




Sovereign Bancorp

THIRD QUARTER 2002 INVESTOR REPORT

www.sovereignbank.com
NYSE: SOV

Third Quarter Highlights

*Net Income of \$93.1 million
or \$.33 per share*

*Operating EPS of \$.33 versus
\$.28 in 3Q01; up 18%*

*Cash EPS of \$.39 versus
\$.36 in 3Q01; up 8%*

*Same-store core deposits
grew by \$1.2 billion from
2Q02; 27% annualized growth*

*Consumer banking Fee
Income up 27% from 3Q01*

*Commercial banking Fee
Income up 16% from 3Q01*

*Book value per share
increased to \$10.38 from \$9.74
at June 30, 2002; up 26% on
an annualized basis*

***Prominent Philadelphia
banker James Lynch
joins Sovereign Bank
as Mid-Atlantic
Chairman and CEO.***

Sovereign Bancorp, Inc. ("Sovereign") (NYSE: SOV), parent company of Sovereign Bank ("Bank"), reported net income for the third quarter 2002 of \$93.1 million, or \$.33 per diluted share. Operating earnings were \$93.1 million or \$.33 per diluted share, up from \$72.8 million or \$.28 per diluted share a year ago. Cash earnings increased by \$14.3 million or 15.1% to \$109.3 million or \$.39 per diluted share as compared to \$95.0 million or \$.36 per diluted share a year ago. Operating earnings represent net income adjusted for special items. Cash earnings are operating earnings excluding the after-tax effects of amortization of intangible assets, stock option expense and ESOP expenses. A reconciliation of net income, operating earnings and cash earnings is included in a later section of this document.

Consistent with its previous announcement, Sovereign adopted the expense recognition provisions of SFAS 123 (expensing of stock options) in the third quarter of 2002. Adoption of this accounting method reduced net income by \$2.0 million and \$5.6 million, respectively, in the quarterly and nine month periods ended September 30, 2002. All 2002 financial information contained in this document has been adjusted for purposes of comparison, to reflect stock option expense under SFAS 123 for all options granted in 2002.

Prior year operating and net income figures include the amortization of goodwill, which upon adoption of SFAS 142 on January 1, 2002, ceased to be amortized. Had the new standard been applied beginning January 1, 2001, net

income would have increased \$7.5 million, or \$.03 per share, and \$21.8 million, or \$.09 per share for the three and nine month periods ended September 30, 2001, respectively.

Commenting on third quarter 2002 operating results, Jay S. Sidhu, Sovereign's Chairman, President and Chief Executive Officer, said, "We had another strong quarter despite a soft economy. Our core deposit growth of 27% annualized and our year-over-year growth in consumer and commercial banking fee income of 27% and 16%, respectively, demonstrate the power of our marketing and service culture."

Net Interest Margin

Sovereign reported third quarter net interest margin of 3.62% versus

3.59% in the third quarter of 2001 and 3.72% in the second quarter of 2002. James D. Hogan, Sovereign's Chief Financial Officer, said, "Our net interest margin came under pressure as expected due to the asset sensitivity of our balance sheet. We remain slightly asset-sensitive and, if interest rates rise, our net interest margin will benefit. If rates remain low, we believe we can maintain our margins at approximately the current levels."

Non-Interest Income and Expense

Consumer banking fees grew by \$10.1 million versus the same period a year ago, up 27%. Commercial banking fees grew by \$3.4 million versus the same period a year ago, up 16%. Mortgage banking revenues were \$4.2 million, down \$2.4 million from the prior quarter. These results include a servicing rights impairment charge of \$7.4 million. Capital markets revenues increased by \$2.1 million versus the same period a year ago due to an expanded customer base and product offerings. Gains on investments and related derivatives transactions were \$12.7 million for the quarter ended September 30, 2002, and include \$16.7 million of investment portfolio gains offset by \$4 million of

losses from CRA and venture capital investments.

G&A expenses, on a linked-quarter basis, grew by \$1.6 million or 3.2% annualized. Occupancy and equipment increased \$4.7 million over the prior quarter of 2002 due primarily to one-time lease buy-out charges. The corporation's efficiency ratio decreased from 52.82% in the second quarter of 2002 to 52.48% in the third quarter.

A Strong Growth Company

During the third quarter, core deposits grew by \$1.2 billion or 27% on an annualized basis compared to the second quarter of 2002. Commercial loans increased by about \$200 million or 8.2% annualized. Consumer loans increased by \$264 million or 13.5% annualized, and residential loans grew by \$73 million. Sidhu commented, "We are prudently growing our loan portfolio and funding that growth with new core deposits. Our marketing strategies are very successful on both sides of the balance sheet and across all lines of business at the bank." Sovereign's cost of deposits was 1.82% in the third quarter of 2002 versus 1.86% in the second quarter and 2.83% a year ago. Third quarter 2002 loan to deposit spread was

4.49%, and the loan to deposit ratio stood at 85% on September 30, 2002.

Asset Quality

Sovereign's provision for loan losses was \$38.0 million this quarter up from \$28.0 million in the second quarter of 2002 and \$22.0 million a year ago. This quarter's provision exceeded net charge-offs by about \$7.5 million. Non-performing assets ("NPAs") were \$276.7 million or 0.70% of total assets at September 30, 2002 versus \$256.4 million or 0.67% of total assets at June 30, 2002. Allowance for loan losses to total loans was 1.31% at September 30, 2002 versus 1.26% at September 30, 2001 and 1.31% at June 30, 2002. Sovereign reported \$30.5 million in net charge-offs (NCOs), an increase of \$9.6 million over the third quarter of 2001.

"We continue to believe that Sovereign's credit quality remains stable in this ever challenging economic environment. Sovereign does not have any direct exposure to the industries that have caused several of our peers to experience more severe credit difficulties this quarter. Our net charge-offs were consistent with guidance provided for the 3rd Quarter. The higher provision for loan losses is

Sovereign's Community Involvement

The third quarter saw Sovereign Bank continue its commitment to the communities it serves:

- Sovereign team members participated in several United Way "Day of Caring" events throughout southeastern Pennsylvania in mid-September. Volunteer activities benefitted several social service agencies included painting, landscaping, and lending a helping hand at preschool programs.
- Hundreds of books were donated as the result of a book drive organized by

Sovereign team members to benefit the "Reach Out and Read" program at the Lynn Community Health Center in Lynn, Mass. "Reach Out and Read" was started in 1989 by a group of pediatricians and educators at Boston City Hospital to help curb illiteracy in Boston's poorer neighborhoods.

- The Sovereign Scholars Program kicked off in August. Created by Sovereign through its partnership with the Philadelphia Eagles, the program is designed to recognize students in

Pennsylvania and New Jersey who demonstrate a commitment to academics, coupled with outstanding service to their family, school, and community. Eight scholarship winners will each receive \$1,000 to further their post-secondary education.

- Sovereign was a major sponsor of the Puerto Rican Latin Festival held in Reading, Pa., in July. The festival celebrates the cultural heritage and customs of natives of Puerto Rico.

QUARTERLY FINANCIAL HIGHLIGHTS

Quarter Ended

(dollars in millions, except per share data)	Sept 30 2002	June 30 2002 ⁽¹⁾	Mar. 31 2002 ⁽¹⁾	Dec. 31 2001	Sept. 30 2001
Operating Data					
Cash earnings(2)	\$ 109.3	106.8	\$ 95.2	\$ 95.5	\$ 95.0
Operating earnings(2)	93.1	90.3	79.6	73.5	72.8
Net income/(loss)	93.1	90.3	65.4	73.5	8.6
Net interest income	297.0	297.0	271.9	277.7	270.8
Provision for loan losses	38.0	28.0	44.5	32.0	22.0
G&A expense	207.3	205.7	194.0	196.4	191.4
Other operating expense(5)	35.3	36.4	51.7	47.4	146.1
Performance Statistics					
Net interest margin	3.62%	3.72%	3.64%	3.69%	3.59%
Cash return on average assets(2)	1.13%	1.14%	1.10%	1.07%	1.07%
Operating return on average assets(2)	0.96%	0.97%	0.92%	0.82%	0.82%
Cash return on average equity(2)	16.65%	17.25%	16.96%	17.32%	17.54%
Operating return on average equity(2)	14.13%	14.59%	14.18%	13.32%	13.44%
Annualized net loan charge-offs to avg loans	0.55%	0.50%	0.72%	0.48%	0.41%
Efficiency ratio(3)	52.48%	52.82%	54.07%	53.34%	52.38%
Per Share Data					
Cash earnings per share(2)	\$ 0.39	\$ 0.38	\$ 0.35	\$ 0.36	\$ 0.36
Operating earnings per share(2)	\$ 0.33	\$ 0.32	\$ 0.30	\$ 0.28	\$ 0.28
Diluted earnings/(loss) per share	\$ 0.33	\$ 0.32	\$ 0.24	\$ 0.28	\$ 0.03
Dividend declared per share	\$ 0.025	\$ 0.025	\$ 0.025	\$ 0.025	\$ 0.025
Book value(4)	\$ 10.38	\$ 9.74	\$ 9.24	\$ 8.90	\$ 8.71
Common stock price:					
High	\$ 15.57	\$ 15.48	\$ 14.35	\$ 12.43	\$ 13.22
Low	\$ 12.19	\$ 14.00	\$ 11.85	\$ 8.73	\$ 8.86
Close	\$ 12.90	\$ 14.95	\$ 14.05	\$ 12.24	\$ 9.50
Weighted average common shares:					
Basic	261.0	260.5	250.6	247.1	246.9
Fully diluted	281.0	281.2	269.0	262.5	263.6
End-of-period common shares:					
Basic	261.2	260.9	260.0	247.5	247.0
Fully diluted	279.1	281.7	279.8	265.7	259.7

(1) Expense provisions of SFAS 123 were adopted in the quarter ended September 30, 2002 for options granted in 2002. Previously reported values for quarters ended June 30, 2002 and March 31, 2002 have been adjusted to reflect the adoption of this change in accounting principles in accordance with the existing transition provisions of SFAS 123.

(2) 2002 and 2001 cash and operating earnings exclude certain special charges. For a reconciliation of these amounts to net income, see our quarterly reports filed with the SEC on form 10Q and/or our previously issued press releases.

(3) Efficiency Ratio equals general and administrative expenses excluding merger-related and other integration charges as a percentage of total revenue, defined as the sum of net interest income plus non-interest income excluding securities transactions.

(4) Book value equals stockholders' equity divided by common shares outstanding.

(5) 2001 values include amortization of goodwill which was discontinued January 1, 2002 upon adoption of SFAS 141/142.

This Investor Report contains statements of Sovereign's strategies, plans, and objectives, as well as estimates of future operating results for 2002 and beyond for Sovereign Bancorp, Inc. as well as estimates of financial condition, operating 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.

QUARTERLY FINANCIAL HIGHLIGHTS

Quarter Ended

(dollars in millions)	<u>Sept 30 2002</u>	<u>June 30 2002⁽¹⁾</u>	<u>Mar. 31 2002⁽¹⁾</u>	<u>Dec. 31 2001</u>	<u>Sept. 30 2001</u>
Financial Condition Data:					
General					
Total assets	\$ 39,563	\$ 38,238	\$ 36,833	\$ 35,475	\$ 34,993
Loans	22,473	21,938	21,791	20,400	20,446
Goodwill	1,025	1,025	1,025	955	966
Core deposit intangible	363	383	403	389	410
Total deposits	26,536	25,603	24,816	23,298	23,260
Core deposits	19,260	18,027	17,096	16,050	15,506
Trust preferred securities and minority interest	598	606	614	605	458
Stockholders' equity	2,711	2,541	2,403	2,202	2,151
Asset Quality					
Non-performing assets	\$ 276.7	\$ 256.4	\$ 248.8	\$ 244.7	\$ 219.5
Non-performing assets to total assets	0.70%	0.67%	0.68%	0.69%	0.63%
Allowance for loan losses	\$ 295.3	\$ 287.7	\$ 287.0	\$ 264.7	\$ 257.1
Allowance for loan losses to total loans	1.31%	1.31%	1.32%	1.30%	1.26%
Allowance for loan losses to non-performing loans	116%	120%	124%	117%	125%
Non-performing loans to total loans	1.14%	1.09%	1.07%	1.11%	1.01%
Capitalization - Bancorp⁽²⁾					
Shareholders' equity to total assets	6.85%	6.64%	6.52%	6.21%	6.15%
Tangible equity to tangible assets	3.29%	3.04%	2.88%	2.59%	2.34%
Tangible equity to tangible assets, net of tax	4.37%	4.17%	4.07%	3.87%	3.65%
Tier 1 leverage capital ratio	4.70%	4.54%	4.47%	4.21%	3.73%
Capitalization - Bank⁽²⁾					
Shareholders' equity to total assets	10.39%	10.38%	10.48%	10.26%	10.31%
Tangible equity to tangible assets	7.36%	7.36%	7.41%	7.19%	7.10%
Tier 1 leverage capital ratio	7.36%	7.38%	7.42%	7.21%	7.12%
Tier 1 risk-based capital ratio	9.65%	9.63%	9.63%	9.67%	9.51%
Total risk-based capital ratio	10.62%	10.64%	10.66%	10.68%	10.52%

(1) Expense provisions of SFAS 123 were adopted in the quarter ended September 30, 2002 for options granted in 2002. Previously reported values for quarters ended June 30, 2002 and March 31, 2002 have been adjusted to reflect the adoption of this change in accounting principles in accordance with the existing transition provisions of SFAS 123.

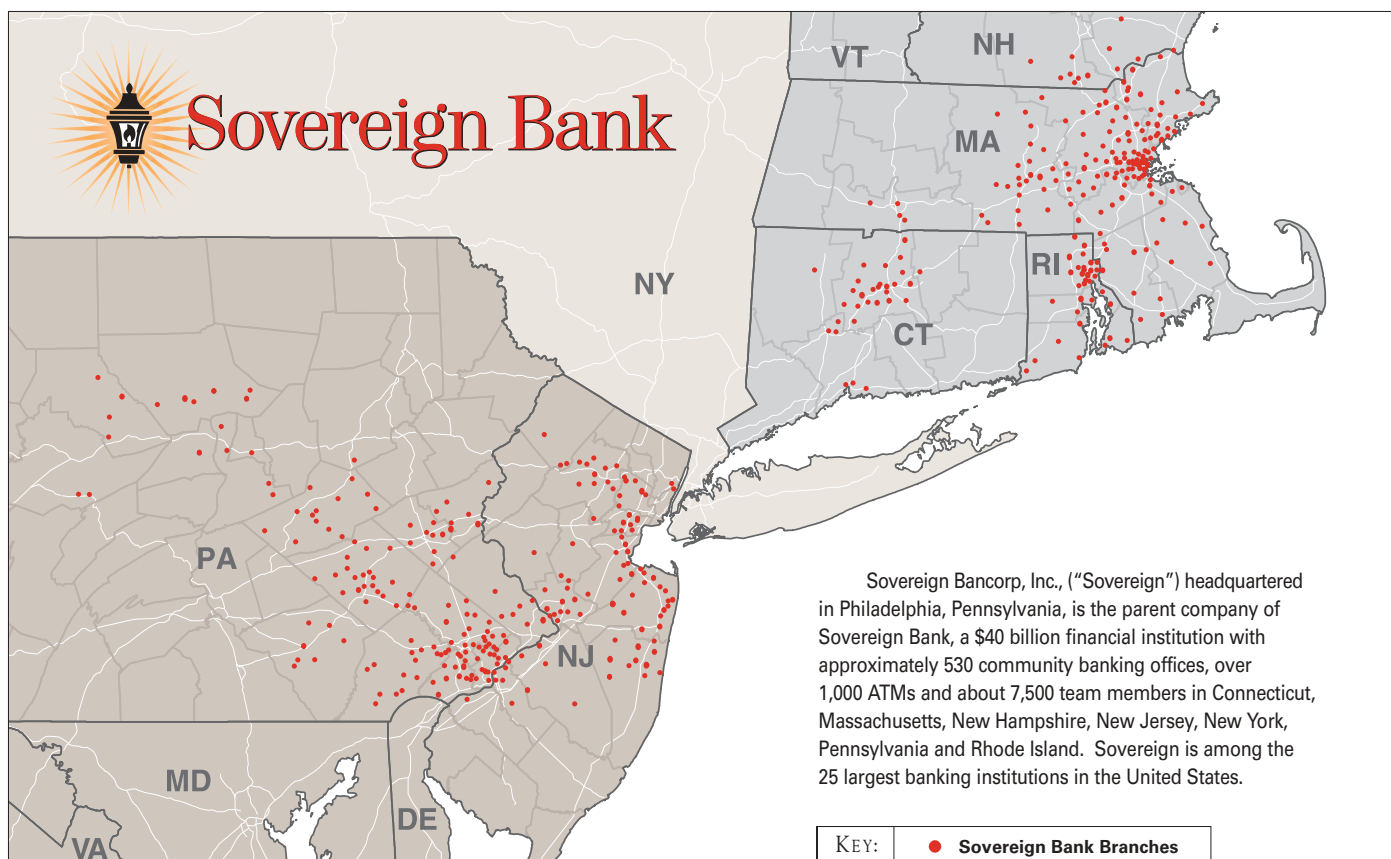
(2) All capital ratios are calculated based upon adjusted end of period assets consistent with OTS guidelines.

consistent with our stated practice of matching or exceeding net charge-offs for the quarter. We remain comfortable with our allowance for loan losses approaching \$300 million, which provides us with about 2.5 years of coverage against 12 month charge-offs," stated Dennis S. Marlo, Sovereign's Chief Risk Management Officer.

Capital

Sovereign's capital ratios continued to improve during the third quarter. Holding Company equity to assets increased by 21 basis points to 6.85% at September 30, 2002 from 6.64% at June 30, 2002. Bancorp Tier I leverage ratio grew by 16 basis points to 4.70% at September 30, 2002 from 4.54% at

June 30, 2002. Tangible equity to tangible assets increased to 3.29% from 3.04% at June 30, 2002. Hogan said, "Our tangible capital continues to grow at a rate in excess of \$400 million annually, and grew by \$132 million this quarter. At the Bank level, we continue to have capital in excess of well-capitalized guidelines."



View Your Common Stock Account Online

Investor ServiceDirect is a Web-enabled real-time service, available 24 hours a day, 7 days per week. This service provides **shareholders of record** with the ability to sell shares; view account status; perform address changes, issue certificates from book-entry, request duplicate statements; view, print or request form 1099; view certificate, book-entry and payment history.

First time users will need to establish a PIN. Establishing a PIN is easy, just enter your social security number and click on the ESTABLISH PIN button.

All registered shareholders may enroll their Sovereign stock in the Dividend Reinvestment and Stock Purchase Plan on line at: <https://vault.melloninvestor.com/isd>.

Then follow these steps:

- 1) Enter your Social Security number, and establish a pin number if you have not already done so. Once you are logged into your account, you can enroll online in the Dividend Reinvestment and Stock Purchase Plan.
- 2) Simply click on "Account Management", then choose "Dividend Selection" from the drop-down menu.
- 3) Click on your choice of full or partial dividend reinvestment, or a cash dividend.
- 4) Click on the "Continue" button at the bottom of the screen. The system will prompt you to complete your enrollment (or change).

For Technical Assistance, call 1-877-978-7778, 9a.m. - 7p.m. ET Monday - Friday.

Common Stock Dividend Reinvestment And Stock Purchase Plan

Sovereign Bancorp, Inc. offers a Dividend Reinvestment and Stock Purchase Plan to its common stock shareholders of record. This Plan provides a convenient method of investing cash dividends and optional cash payments for shareholders of record in additional shares of Sovereign's common stock without payment of brokerage commissions or service charges.

- Enrollment card requests & account questions: 800-685-4524
- Next investment date for optional cash payments:

January 19 - February 2, 2003

- Optional cash purchases may be made in any amount from a minimum of \$50 to a maximum of \$5,000 per quarter.
- Mail cash payments to:

Mellon Investor Services
Dividend Reinvestment - Sovereign
P.O. Box 3340
South Hackensack, NJ 07606-1940

- Make checks payable to: Sovereign Bancorp, Inc.
- **All optional cash payments received after February 2, 2003 (the last day of the investment period) will be returned.**

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Investor Information

Copies of the Annual Report, 10-K, interim reports, press releases and other communications sent to shareholders are available at no charge via:

e-mail: investor@sovereignbank.com
Investor Relations
voice mail: 800-628-2673

Dividends

Cash dividends on common stock and PERS Units are customarily paid on a quarterly basis on or about the 15th of February, May, August and November. Sovereign Trust Preferred Capital Securities dividends are customarily paid on a quarterly basis on or about 3/31, 6/30, 9/30, and 12/31

Registrar and Transfer Agent

Shareholders who wish to change the name, address or ownership of stock, report lost stock certificates, or consolidate stock accounts should contact:

Common Stock; NYSE: SOV

Mellon Investor Services
One Mellon Bank Center
500 Grant Street, Room 2122
Pittsburgh, PA 15258
800-685-4524

PIERS Units; NYSE: SOVPR

The Bank of New York
101 Barclay Street - 21W
New York, NY 10286
212-815-2568

Trust Preferred Securities;

NYSE: SOVPR

The Bank of New York
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