



# Sovereign Bancorp

NEWS RELEASE

Corporate Headquarters: 1500 Market Street, Philadelphia, Pa.

FOR IMMEDIATE RELEASE

DATE: July 18, 2007

**FINANCIAL CONTACTS:**

Mark McCollom 610-208-6426 [mmccollo@sovereignbank.com](mailto:mmccollo@sovereignbank.com)  
Stacey Weikel 610-208-6112 [sweikel@sovereignbank.com](mailto:sweikel@sovereignbank.com)

**MEDIA CONTACT**

Ed Shultz 610-378-6159 [eshultz1@sovereignbank.com](mailto:eshultz1@sovereignbank.com)

## Sovereign Bancorp, Inc. Announces Second Quarter 2007 Earnings

PHILADELPHIA, PA...Sovereign Bancorp, Inc. ("**Sovereign**") (NYSE: **SOV**), parent company of Sovereign Bank ("Bank"), today reported net income for the second quarter of 2007 of \$148 million, or \$.29 per diluted share as compared to a net loss of \$59.1 million, or (\$.15) per diluted share, for the second quarter of 2006. Net income in the second quarter of 2007 included aggregate charges of \$20.1 million after-tax, or \$.04 per share, related to the previously announced expense reduction initiative. The net loss in the second quarter of 2006 included restructuring charges of \$155 million after-tax, or \$.34 per share, a non-cash, non-operating impairment charge related to certain Fannie Mae and Freddie Mac preferred stock of \$43.9 million after-tax, or \$.10 per share, additional provision for credit losses related to the acquisition of Independence of \$8.1 million after-tax, or \$.02 per share, merger and integration charges of \$4.1 million after-tax, or \$.01 per share, and a loss on economic hedges of \$7.4 million, or \$.02 per share.

Sovereign's operating earnings for EPS purposes were \$170 million, or \$.33 per diluted share, for the quarter ended June 30, 2007, as compared to \$163 million, or \$.37 per diluted share a year ago, both of which excluded the above-mentioned charges. A reconciliation of net income to operating earnings, as well as the related earnings per share amounts, is included in a later section of this release.

Commenting on results for the second quarter of 2007, Joseph P. Campanelli, Sovereign's President and CEO, stated, "As planned, we have essentially completed the balance sheet restructuring and have put the programs in place to realize expense efficiencies we initiated in the fourth quarter of 2006. With these critical initiatives largely completed we can now fully focus on the third prong of our strategy. Our focus will center on improving the customer experience as well as optimizing our overall deposit and loan profile, both of which may increase Sovereign's net interest margin and earnings."

### Net Interest Income and Margin

For the second quarter of 2007, Sovereign reported net interest income of \$453 million as compared to \$439 million in the second quarter of 2006. Sovereign's average loan balances, including acquisitions, increased by \$6.2 billion over last year. Reflecting the loan sales that settled at the end of the first quarter of 2007 as part of Sovereign's previously announced balance sheet restructuring, average loan balances decreased about \$4.4 billion on a linked quarter basis to \$56.8 billion. The period-end loan portfolio

increased by approximately \$400 million from balances at March 31, 2007, reflecting strong growth in certain commercial loan categories and in the auto loan portfolio. Loan growth was partially offset by a \$1 billion securitization consisting of \$675 million of multi-family loans and \$325 million of commercial real estate loans, which closed in early June. Sovereign's average core deposits, including acquisitions, increased \$4.9 billion over last year. Average core deposits decreased \$490 million linked quarter to \$35.6 billion; however, this decrease was driven by reductions in higher-cost deposits as government and wholesale core deposit categories declined \$1.0 billion during the quarter.

Net interest margin was 2.71% for the second quarter of 2007 as compared to 2.70% in the prior quarter and 2.86% a year ago. Consistent with its recent balance sheet strategy to reduce wholesale transactions, Sovereign elected to unwind a \$1.2 billion financing transaction that has been in place with an international bank, which has historically reduced funding costs. As a result of unwinding this transaction, Sovereign's net interest margin was reduced by approximately six basis points this quarter, compared to the prior quarter.

### **Non-Interest Income**

Total fees and other income before security gains totaled \$190 million for the second quarter of 2007 compared to \$142 million a year ago and \$45.9 million last quarter. Consumer and commercial banking fees increased 16% from a year ago, primarily a result of the Independence acquisition and were up 10% linked quarter, rebounding from seasonal lows typically present in the first quarter of each year.

Mortgage banking revenues for the quarter were \$26.5 million, compared to a loss of \$107 million last quarter and revenues of \$4.5 million in the same quarter a year ago. Included in mortgage banking revenues this quarter was a gain of \$13.8 million related to the commercial loan securitization that took place during the quarter. Last quarter, the company recorded hedge losses on this transaction of \$3.3 million which was included in operating earnings. Also included in mortgage banking revenues last quarter was a special charge of \$120 million related to the sale of correspondent home equity loans, partially offset by a \$6.1 million net gain related to the sale of multi-family loans.

### **Non-Interest Expense**

G&A expenses were \$336 million for the second quarter of 2007, up \$6.6 million or 2.0% from the first quarter as a result of an anticipated increase of \$8.0 million in marketing expense. G&A expenses to average assets were 1.65% for the quarter, compared to 1.53% in the first quarter and 1.66% a year ago.

### **Asset Quality**

Annualized net charge-offs were .18% of average loans for the second quarter, compared to .16% linked quarter and .23% a year ago. In dollars, net charge-offs were \$25.6 million this quarter versus \$24.1 million in the prior quarter and \$29.4 million a year ago.

Non-performing loans to total loans held for investment decreased one basis point from first quarter levels to .42%. Non-performing loans decreased by \$2.1 million from last quarter to \$240 million. The allowance for credit losses to non-performing loans was 217% at June 30, 2007, as compared to 208% at March 31 and 251% at June 30, 2006.

Sovereign's provision for credit losses was \$51.0 million this quarter, compared to \$46.0 million in the first quarter and \$44.5 million in the second quarter of 2006. Provision for credit losses exceed net charge-offs this quarter by \$25.3 million to reserve for the strong loan growth experienced in the commercial and auto

loan portfolios in addition to mildly weakening credit quality that resulted in migration of credit risk ratings.

## Capital

Sovereign's Tier 1 leverage ratio was 6.40% at June 30, 2007, as compared to 6.29% last quarter. Tangible equity to tangible assets, which includes preferred stock, was 4.33%. Tangible common equity to tangible assets was 4.07%. The equity to assets ratio was 10.61% at June 30, 2007. Sovereign Bank's Tier 1 leverage ratio was 6.92% and the Bank's total risk-based capital ratio was 10.46% at June 30, 2007.

## About Sovereign

Sovereign Bancorp, Inc., ("**Sovereign**") (NYSE: **SOV**), is the parent company of Sovereign Bank, a financial institution with \$82 billion in assets as of June 30, 2007 with principal markets in the Northeast United States. Sovereign Bank has nearly 750 community banking offices, over 2,250 ATMs and approximately 12,000 team members. Sovereign offers a broad array of financial services and products including retail banking, business and corporate banking, cash management, capital markets, wealth management and insurance. Sovereign is the 18th largest banking institution in the United States. For more information on Sovereign Bank, or call **1-877-SOV-BANK**

Investors, analysts and other interested parties will have the opportunity to listen to a live web-cast of Sovereign's Second Quarter 2007 earnings call on Thursday, July 19 beginning at 9:00 a.m. ET at <http://phx.corporate-ir.net/phoenix.zhtml?p=irol-eventDetails&c=67999&eventID=1582796>. International parties are invited to dial into the conference call at 706-679-7706. The webcast and replay can be accessed anytime from 9:00 a.m. ET on Thursday, July 19, 2007 through 12:00 a.m. ET on October 18, 2007. Questions may be submitted during the call via email accessible from Sovereign Bancorp's broadcast and Investor Relations sites. A telephone replay will be accessible from 11:00 a.m. ET on Thursday, July 19, 2007 through 12:00 a.m. ET (midnight) on Thursday, July 26, 2007 by dialing 1-800-642-1687, confirmation id #4490624.

--END--

### Note:

This press release contains financial information determined by methods other than in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). Sovereign's management uses the non-GAAP measure of Operating Earnings, and the related per share amount, in their analysis of the company's performance. This measure, as used by Sovereign, adjusts net income determined in accordance with GAAP to exclude the effects of special items, including significant gains or losses that are unusual in nature or are associated with acquiring and integrating businesses. Operating earnings for 2006 and 2007 EPS purposes represent net income adjusted for the after-tax effects of merger-related and integration charges, certain restructuring charges, other-than-temporary impairment charges on Fannie Mae and Freddie Mac preferred equity securities and proxy and related professional fees. Since certain of these items and their impact on Sovereign's performance are difficult to predict, management believes presentations of financial measures excluding the impact of these items provide useful supplemental information in evaluating the operating results of Sovereign's core businesses. These disclosures should not be viewed as a substitute for net income determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

This press release contains statements of Sovereign's strategies, plans, and objectives, as well as estimates of financial condition, operating and cash efficiencies and revenue generation. These statements and estimates constitute forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995), which involve significant risks and uncertainties. Actual results may differ materially from the results discussed in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, general economic conditions, changes in interest rates, deposit flows, loan demand, real estate values and competition; changes in accounting principles, policies, or guidelines; changes in legislation or regulation; Sovereign's ability in connection with any acquisition to complete such acquisition and to successfully integrate assets, liabilities, customers, systems and management personnel Sovereign acquires into its operations and to realize expected cost savings and revenue enhancements within expected time frame; the possibility that expected one time merger-related charges are materially greater than forecasted or that final purchase price allocations based on the fair value of acquired assets and liabilities and related adjustments to yield and/or amortization of the acquired assets and liabilities at any acquisition date are materially different from those forecasted; other economic, competitive, governmental, regulatory, and technological factors affecting the Company's operations, integrations, pricing, products and services; and acts of God, including natural disasters.

Sovereign Bancorp is followed by several market analysts. Please note that any opinions, estimates, forecasts, or predictions regarding Sovereign Bancorp's performance or recommendations regarding Sovereign's securities made by these analysts are theirs alone and do not represent opinions, estimates, forecasts, predictions or recommendations of Sovereign Bancorp or its management. Sovereign Bancorp does not by its reference to any analyst opinions, estimates, forecasts regarding Sovereign's performance or recommendations regarding Sovereign's securities imply Sovereign's endorsement of or concurrence with such information, conclusions or recommendations.

Sovereign Bancorp, Inc. and Subsidiaries  
 FINANCIAL HIGHLIGHTS  
 (unaudited)

## Quarter Ended

	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30
	2007	2007	2007	2006	2006

(dollars in millions, except per share data)

## Operating Data

Net income (loss)	\$58.2	\$147.5	\$48.1	\$(129.4)	\$184.0
Net income (loss) for EPS purposes	54.6	150.2	44.4	(133.1)	188.5
Operating earnings for EPS purposes (1)	95.5	170.3	179.6	166.6	207.0
Net interest income	456.8	453.4	487.9	487.0	491.8
Provision for credit losses (5)	162.5	51.0	46.0	366.0	45.0
Total fees and other income before security gains (6)	141.4	190.3	45.9	149.4	171.9
Net gain (loss) on investment securities (7)	1.9	-	1.0	(36.1)	29.2
G&A expense	341.7	336.6	330.0	354.9	351.8
Other expenses (8)	44.0	79.5	116.8	134.5	75.3

## Performance Statistics

## Bancorp

Net interest margin	2.74%	2.71%	2.70%	2.60%	2.64%
Return on average assets	0.28%	0.72%	0.22%	-0.57%	0.81%
Operating return on average assets (1)	0.46%	0.83%	0.83%	0.73%	0.91%
Return on average equity	2.63%	6.71%	2.23%	-5.82%	8.47%
Operating return on average equity (1)	4.32%	7.75%	8.34%	7.49%	9.52%
Return on average tangible equity	6.90%	17.62%	6.01%	-15.54%	23.72%
Operating return on average tangible equity (1)	11.31%	20.35%	22.46%	20.00%	26.68%
Annualized net loan charge-offs to average loans (9)	0.24%	0.18%	0.16%	2.75%	0.23%
G & A expense to average assets	1.66%	1.65%	1.53%	1.56%	1.55%
Efficiency ratio (2)	57.12%	52.29%	61.83%	55.77%	53.01%

## Per Share Data

Basic earnings (loss) per share	\$0.11	\$0.30	\$0.09	\$(0.28)	\$0.39
Diluted earnings (loss) per share	0.11	0.29	0.09	(0.28)	0.37
Operating earnings per share (1)	0.19	0.33	0.35	0.33	0.41
Dividend declared per share	0.080	0.080	0.080	0.080	0.080
Common book value (3)	17.76	17.92	17.87	17.83	18.07
Common stock price:					
High	\$21.94	\$25.16	\$26.42	\$25.90	\$21.60
Low	16.58	21.14	24.07	21.27	20.07
Close	17.04	21.14	25.44	25.39	21.51

Weighted average common shares:

Basic	480.2	478.3	475.1	473.4	472.4
Diluted (4)	480.2	512.6	475.1	473.4	506.1
End-of-period common shares:					
Basic	480.4	479.1	475.7	473.8	472.6
Diluted	512.4	512.3	509.8	508.7	506.5

	Year to Date	
	Sept. 30	Sept. 30
	2007	2006

(dollars in millions, except per share data)

#### Operating Data

Net income (loss)	\$253.7	\$266.4
Net income (loss) for EPS purposes	242.8	281.1
Operating earnings for EPS purposes (1)	445.4	525.4
Net interest income	1,398.0	1,334.5
Provision for credit losses (5)	259.5	118.5
Total fees and other income before security gains (6)	377.6	448.2
Net gain (loss) on investment securities (7)	2.9	(275.9)
G&A expense	1,008.2	935.1
Other expenses (8)	240.2	179.0

#### Performance Statistics

##### Bancorp

Net interest margin	2.72%	2.81%
Return on average assets	0.41%	0.47%
Operating return on average assets (1)	0.71%	0.93%
Return on average equity	3.87%	5.03%
Operating return on average equity (1)	6.79%	9.92%
Return on average tangible equity	10.23%	11.92%
Operating return on average tangible equity (1)	17.95%	23.51%
Annualized net loan charge-offs to average loans (9)	0.19%	0.24%
G & A expense to average assets	1.61%	1.65%
Efficiency ratio (2)	56.78%	52.45%

#### Per Share Data

Basic earnings (loss) per share	\$0.51	\$0.62
Diluted earnings (loss) per share	0.51	0.62
Operating earnings per share (1)	0.87	1.16
Dividend declared per share	0.240	0.220
Common book value (3)	17.76	18.07
Common stock price:		
High	\$26.42	\$21.76
Low	16.58	19.57
Close	17.04	21.51

Weighted average common shares:

Basic	477.9	420.7
Diluted (4)	477.9	454.3
End-of-period common shares:		
Basic	480.4	472.6
Diluted	512.4	506.5

## NOTES:

(1) Operating earnings represent net income excluding the after-tax effects of certain items, such as significant gains or losses that are unusual in nature or are associated with acquiring or integrating businesses, and certain other charges. See page H and I for a reconciliation of GAAP and Non-GAAP measures.

(2) Efficiency ratio equals general and administrative expense as a percentage of total revenue, defined as the sum of net interest income and total fees and other income before security gains.

(3) Common book value equals common stockholders' equity at period-end divided by common shares outstanding.

(4) The conversion of warrants and equity awards and the after-tax add back of Sovereign's contingently convertible trust preferred interest expense was excluded from Sovereign's GAAP diluted earnings per share calculation for the first and third quarters of 2007, the nine months ended September 30, 2007 and the fourth quarter of 2006 since the result would have been anti-dilutive. However, for operating earning purposes these items are dilutive and as a result they have been added back for operating earnings and operating earnings per share purposes.

(5) The third quarter of 2007 includes an additional provision of \$47 million on our retained correspondent home equity portfolio as well as \$37 million of additional reserves allocated to our indirect auto portfolio due to increased losses experienced in the third quarter and higher projected losses in future periods. The fourth quarter of 2006 includes a lower of cost or market adjustment on the correspondent home equity portfolio held for sale of \$296 million.

(6) The third quarter of 2007 includes lower of cost or market adjustments of \$11.7 million on certain loan portfolios that were classified as held for sale. Additionally, the third quarter of 2007 includes a charge of \$19.4 million on certain financing transactions with mortgage related entities. The second quarter of 2007 includes a gain of \$13.8 million on a commercial mortgage backed securitization. The first quarter of 2007 includes a lower of cost or market adjustment of \$119.9 million on correspondent home equity loans that were not sold as of March 31, 2007. The fourth quarter of 2006 includes a net lower of cost or market adjustment associated with the residential loan portfolio held for sale of \$28.2 million.

(7) The fourth quarter of 2006 includes a loss of \$43 million associated with the sale of \$1.5 billion of CMO investments.

(8) The second quarter of 2007 includes net restructuring and debt extinguishment charges of \$32.7 million. The first quarter of 2007 includes \$43.4 million of ESOP expense related to freezing of the plan and \$20 million of charges related to employee severance and charges associated with closing certain branch locations. The fourth quarter of 2006 includes \$78.7 million of severance and restructuring charges.

(9) Charge-offs for the fourth quarter of 2006 include \$389.5 million of charge-offs related to the lower of cost or market valuation adjustments recorded for correspondent home equity and residential loan portfolios that are held for sale as well as a \$14 million charge-off on a large

commercial loan.

Sovereign Bancorp, Inc. and Subsidiaries  
 FINANCIAL HIGHLIGHTS  
 (unaudited)

	Quarter Ended				
	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30
	2007	2007	2007	2006	2006
(dollars in millions)					
Financial Condition Data:					
General					
Total assets	\$86,607	\$82,737	\$82,194	\$89,642	\$90,410
Loans (1)	57,148	56,527	56,125	62,589	63,178
Total deposits and customer related accounts:	50,098	49,845	52,563	52,385	52,784
Core deposits and other customer related accounts	34,472	34,722	37,001	36,321	36,031
Time deposits	15,626	15,123	15,562	16,064	16,753
Borrowings	26,161	22,462	19,162	26,850	27,101
Minority interests	146	146	157	156	210
Stockholders' equity	8,726	8,780	8,695	8,644	8,734
Goodwill	5,003	5,003	5,006	5,005	4,990
Core deposit and other intangibles	402	433	465	498	533
Asset Quality					
Non-performing assets (2)	\$336.7	\$282.4	\$278.4	\$235.6	\$273.1
Non-performing loans (2)	282.4	239.9	242.0	207.9	232.8
Non-performing assets to total assets (2) (3)	0.39%	0.34%	0.34%	0.29%	0.30%
Non-performing loans to loans (2) (3)	0.49%	0.42%	0.43%	0.38%	0.37%
Allowance for credit losses	\$650.0	\$521.1	\$503.3	\$486.3	\$558.1
Allowance for credit losses to total loans (3)	1.14%	0.92%	0.90%	0.88%	0.88%
Allowance for credit losses to non-performing loans (2)	230%	217%	208%	234%	240%
Capitalization - Bancorp (4)					
Stockholders' equity to total assets	10.08%	10.61%	10.58%	9.64%	9.66%
Tier 1 leverage capital ratio	6.03%	6.40%	6.29%	5.73%	5.82%
Tangible equity to tangible assets	4.09%	4.33%	4.20%	3.73%	3.78%
Tangible common equity to tangible assets	3.85%	4.07%	3.95%	3.50%	3.55%
Capitalization - Bank (4)					
Stockholders' equity to total assets	12.05%	12.71%	12.80%	11.76%	11.65%

Tier 1 leverage capital ratio	6.63%	6.93%	6.80%	6.22%	6.21%
Tier 1 risk-based capital ratio	7.63%	7.83%	7.77%	7.52%	7.67%
Total risk-based capital ratio	10.35%	10.45%	10.48%	10.07%	10.34%

(1) Loans at December 31, 2006 include \$7.6 billion of loans held for sale.

(2) Non performing loans and non performing assets include \$41.5 million of loans related to our correspondent home equity portfolio due to the additional provision for credit losses that was recorded in the third quarter of 2007. Non performing loans and assets at June 30, 2007 and March 31, 2007 exclude \$51.6 million and \$22.4 million, respectively, of correspondent home equity loans that were written down to fair value at March 31, 2007 since credit losses related to these loans were considered in our lower of cost or market adjustment at March 31, 2007. Sovereign reclassified these loans back into our loan portfolio at March 31, 2007. Non-performing loans and assets at December 31, 2006 exclude \$21.5 million of residential non-accrual loans and \$66.0 million of home equity non-accrual loans that are classified as held for sale.

(3) The calculation of these ratios at June 30, 2007 and March 31, 2007 exclude approximately \$491 million and \$574 million, respectively, of loans that were marked down to fair value as of March 31, 2007. The calculation of these ratios at December 31, 2006 excludes \$7.6 billion of loans held for sale.

(4) All capital ratios are calculated based upon adjusted end of period assets consistent with OTS guidelines. The current quarter ratios are estimated as of the date of this earnings release.

Sovereign Bancorp, Inc. and Subsidiaries  
CONSOLIDATED BALANCE SHEETS  
(unaudited)

(dollars in thousands)	Sept. 30 2007	June 30 2007	Mar. 31 2007
<b>Assets</b>			
Cash and amounts due from depository institutions	\$3,992,731	\$1,867,294	\$1,669,623
<b>Investments:</b>			
Available-for-sale	14,307,929	13,303,432	13,640,209
Other investments	981,921	798,452	703,738
Total investments	15,289,850	14,101,884	14,343,947
<b>Loans:</b>			
Commercial	29,912,883	29,547,839	29,852,212
Consumer	27,235,481	26,979,279	26,273,285
Total loans (1)	57,148,364	56,527,118	56,125,497
Less allowance for loan losses	(629,747)	(503,685)	(487,286)
Total loans, net	56,518,617	56,023,433	55,638,211
Premises and equipment, net	559,040	570,074	588,695
Accrued interest receivable	384,812	368,849	363,013
Goodwill	5,003,022	5,003,195	5,006,290
Core deposit and other intangibles	402,257	433,164	465,421
Bank owned life insurance	1,773,829	1,764,137	1,745,145

Other assets	2,683,170	2,605,061	2,373,220
Total assets	\$86,607,328	\$82,737,091	\$82,193,565

## Liabilities and Stockholders'

## Equity

## Liabilities:

## Deposits and other customer related accounts:

Core and other customer related accounts	\$34,471,615	\$34,721,501	\$37,001,193
Time deposits	15,626,433	15,123,134	15,561,764
Total	50,098,048	49,844,635	52,562,957

## Borrowings and other debt

obligations	26,161,337	22,461,638	19,162,252
-------------	------------	------------	------------

Other liabilities	1,475,954	1,504,788	1,616,574
-------------------	-----------	-----------	-----------

Total liabilities	77,735,339	73,811,061	73,341,783
-------------------	------------	------------	------------

Minority interests	146,075	145,742	156,896
--------------------	---------	---------	---------

## Stockholders' equity:

Preferred Stock	195,445	195,445	195,445
-----------------	---------	---------	---------

Common Stock	6,277,292	6,253,146	6,186,470
--------------	-----------	-----------	-----------

Warrants and stock options	347,630	346,278	344,979
----------------------------	---------	---------	---------

Unallocated ESOP shares	-	-	(19,019)
-------------------------	---	---	----------

Treasury stock	(20,359)	(21,303)	(22,257)
----------------	----------	----------	----------

Accumulated other comprehensive loss	(218,155)	(121,184)	(13,177)
--------------------------------------	-----------	-----------	----------

Retained earnings	2,144,061	2,127,906	2,022,445
-------------------	-----------	-----------	-----------

Total stockholders' equity	8,725,914	8,780,288	8,694,886
----------------------------	-----------	-----------	-----------

Total liabilities and stockholders' equity	\$86,607,328	\$82,737,091	\$82,193,565
--	--------------	--------------	--------------

	Dec. 31 2006	Sept. 30 2006
(dollars in thousands)		
Assets		
Cash and amounts due from depository institutions	\$1,804,117	\$1,932,603
Investments:		
Available-for-sale	13,874,628	12,821,075
Other investments	1,003,012	1,020,723
Total investments	14,877,640	13,841,798
Loans:		
Commercial	30,472,343	29,984,325
Consumer	32,116,253	33,193,395
Total loans (1)	62,588,596	63,177,720
Less allowance for loan losses	(471,030)	(544,482)
Total loans, net	62,117,566	62,633,238
Premises and equipment, net	605,707	591,601
Accrued interest receivable	422,901	413,018
Goodwill	5,005,185	4,989,539
Core deposit and other intangibles	498,420	532,626
Bank owned life insurance	1,725,222	1,704,955
Other assets	2,585,091	3,770,681
Total assets	\$89,641,849	\$90,410,059

## Liabilities and Stockholders' Equity

## Liabilities:

Deposits and other customer related accounts:		
Core and other customer related accounts	\$36,320,674	\$36,030,850
Time deposits	16,063,880	16,752,764
Total	52,384,554	52,783,614
Borrowings and other debt obligations	26,849,717	27,100,522
Other liabilities	1,606,794	1,582,174
Total liabilities	80,841,065	81,466,310
Minority interests	156,385	209,972
Stockholders' equity:		
Preferred Stock	195,445	195,445
Common Stock	6,183,281	6,166,992
Warrants and stock options	343,391	338,867
Unallocated ESOP shares	(19,019)	(21,396)
Treasury stock	(49,028)	(57,646)
Accumulated other comprehensive loss	(24,746)	(74,543)
Retained earnings	2,015,075	2,186,058
Total stockholders' equity	8,644,399	8,733,777
Total liabilities and stockholders' equity	\$89,641,849	\$90,410,059

(1) Loans at December 31, 2006 include \$7.6 billion of loans held for sale.

Sovereign Bancorp, Inc. and Subsidiaries  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

(dollars in thousands, except per share data)	Quarter Ended				
	Sept. 30 2007	June 30 2007	Mar. 31 2007	Dec. 31 2006	Sept. 30 2006
Interest and dividend income:					
Interest on interest-earning deposits	\$7,117	\$4,144	\$6,236	\$6,274	\$5,408
Interest on investment securities					
Available for sale	177,125	180,252	189,835	192,996	202,831
Held to maturity	-	-	-	-	-
Other	11,886	11,179	14,301	19,508	13,287
Interest on loans	954,014	943,860	1,016,967	1,035,224	1,019,325
Total interest and dividend income	1,150,142	1,139,435	1,227,339	1,254,002	1,240,851
Interest expense:					
Deposits and related customer accounts	408,680	409,616	413,251	421,472	412,858
Borrowings	284,701	276,435	326,235	345,498	336,206
Total interest expense	693,381	686,051	739,486	766,970	749,064

Net interest income	456,761	453,384	487,853	487,032	491,787
Provision for credit losses (3)	162,500	51,000	46,000	365,961	45,000
Net interest income after provision for credit losses	294,261	402,384	441,853	121,071	446,787
Non-interest income:					
Consumer banking fees	73,113	77,268	68,014	73,389	74,298
Commercial banking fees (5)	44,155	52,046	49,408	48,405	47,690
Mortgage banking revenue (1)	3,752	26,500	(107,205)	(7,606)	14,329
Capital markets revenue	(12,627)	5,982	5,689	7,358	4,009
Bank owned life insurance income	24,439	20,274	20,509	20,237	20,116
Other	8,557	8,227	9,467	7,586	11,409
Total fees and other income before security gains	141,389	190,297	45,882	149,369	171,851
Net gain/(loss) on securities (4)	1,884	-	970	(36,089)	29,154
Total non-interest income	143,273	190,297	46,852	113,280	201,005
Non-interest expense:					
General and administrative					
Compensation and benefits	172,319	171,557	173,796	176,851	182,607
Occupancy and equipment	75,217	75,637	80,519	79,221	78,594
Technology expense	23,940	23,812	23,336	25,680	25,128
Outside services	16,434	16,969	15,278	19,920	17,928
Marketing expense	16,296	17,092	8,832	15,731	14,552
Other administrative expenses	37,440	31,525	28,235	37,496	33,009
Total general and administrative	341,646	336,592	329,996	354,899	351,818
Other expenses:					
Amortization of intangibles	31,066	32,257	33,253	34,302	34,092
Other minority interest expense and equity method expense	6,913	14,487	18,415	10,974	12,850
Loss on economic hedges	-	-	-	-	-
Proxy and related professional fees	-	(125)	(391)	-	-
Restructuring, other employee severance and debt repurchase charges	6,029	35,938	20,032	78,668	-
ESOP expense related to freezing of plan	-	(3,266)	43,385	-	-
Merger-related and integration charges	-	166	2,076	10,558	28,403

Total other expenses	44,008	79,457	116,770	134,502	75,345
Total non-interest expense	385,654	416,049	446,766	489,401	427,163
Income/ (loss) before income taxes	51,880	176,632	41,939	(255,050)	220,629
Income tax expense/ (benefit)	(6,330)	29,180	(6,120)	(125,610)	36,620
Net income/ (loss)	\$ 58,210	\$147,452	\$ 48,059	\$ (129,440)	\$184,009

(1) Mortgage banking activity is summarized below:

(Losses)/gains on sale of mortgage loans and related securities, multifamily loans, and home equity loans (2)	\$6,354	\$9,065	\$(103,788)	\$ (7,838)	\$14,665
Net gains/(loss) recorded on commercial mortgage backed securitization	(5,355)	13,772	(3,276)	-	-
Net gains/(loss) recorded under SFAS 133	1,781	783	(388)	821	(423)
Mortgage servicing fees, net of mortgage servicing rights amortization	972	2,224	247	2,863	3,758
Mortgage servicing right recoveries/(impairments)	-	656	-	(3,452)	(3,671)
Total mortgage banking revenues	\$3,752	\$ 26,500	\$(107,205)	\$ (7,606)	\$14,329

	Year to Date	
	Sept. 30 2007	Sept. 30 2006
(dollars in thousands, except per share data)		
Interest and dividend income:		
Interest on interest-earning deposits	\$ 17,497	\$10,478
Interest on investment securities		
Available for sale	547,212	409,579
Held to maturity	-	104,026
Other	37,366	31,906
Interest on loans	2,914,841	2,516,413
Total interest and dividend income	3,516,916	3,072,402
Interest expense:		
Deposits and related customer accounts	1,231,547	950,725
Borrowings	887,371	787,161
Total interest expense	2,118,918	1,737,886
Net interest income	1,397,998	1,334,516
Provision for credit losses (3)	259,500	118,500
Net interest income after provision for credit losses	1,138,498	1,216,016
Non-interest income:		

Consumer banking fees	218,395	202,563
Commercial banking fees (5)	145,609	130,655
Mortgage banking revenue (1)	(76,953)	31,845
Capital markets revenue	(956)	10,211
Bank owned life insurance income	65,222	46,802
Other	26,251	26,091
Total fees and other income		
before security gains	377,568	448,167
Net gain/(loss) on securities (4)	2,854	(275,873)
Total non-interest income	380,422	172,294
Non-interest expense:		
General and administrative		
Compensation and benefits	517,672	475,852
Occupancy and equipment	231,373	210,942
Technology expense	71,088	69,808
Outside services	48,681	49,275
Marketing expense	42,220	39,322
Other administrative expenses	97,200	89,891
Total general and administrative	1,008,234	935,090
Other expenses:		
Amortization of intangibles	96,576	75,536
Other minority interest expense and equity method expense	39,815	45,917
Loss on economic hedges	-	11,387
Proxy and related professional fees	(516)	14,337
Restructuring, other employee severance and debt repurchase charges	61,999	-
ESOP expense related to freezing of plan	40,119	-
Merger-related and integration charges	2,242	31,862
Total other expenses	240,235	179,039
Total non-interest expense	1,248,469	1,114,129
Income/ (loss) before income taxes	270,451	274,181
Income tax expense/ (benefit)	16,730	7,830
Net income/ (loss)	\$253,721	\$266,351

(1) Mortgage banking activity is summarized below:

(Losses)/gains on sale of mortgage loans and related securities, multifamily loans, and home equity loans (2)	\$(88,369)	\$27,563
Net gains/(loss) recorded on commercial mortgage backed securitization	5,141	-
Net gains/(loss) recorded under SFAS 133	2,176	4
Mortgage servicing fees, net of mortgage servicing rights amortization	3,443	7,949
Mortgage servicing right recoveries/(impairments)	656	(3,671)
Total mortgage banking revenues	\$(76,953)	\$31,845

(2) First quarter of 2007 results include a lower of cost or market adjustment of \$119.9 million on correspondent home equity loans that were not sold as of March 31, 2007. Fourth quarter of 2006 includes a \$28.2 million lower of cost or market adjustment on the residential loans held for sale, as well as a \$5.2 million gain on sale of \$455 million of multi-

family loans.

(3) The third quarter of 2007 includes an additional provision of \$47 million on our retained correspondent home equity portfolio as well as \$37 million of additional reserves allocated to our indirect auto portfolio due to increased losses experienced in the third quarter and higher projected losses in future periods. The fourth quarter of 2006 includes a lower of cost or market adjustment on the correspondent home equity portfolio held for sale of \$296 million as well a \$14 million commercial loan charge-off.

(4) The fourth quarter of 2006 includes a loss of \$43 million associated with the sale of \$1.5 billion of CMO investments.

(5) The third quarter of 2007 includes a lower of cost or market adjustment of \$6.2 million on our loan syndication trading portfolio. This portfolio of \$151 million was reclassified back into our loan held for investment portfolio.

Sovereign Bancorp, Inc. and Subsidiaries  
AVERAGE BALANCE, INTEREST AND YIELD/RATE ANALYSIS  
(unaudited)

(dollars in thousands)	Quarter Ended		
	Average	Interest (1)	Yield/
	Balance		Rate
Earning assets:			
Investment securities	\$13,850,369	\$216,252	6.24%
Loans:			
Commercial	25,429,487	464,984	7.26%
Multi-Family	3,975,580	61,708	6.20%
Consumer:			
Residential mortgages	14,357,561	203,676	5.67%
Home equity loans and lines of credit	5,974,643	102,033	6.78%
Total consumer loans secured by real estate	20,332,204	305,709	6.00%
Auto Loans	6,616,774	118,324	7.09%
Other	320,848	7,042	8.71%
Total Consumer	27,269,826	431,075	6.30%
Total loans	56,674,893	957,767	6.72%
Allowance for loan losses	(522,102)		
Total earning assets	70,003,160	\$1,174,019	6.68%
Other assets	11,594,008		
Total assets	\$81,597,168		

Funding liabilities:

Deposits and other customer related  
accounts:

NOW accounts	\$5,497,403	\$15,225	1.10%
NOW accounts - government & wholesale	3,825,292	49,944	5.18%
Customer repurchase agreements	2,643,836	28,869	4.33%
Savings accounts	4,144,517	6,914	0.66%
Money market accounts	10,224,580	93,751	3.64%
Money market accounts- wholesale	1,862,865	25,211	5.37%
Core and other customer related			

accounts	28,198,493	219,914	3.09%
Time deposits	11,323,566	134,570	4.71%
Time deposits - wholesale	4,068,060	54,196	5.29%
Total deposits and other customer related accounts	43,590,119	408,680	3.72%
Borrowings:			
Wholesale borrowings	17,654,582	225,169	5.08%
Other borrowings	3,736,339	59,532	6.06%
Total borrowings	21,390,921	284,701	5.30%
Total funding liabilities	64,981,040	693,381	4.24%
Non-interest bearing DDA	6,403,572		
Other liabilities	1,439,105		
Total liabilities	72,823,717		
Stockholders' equity	8,773,451		
Total liabilities and stockholders' equity	\$81,597,168		
Net interest income		\$480,638	
Interest rate spread			2.44%
Contribution from interest free funds			0.30%
Net interest margin			2.74%

(dollars in thousands)	Quarter Ended		Yield/ Rate
	Average Balance	Interest (1)	
Earning assets:			
Investment securities	\$14,041,230	\$215,663	6.15%
Loans:			
Commercial	25,470,400	458,763	7.22%
Multi-Family	4,637,577	72,186	6.23%
Consumer:			
Residential mortgages	14,429,334	203,581	5.64%
Home equity loans and lines of credit	5,933,285	101,804	6.88%
Total consumer loans secured by real estate	20,362,619	305,385	6.00%
Auto Loans	5,926,390	102,865	6.96%
Other	388,325	8,293	8.57%
Total Consumer	26,677,334	416,543	6.25%
Total loans	56,785,311	947,492	6.69%
Allowance for loan losses	(493,621)		
Total earning assets	70,332,920	\$1,163,155	6.63%
Other assets	11,608,001		
Total assets	\$81,940,921		

## Funding liabilities:

## Deposits and other customer related accounts:

NOW accounts	\$5,935,760	\$15,791	1.07%
NOW accounts - government & wholesale	4,170,249	53,420	5.14%
Customer repurchase agreements	2,389,302	26,594	4.46%
Savings accounts	4,437,785	7,184	0.65%
Money market accounts	9,687,237	84,086	3.48%
Money market accounts - wholesale	2,525,720	34,668	5.51%

Core and other customer related accounts	29,146,053	221,743	3.05%
Time deposits	11,004,592	128,170	4.67%
Time deposits - wholesale	4,425,195	59,703	5.41%
Total deposits and other customer related accounts	44,575,840	409,616	3.69%
Borrowings:			
Wholesale borrowings	15,396,099	194,074	5.05%
Other borrowings	5,227,113	82,361	6.20%
Total borrowings	20,623,212	276,435	5.37%
Total funding liabilities	65,199,052	686,051	4.22%
Non-interest bearing DDA	6,421,910		
Other liabilities	1,503,851		
Total liabilities	73,124,813		
Stockholders' equity	8,816,108		
Total liabilities and stockholders' equity	\$81,940,921		
Net interest income		\$477,104	
Interest rate spread			2.41%
Contribution from interest free funds			0.31%
Net interest margin			2.71%

(dollars in thousands)	Quarter Ended		
	September 30, 2006		
	Average Balance	Interest (1)	Yield/Rate
Earning assets:			
Investment securities	\$15,886,584	\$241,045	6.06%
Loans:			
Commercial	23,034,009	419,552	7.24%
Multi-Family	6,184,739	95,298	6.16%
Consumer:			
Residential mortgages	17,860,553	256,417	5.74%
Home equity loans and lines of credit	10,519,717	173,914	6.59%
Total consumer loans secured by real estate	28,380,270	430,331	6.05%
Auto Loans	4,394,903	66,220	5.98%
Other	451,333	10,296	9.05%
Total Consumer	33,226,506	506,847	6.08%
Total loans	62,445,254	1,021,697	6.52%
Allowance for loan losses	(537,690)		
Total earning assets	77,794,148	\$1,262,742	6.47%
Other assets	12,160,105		
Total assets	\$89,954,253		
Funding liabilities:			
Deposits and other customer related accounts:			
NOW accounts	\$6,085,520	\$16,810	1.07%
NOW accounts - government & wholesale	4,328,149	58,034	5.32%
Customer repurchase agreements	1,714,351	20,638	4.78%
Savings accounts	5,013,163	8,409	0.67%
Money market accounts	9,050,048	65,548	2.87%

Money market accounts - wholesale	4,017,420	55,514	5.48%
Core and other customer related accounts	30,208,651	224,953	2.95%
Time deposits	11,541,567	125,039	4.30%
Time deposits - wholesale	4,963,227	62,866	5.03%
Total deposits and other customer related accounts	46,713,445	412,858	3.51%
Borrowings:			
Wholesale borrowings	20,847,228	254,407	4.86%
Other borrowings	5,606,261	81,799	5.82%
Total borrowings	26,453,489	336,206	5.06%
Total funding liabilities	73,166,934	749,064	4.07%
Non-interest bearing DDA	6,707,400		
Other liabilities	1,458,009		
Total liabilities	81,332,343		
Stockholders' equity	8,621,910		
Total liabilities and stockholders' equity	\$89,954,253		
Net interest income		\$513,678	
Interest rate spread			2.40%
Contribution from interest free funds			0.24%
Net interest margin			2.64%

(1) Tax equivalent basis

Sovereign Bancorp, Inc. and Subsidiaries  
AVERAGE BALANCE, INTEREST AND YIELD/RATE ANALYSIS  
(unaudited)

(dollars in thousands)	Year to Date		
	September 30, 2007		
	Average Balance	Interest (1)	Yield/Rate
Earning assets:			
Investment securities	\$14,359,545	\$662,500	6.15%
Loans:			
Commercial	25,169,599	1,361,906	7.23%
Multi-Family	4,827,663	232,677	6.43%
Consumer:			
Residential mortgages	14,788,758	630,279	5.68%
Home equity loans and lines of credit	7,122,383	369,186	6.93%
Total consumer loans secured by real estate	21,911,141	999,465	6.09%
Auto Loans	5,915,010	307,332	6.95%
Other	376,740	24,156	8.57%
Total Consumer	28,202,891	1,330,953	6.30%
Total loans	58,200,153	2,925,536	6.71%
Allowance for loan losses	(496,921)		
Total earning assets	72,062,777	\$3,588,036	6.65%
Other assets	11,632,426		
Total assets	\$83,695,203		

Funding liabilities:

Deposits and other customer related accounts:			
NOW accounts	\$5,812,672	\$47,456	1.09%
NOW accounts- government & wholesale	4,030,753	155,436	5.16%
Customer repurchase agreements	2,433,331	81,358	4.47%
Savings accounts	4,383,303	21,277	0.65%
Money market accounts	9,691,344	252,097	3.48%
Money market accounts - wholesale	2,670,593	109,535	5.48%
Core and other customer related accounts	29,021,996	667,159	3.07%
Time deposits	11,190,921	390,246	4.66%
Time deposits - wholesale	4,330,871	174,142	5.38%
Total deposits and other customer related accounts	44,543,788	1,231,547	3.70%
Borrowings:			
Wholesale borrowings	17,623,077	668,508	5.07%
Other borrowings	4,785,627	218,863	6.10%
Total borrowings	22,408,704	887,371	5.29%
Total funding liabilities	66,952,492	2,118,918	4.23%
Non-interest bearing DDA	6,381,978		
Other liabilities	1,585,747		
Total liabilities	74,920,217		
Stockholders' equity	8,774,986		
Total liabilities and stockholders' equity	\$83,695,203		
Net interest income		\$1,469,118	
Interest rate spread			2.42%
Contribution from interest free funds			0.30%
Net interest margin			2.72%

(1) Tax equivalent basis

(dollars in thousands)	Year to Date September 30, 2006		Yield/ Rate
	Average Balance	Interest (1)	
Earning assets:			
Investment securities	\$14,281,351	\$610,934	5.71%
Loans:			
Commercial	19,699,524	1,051,982	7.14%
Multi-Family	2,748,477	126,583	6.14%
Consumer:			
Residential mortgages	15,053,802	636,131	5.63%
Home equity loans and lines of credit	10,110,555	488,104	6.45%
Total consumer loans secured by real estate	25,164,357	1,124,235	5.96%
Auto Loans	4,400,416	192,228	5.84%
Other	460,455	27,826	8.08%
Total Consumer	30,025,228	1,344,289	5.98%
Total loans	52,473,229	2,522,854	6.42%
Allowance for loan losses	(471,358)		
Total earning assets	66,283,222	\$3,133,788	6.31%

Other assets	9,623,451		
Total assets	\$75,906,673		
Funding liabilities:			
Deposits and other customer related accounts:			
NOW accounts	\$5,396,984	\$33,287	0.81%
NOW accounts - government & wholesale	4,399,421	163,942	4.98%
Customer repurchase agreements	1,456,466	48,060	4.41%
Savings accounts	4,128,312	21,938	0.71%
Money market accounts	8,230,487	158,350	2.57%
Money market accounts - wholesale	2,073,058	82,255	5.30%
Core and other customer related accounts	25,684,728	507,832	2.64%
Time deposits	9,309,728	275,475	3.96%
Time deposits - wholesale	4,475,117	167,418	5.00%
Total deposits and other customer related accounts	39,469,573	950,725	3.22%
Borrowings:			
Wholesale borrowings	17,244,235	586,685	4.54%
Other borrowings	4,942,265	200,476	5.41%
Total borrowings	22,186,500	787,161	4.74%
Total funding liabilities	61,656,073	1,737,886	3.77%
Non-interest bearing DDA	5,826,134		
Other liabilities	1,342,011		
Total liabilities	68,824,218		
Stockholders' equity	7,082,455		
Total liabilities and stockholders' equity	\$75,906,673		
Net interest income		\$1,395,902	
Interest rate spread			2.54%
Contribution from interest free funds			0.27%
Net interest margin			2.81%

(1) Tax equivalent basis

Sovereign Bancorp, Inc. and Subsidiaries  
SUPPLEMENTAL INFORMATION  
(unaudited)

NON-PERFORMING ASSETS

	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30
(dollars in thousands)	2007	2007	2007	2006	2006
Non-accrual loans:					
Consumer:					
Residential mortgages	\$79,909	\$69,392	\$62,864	\$47,687	\$35,365
Home equity loans and lines of credit	53,974	12,875	12,131	10,312	62,002
Auto loans	730	620	416	191	327
Other consumer loans	2,076	1,714	1,504	2,764	1,384
Total consumer loans	136,689	84,601	76,915	60,954	99,078
Commercial real estate	66,977	74,077	87,896	77,196	64,138
Commercial and					

industrial and other	78,251	80,706	76,668	69,207	68,995
Total non-accrual loans	281,917	239,384	241,479	207,357	232,211
Restructured loans	443	503	552	557	570
Total non-performing loans (1)	282,360	239,887	242,031	207,914	232,781
Real estate owned, net	43,517	34,724	29,655	22,562	34,775
Other repossessed assets	10,861	7,755	6,722	5,126	5,500
Total non-performing assets (1)	\$336,738	\$282,366	\$278,408	\$235,602	\$273,056

Non-performing loans as a percentage of loans (1) (2)	0.49%	0.42%	0.43%	0.38%	0.37%
Non-performing assets as a percentage of total assets (1) (2)	0.39%	0.34%	0.34%	0.29%	0.30%
Non-performing assets as a percentage of total loans, real estate owned and repossessed assets (1) (2)	0.59%	0.50%	0.50%	0.43%	0.43%
Allowance for credit losses as a percentage of non-performing loans (1)	230%	217%	208%	234%	240%

## NET LOAN CHARGE-OFFS

Quarters ended (in thousands)	Sept. 30 2007	June 30 2007	Mar. 31 2007	Dec. 31 2006	Sept. 30 2006
Commercial real estate	\$2,401	\$2,766	\$5,782	\$(282)	\$1,188
Commercial and industrial and other (3)	8,387	6,820	6,089	18,651	6,402
Total commercial	10,788	9,586	11,871	18,369	7,590
Residential mortgages (4)	1,715	1,558	564	8,028	422
Home equity loans and lines of credit (5)	883	1,934	1,523	399,609	19,909
Total consumer loans secured by real estate	2,598	3,492	2,087	407,637	20,331
Auto loans	19,448	12,305	10,115	9,574	7,271
Other consumer loans	734	291	17	453	135
Total consumer	22,780	16,088	12,219	417,664	27,737
Total loan charge-offs	\$33,568	\$25,674	\$24,090	\$436,033	\$35,327

## COMPONENTS OF THE PROVISION OF CREDIT LOSSES AND ALLOWANCE FOR CREDIT LOSSES

Quarters ended (in thousands)	Sept. 30 2007	June 30 2007	Mar. 31 2007	Dec. 31 2006	Sept. 30 2006
Provision for loan losses (6)	\$159,630	\$49,589	\$45,239	\$364,309	\$45,437

Provision/(recoveries)					
for unfunded commitments	2,870	1,411	761	1,652	(437)
Total provision for credit losses	\$162,500	\$51,000	\$46,000	\$365,961	\$45,000
Allowance for loan losses	\$629,747	\$503,685	\$487,286	\$471,030	\$544,482
Reserve for unfunded commitments	20,297	17,427	16,016	15,255	13,603
Total allowance for credit losses	\$650,044	\$521,112	\$503,302	\$486,285	\$558,085

- (1) Non-performing loans and non-performing assets at September 30, 2007 include \$41.5 million of loans related to our correspondent home equity loan portfolio due to the additional provision for credit losses that was recorded in the third quarter of 2007. Non-performing loans and non-performing assets exclude \$51.6 million and \$22.4 million of non-accrual loans at June 30, 2007 and March 31, 2007 related to correspondent home equity loans that had been previously classified as held for sale since credit losses related to these loans were considered in our lower of cost or market adjustment at March 31, 2007. Non-performing loans and non-performing assets at December 31, 2006 exclude \$21.5 million of residential non-accrual loans and \$66.0 million of home equity non-accrual loans that are classified as held for sale.
- (2) The calculation of this ratio at September 30, 2007 includes \$41.5 million of non performing loans related to our correspondent home equity portfolio. The calculation of these ratios at June 30, 2007 and March 31, 2007 exclude approximately \$491 million and \$574 million of loans that were marked down to fair value as of March 31, 2007. The calculation of these ratios at December 31, 2006 excludes \$7.6 billion of loans held for sale.
- (3) The fourth quarter of 2006 includes a \$14 million commercial loan charge-off.
- (4) Fourth quarter of 2006 includes a \$7 million charge-off related to the lower of cost or market adjustment on the residential loans held for sale.
- (5) The fourth quarter of 2006 includes \$382.5 million of charge-offs related to the lower of cost or market adjustment on the correspondent home equity portfolio held for sale.
- (6) The fourth quarter of 2006 includes a lower of cost or market adjustment on the correspondent home equity portfolio held for sale of \$296 million.

Sovereign Bancorp, Inc. and Subsidiaries  
SUPPLEMENTAL INFORMATION  
(unaudited)

DEPOSIT AND OTHER CUSTOMER RELATED ACCOUNT COMPOSITION - End of period

Quarters ended	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30
(in thousands)	2007	2007	2007	2006	2006
Demand deposit accounts	\$6,272,412	\$6,313,408	\$6,420,046	\$6,577,585	\$6,687,150

NOW accounts	5,352,228	5,950,960	6,159,701	6,333,667	6,347,484
NOW accounts - government & wholesale	4,319,805	3,661,659	5,008,897	3,573,861	3,600,363
Customer repurchase agreements	2,726,686	2,525,932	2,310,290	2,206,445	2,027,100
Savings accounts	3,984,551	4,312,492	4,558,367	4,637,346	4,919,190
Money market accounts	10,258,960	10,005,554	9,452,904	8,875,353	8,380,908
Money market accounts - government & wholesale	1,556,973	1,951,496	3,090,988	4,116,417	4,068,655
Time deposits	11,970,145	10,996,111	11,144,281	11,336,147	11,684,137
Time deposits - wholesale	3,656,288	4,127,023	4,417,483	4,727,733	5,068,627
Total deposits and other customer related accounts	\$50,098,048	\$49,844,635	\$52,562,957	\$52,384,554	\$52,783,614

## LOAN COMPOSITION - End of period

Quarters ended (in thousands)	Sept. 30 2007	June 30 2007	Mar. 31 2007	Dec. 31 2006	Sept. 30 2006
Commercial real estate	\$11,821,651	\$11,741,479	\$11,584,728	\$11,514,983	\$11,401,902
Commercial industrial loans	13,807,542	13,417,347	12,908,765	12,654,746	11,212,315
Multi-family	4,038,333	4,000,527	4,806,028	5,768,451	5,970,795
Other	245,357	388,486	552,691	534,164	1,399,313
Total commercial loans	29,912,883	29,547,839	29,852,212	30,472,344	29,984,325
Residential mortgages	14,009,891	14,387,342	14,403,371	17,404,730	17,817,283
Home equity loans and lines of credit	6,058,143	5,954,925	5,932,136	9,443,560	10,506,607
Total consumer loans secured by real estate	20,068,034	20,342,267	20,335,507	26,848,290	28,323,890
Auto loans	6,853,381	6,320,010	5,526,953	4,848,204	4,431,891
Other consumer loans	314,066	317,002	410,825	419,758	437,614
Total consumer loans	27,235,481	26,979,279	26,273,285	32,116,252	33,193,395
Total loans	\$57,148,364	\$56,527,118	\$56,125,497	\$62,588,596	\$63,177,720

## DEPOSIT AND OTHER CUSTOMER RELATED ACCOUNT COMPOSITION - Average

Quarters ended (in thousands)	Sept. 30 2007	June 30 2007	Mar. 31 2007	Dec. 31 2006	Sept. 30 2006
Demand deposit accounts	\$6,403,572	\$6,421,910	\$6,335,301	\$6,596,008	\$6,707,400
NOW accounts	5,497,403	5,935,760	5,994,720	6,125,347	6,085,520
NOW accounts - government & wholesale	3,825,292	4,170,249	4,099,733	3,977,652	4,328,149
Customer repurchase agreements	2,643,836	2,389,302	2,262,732	2,182,446	1,714,351
Savings accounts	4,144,517	4,437,785	4,572,309	4,755,332	5,013,163
Money market accounts	10,224,580	9,687,237	9,150,410	8,688,901	9,050,048
Money market accounts - government & wholesale	1,862,865	2,525,720	3,642,754	3,999,190	4,017,420
Time deposits	11,323,566	11,004,592	11,243,730	11,535,214	11,541,567
Time deposits - wholesale	4,068,060	4,425,195	4,504,148	4,933,950	4,963,227
Total deposits and other customer related accounts	\$49,993,691	\$50,997,750	\$51,805,837	\$52,794,040	\$53,420,845

## LOAN COMPOSITION - Average

Quarters ended (in thousands)	Sept. 30 2007	June 30 2007	Mar. 31 2007	Dec. 31 2006	Sept. 30 2006
Commercial real estate	\$11,746,854	\$11,737,900	\$11,513,005	\$11,421,431	\$10,869,370
Commercial industrial loans	12,049,755	12,146,382	11,566,055	11,347,975	10,805,007
Multi-family	3,975,580	4,637,577	5,890,879	6,103,412	6,184,739
Other	1,632,878	1,586,118	1,520,732	1,427,147	1,359,632
Total commercial loans	29,405,067	30,107,977	30,490,671	30,299,965	29,218,748
Residential mortgages	14,357,561	14,429,334	15,592,954	17,897,922	17,860,553
Home equity loans and lines of credit	5,974,643	5,933,285	9,497,940	10,145,548	10,519,717
Total consumer loans secured by real					

estate	20,332,204	20,362,619	25,090,894	28,043,470	28,380,270
Auto loans	6,616,774	5,926,390	5,186,143	4,628,603	4,394,903
Other consumer loans	320,848	388,325	422,161	427,026	451,333
Total consumer loans	27,269,826	26,677,334	30,699,198	33,099,099	33,226,506
Total loans	\$56,674,893	\$56,785,311	\$61,189,869	\$63,399,064	\$62,445,254

Sovereign Bancorp, Inc. and Subsidiaries  
RECONCILIATION OF OPERATING EARNINGS TO REPORTED EARNINGS  
(unaudited)

Operating earnings for EPS purposes represents net income excluding the after-tax effects of certain items, such as significant gains or losses that are unusual in nature or are associated with acquiring or integrating businesses, and certain other charges. The table below reconciles our GAAP earnings to operating earnings for EPS purposes.

(dollars in thousands,  
except per share data -  
all amounts are after tax)

	Quarter Ended				
	Sept. 30 2007	June 30 2007	Mar. 31 2007	Dec. 31 2006	Sept. 30 2006
Net income/ (loss) as reported	\$58,210	\$147,452	\$48,059	\$(129,440)	\$184,009
Dividends on preferred stock	(3,650)	(3,650)	(3,650)	(3,650)	(1,825)
Net income available to common shareholders	54,560	143,802	44,409	(133,090)	182,184
Contingently convertible trust preferred interest expense, net of tax	-	6,413	-	-	6,344
Net income/ (loss) for EPS purposes	\$54,560	\$150,215	\$44,409	\$(133,090)	\$188,528
Non GAAP adjustments to adjust antidilutive EPS					
Net income available to common shareholders	\$54,560		\$44,409	\$(133,090)	
Trust IV expense, net of tax	6,423		6,412	6,354	
Antidilutive net income/ (loss) for operating EPS calculation	\$60,983		\$50,821	\$(126,736)	

Reconciliation to  
Operating earnings EPS  
Net income/ (loss) for

Operating earnings EPS purposes	\$60,983	\$150,215	\$50,821	\$(126,736)	\$188,528
Merger related and integration costs	-	108	1,323	6,863	18,463
Provision for credit losses	30,550	-	-	192,374	-
Loss on economic hedges	-	-	-	-	-
Loss on investment restructuring	-	-	-	27,961	-
Loss on mortgage banking loan sale restructuring	-	-	-	14,954	-
Loss on restructuring, other employee severance and debt repurchase charges	3,919	23,360	12,771	51,134	-
ESOP expense related to freezing of plan	-	(3,266)	43,385	-	-
Hedge loss on sale of multifamily loans	-	-	(3,860)	-	-
Impairment on FNMA and FHLMC preferred stock	-	-	-	-	-
Gain on redemption of FNMA and FHLMC preferred stock	-	-	(953)	-	-
Writedown on correspondent home equity loans	-	-	76,394	-	-
Proxy and related professional fees	-	(82)	(249)	-	-
Operating earnings for EPS purposes	\$95,452	\$170,335	\$179,632	\$166,550	\$206,991
Weighted average diluted shares for GAAP EPS	480,171	512,641	475,115	473,404	506,135
Add back of diluted shares for operating EPS not factored into GAAP diluted shares due to antidilution (1)	32,480	-	34,353	34,583	-
Adjusted weighted average diluted shares for Operating EPS	512,651	512,641	509,468	507,987	506,135

(dollars in thousands,  
except per share data -  
all amounts are after tax)

Quarter Ended  
Per share  
Sept. 30 June 30 Mar. 31 Dec. 31 Sept. 30  
2007 2007 2007 2006 2006

Net income/ (loss) as reported					
Dividends on preferred stock					
Net income available to common shareholders					
Contingently convertible trust preferred interest expense, net of tax					
Net income/ (loss) for EPS purposes	\$0.11	\$0.29	\$0.09	\$(0.28)	\$0.37

Non GAAP adjustments to adjust antidilutive EPS  
Net income available to common shareholders  
Trust IV expense, net of tax  
Antidilutive net income/ (loss) for operating EPS calculation

Reconciliation to Operating earnings EPS

Net income/ (loss) for Operating earnings EPS purposes	\$0.12	\$0.29	\$0.10	\$(0.25)	\$0.37
Merger related and integration costs	-	0.00	0.00	0.01	0.04
Provision for credit losses	0.06	-	-	0.38	-
Loss on economic hedges	-	-	-	-	-
Loss on investment restructuring	-	-	-	0.06	-
Loss on mortgage banking loan sale restructuring	-	-	-	0.03	-
Loss on restructuring, other employee severance and debt repurchase charges	0.01	0.05	0.02	0.10	-
ESOP expense related to freezing of plan	-	(0.01)	0.09	-	-
Hedge loss on sale of multifamily loans	-	-	(0.01)	-	-
Impairment on FNMA and FHLMC preferred stock	-	-	-	-	-
Gain on redemption of FNMA and FHLMC preferred stock	-	-	(0.00)	-	-
Writedown on correspondent home equity loans	-	-	0.15	-	-
Proxy and related professional fees	-	(0.00)	(0.00)	-	-
Operating earnings for EPS purposes	\$0.19	\$0.33	\$0.35	\$0.33	\$0.41

(dollars in thousands,  
except per share data -  
all amounts are after tax)

	Year to Date			
	Total dollars		Per share	
	Sept. 30	Sept. 30	Sept. 30	Sept. 30

	2007	2006	2007	2006
Net income/ (loss) as reported	\$253,721	\$266,351		
Dividends on preferred stock	(10,950)	(4,258)		
Net income available to common shareholders	242,771	262,093		
Contingently convertible trust preferred interest expense, net of tax	-	19,006		
Net income/(loss) for EPS purposes	\$242,771	\$281,099	\$0.51	\$0.62
Non GAAP adjustments to adjust antidilutive EPS				
Net income available to common shareholders	\$242,771			
Trust IV expense, net of tax	19,249			
Antidilutive net income/ (loss) for operating EPS calculation	\$262,020			
Reconciliation to Operating earnings EPS				
Net income/ (loss) for Operating earnings EPS purposes	\$262,020	\$281,099	\$0.51	\$0.62
Merger related and integration costs	1,432	20,711	0.00	0.05
Provision for credit losses	30,550	8,125	0.06	0.02
Loss on economic hedges	-	7,402	-	0.02
Loss on investment restructuring	-	154,884	-	0.34
Loss on mortgage banking loan sale restructuring	-	-	-	-
Loss on restructuring, other employee severance and debt repurchase charges	40,049	-	0.08	-
ESOP expense related to freezing of plan	40,119	-	0.08	-
Hedge loss on sale of multifamily loans	(3,860)	-	(0.01)	-
Impairment on FNMA and FHLMC preferred stock	-	43,875	-	0.10
Gain on redemption of FNMA and FHLMC preferred stock	(953)	-	(0.00)	-
Writedown on correspondent home equity loans	76,394	-	0.15	-
Proxy and related professional fees	(331)	9,319	(0.00)	0.02
Operating earnings for EPS purposes	\$445,420	\$525,415	\$0.87	\$1.16
Weighted average diluted shares for GAAP EPS	477,884	454,265		
Add back of diluted shares for operating EPS not factored into GAAP diluted shares due to				

antidilution (1)	33,732	-
Adjusted weighted average diluted shares for Operating EPS	511,616	454,265

- (1) The conversion of warrants and equity awards and the after-tax add back of Sovereign's contingently convertible trust preferred interest expense was excluded from Sovereign's GAAP diluted earnings per share calculation for the first and third quarters of 2007, the nine months ended September 30, 2007 and the fourth quarter of 2006 since the result would have been anti-dilutive. However, for operating earning purposes these items are dilutive and as a result they have been added back for operating earnings and operating earnings per share purposes.

Sovereign Bancorp, Inc. and Subsidiaries  
RECONCILIATION OF AVERAGE EQUITY TO AVERAGE TANGIBLE EQUITY AND RELATED OPERATING RETURN ON AVERAGE TANGIBLE EQUITY  
(unaudited)

Reconciliation of Equity to Tangible Equity and Operating Return on Average Equity to Tangible Returns on Average Equity

(dollars in thousands)	Quarter Ended		
	Sept. 30 2007	June 30 2007	Mar. 31 2007
Average Equity	\$8,773,451	\$8,816,108	\$8,734,981
Average Goodwill	(5,003,137)	(5,005,116)	(5,005,119)
Average CDI and other intangibles	(421,895)	(453,528)	(486,214)
Average Tangible Equity	\$3,348,419	\$3,357,464	\$3,243,648
Operating Return on Average Equity	4.32%	7.75%	8.34%
Effect of Goodwill	6.45%	11.55%	12.87%
Effect of CDI and other intangibles	0.54%	1.05%	1.25%
Tangible Return on Average Equity	11.31%	20.35%	22.46%

(dollars in thousands)	Quarter Ended	
	Dec. 31 2006	Sept. 30 2006
Average Equity	\$8,816,938	\$8,621,910
Average Goodwill	(4,992,610)	(4,932,536)
Average CDI and other intangibles	(519,891)	(611,329)
Average Tangible Equity	\$3,304,437	\$3,078,045
Operating Return on Average Equity	7.49%	9.52%
Effect of Goodwill	11.32%	15.26%
Effect of CDI and other intangibles	1.18%	1.89%
Tangible Return on Average Equity	20.00%	26.68%

Year-to-Date

	Sept. 30 2007	Sept. 30 2006
(dollars in thousands)		
Average Equity	\$8,774,986	\$7,082,455
Average Goodwill	(5,004,450)	(3,705,413)
Average CDI and other intangibles	(453,644)	(388,650)
Average Tangible Equity	\$3,316,892	\$2,988,392
Operating Return on Average Equity	6.79%	9.92%
Effect of Goodwill	10.24%	12.30%
Effect of CDI and other intangibles	0.93%	1.29%
Tangible Return on Average Equity	17.95%	23.51%