

Corporate Citizenship

report 2001













The Abbey National share price is included in the Dow Jones Sustainability Indexes. These indexes track the performance of the top 10% of companies with good records of corporate social responsibility.

In 2001, we were also included in the new FTSE4Good series of benchmark and tradable indexes which facilitate investment in companies with good records of corporate social responsibility.



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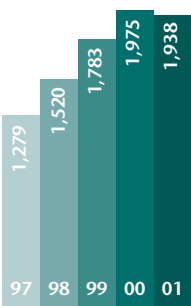
Executive Statement

“We believe there are real business benefits to being a good corporate citizen”

The value of the Group's total contribution to the community has risen to £3.9 million.

This represents an increase of 45% in our total contribution to the community compared to last year.

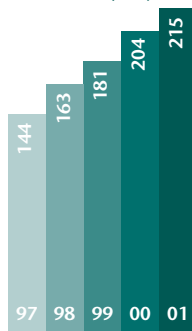
profit before tax (£m)



profit before tax
£1,938 million

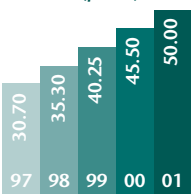
Cost:income ratio
43%

total assets (£bn)



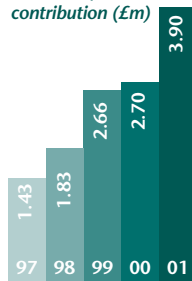
total Group assets
up 5% since 31
December 2000
to £215 billion

dividend (pence)



proposed final
net dividend of
33.2 pence,
making the full
year net dividend
50.0 pence, an
increase of 10%

community
contribution (£m)



total contribution
to the community,
up 45% on last
year

EXECUTIVE STATEMENT

No company can operate effectively without considering the communities within which it works. Corporate citizenship is a way of looking at how a company relates to the wider environment in which it operates. Being a good corporate citizen is fundamental to us at Abbey National because, as one of the largest providers of financial services in the UK, our business activities impact on society and the environment in many different ways, and it is our sincere desire to ensure that the overall result is a positive one. To tighten management focus still further, we have set up a steering group to oversee all social, ethical and environmental matters within the Abbey National Group. We are committed to reporting an accurate picture of our wider activities and will continue to report on all the effects of our day-to-day activity.

To us, good corporate citizenship, or corporate social responsibility, involves dealing fairly with all our stakeholders, including our customers, employees, and the communities in which we operate. As an employer of over 31,000 people, we insist on equal opportunities for everyone whatever their sex, marital status, disability, colour, religion, or ethnic or national origin. Our suppliers are partners who must be treated fairly. We exist to

serve our 15 million customers and we are accountable to our 2 million shareholders. In our relationships with all these people, we also wish to contribute to the wider society which they and we are a part of.

We include social, ethical and environmental responsibilities in our management standards across the business at every level within the Group. We understand that our stakeholders' expectations of us are rising all the time and that sometimes their ethical, social and environmental concerns may conflict with short-term commercial interests. We have never restricted our vision to the bottom line in this way and strive to find the right balance in such cases.

Our long-term financial success is closely linked to the way we manage our wider responsibilities. We believe there are real business benefits to being a good corporate citizen. These include building a real sense of the Group's identity, which supports our marketing effort; adding value to the goodwill tied up in our business; establishing our Group as a preferred employer; and creating business partnerships with other organisations which share our high standards.

This report is the second we have produced which describes our performance over the last year and reports on progress towards our goals, and identifies targets for the coming year. We undertake to report regularly on our performance in terms of our ethics, corporate governance, our social, community and environmental impact, and on the way we treat our employees.

Some sections of this report contain more statistical information than other parts. This is primarily because there is currently no single widely accepted reporting structure for corporate social responsibility. However, we are working hard towards being able to provide more detailed reporting in the future.

But being a good corporate citizen is about much more than just publishing an annual report, although we are pleased to do so. We regard compliance with the laws and regulations that concern our sector as a minimum standard. Our commitment to continuous improvement means we are always looking out for ways in which we might do better.

Your feedback is very welcome so please contact us with your comments, suggestions and questions. The address to write to is at the end of this report.



Ian Harley
Group
Chief Executive



Lord Burns
Chairman

Ian Harley

Lord Burns

Endorsement

"I am delighted to endorse this second Abbey National report which sets out so vividly the company's strategic approach to the corporate social responsibility agenda. Abbey National has stepped up to the diversity challenge, claiming pole position in our Race for Opportunity benchmarking survey. The company's commitment to both gender and disability places it at the cutting edge of good practice. In both diversity and environmental issues Abbey National has clearly shown in this report that it is open to measurement and committed to continuous improvement.

The scope of this report is ambitious. It is however encouraging that Abbey National sets out progress against objectives and agrees clear targets for the future. I commend Abbey National for taking a lead in reporting so clearly its vision, progress and results."

Julia Cleverdon CBE

Chief Executive
Business in the Community

BUSINESS *in the*

COMMUNITY

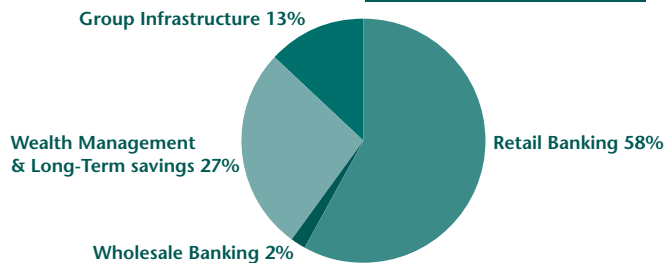
Group Overview

“Our activities fall into three broad banking areas - Retail Banking, Wholesale Banking and Wealth Management and Long-Term Savings.”

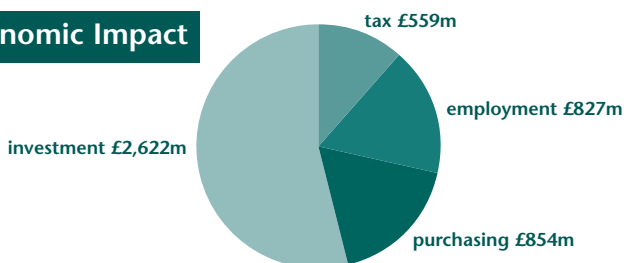
Total no. employees 31,268

Retail Banking	18,141
Wholesale Banking	702
Wealth Management & Long-Term Savings	8,215
Group Infrastructure	4,210

Split of employees by Group divisions



Economic Impact



THE ABBEY NATIONAL GROUP

Our activities fall into three broad banking areas – Retail Banking, Wholesale Banking, and Wealth Management and Long-Term Savings. This new structure took effect in 2002, enabling us to develop our powerful customer franchises and focus on growing long-term savings and investments, attacking the current account market and driving forward our initiatives in the small and medium-sized enterprise (SME) banking markets.

RETAIL BANKING

Retail Banking provides our 15 million UK customers with a wide range of personal financial products and services. These include mortgages, savings, investment, banking, general insurance and life assurance. In 2001, the bank's credit card business was given a significant boost through a new partnership agreement with MBNA.

Our retail bank aims to be available to our customers through whatever banking channels they prefer, whether through our branches (of which we have more than 700), over the telephone, on the internet or digital TV, through cash machines on WAP-enabled mobile phones, or through our partners such as Safeway and Homebase.

The retail bank is changing the face of high street banking with new look branches, in-store coffee shops and a more entrepreneurial, franchise-based approach to managing 50% of our branches. More recently, some franchise holders have taken on part ownership of their franchises for the first time this year.

WEALTH MANAGEMENT AND LONG-TERM SAVINGS

This new division includes all the activities of the old Business to Business Division and Business to Consumer Divisions. Within this division, businesses include Scottish Mutual and Scottish Provident, our life assurance operations, and First National, our finance house. Through these areas we develop our business relationships with intermediaries, such as independent financial advisers and retailers who sell our products to customers.

In Wealth Management and Long-Term Savings, we include a number of new and well-established wealth management businesses. cahoot, our standalone internet bank which launched in 2000, and Inscape, aimed at customers with at least £50,000 to invest, complement our two well-established wealth management brands, Abbey National Offshore and Cater Allen.

The acquisition of Scottish Provident, on 1 August 2001, expands the international reach of our life assurance and wealth management operations, by building on the success of Scottish Mutual International (with offices in Dublin) and Abbey National Offshore (which has a representative office in Dubai). We also have a presence in Europe through Abbey National France and Abbey National Bank Italy. Abbey National Treasury Services (ANTS) also has offices in New York and Hong Kong.

WHOLESALE BANKING

Wholesale Banking comprises a commercial banking business (including its asset financing, commercial lending operations, securities financing and risk management activities), a large investment portfolio and the Group's Treasury.

As the Group's Treasury, ANTS provides liquidity, funding, capital management and risk management services to the Group.

In addition, ANTS is a significant player in the international financial markets, where it is an expert in structuring tailored financing for internal and external customers.

ECONOMIC IMPACT

As well as our social and environmental impact, we make a significant economic impact as an employer, a taxpayer, an investor and a consumer.

The tables and charts on the left show the average number of people we employed (full- and part-time) during 2001, and where within the Group they worked. They also show our contribution to the wider community in economic terms.

Ethical Principles

Ethical Principles



“Affirms the Company’s commitment to upholding high ethical standards in its relationships”

HOW WE DO BUSINESS: A STATEMENT OF ETHICAL PRINCIPLES

Approved by the Board in 1999

Sets out our commitments to stakeholders covering the following broad areas:

- The industry
- Treatment of customers
- Promoting partnership with employees
- Investment in the community
- The environment
- Profile of company assets
- Working with suppliers.

Incorporated into our Corporate Governance Framework

ABBEY NATIONAL’S ETHICAL PRINCIPLES

We believe that companies must do more than just behave ethically; they must articulate their own ethical principles and ensure that those principles are integrated into the company’s management. Our approach to ethics considers the effect of our actions on a broad range of stakeholders and risks to our reputation.

STATEMENT OF ETHICS

Our ethical principles are set out in ‘How We Do Business: a statement of ethical principles’, which is published on our web site: www.abbeynational.com. These principles are included in our Corporate Governance Framework and apply across the whole of our business.

‘How We Do Business’

This sets out our commitment to upholding high ethical standards in our relationships with all stakeholders, including regulators, customers, employees, shareholders, business partners and the community.

ETHICAL INVESTMENT GUIDELINES

In 2000, we published our Ethical Investment Guidelines, which have been integrated into the Company’s Corporate Governance Framework. These guidelines apply to the investment of our assets, which does not include funds managed on behalf of customers in our Life Assurance Division. Those customers have the option of selecting an investment fund that carries out ethical screening.

These guidelines ensure that the Company considers ethical concerns when making investments. They build on our statement of ethical principles, ‘How We Do Business’.

Where we act as pension trustees, we comply with the amendment to the 1995 Pensions Act. This requires us to disclose the extent to which environmental, social and ethical considerations are taken into account in the selection, retention and realisation of investments.

Principles

Our ethical investment guidelines set out broad principles that guide the Company's decisions. They involve:

- adherence to high standards of corporate governance and ethics;
- consideration of the social impact of our activities; and
- case-by-case ethical screening of investments.

Procedure

We have a procedure in place for ensuring that appropriate screening of investment opportunities takes place. Our individual business units are responsible for referring proposals that may conflict with our ethical standards to the Group Risk Director, who initiates a review of the proposal by executive directors.

Areas of ethical concern

The guidelines highlight a number of areas where the Company exercises special care when assessing investment proposals. These areas include:

- investments where there are concerns about a company's or government's adherence to international human rights treaties and protocols;
- companies or projects operating in the defence sector;
- activities which pose a high risk to the environment;
- activities which could have an adverse impact on public health, including production of tobacco products;
- investments which could involve mistreatment of animals; and
- companies involved in the production or dissemination of pornographic materials.

People often ask what it actually means to 'exercise special care' when assessing investments. This will vary, depending on the particular case. Often it means that a potential investment is reviewed by the executive directors. Where there are concerns about human rights, we will consider a number of factors, including:

- The position of the UK government, the United Nations, and other international organisations: we ensure that our policies and procedures are in accordance with the United Nations Universal Declaration of Human Rights; and
- Publications by various non-governmental organisations such as Freedom House, Amnesty International, and the Observer Index of Human Rights Abuses.

We do not collect information on the number of investment opportunities we turn down as a result of applying our ethical investment guidelines. Since many potential investments are rejected prior to an official review, the information we might capture at this later stage would not be meaningful.

FUTURE OBJECTIVES

The review of our ethical principles forecast in last year's Corporate Citizenship report was not completed in 2001. This has now been absorbed into a larger review of our social responsibility, which will take place in the coming year.

'How We Do Business' and our Ethical Investment Guidelines are both posted on our intranet site, accessible by all employees. However, we recognise that we need to do more to raise awareness and this will be an objective in the coming year.

Our Life Assurance Division is currently reviewing the Association of British Insurers' (ABI) guidelines, and intend to incorporate the principles of these guidelines within the decision-making process relating to ethical fund investing.

We participate in a number of external forums so that people outside the company know about our ethical principles. In future, we shall engage in further dialogue with stakeholders about the relevance of our principles to their concerns.

Corporate Governance

“Abbey National has five main stakeholder groups - shareholders, customers, business partners, employees and the wider community.”

The Board has the following responsibilities:

- to ensure that people appointed to the Board have a good mix of experience, sound judgement and that they add value;
- to ensure no individual or group of individuals dominates the decision-making process;
- to decide Abbey National’s purpose and values and put a strategy in place to achieve them; and
- to review and assess the effectiveness of our strategies, policies, management performance and business plans.

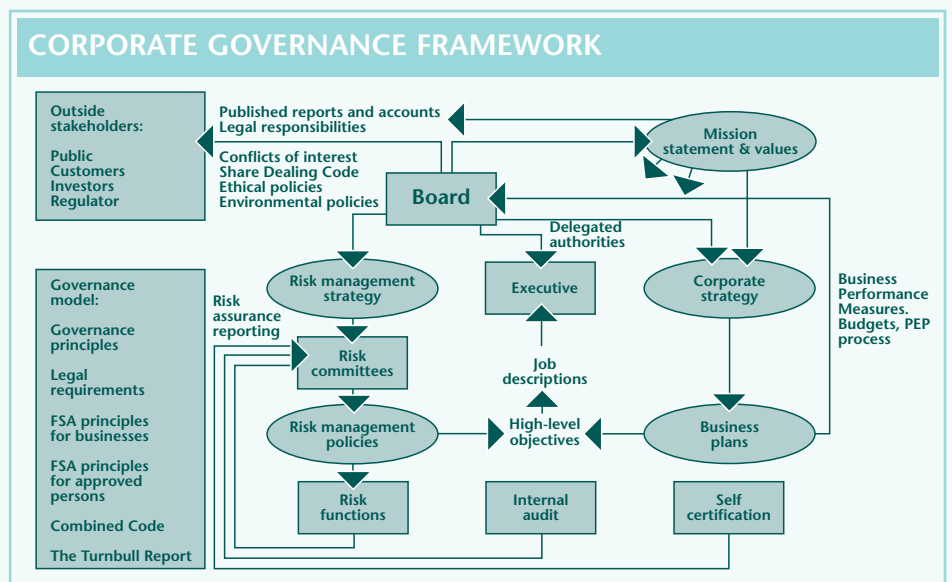
CORPORATE GOVERNANCE

Corporate Governance provides a framework for the way a company is directed and controlled. It determines the role of the Board of Directors and ensures the Board has a representative balance and can make impartial judgements in the best interests of the company’s shareholders, customers and employees.

THE ABBEY NATIONAL CORPORATE GOVERNANCE FRAMEWORK

Our Corporate Governance Framework sets out how rights and responsibilities are distributed amongst different participants in the Group, including the Board, management, shareholders and other stakeholders.

The diagram below shows how our Corporate Governance Framework is structured.



STAKEHOLDERS

We have five main stakeholder groups – shareholders, customers, business partners, employees and the wider community.

We value our relationships with institutional and private investors. We have a two-way dialogue with fund managers, institutional investors and analysts on performance, policy and strategy. Our in-house share registrar ensures there are regular communications with our two million private investors and our Shareholder Relations department is focused specifically on developing those relationships.

Information regarding the business performance and activities of the Group is made available to both institutional and private investors on our web site www.abbeynational.com.

We regularly ask our customers' views on how well we are meeting their needs, as we are committed to making their lives easier. Our customers are a good source of new ideas for us and, where we can, we are pleased to implement improvements that they suggest.

Our business partners, including suppliers, strategic partners and those who introduce business to us, are fundamental to our success and we take great care to maintain excellent relationships with them.

Our success is due to the efforts of our diverse and talented workforce. We do our best to create a positive and rewarding working environment for our employees in order to retain and develop existing staff, and encourage new recruits of the highest calibre.

When considering the wider community we include local, regional, national and European governmental organisations, and the charitable sector as a whole.

RISK MANAGEMENT

There is a constantly changing range of issues that could affect our reputation as a good corporate citizen. Some of these we can predict, but many we cannot. Most of these issues stem from changes in the commercial environment, and regulatory and social changes.

Risk management in banking is very important and the Board devotes

considerable time to considering these significant issues. Our Risk Management departments ensure we can manage the risks involved in achieving our objectives, but they cannot remove those risks. Risk strategy, management and control are the ultimate responsibility of the Board. This entails establishing our risk management strategy and policy framework, monitoring our risk profile and overseeing the management processes for financial and non-financial risks, and reviewing the effectiveness of our internal controls. These controls are designed to provide assurance that we are achieving our objectives, keeping to our policies and values, using accurate information in our decision making and financial reporting, and safeguarding shareholders' investments.

THE COMBINED CODE ON CORPORATE GOVERNANCE

We are fully committed to the Combined Code on Corporate Governance as set out by the Financial Services Authority. This code requires the Board to maintain a sound system of internal control, review how effective it is and report to shareholders every year.

The Corporate Governance statement and the Directors' remuneration report in the Directors' Reports & Accounts, explain in full how Abbey National has applied the principles of good practice in corporate governance. This information is also available on our web site: www.abbeynational.com.

THE ASSOCIATION OF BRITISH INSURERS' GUIDELINES

The Association of British Insurers (ABI) has recently published guidelines on Social, Environmental and Ethical management and reporting. The box to the right outlines the policies and procedures we have put in place to manage these issues.

The following policies and procedures are in place for managing Social, Environmental and Ethical (SEE) risk in general and reputational risk in particular

- Our Board has adopted a Mission Statement, a Statement of Ethical Principles, an Environmental Policy and Ethical Investment Guidelines. The Board regularly receives specific reports, covering environmental issues, Charitable Donations and Community Partnership and, periodically, on Ethical Principles.
- In addition, key SEE risks (specifically, human resources and reputation risks) are considered by the Operational Risk Committee and are reported to the Board through the Operational Risk Report.
- The implications of the Statement of Ethical Principles and Ethical Investment Guidelines are taken into account in the embedded risk management processes for investment decision-making.
- A Group Environmental Risk Manager is in post and an Environmental Risk Working Group monitors environmental performance.
- The identification and assessment of significant risks are an integral part of the annual strategic planning process.
- Overall, reputational risk issues are monitored by the Chief Executive and the Executive Directors through the Group Executive Committee.

Social Impact

“We are working towards improving the availability of basic banking to all customers by the end of 2002, no matter what their financial circumstances.”

RETAIL BANKING

In 2001, over 330,000 Abbey National branded accounts were opened, up 37% on 2000.

We have more than 500,000 basic bank accounts in use.

We have registered over 1.1 million retail customers to our Retail e-banking service.

The retail bank has over 15 million customers in total.

We are committed to making innovative solutions work for our customers and shareholders. Branch superstores incorporating e-banking zones, play areas and Costa coffee outlets are all part of the 'convenience retailing' concept that is redefining high street banking for our customers.

At Abbey National, we are firmly committed to financial inclusion – providing a range of products and services that will genuinely meet the needs of those who might ordinarily find themselves excluded from the financial services marketplace.

It is rare that banks and other institutions will refuse outright to offer banking services to people. Most often, the products on offer do not meet the needs of those who are unemployed or living on benefits. Or disenfranchisement may result from fear of financial institutions or from cultural or language differences.

“Approximately 7% (1.5 million) of households in the UK have no mainstream financial products at all.”

FSA 'In or Out? Financial Exclusion: a literature and research review'
July 2000

RETAIL BANKING

Basic Bank Account

Since 1996, we have offered the Instant Plus Account to those who do not qualify for our standard bank account. We are actively working with the Government and the Post Office on the development of universal banking services and have invested significant resources in this endeavour.

We are working towards improving the availability of basic banking to all customers by the end of 2002, no matter what their financial circumstances.

Competition

We believe that increased competition in the banking market will result in improved products and services for all. One way we are promoting competition is by making it easier for people to switch bank accounts.

The Current Account Transfer Scheme (CATS) was set up by the automated payment clearing service to make it easier for customers to transfer direct debits and standing orders from one bank to another. When we are notified that a customer wishes to move account to or from Abbey National, we seek to make the transition as smooth as possible. We have offered a transfer service since April 2000, and have led the way by exceeding the standards laid down by BACS, the association of clearing banks.



An important issue for many communities is the closure of local bank branches in recent years. Abbey National has invested significantly in the development of new look branches in contrast with other banks. We have also introduced a range of new facilities at these branches aimed at making our customers' lives easier. These include free internet access, staff support in helping customers to try new ways of managing their money, a partnership deal with Costa coffee introducing café areas to contribute to a more relaxing branch environment, and the provision of play areas

for children. Also, since July 1997, we have opened branches in 38 Safeway stores, offering even greater convenience with extended hours seven days a week.

Franchising

Since the launch of our pioneering scheme in August 2000, about half of our branch network has been internally franchised.

Franchising allows branches to tailor their services to meet the needs of their local community, essentially acting like a small business whilst retaining all the benefits to the customer of being part of Abbey National.

Most franchised branches have a member of staff who is responsible for business development within the community. Some recent initiatives in franchises are Welsh language posters, signage and leaflets, as well as Punjabi and Hindi leaflets and a current pilot to allow people to send money abroad more quickly.

Help with Debt Management

When customers fall into arrears, Abbey National ensures that they are treated with respect according to their individual circumstances and that they receive appropriate guidance. In 2001, Abbey National financially supported the Consumer Credit Counselling Service for individualised help with debt problems, and we also spent £614,000 on independent field debt counselling services - much of which was towards simply making initial face-to-face contact with customers who are experiencing problems. Abbey National has also contributed £70,000 to the Money Advice Trust to assist the development of a national infrastructure for money advice.

Local Partnerships

We enter into partnerships to help us understand the community's needs for financial services. For example, branch staff in East London have formed a partnership with TELCO (The East London Community Organisation) to explore ways of making financial services more accessible and bringing new opportunities to the people of East London. Abbey National worked with TELCO in organising a jobs fair, and we will provide special assistance to help local people gain the sorts of skills needed to work in financial services.

WHOLESALE BANKING

Funding the public sector

Abbey National's Wholesale Bank provides finance solutions to the public sector and invests in areas ranging from health, education and social services, to transport and the environment. We are committed to investment through public private partnership. We also respond actively to the increased demand for partnerships where our Wholesale Bank's knowledge and experience can be used to benefit public sector organisations such as hospitals, schools and local government.

In 2001, our Wholesale Bank continued to provide essential finance for public sector projects under the Government's Private Finance Initiative and has been recognised by Infrastructure Journal, a leading publication in PPP (Public Private Partnerships), as the 'Arranger of the Year' of such transactions.

Public transport

The Wholesale Bank continues to make substantial investments in the UK rail transport system through our subsidiary, Porterbrook - one of the UK's three rolling stock operating companies.

Other initiatives include public private partnership within the UK and in Europe to build and improve roads and motorway networks.

Social housing

Our Wholesale Bank remains a key source of finance for the social housing sector - a business of growing importance in the UK economy that has seen a surge of demand in recent years. Social housing is regulated by the Housing Corporation, a Government-sponsored public body. The social housing sector lends long-term financing secured against the housing stock of the UK's registered social landlords. Abbey National is the third largest lender to housing associations in the UK.

WHOLESALE BANKING

Public Sector

New projects undertaken included the finance to replace West Middlesex Hospital Trust's outdated facilities with a new £65m hospital. The hospital will provide acute clinical services for the majority of London's western suburbs. It is expected to be fully commissioned by May 2004. Other projects in 2001 included the financing for the Bristol International Airport and for the Moray Coast Waste Water project.

Social housing

When the tenants of Poplar Estate in London's Tower Hamlets voted to transfer their council houses to a non-profit making Registered Social Landlord (RSL) four years ago, life on the estate improved dramatically. Social Housing funds, including those from Abbey National, were used not only to demolish and rebuild deteriorating flats, but also to build a community centre offering nursery education, childcare, language and computer courses. These were initiatives which the council simply did not have the funds to provide and which have helped to improve the standard of living for thousands of people.

We understand that being a good corporate citizen is not just about charitable giving, staff volunteering and community partnership projects - it's also about delivering core products and services that are aligned with society's needs. Our social housing lending is a perfect example of this approach.

The Group has to date funded over £3 billion worth of loans to more than 150 RSLs.



photo courtesy of Teena Taylor

Employee Report

Employee Report

“As an employer of over 31,000 people we insist on equal opportunities for everyone whatever their sex, marital status, colour, religion, or ethnic or national origin.”

EMPLOYEE FIGURES

Total no. employees 31,191

Total female employees 20,795

Total male employees 10,396

	male employees	female employees
full-time	9,832	13,933
<i>temporary</i>	271	445
<i>permanent</i>	9,561	13,488

part-time	564	6,862
<i>temporary</i>	135	365
<i>permanent</i>	429	6,497

We employ over 31,000 people in the UK and abroad. Our Human Resources division develops strategy, defines policies and principles, and sets standards and objectives for Health and Safety, reward, employee relations and personnel practice. As a centre of excellence, the division provides advice and guidance to employees throughout the Group.

DIVERSITY

Our commitment to diversity is set out in its policy statement ‘Valuing People as Individuals’. This statement emphasises the value we place on the contribution of all employees regardless of their individual difference.

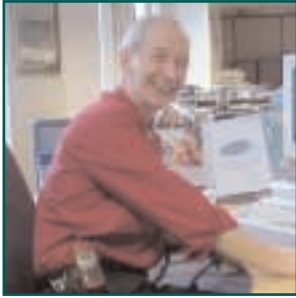
Our four regional diversity action groups have played an important part in achieving our diversity objectives. These work towards specific equality objectives. Their aims are:

- to achieve an ethnically representative workforce in specific areas;
- to review the recruitment process in those areas;
- to develop local schemes and community links with ethnic groups; and
- to apply the lessons learned on a national level.

We are making good progress with our diversity initiatives. The proportion of employees from ethnic minority backgrounds is running at 7% across the Group, with higher levels in areas where there is a higher proportion of ethnic minorities in the local population.

In 2001 we undertook an equal pay review of the pay of women compared to men at four different levels of job. The results (see table below) showed that the pay levels of men and women overall are within 9% of each other and that the proportion of women in senior roles has increased.

	proportion of roles filled by women	ratio of average pay for women to average pay for men
Business Managers	27%	92%
Operations Managers	44%	91%
Team Leaders	65%	98%
Business Support	83%	107%



In 2001, Abbey National launched ANDIE (Abbey National Disability Inclusion through Employment). This is a partnership between Abbey National and specialist training colleges to provide vocational training and rehabilitation for unemployed, disabled adults, and is one of the many initiatives the Company has introduced to help increase the diversity of its workforce.

Bill Lewis, a former builder and machine operator, had been unemployed since 1994 when he injured his back. Despite the fact that he has poor circulation in his legs and takes painkillers to ease the pain, Bill was determined to succeed and embarked on an NVQ Levels 2 & 3 course in Business Administration. Having taken part in the ANDIE scheme and gaining work experience at Abbey National, Bill has now secured a permanent job and says "I am very grateful to Abbey National, Finchale College and my new employers, Stiells, for giving me the opportunity to learn and train in a completely new area."

DISABILITY

We have embraced the spirit of the Disability Discrimination Act and we are a committed user of the Employment Service's 'Positive about Disabled People' symbol. Our goal is to make Abbey National an employer of choice for disabled people.

As with many other employers, we have recognised that disability is an area that requires specific attention. Over the last year, our Disability Employment Action Team (DEAT) has been working specifically on issues affecting current and potential employees with disabilities. The box on the right gives a fuller description of the practical steps the DEAT has taken to assist in the recruitment, development and retention of employees with disabilities.

In late 2000, a partnership agreement was signed on a pilot basis by Abbey National and the Employment Service Disability Service (ESDS) to ensure that new and existing employees with disabilities receive the necessary aids and equipment to allow them to carry out their work. This Access to Work scheme is run by Abbey National rather than ESDS, and operates throughout the Group. The pilot has been working so well it has been extended into 2002.

Throughout 2002, we will be taking all our employees through a training programme to explain diversity and equal opportunities issues and their relationship to our corporate values. The programme will:

- explain the benefits of setting diversity policies;
- outline the legal framework relating to equality and discrimination; and
- train employees in best practices.

Adjustments for disabled staff

We develop solutions to address each individual's needs and buy equipment, hardware and software to enable the necessary adjustments to be made. To date, we have made more than 164 improvements including voice recognition systems, motorised entrance doors, provision of special workstations and wheelchair access to all head office buildings.

WORK/LIFE BALANCE

Abbey National is committed to supporting employees in achieving a reasonable balance between their home and working life. We offer a comprehensive range of flexible working options to support people through the various stages of their lives, including part-time working, job sharing, career breaks and extended maternity provisions.

During 2001, we added two new policies to the already comprehensive range of options. Homeworking allows employees to use their home as their work base. Compressed Working Arrangements allow employees to work their contractual working hours over a reduced number of extended working days. Both policies are operated in partnership between the employee and their line manager.

POSITIVE ABOUT DISABLED PEOPLE

Abbey National is determined to ensure disabled people have equal opportunities to work for the Company. Our goal is to break down assumptions about what people can and can't do.

In the working environment, we strive to:

- achieve a balanced workforce which reflects our diverse customer base, and
- create a working culture supportive of disabled people. This means, amongst other things, an ongoing commitment to take all reasonable steps to recruit, develop and hold on to employees with disabilities.

With this in mind, the Disability Employment Action Team (DEAT) was formed in 2001. The team is chaired by Tim Murley (Managing Director, cahoot), and draws its members from Human Resources and a variety of divisions across the Group. DEAT's goal is to promote Abbey National as an employer of choice for disabled people.

DEAT has already:

- run focus groups for current disabled employees;
- published a staff intranet site which includes guidance for managing new and existing disabled employees; and
- forged new partnerships with groups representing disabled people to widen our recruitment pool.

To boost our profile, we placed an advert in Disability Now, a monthly publication circulated to around 25,000 people. Interested candidates are urged to visit www.jobsatabbeynational.co.uk to look for current vacancies, register their details and apply online. A banner at www.disabilitynow.org.uk links to the job site.

DEAT has recently published a 'Positive about Disabled People' leaflet. This outlines Abbey National's commitment to both disabled employees and customers. It is sent to all recruiting managers to reinforce our commitment and will be distributed at external recruitment fairs.



ADDRESSING EMPLOYEE CONCERNS AT WORK

We believe that good day-to-day management means that the majority of employee concerns can be dealt with informally and to the satisfaction of all parties. However, we recognise that there may be occasions when more formal processes are required.

During 2001, we reviewed our frameworks for encouraging employees to raise work concerns. As a result, we introduced two new policies across the Abbey National Group. The first is designed to address an employee's personal work concerns, which may include the way an employee is being treated at work by a colleague, manager or customer. The second policy is for employees to use when they believe the interests of others, our business or Abbey National itself are at risk.

Both policies restate Abbey National's belief that we should operate in an open working environment where employees can speak out about any issue without fear of the consequences. We are vigilant about working within the legislative and regulatory frameworks that concern our business, and we value the input of our employees in helping us to do this.

HEALTH AND SAFETY

We are committed to developing and maintaining a safety management culture that ensures the health, safety and welfare of staff on Company premises or elsewhere while they are on Company business. We also recognise our responsibility for the health and safety of other people when they come into contact with our business operations.

Individual line managers are responsible for the health and safety of their staff.

The Occupational Health & Safety Unit works closely with management, staff and the union to ensure that the Health and Safety policy is effectively implemented and maintained.

It regularly reviews our health and safety practices in comparison with the Interbank Health and Safety Group. We are in the upper quartile of the Financial Institute of Office Hazards Group's comparative survey.

We are committed to providing and maintaining:

- safe workplaces, systems of work and equipment;
- health and safety risk assessments and measures to eliminate or reduce risks;
- sufficient information, training and guidance necessary to reduce accidents and ill health conditions;
- compliance with legal obligations for staff and others who are affected by our operations; and
- systems for monitoring the effectiveness of this policy.

Occupational Health & Safety Unit

There has been a slight increase in the number of accidents reported over the last year. We believe this is because our staff are more aware of the need to report accidents, and because we have improved our auditing of how managers follow accident reporting procedures. The Occupational Health & Safety unit continues to:

- implement national accident reduction programmes;
- improve management training; and
- promote greater awareness amongst staff.

Local accident prevention programmes have also been introduced to help managers and employees identify and address the causes of accidents in their workplaces.

The number of medical cases that has been investigated by the unit has increased substantially over the last five years. This is a reflection of the need to understand our employees' medical conditions and how they affect on performance at work. Greater awareness on our part enables us to take prompt corrective action.

Workplace assessments may be requested by employees with conditions that inhibit their ability to perform their jobs satisfactorily, or have caused absence or lost time. Our Occupational Health & Safety unit investigates and recommends improvements to the workplace, in order to resolve the problem. Most cases involved musculoskeletal disorders and repetitive strain injury. Simple, low cost adjustments enabled people to perform their jobs more effectively.

Such changes to the workplace have helped greatly to eliminate or reduce pain and discomfort amongst staff. This has also helped us to reduce liability claims against the Group.

EMPLOYEE COMMUNICATIONS

Employee involvement and effective communication remain vital to Abbey National's success. We publish *AbbeyView* magazine for employees every quarter, combining work-related features and information with general interest articles. Over 90% of employees have access to *abbey.net*, our intranet. These media, together with more traditional methods of communication such as team meetings, aim to ensure that our employees are fully informed of news and developments which may interest them.

Our employees' views and opinions are important to us. We publish results of our quarterly opinion surveys on the intranet.

Abbey National has a partnership agreement with Abbey National Group Union (ANGU), the trade union it recognises for employee representation. Consultation takes place at both national and local levels. Regular partnership meetings are held to ensure communication is open and two-way.

EMPLOYEE SHARE OWNERSHIP

As in previous years, in 2001 Abbey National invited eligible employees to become financial stakeholders in the Company by participating in our Company's Sharesave scheme. Also in 2001, we extended this scheme to our staff who live and work in Italy, France and Ireland.

The Partnership Shares Scheme was launched in 2001. This alternative scheme gives staff the opportunity to save money from their salary before tax, over a period of 12 months. At the end of this period they can buy shares in Abbey National. Once the shares are bought, they are placed in a Trust where they benefit from tax advantages over time.

Additionally, in recognition of the achievements in the first half of the year, the Company granted new share options to all employees. Currently, over 80% of our employees are shareholders in the Company. Together they hold over five million shares.

EMPLOYEE SHARE OWNERSHIP

Pat Doherty works for Abbey National in Sheffield. With four daughters, Pat wanted an easy and convenient way to save money for their future.

In 1997, Pat joined the Abbey National staff Sharesave scheme. She saved a set amount each month over a period of five years at the end of which we contributed an extra bonus payment to the funds Pat had saved. The money in her Sharesave account was then available for Pat to take as cash or to buy shares in Abbey National at a price which was fixed when she started her Sharesave scheme in 1997.

2002 will be a big year in the Doherty household with three of Pat's daughters reaching landmark events in their lives.

Gemma has just got engaged and Pat is planning to throw an engagement party with some of the proceeds from her Sharesave scheme.

Laura will be 18 this year and thanks to her Sharesave scheme Pat will be able to send Laura on holiday with her friends to celebrate.

Charlotte will turn 13 later this year and Pat is considering holding on to some of her shares as a future investment for Charlotte.

"The Sharesave scheme offered me a great way to save regularly and this year it has really come into its own", said Pat.



Our staff Sharesave scheme was launched in 1990 and in 2000 received the prestigious Proshare Award for 'Best Overall Performance in Fostering Employee Share Ownership in a FTSE 100 Company'.

Community Report

Ashley, an apprentice at the Orpheus Centre, supported by the Abbey National Charitable Trust in 2002.

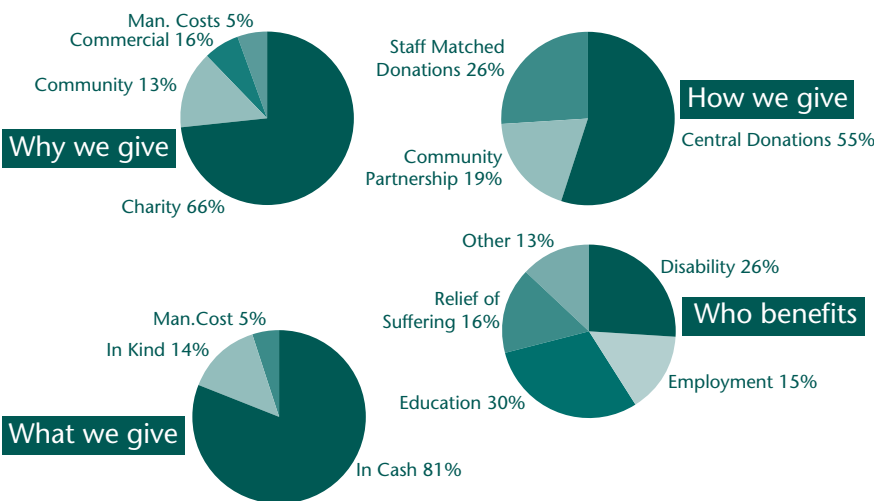
“Because of Abbey National’s time, money and sheer enthusiasm for what we do, many hundreds of lives have been transformed. I can think of nothing more worthwhile.”

*Tom Shebbeare
Chief Executive
The Prince’s Trust*

The aims and priorities of the Abbey National Charitable Trust reflect the values of the Company and the wider community which it is part of. At their heart is a commitment to empowering disadvantaged people to live fuller lives, whether through helping people to improve employment prospects or improving access to leisure facilities. Further details of the Trust’s application procedure and donation policy can be found on the Community section of our web site at www.abbeynational.com.

SUPPORTING OUR LOCAL COMMUNITIES

The Trust has given a total of £12 million to charities since it was set up in 1990. In 2001, our total contribution to the community in cash and in other ways has risen to £3.9 million, an increase of 45% on the previous year.



Figures reported using the London Benchmarking Group reporting model



Case study

"Dr. B's Restaurant and Coffee Shop has helped 240 young people with disabilities and behavioural problems, and those from backgrounds of abuse and neglect. Each year, 30 trainees are taught food preparation, customer and restaurant service skills to enable them to gain employment in the hotel and catering industry. These young people would otherwise be marginalised and excluded from real opportunities for career development."

Nadine Good, Manager, Dr B's.

In 2001, Abbey National's funding enabled Dr B's to employ their Employment Support Worker on a full-time basis. This gives better support to graduates from the scheme when they move on to permanent jobs, ensuring that they are able to cope when working and living independently.

STAFF INVOLVEMENT

In 2001, we were major supporters of Volunteers' Week, when our staff pledged over 16,500 new hours of volunteering activity. The Matched Time Scheme offers staff up to 35 hours of paid work time each year to match their own time commitment to volunteering. An online volunteering database with over 3,600 entries is available to all staff to find out about local opportunities: claims for time have risen by 68% this year.

COMMUNITY INVESTMENT

Abbey National's investment in the community has included working with Age Concern to offer free computer and internet taster sessions to the over 50s as part of UKOnline (an initiative to enable every UK citizen make the most of the internet). Throughout November, we and UKOnline provided access to computers and free internet training at more than 20 venues across the UK, through Age Concern's Open House scheme. The service allowed older people to learn at their own pace in a relaxed environment, with help from people of a similar age.

CHARITABLE DONATIONS

The amount claimed by staff through the Matched Donation scheme has risen by 74% to £600,370, while the number of staff involved in fund raising activities has risen from 3,000 to 4,000.

Staff groups called Community Partnership Groups meet regularly to consider support for their communities at a local level. These groups have grown from nine to thirteen, with four more planned for 2002. We have also put in

place a system that enables our managers to nominate for support local charities whose aims match our priorities. When these two initiatives are added to the amount given through the Matched Donation Scheme, the proportion of our charitable budget that has been donated in partnership with our staff has risen to 45%, an increase of 18%.

In response to the events of 11 September, we matched the money raised by our staff for a variety of charities including the New York Firefighters, Widows & Orphans Fund. Two further donations of £5,000 were made to the Salvation Army USA and the NY Firefighters 9-11 Fund.

PRIORITIES FOR SUPPORT

Within its overall objective of empowering disadvantaged people to live fuller lives, the Trust gives priority to the following areas:

Disability – organisations promoting equality of opportunity for disabled people.

Education – organisations providing education and training for disadvantaged and socially excluded groups.

Employment – organisations helping to deliver employment opportunities and job promotion, particularly for disadvantaged and socially excluded groups.

THE PRINCE'S TRUST:

In 2001, we "adopted" six teams of Prince's Trust volunteers – a unique 12-week personal development programme enabling 16-25 year olds to develop their confidence, motivation and skills through teamwork in the community. Of the unemployed young people who complete the programme, 70% go on to jobs, training or education.

Eighteen Abbey National Group staff have volunteered as Business Mentors for new businesses being started with the support of the Prince's Trust. Encouraging Abbey National colleagues to volunteer provides added value to the partnership and helps to ensure that over 60% of the businesses are still trading in their third year.

Donations to the Business Programme have helped the Prince's Trust to gain access to £200,000 of Government funding.

"Abbey National's donations have allowed The Prince's Trust to draw down public sector funding to increase the number of young people we are able to help.

The added value of the non-financial support has also had a major effect on our work with young people. Encouraging employees to volunteer has made the partnership stronger, allowing us to increase the quality of support we can offer, as well as offering Abbey National the opportunity to benefit from employee involvement.

As the partnership develops through the regional network and the Community Partnership Groups, our programmes will become more robust, adding true value to the community."

*Katie Briggs,
Corporate Development Manager,
The Prince's Trust*



Environment



“We allocate management resources for the effective implementation of Group environmental policy principles.”

Our ranking among the FTSE 100 participants of the Business in the Environment Index has improved from 51st in 2000 to 42nd in 2001, and from 10th to 8th among the financial sector participants.

In 2001, we were also included in the new FTSE4Good series of benchmark and tradable indexes which help people to invest in companies with good records of corporate social responsibility.



Our share price was also included in the Dow Jones Sustainability indexes for the first time. These indexes track the performance of the top 10% of companies leading in the field of sustainability.



The growing expectations of all our stakeholders have given extra drive to our environmental management and performance this year. We have strengthened our governance framework for environmental management across the Group, focusing on environmental risk in our investment and lending. We have made particular progress in Wholesale Banking, managing the supply chain, and the systems to capture information for direct and indirect impacts. The development of meaningful performance indicators has been less successful and will be a priority during 2002.

The following pages follow best practice reporting guidelines, including those of Government and the financial services sector. These pages outline our environmental management during 2001. Our performance is highlighted by our improved score in the 2001 Business in the Environment Index of Corporate Environmental Engagement and by being included in the FTSE4Good and Dow Jones Sustainability indexes. These indexes identify us as a company with one of the strongest records of environmental and social performance. The commitment of our Board is placing environmental issues higher on the business agenda. Our objectives for 2002 will continue to strengthen the way we manage these issues.

ENVIRONMENTAL POLICY

The Board approved our policy in November 1999. This policy encapsulates our environmental principles and provides an improved basis for Group-wide environmental management.

ENVIRONMENTAL MANAGEMENT STRATEGY

Our overall management strategy follows on from our environmental policy principles. It seeks:

- to reduce the direct impacts of our activities by improving operational efficiency; and
- to manage the indirect risks and opportunities associated with our business interests.

The environmental agenda is continually developing and systematic improvement across the Group, focusing on priority risk areas, is integral to our management strategy.

Environmental risk is explicit in the Board-approved high-level risk architecture that provides focus to management and structures the work programme of Internal Audit. During 2002 for example, Internal Audit have prioritised environmental risk and allocated resources for work across the Group. Environmental risk is also classified and built into the operational risk framework, providing a Group-wide system for identifying, managing and reporting emerging environmental risks and material environmental events. Contaminated land and risk of flooding present more tangible aspects of environmental risk. However,

the threat to our reputation from acting, or being seen to act, in an environmentally irresponsible way is equally relevant to environmental risk management.

We are actively involved in initiatives across the financial services sector which address relevant environmental issues and influence our environmental management strategy. We regularly take part in the Environmental Issues Advisory Panel of the British Bankers' Association and have signed up to the United Nations Environment Programme Financial Services Initiative.

We are also a member of the FORGE group of financial services organisations that published guidelines for the sector on environmental management and reporting in 2000. FORGE is also working to develop guidelines to facilitate the management and reporting of Corporate Social Responsibility (CSR). We take advice from a range of external consultants and closely monitor regulatory and legal changes that may affect our environmental strategy.

Environmental Policy Statement

We realise that our activities have both direct and indirect impacts on the environment. We recognise our corporate responsibility to operate and provide services in a way that respects the environment.

To this effect, we adopt an environmental management programme that endeavours to:

- give due consideration to environmental issues in the acquisition, design and location of buildings;
- reduce the use of energy in buildings and the associated emissions of carbon dioxide;
- reduce waste production, responsibly dispose of waste and, wherever practicable, recycle materials;
- ensure environmental issues are considered in the procurement of material resources and services;
- incorporate environmental factors in investment and lending decisions;
- continuously improve our environmental performance; and
- promote good environmental practice within the financial services sector.

Drivers of environmental management

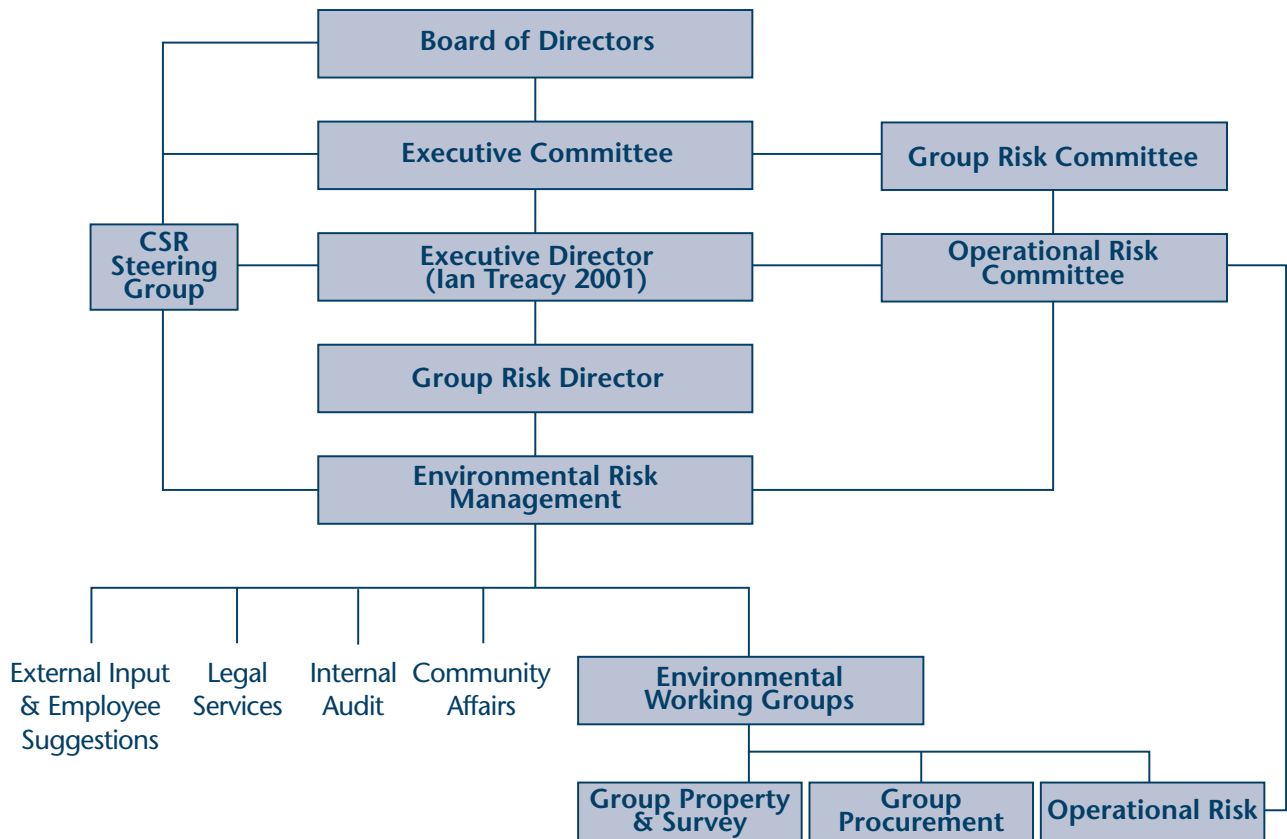
Internal

- Evolving CSR strategy and corporate mission.
- Board commitment to environmental risk management.
- Environmental risk awareness across business areas.
- Continuous improvement in the Environmental Management System.
- Environmental liability issues.
- Business opportunities.

External

- Association of British Insurers' guidelines for socially responsible investment.
- Turnbull Report on internal control for material, non-financial risks.
- EC recommendation - recognising, measuring and reporting on environmental issues.
- Business in the Environment, FTSE4Good and Dow Jones Sustainability indexes.
- FORGE and Government guidelines on environmental management and reporting.
- Specific legal and regulatory developments.
- Potential impact of climate change.

Governance



Over the year, we have continued to develop a Group-wide environmental management and reporting framework. There is an executive Board director with ultimate responsibility for the implementation of the environmental policy and the Group Environmental Risk Manager ensures that environmental impacts and risks are managed in a co-ordinated way across the Group. Environmental Risk reports annually to the Board, to Operational Risk Committee twice a year and to other forums on an ad hoc basis. The Abbey National Corporate Governance framework is being revised during 2002.

Operational risk functions throughout the business areas are accountable for the development of systems to manage environmental risk and liaise directly with the Environmental Risk Manager. The Operational Risk Environmental Working Group meets four times a year to review environmental issues arising from our business activities, to monitor progress against environmental objectives and to drive ongoing risk management. Membership has been extended during 2001 to include senior representatives from all business areas. The working group reports to the Operational Risk Committee which is chaired by a Board director.

Group Risk is currently working with each business area to determine the appropriate extent of environmental management. They have developed a simple traffic light reporting system which will highlight progress and relevant issues to management and the Operational Risk Committee every six months. This will direct management effort and drive improvement.

There are also environmental working groups for Group Procurement and Group Property. These are responsible for overseeing the management of environmental impacts associated with our day-to-day operations and supply chain risks. Each working group meets four times a year under specific terms of reference, and has representatives and input from key management areas. The Environmental Risk Manager attends all three environmental working groups and reports on them. There is also separate input to the environmental management system from Internal Audit, Legal Services and Corporate Affairs where appropriate.

From 2002 environmental management and reporting is also represented at the CSR (Corporate Social Responsibility) steering group, which meets quarterly.

MANAGEMENT OF INDIRECT RISKS

In the 2000 report, we set out our main business activities and the indirect environmental risks associated with investment and lending. For example, there are risks through non-compliance with environmental legislation, failing to take account of risks associated with contaminated land or the impact of environmental risks on customers and business partners. During 2001, environmental management has made further progress. We have provided an overview of developments in each of our business divisions below:

Wholesale Banking

In Wholesale Banking, we recognise the potential for environmental issues to have a significant impact on our activities. We have developed due diligence and credit appraisal processes to make sure that environmental risks are addressed.

During 2001, we have improved our environmental management system to build on the roles and responsibilities for identifying and managing environmental risks in our investment portfolio. As a result, we have updated our credit assessment procedures guide, including our environmental risk guidance and policy. And we now categorise all lending propositions for their exposure to environmental risk, on a high, minimal or no risk scale. We have also introduced procedures to ensure that no credit application is considered unless environmental risk is addressed in the credit approval document. The potential for environmental liability is identified by

the use of independently appointed expert environmental advisors as appropriate during due diligence.

To help our on-going management of environmental risk we have introduced formal reporting on environmental exposure through quarterly operational risk reports in 2001. The Wholesale Operational Risk function prepares a quarterly report for the Operational Controls Committee and a copy is submitted to the Board of the Wholesale Bank.

In 2002, we will continue to emphasise the importance of assessing the risk of environmental exposure in our lending decisions.

Progress against objectives for 2001

Progress environmental management systems and responsibilities across all business units	We have developed our environmental governance structure so that there is accountability for environmental management at appropriate levels throughout the Group. Responsibilities need to be reviewed regularly.
Formalise methods of collecting information and reporting performance	We have formalised the collection of performance data relating to direct impacts. We are developing systems to capture business travel in future years. Internal reporting for direct and indirect aspects of environmental performance improved during 2001, through environmental working groups and the Environmental Risk Manager.
Include requests for environmental information in the supply chain	Tender documents for key commodities contain environmental questions as part of the evaluation process. Information sharing and supplier policy reviews are now an ongoing and integrated activity for paper and print suppliers.
Share good practice across the Group	Information shared through one to one meetings with the Environmental Risk Manager, environmental working groups, the intranet and internet.
Set key performance indicators	Management performance indicators exist across the Group together with indicators for energy, waste, water and procurement. We have made slower progress on indicators for indirect impacts and risks. Development of performance indicators and targets is integral to the management system. Traffic light reporting will help progress in this area.
Communicate with stakeholders	Information published on web site, in Corporate Citizenship Report and available from Environmental Risk Manager. During 2001, we began to analyse the expectations of our stakeholders (suppliers/peer group), but wider consultation is needed.
Monitor the climate change agenda	The impacts of climate change are difficult to quantify in the short-term, and present a greater risk to medium- and long-term profitability. Group Risk has begun to assess the potential business implications of climate change to determine a possible response to key climate-related business risks and opportunities.
Review the Group environmental policy	We reviewed our policy during 2001 and it has not changed. We will revise the policy during 2002 to reflect emerging good practice. We will consider the inclusion of transport-related impacts, a Group climate change strategy, a framework for stakeholder engagement and sustainable development principles. The review will also seek to clarify the role of environmental management in CSR, risk management and corporate governance.
Work to improve our position in the market in relation to environmental management	This is demonstrated by external research such as that of Business in the Environment, FTSE4Good and Dow Jones Sustainability Indexes.

Wealth Management and Long-Term Savings

Business to Business Division

Our Life Division is currently reviewing the Association of British Insurers' (ABI) guidelines for socially responsible investment (SRI) in fund management. We will consider our management response during 2002.

During 2001, the Abbey National Ethical Unit Trust (which is managed according to a number of socially responsible investment principles) fell in value by 14.58%. This was against an average fall in ethical funds of 14.86%, and ranks us 10 out of 21 in the ethical fund subset. Though studies are ongoing, there is growing evidence which links good social, ethical and environmental stewardship to superior shareholder returns. We continue to monitor developments in this area.

In the First National Group (FNG), we are continuing to develop an environmental management and reporting system and have made some progress during 2001. Environmental responsibilities have been allocated across First National's four divisions through the operational risk framework and will be fully embedded during 2002. Environmental issues are discussed at the monthly meeting of the First National Risk Directors and the quarterly meeting of the First National Operational Risk Managers. We are currently reviewing our credit risk policies to take explicit account of environmental risk. We are updating our procedures manuals for assessing environmental risk in commercial lending. During 2002, we will look at increasing awareness of environmental concerns at the underwriting stage by reviewing the procedures for commercial valuations. We also aim to analyse our industry sector exposures and identify changes in environmental law that may affect our counter-parties.

Business to Consumer Division

During 2001, environmental management in the Business to Consumer Division has focused on environmental risk issues in pension fund management. In our role as pension fund trustees, we comply with the amendment to the 1995 Pensions Act. This means that we must disclose the extent to which environmental, social and ethical considerations are taken into account in the selection, retention and realisation of investments. We are increasing environmental risk management levels for commercial pension fund properties. In some pension schemes where we act as trustee, we are the legal owner or co-owner of commercial property. We are currently increasing environmental risk management levels for these pension fund properties.

Standards set for managing environmental risk for residential mortgage lending are already part of the lending policy in this division.

Retail Banking

Similarly, the Retail Bank has made progress in incorporating environmental risk management in the operational risk management and reporting framework. There is a process for managing environmental risk through residential mortgage lending, with a system for evaluating environmental risk in all property valuations. We also offer new mortgage customers details of the energy efficiency of their property when a survey is carried out. This suggests ways to improve energy efficiency. In 2002, our management effort will centre on communication and opportunities for developing products.

MANAGEMENT OF DIRECT IMPACTS

During 2001, Group Property has updated its environmental management system. It continues the work to manage and reduce our energy and water consumption, waste production and impacts associated with the procurement of fixtures and fittings. We have allocated over £200,000 to energy conservation projects during the year, which should save around 1% of total energy consumption. Measures include:

- a programme for converting light fittings, which has reduced lighting energy by 25%;
- replacing humidification units in air conditioning systems with low energy types;
- fitting optimisers to catering refrigeration; and
- installing carbon dioxide detection into air conditioning systems to reduce the fresh air brought into buildings and save on heating and cooling.

Group Procurement has been working to include environmental risk considerations in supplier management. It will publish plans for its key commodities (print, direct mail, paper, IT hardware, travel, distribution, stationery and packaging) during the first quarter of 2002. These plans will contain detailed measures of performance, risk assessments, and environmental management actions. We will then record and monitor statistics for each commodity as part of the developing environmental management system. We will report our progress in this area.

We plan to introduce more targets when we have improved the baseline data and established the scope for performance improvement. Environmental impacts associated with business travel, for example, are currently being included into environmental management systems. And from 2003, we should be able to provide comprehensive information on our travel by car, rail and air. This will enable us to monitor and manage our performance going forward, and provide a more complete picture of our contribution to climate change.

“Measure and monitor key aspects of our environmental performance”

Performance

	1999	2000	2001	Comment on performance
Energy consumption (MWh) (not including First National - FN)				
Electricity	138,500	139,700	135,700	Energy target not including FN = 172,900 MWh by 2004 (5% reduction on 1999). Progress made towards target and further projects planned to reach it. However, will be revised in 2002 to reflect improved data coverage.
Gas	43,500	39,400	41,500	
Total	182,000	179,100	177,200	
Total including First National			186,700	
Associated CO2 emissions (tonnes) (not including FN)				
	69,226	68,956	67,564	Target excl. FN = 62,303 tonnes by 2004 (10% reduction on 1999); will be revised in 2002.
Including First National			70,998	Target to increase the amount of energy from renewable sources to 10% by 2010.
Water consumption (cubic metres) (excluding First national)				
	271,587	281,638	257,916	Target = 258,000 m3 by 2004 (5% reduction on 1999). This target will be updated to include more sites in 2002.
Total waste (tonnes)				
	3080	2960	4020	Data coverage and quality has improved in 2001, influencing reported waste volumes this year. Recycling has also improved, moving towards our target to increase the ratio of recycled to total waste to 60% by 2003.
% recycled	43	53	59	
Employees (full-time equivalent)				
	27,115	25,799	31,193	
Operating Income (£m)				
	3,802	4,294	4,554	

Objectives for 2002

In the last year, there have been improvements in the management of environmental risks and impacts. These improvements are demonstrated by our improved score in the Business in the Environment Survey and by being included in the FTSE4Good and Dow Jones Sustainability Indexes. However, there is much more to do.

Our principal objectives for 2002 build on the work of 2001, to maintain and improve our position in relation to our peer group and to comply with all applicable codes. Our objectives are to:

- review the environmental policy to incorporate emerging good practice;
- appraise environmental law to ensure that Group-wide systems are in place for risk mitigation and compliance;
- keep the environmental management system under continual review, focusing on the management of indirect environmental risk and impacts on the supply chain, investment and lending, data quality, targets and performance indicators;
- consider the merits of certifying the management system to ISO14001, an international environmental management standard;
- continue to assess of the implications of climate change on our environmental risk management; and
- take part in internal and external environmental management groups.

This programme will be kept under continuous review in 2002.

INDEPENDENT REVIEW

As we did last year, we have asked independent environmental management consultants to assess our progress during 2001. In their work, we have asked PricewaterhouseCoopers to focus their attention on the issues that are key to our strategy and formed management priority in 2001:

- Governance arrangements for environmental management.
- Risk management processes for environmental risk in the investment and lending divisions of the Group (Wholesale, First National, Retail).
- The Group's response in the Life Division to the ABI Guidelines on SRI.

Independent review not only adds credibility to our environmental management report, but also provides focus for further environmental management development in line with emerging good practice, through the recommendations made concurrently to senior management. Future reviews will focus on emerging and material issues and we will continue to review our performance on a regular basis.

INDEPENDENT REVIEW



To the Board of Abbey National plc

The 2001 Corporate Citizenship Report (the 'Report') relates to the operations of Abbey National plc (the 'Group') for the period January to December 2001. The Report is the responsibility of, and has been approved by the Board. We have been specifically asked to review and report to management on the statements in the Report on pages 18-24 relating to:

The governance arrangements in place for environmental management and reporting at Executive level within the Group and Business Units;

The scope of Group Policies relating to the management of environmental risk in the lending and investment divisions of the Group (Wholesale, Retail and FNG);

The existence of internal management processes and controls which implement these Group Policies within Wholesale, Retail and FNG;

The activity of the Life Division in respect of the ABI Guidelines on socially responsible investment (SRI) and policies; and

The consistency of the information contained in the Environment section of the Report based on the work we have completed.

There are no generally accepted international standards for reporting or review of environmental performance data. We have therefore adopted a review approach that reflects emerging best practice and the underlying principles within international standards for assurance engagements. Our review comprised:

*Nineteen interviews with management at Group and business level and review of available supporting documentation;
Review and sample testing of Group and business level environmental risk assessment processes for lending and investment;
Review of the final content of pages 18-24 of this Report to assess consistency with the overall findings of our work.*

In preparing the findings below, we have not conducted an audit, as defined in auditing standards, and we do not express an audit opinion, on the performance data and information in the Report.

Review Findings

The findings of our review are consistent with the information presented in the Report, concerning:

- *the status of the environmental governance structure in place at Group and business level (pages 19-20);*
- *the processes in place for managing environmental risk in the lending and investment divisions of the Group (Wholesale, Retail and FNG) (pages 21-22);*
- *the adoption of the ABI Guidelines on SRI within the Life Division (page 22).*

17th April 2002
London



Getting in touch

Last year you told us ...

“very well designed and presented report which shows commendable commitment on the part of Abbey National to corporate citizenship”

“it is a fairly impersonal document”

“carry on the good work”

“make it shorter”

GETTING IN TOUCH

We welcome any comments, criticisms or suggestions you may want to make, on this report and on our performance as a corporate citizen.

In a short report it is difficult to cover every aspect of our work in detail. If you have any questions about this report or related issues, please contact us by email at:

community@abbeynational.co.uk

Or in writing to

Community Affairs
Abbey National plc
Marble Arch Tower
55 Bryanston Street
London
W1H 8HA

For more information on environmental management or to comment on the environmental report, please contact:

Group Environmental Risk Manager
Abbey National Group Risk
Genesis House
301-349 Midsummer Boulevard
Milton Keynes
MK9 2JE

Phone: 0870 607 6000
Textphone: 0845 600 1207

Glossary

Glossary

Accountability

Who answers to whom. Each job or task has a set of responsibilities attached to it. Being accountable to a person or group of people should help to make sure that those responsibilities are met.

Analysts

City professionals who analyse and value companies and banks.

Asset financing

The business of funding significant assets and projects.

Association of British Insurers' Guidelines

Investment guidelines published in November 2001 to improve disclosure of British companies' approach to corporate social responsibility. The guidelines are intended to encourage businesses to adopt best practice when responding to environmental, social and ethical risks.

Baseline data

Measures used as a starting point for comparing performance over time.

Benchmarking

A way of comparing one organisation with another.

Branch franchising

We launched this programme in 2001. Groups of usually eight to twelve branches sell our products and provide core services within a "franchised market". The franchise manager is responsible for the day to day management of the market.

British Bankers' Association

The British Bankers' Association is the leading trade association in the banking and financial services industry. It represents banks and other financial services firms operating in the UK.

Business in the Community

Founded in 1982, this organisation encourages companies to become more involved in their local communities. The organisation is committed to fostering a genuine partnership between business, government, local authorities and trade unions.

Business in the Environment Index

An annual survey which ranks companies' strategic environmental management and performance in key impact areas. This enables comparisons across and within industry sectors.

Climate change

The most accurate term for the global environmental change also known as the greenhouse effect and global warming. Scientific consensus that emissions of certain gases (greenhouse gases) are causing the sun's heat to be trapped rather than sent into space. This in turn causes a global average increase in temperature and results in potentially significant regional changes in climate. For example, more frequent storms, drought and rises in sea level.

Combined Code on Corporate Governance

Issued in 1998 it sets out the principles of Good Governance and Best Practice and is derived from the recommendations published in the Hamble, Cadbury and Greenbury reports. All listed companies are required to disclose in their annual report and accounts, how the principles of the code are applied within their organisation and whether they have complied with the provisions of the Combined Code.

Commodities

Raw materials or primary agricultural products that can be bought or sold.

Corporate Citizenship or Corporate Social Responsibility

In the same way that a person might be said to be a good citizen by following the law, paying taxes and doing good work in their local area, a company can perform the same duties to its neighbours on a larger scale. Corporate Citizenship or Corporate Social Responsibility is a way of looking at how a company or organisation fits into the wider society.

Disability Discrimination Act

The 1995 Act of Parliament aimed at ending discrimination against disabled people.

Disenfranchisement

Deprivation of a right or privilege.

Diversity

Variety or difference.

Dow Jones Sustainability Index

An index which tracks the performance of the top 10% of companies which lead in the field of sustainability.

EC or European Commission

The body which is generally responsible for initiating European Union policy and action on a range of issues, including environmental.

Employment Service Disability Service

Part of the Employment Service that aims to help disabled people find jobs.

Environmental Issues Advisory Panel

A group of environmental management representatives from different banks. The group was formed by the British Bankers' Association to share information and comment on environmental issues as they affect the sector.

FORGE

Guidelines on environmental management and reporting produced by the financial services sector in 2000 for the financial services sector.

FTSE4Good

A series of benchmark and tradable indexes which help people to invest in companies with good records of corporate social responsibility.

Good practice

Externally recognised best practice, or the best way of doing something.

Impact

Any change that our activities, products or services have on society and the environment, whether good or bad.

Independent review

An assessment of the consistency of reported information against the findings of a review of business activities carried out by an independent third party. The scope of the review is agreed with management and may focus on all or some of the company's activities.

Infrastructure

Roads, railways, airports, health service, schools and so on.

Institutional investors

Large scale investors, such as pension funds, asset managers and investment managers.

Intermediaries

A person or company that introduces their customers to our range of products and services. An example might be an independent financial adviser who recommends our investment products to their client.

Intranet

A private computer communications network created using world wide web software.

Key Performance Indicators (KPIs)

Measurable areas of an organisation which provide summarised information on how it is performing.

Legislative or regulatory frameworks

Various legal and regulatory requirements which a company must observe and work within.

Mission statement

A formal summary of the aims and values of an organisation.

Occupational Health & Safety Unit

The department responsible for monitoring the Health & Safety of all our employees.

Operational risk

The risk of direct or indirect loss as a result of inadequate or failed internal processes and systems, or because of external events.

Policy

A course of action or principle adopted or proposed by an organisation or individual.

Private investors

Individuals who invest their own money in a company's shares directly, not through a pension fund, asset manager or other third party.

Public Finance Initiative (PFI)

A UK Government programme to attract private finance to essential state projects.

Public Private Partnership (PPP)

The term for joint Government and private sector projects.

Securities financing

The business of stock lending, repurchase agreements and general financing of securities, such as equity and debt.

Share registrar

Where the list of shareholders is kept, and shareholdings are administered.

SME

A small- to medium-sized enterprise or business.

Socially Responsible Investment (SRI)

Considering moral, social and environmental factors when making an investment and lending decisions.

Stakeholders

A person or group of people with an interest or concern in something.

Strategy

A plan designed to achieve a particular long-term aim.

Supply chain

The series of businesses involved in supplying and buying materials and goods from raw materials to final product.

Sustainability or sustainable development

The concept of meeting the needs of the present and allowing economic growth, without affecting the ability of future generations, through depletion of resources including energy, to meet their own needs.

Total contribution to the community

A way of measuring everything that a company contributes to the community it operates in. This would include items such as gifts in kind, volunteering time, and financial contributions.

Turnbull Report

Guidance produced in 1999 to help directors of UK listed companies meet the internal control requirements of the Combined Code attached to the Financial Services Authority Listing Rules of the London Stock Exchange. It includes guidance on risk management, which relates to operational and compliance risk, as well as financial risk.

United Nations Environment Programme Financial Services Initiative

Those who have signed this initiative aim to identify, promote and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

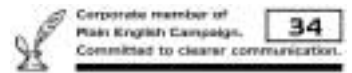
Notes

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The Plain English Campaign has worked closely with Abbey National to improve the clarity of this report.

Abbey National, Abbey National House, 2 Triton Square, Regent's Place, London NW13AN
Registered No. 2294747. Registered in England.

Printed on Revive Silk made from 75% de-inked post consumer paper waste. This material conforms to the most stringent environmental requirements and is manufactured in the UK.



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