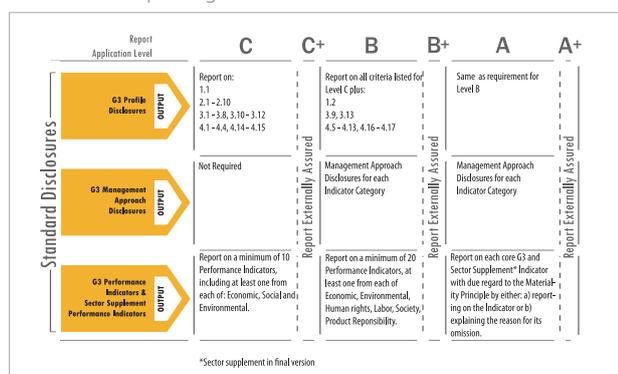
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– Nothing to report

### The Global Reporting Initiative model







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