

INFORMATION CONCERNING SOVEREIGN'S GOVERNANCE POLICIES, PRACTICES AND PROCEDURES

Consistent with its perception of good principles of corporate governance, Sovereign historically has required that its Board consist entirely of non-management directors, except the CEO, and has delegated important policy making and oversight functions to committees which also consist almost entirely of nonmanagement directors. At Sovereign, corporate governance and business ethics are not buzzwords or the result of the public outcry in response to recent accounting, corporate governance and insider trading scandals and resulting rules and regulations, but part of our culture and the historic foundation of our success.

Sovereign's historical emphasis on corporate governance is demonstrated by the following:

- Since 1989, Sovereign's Board has consisted entirely of non-management directors, except the CEO.
- Since 1989, Sovereign's Board has maintained an Audit Committee consisting entirely of nonmanagement directors.
- Since 1989, Sovereign's Board has maintained a Compensation Committee consisting entirely of non-management directors, except the CEO who last served on such Committee in 1992.
- Since 1989, Sovereign's Board has maintained a Nominating Committee consisting entirely of nonmanagement directors, except the CEO who last served on such Committee in 2001.
- Since 1995, Sovereign has maintained an Ethics and Corporate Governance Committee consisting entirely of non-management directors, except the CEO who last served on such Committee in 2002.
- Since 1988, Sovereign has maintained a written Code of Conduct and Ethics, which covers conflicts of interest, breaches of confidentiality, fair dealing, compliance with law, and personal investing and trading in Sovereign's common stock.
- Since 1986, Sovereign's Board has caused each of its stock option plans to be approved by Sovereign shareholders.
- Since 1998, Sovereign has taken steps to align the interests of its directors and senior executive officers with investors by requiring its directors and

senior executive management to own a specified dollar value of Sovereign stock.

- Since 1988, Sovereign's Board, with the assistance of outside professionals, has studied, at least once each calendar year, Sovereign's strategic alternatives, including sale.
- In the third quarter of 2002, Sovereign announced its intent to expense stock options under the expense recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," which was retroactively effective beginning in the first quarter of 2002. Sovereign was among the first financial institutions to expense stock options.

In order to comply with the requirements of the Sarbanes-Oxley Act of 2002 and the listing standards of the New York Stock Exchange (the "NYSE"), Sovereign took the following actions to improve its corporate governance:

- The Board of Directors reduced to writing and formalized Sovereign's Corporate Governance Guidelines which Sovereign's Board had historically operated under, and caused the Guidelines to be posted on Sovereign's website under Investor Relations at www.sovereignbank.com in 2002 and updated the Guidelines in 2003 and 2004.
- The Board of Directors, with the assistance of outside legal counsel, evaluated the independence of each of its members under the NYSE's listing standards in 2002, 2003, 2004 and 2005.
- The Board of Directors, with the assistance of outside legal counsel, evaluated the independence of each member of the Audit Committee of the Board under the Sarbanes-Oxley Act and the NYSE's listing standards in 2002, 2003, 2004 and 2005.
- The Board of Directors, with the assistance of outside legal counsel, determined that P. Michael Ehlerman qualifies as an "audit committee financial expert" in 2002, 2003, 2004 and 2005.
- The Board of Directors adopted a revised Code of Conduct and Ethics in 2002, and revised it in 2003 and 2004.
- The Board of Directors, in an effort to assure that its senior officers primarily responsible for gathering and compiling financial information and presenting it to the public on a full, fair and timely basis recognized and accepted such responsibility, adopted a Code of Ethics for the Chief Executive Officer and Senior Financial Officers in 2002, which was updated

in 2003, and such officers pledged to observe the requirements of the Code in 2002, 2003, 2004 and 2005.

- Each of Sovereign's Audit Committee, Nominating Committee, Compensation Committee and Ethics and Corporate Governance Committee either reviewed and updated or adopted its charter in 2002, and conducted an annual review and, if necessary, an update of its charter in 2003 and 2004.
- Director Daniel K. Rothermel, who is Chairman of Sovereign's Nominating Committee, Sovereign's Executive Committee and Sovereign Bank's Executive Committee, was selected in 2002, 2003, 2004 and 2005 to act as Sovereign's first presiding or "lead director" at sessions of Board meetings held by the Board without management present.
- Sovereign's Audit Committee accepted the responsibility of retaining, compensating, evaluating and overseeing Sovereign's independent auditors and approving all audit and certain permissible non-audit services in 2002, and has continued to approve all audit and non-prohibited, non-audit services in 2003, 2004 and 2005.
- The Audit Committee adopted a policy regarding the review of earnings releases and the release of financial information provided to analysts and rating agencies in 2002, and, consistent with this policy, the Audit Committee has continued to review earnings releases and the release of financial information to analysts and rating agencies since adoption of the policy.
- The Audit Committee adopted a policy regarding the anonymous and confidential submission of auditing and accounting concerns in 2002, and revised it in 2004.
- The Audit Committee adopted a policy to restrict the hiring of former employees of Sovereign's independent auditors in 2003.

In what it perceives as an important action from the perspective of Sovereign's shareholders, Sovereign's Board, in January 1998, adopted a policy which requires directors, and certain key officers to own, by certain dates, a specified dollar value of Sovereign stock based generally on their responsibility or salary levels. This policy, which was amended in 2002, requires Sovereign's non-employee directors, Sovereign's CEO and Sovereign's executive management to beneficially own shares of common stock having a value of \$100,000, six times base salary and three times base salary, respectively. Sovereign's directors and Sovereign's CEO met the ownership requirements before the applicable deadlines. Members of Sovereign's executive management named in this proxy statement met the ownership requirement before the applicable deadline. Shares of Sovereign

common stock subject to unexercised stock options, unvested restricted stock awards, unvested Sovereign matching account shares held under the Bonus Recognition and Retention Program, and shares allocated to the account of a Sovereign employee under the employee stock ownership portion of the Sovereign Retirement Plan are not considered beneficially owned for purposes of the policy. Sovereign's Board took this action in an effort to assure that the interests of directors, officers and certain key employees are more completely aligned with those of Sovereign's shareholders.

In January 2005, Sovereign's Board of Directors completed its annual review of corporate governance best practices and, as a result of this review, amended Sovereign's shareholder rights plan. These amendments to the shareholder rights plan:

- eliminated the provisions of the plan which permitted redemption of the stock purchase rights issued under the plan only by "continuing directors" (the so-called "dead hand" provision); and
- eliminated the provisions of the plan which permitted Sovereign's Board to trigger the dilutive effects of the plan by declaring a 4.9% or greater beneficial owner of Sovereign's common stock to be an "adverse person."