

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2002-05-14** | Period of Report: **2002-03-31**
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FILER

SOVEREIGN BANCORP INC

CIK: **811830** | IRS No.: **232453088** | State of Incorpor.: **PA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-16581** | Film No.: **02646880**
SIC: **6035** Savings institution, federally chartered

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READING PA 19612*

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 for the quarter ended March 31, 2002

OR

----- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 for the transition period from _____
to _____.

Commission File Number: 34-16533

SOVEREIGN BANCORP, INC.

(Exact name of Registrant as specified in its charter)

Pennsylvania

23-2453088

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

2000 Market Street, Philadelphia, Pennsylvania

19103

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number: (215) 557-4630

N/A

(Former name, former address and former fiscal year, if changed
since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during
the preceding 12 months (or for such shorter period that the registrant was
required to file such reports), and (2) has been subject to such filing
requirements for the past 90 days. Yes . No .

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of
common stock, as of the latest practicable date.

Class

Outstanding at May 8, 2002

Common Stock (no par value)

260,433,805 shares

FORWARD LOOKING STATEMENTS

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

The Private Securities Litigation Reform Act of 1995 provides a "safe
harbor" for forward-looking statements made by or on behalf of Sovereign
Bancorp, Inc. ("Sovereign"). Sovereign may from time to time make
forward-looking statements in Sovereign's filings with the Securities and
Exchange Commission (including this Quarterly Report on Form 10-Q and the
Exhibits hereto), in its reports to shareholders (including its 2001 Annual
Report) and in other communications by Sovereign, which are made in good faith

by Sovereign, pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Some of the disclosure communications by Sovereign, including any statements preceded by, followed by or which include the words "may," "could," "should," "pro forma," "looking forward," "will," "would," "believe," "expect," "anticipate," "estimate," "intend," "plan," "strive," "hopefully," "try," "assume" or similar expressions constitute forward-looking statements.

These forward-looking statements include statements with respect to Sovereign's vision, mission, strategies, goals, beliefs, plans, objectives, expectations, anticipations, estimates, intentions, financial condition, results of operations, future performance and business of Sovereign, including statements relating to:

- o growth in cash earnings, operating earnings, net income, shareholder value and internal tangible equity generation;
- o growth in earnings per share;
- o return on equity;
- o return on assets;
- o efficiency ratio;
- o Tier 1 leverage ratio;
- o annualized net charge-offs and other asset quality measures;
- o fee income as a percentage of total revenue;
- o ratio of tangible equity to assets;
- o book value and tangible book value per share; and
- o loan and deposit portfolio compositions, employee retention, deposit retention, asset quality and reserve adequacy.

These forward-looking statements, implicitly and explicitly, include the assumptions underlying the statements. Although Sovereign believes that the expectations reflected in these forward-looking statements are reasonable, these statements involve risks and uncertainties which are subject to change based on various important factors (some of which are beyond Sovereign's control). The following factors, among others, could cause Sovereign's financial performance

FORWARD LOOKING STATEMENTS
(continued)

to differ materially from its goals, plans, objectives, intentions, expectations, forecasts and projections (and the underlying assumptions) expressed in the forward-looking statements:

- o the strength of the United States economy in general and the strength of the regional and local economies in which Sovereign conducts operations;
- o the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System;
- o inflation, interest rate, market and monetary fluctuations;
- o Sovereign's ability to successfully integrate any assets, liabilities, customers, systems and management personnel Sovereign acquires into its operations and its ability to realize related revenue synergies and cost savings within expected time frames;
- o Sovereign's timely development of competitive new products and services in a changing environment and the acceptance of such products and services by customers;
- o the willingness of customers to substitute competitors' products and services and vice versa;
- o the impact of changes in financial services policies, laws and

regulations, including laws, regulations and policies concerning taxes, banking, capital, liquidity, proper accounting treatment, securities and insurance, and the application thereof by regulatory bodies and the impact of changes in and interpretation of generally accepted accounting principles;

- o technological changes;
- o changes in consumer spending and savings habits;
- o terrorist attacks in the United States or upon United States interests abroad, or armed conflicts relating to these attacks;
- o regulatory or judicial proceedings;
- o changes in asset quality; and
- o Sovereign's success in managing the risks involved in the foregoing.

If one or more of the factors affecting Sovereign's forward-looking information and statements proves incorrect, then its actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements. Therefore, Sovereign cautions you not to place undue reliance on any forward-looking information and statements.

FORWARD LOOKING STATEMENTS (continued)

Sovereign does not intend to update any forward-looking information and statements, whether written or oral, to reflect any change. All forward-looking statements attributable to Sovereign are expressly qualified by these cautionary statements.

Operating earnings and cash earnings which are included and defined herein, and the related ratios using these measures are not a substitute for other financial measures determined in accordance with generally accepted accounting principles. Because all companies do not calculate these measures in the same fashion, these measures as presented may not be comparable to other similarly titled measures of other companies.

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SIGNATURES

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2002 ----- (Unaudited)	December 31, 2001 -----
	(in thousands, except per share data)	
<S>	<C>	<C>
ASSETS		
Cash and amounts due from depository institutions	\$ 720,391	\$ 887,964
Interest-earning deposits	254,402	19,315
Investment securities:		
Available-for-sale	9,597,001	9,581,679
Held-to-maturity (fair value of \$815,942 and \$883,208 at March 31, 2002 and December 31, 2001, respectively)	820,642	883,437
Loans (including loans held for sale at approximate fair value of \$176,981 and \$308,950 at March 31, 2002 and December 31, 2001, respectively)	21,790,733	20,399,584
Allowance for loan losses	(287,015)	(264,667)
Premises and equipment	278,178	251,587
Other real estate owned and other repossessed assets	16,583	18,928
Accrued interest receivable	123,753	183,913
Goodwill	1,024,292	954,688
Core deposit intangible	403,346	389,216
Bank owned life insurance	714,258	706,175
Other assets	1,376,800	1,463,019
	-----	-----
TOTAL ASSETS	\$36,833,364 =====	\$35,474,838 =====
LIABILITIES		
Deposits and other customer accounts	\$24,815,550	\$23,297,574
Short-term borrowings	2,204,609	2,678,764
Long-term borrowings:		
FHLB advances and repurchase agreements	4,297,830	4,260,929
Senior secured credit facility	245,000	225,000
Senior notes and subordinated debentures	1,752,850	1,775,077
Advance payments by borrowers for taxes and insurance	22,930	20,943
Other liabilities	469,712	406,270
	-----	-----
TOTAL LIABILITIES	33,808,481 -----	32,664,557 -----
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding junior subordinated debentures of Sovereign ("Trust Preferred Securities")	413,136	404,136
Minority interest-preferred securities of subsidiaries	208,852	203,664
STOCKHOLDERS' EQUITY		
Common stock; no par value; 400,000,000 shares authorized; 264,517,048 shares issued at March 31, 2002 and 252,386,163 shares		

issued at December 31, 2001	1,569,274	1,416,267
Warrants	91,500	91,500
Unallocated common stock held by the Employee Stock Ownership Plan at cost; 3,626,414 shares at March 31, 2002 and 4,247,873 shares at December 31, 2001	(23,177)	(30,945)
Treasury stock at cost; 358,472 shares at March 31, 2002 and 108,792 shares at December 31, 2001	(3,562)	(515)
Restricted stock at cost; 559,791 shares at March 31, 2002 and December 31, 2001	(6,272)	(6,272)
Accumulated other comprehensive loss	(51,196)	(33,135)
Retained earnings	826,328	765,581
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	2,402,895	2,202,481
	-----	-----
TOTAL LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY	\$36,833,364	\$35,474,838
	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

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<TABLE>
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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three-Month Period Ended March 31,	
	2002	2001
	(in thousands, except per share data)	
	<C>	<C>
INTEREST INCOME:		
Interest-earning deposits	\$ 1,940	\$ 514
Investment securities:		
Available-for-sale	140,698	106,767
Held-to-maturity	13,533	19,397
Interest and fees on loans	338,656	453,168
	-----	-----
TOTAL INTEREST INCOME	494,827	579,846
	-----	-----
INTEREST EXPENSE:		
Interest on deposits and other customer accounts	111,010	221,114
Interest on short-term and long-term borrowings	111,888	111,252
	-----	-----
TOTAL INTEREST EXPENSE	222,898	332,366
	-----	-----
NET INTEREST INCOME	271,929	247,480
Provision for loan losses	44,500	20,000
	-----	-----
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	227,429	227,480
	-----	-----
NON-INTEREST INCOME:		
Consumer banking fees	38,563	39,432

Commercial banking fees	22,751	18,265
Mortgage banking revenues	9,466	21,314
Capital markets revenue	3,337	3,469
Bank owned life insurance	10,289	9,745
Miscellaneous income	2,564	5,725
	-----	-----
TOTAL FEES AND OTHER INCOME	86,970	97,950
	-----	-----
Gain on investment securities and related derivatives transactions	20,566	7,344
	-----	-----
TOTAL NON-INTEREST INCOME	107,536	105,294
	-----	-----
GENERAL AND ADMINISTRATIVE EXPENSES:		
Compensation and benefits	83,932	77,630
Occupancy and equipment expenses	50,287	53,965
Technology expense	16,640	16,019
Outside services	11,452	13,699
Other administrative expenses	29,649	28,173
	-----	-----
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	191,960	189,486
	-----	-----

</TABLE>

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(continued)

	Three-Month Period Ended March 31,	
	2002	2001
	-----	-----
	(in thousands, except per share data)	
<S>	<C>	<C>
OTHER EXPENSES:		
Amortization of intangibles, including goodwill in 2001	\$ 20,234	\$ 36,076
Trust Preferred Securities and other minority interest expense	15,558	14,484
Merger-related and integration charges	15,871	--
Non-solicitation expense	--	72,216
Restructuring expense	--	8,500
	-----	-----
TOTAL OTHER EXPENSES	51,663	131,276
	-----	-----
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	91,342	12,012
Income tax provision	24,400	900
	-----	-----
Income before extraordinary item	66,942	11,112
Extraordinary item (net of tax of \$3,526 - 2001)	--	(6,549)
	-----	-----
NET INCOME	\$ 66,942	\$ 4,563
	=====	=====
EARNINGS PER SHARE:		
Basic		
Income before extraordinary item	\$.27	\$.05
Extraordinary item	--	(.03)

NET INCOME	\$.27	\$.02
Diluted		
Income before extraordinary item	\$.25	\$.05
Extraordinary item	--	(.03)
NET INCOME	\$.25	\$.02
DIVIDENDS DECLARED PER COMMON SHARE	\$.025	\$.025

</TABLE>

See accompanying notes to consolidated financial statements.

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(unaudited)
(in thousands)

	Common Shares Outstanding	Common Stock	Warrants	Retained Earnings	Treasury Stock	Restricted Stock
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 2001	247,470	\$1,416,267	\$ 91,500	\$765,581	\$ (515)	\$ (6,272)
Comprehensive income:						
Net income	--	--	--	66,942	--	--
Change in unrecognized gain/(loss) net of tax on:						
Investments available-for-sale	--	--	--	--	--	--
Derivative financial instruments	--	--	--	--	--	--
Total comprehensive income	--	--	--	--	--	--
Acquisition of Main Street Bancorp	11,367	148,578	--	--	(3,116)	--
Exercise of stock options	419	2,817	--	--	--	--
Sale of stock under Dividend Reinvestment Plan and Employee Stock Purchase Plan	85	1,010	--	--	--	--
Dividends paid on common stock	--	--	--	(6,195)	--	--
Treasury stock purchases	(9)	--	--	--	(109)	--
Treasury stock sold	19	38	--	--	178	--
Termination of Employee Stock Ownership Plan	621	564	--	--	--	--
Balance, March 31, 2002	259,972	\$1,569,274	\$ 91,500	\$826,328	\$ (3,562)	\$ (6,272)

</TABLE>

<TABLE>
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	Unallocated Common Stock Held by ESOP	Accumulated Other Comprehensive Income/(Loss)	Total Stock- Holders' Equity
<S>	<C>	<C>	<C>
Balance, December 31, 2001	\$ (30,945)	\$ (33,135)	\$2,202,481
Comprehensive income:			
Net income	--	--	66,942

Change in unrecognized gain/(loss) net of tax on:			
Investments available-for-sale	--	(31,792)	(31,792)
Derivative financial instruments	--	13,731	13,731

Total comprehensive income	--	--	48,881
Acquisition of Main Street Bancorp	--	--	145,462
Exercise of stock options	--	--	2,817
Sale of stock under Dividend Reinvestment Plan and Employee Stock Purchase Plan	--	--	1,010
Dividends paid on common stock	--	--	(6,195)
Treasury stock purchases	--	--	(109)
Treasury stock sold	--	--	216
Termination of Employee Stock Ownership Plan	7,768	--	8,332

Balance, March 31, 2002	\$ (23,177)	\$ (51,196)	\$2,402,895
	=====	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

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<TABLE>
<CAPTION>

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three-month Period Ended March 31,	
	2002	2001
	----	----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 66,942	\$ 4,563
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	44,500	20,000
Deferred taxes	10,920	(43,607)
Depreciation and amortization	35,482	48,440
Net amortization/(accretion) of investment securities and loan premiums	12,413	5,233
(Gain)/loss on sale of loans, investment securities and real estate owned	(20,423)	(7,356)
(Gain) on sale of fixed assets	--	(344)
Allocation of ESOP shares	7,768	--
Loss on the retirement of Bancorp debt	--	10,075
Net change in:		
Unrealized gain/(loss) on derivatives	13,732	(9,905)
Loans held for sale	131,969	--
Accrued interest receivable	65,215	14,123
Prepaid expenses and other assets	(6,088)	(689,217)
Other liabilities	39,744	125,652
	-----	-----
Net cash provided (used) by operating activities	402,174	(522,343)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investment securities:		
Available-for-sale	2,001,589	1,619,275
Proceeds from repayments and maturities of investment securities:		
Available-for-sale	689,919	260,181
Held-to-maturity	72,906	66,624
Purchases of investment securities:		
Available-for-sale	(2,452,392)	(2,156,144)
Held-to-maturity	1,396	(1,024)
Proceeds from sales of loans	741,282	1,116,152
Purchase of loans	(655,805)	(765,516)

Net change in loans other than purchases and sales	(662,279)	(251,698)
Proceeds from sales of premises and equipment	7	379
Purchases of premises and equipment	(20,298)	(4,628)
Proceeds from sale of real estate owned	7,993	630
Net cash (paid) received due to acquisitions net of cash acquired	207,704	--
	-----	-----
Net cash provided (used) by investing activities	(67,978)	(115,769)
	-----	-----

CASH FLOWS FROM FINANCING ACTIVITIES:

Net (decrease)/increase in deposits and other customer accounts	257,633	(533,575)
Net increase/(decrease) in short-term borrowings	(474,155)	378,212
Net increase in long-term borrowings	(50,450)	517,532
Proceeds from long-term borrowings	20,000	525,000
Repayments of long-term borrowings	(20,000)	(590,000)
Net increase in advance payments by borrowers for taxes and insurance	1,987	(357)
Cash dividends paid to stockholders	(6,195)	(5,872)
Proceeds from issuance of common stock	4,429	150,328
Net change in treasury and restricted stock	69	261
Proceeds from the issuance of preferred stock by subsidiary	--	--
	-----	-----
Net cash provided(used) by financing activities	(266,682)	441,529
	-----	-----
Net change in cash and cash equivalents	67,514	(196,583)
Cash and cash equivalents at beginning of period	907,279	959,643
	-----	-----
Cash and cash equivalents at end of period	\$ 974,793	\$ 763,060
	=====	=====

</TABLE>

Supplemental Disclosures:

Income tax payments totaled \$4.1 million for the three-month period ended March 31, 2002 and \$1.3 million for the same period in 2001. Interest payments totaled \$216 million for the three-month period ended March 31, 2002 and \$342 million for the same period in 2001. See Note 12 - Purchase of Main Street Bancorp, Inc., in a later section of these financial statements for the fair value of non-cash assets and liabilities acquired in 2002.

See accompanying notes to consolidated financial statements.

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements of Sovereign Bancorp, Inc. and Subsidiaries ("Sovereign") include the accounts of the parent company, Sovereign Bancorp, Inc. and its wholly-owned subsidiaries: Sovereign Bank, Sovereign Delaware Investment Corporation, Sovereign Capital Trust I, Sovereign Capital Trust II, Sovereign Capital Trust III, Main Street Capital Trust I and ML Capital Trust I. All material intercompany balances and transactions have been eliminated in consolidation.

These financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include certain information or footnotes necessary for the presentation of financial condition, results of operations, stockholders' equity, and cash flows in conformity with accounting principles generally accepted in the United States. However, in the opinion of management, the consolidated financial statements reflect all adjustments (which consist of normal recurring accruals) necessary for a fair presentation of the results for the unaudited periods.

The preparation of these financial statements in conformity with accounting

principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Certain amounts in the financial statements of prior periods have been reclassified to conform with the presentation used in current period financial statements. These reclassifications have no effect on net income.

The results of operations for the three-month period ended March 31, 2002 are not necessarily indicative of the results which may be expected for the entire year. These consolidated financial statements should be read in conjunction with the Form 10-K for the year ended December 31, 2001.

Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142") was adopted effective January 1, 2002. Amortization of goodwill was discontinued upon adoption in accordance with SFAS No. 142 as discussed in a later section of these footnotes.

The Company completed its purchase of Main Street Bancorp, Inc. ("Main Street") on March 8, 2002. Sovereign's results include the operations of Main Street from the date of its acquisition as discussed in a later section of these footnotes.

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(continued)

(2) EARNINGS PER SHARE

Basic earnings per share is calculated by dividing income before and after extraordinary item by the weighted average common shares outstanding, excluding options and warrants. The dilutive effect of options and warrants is calculated using the treasury stock method.

The following table presents the computation of earnings per share for the periods indicated (in thousands, except per share data).

	Three-Month Period Ended March 31,	
	2002	2001
CALCULATION OF INCOME FOR EPS:		
Income before extraordinary item for basic EPS	\$ 66,942	\$ 11,112
Extraordinary item, after tax	--	(6,549)
Net income for basic and diluted EPS	\$ 66,942	\$ 4,563
WEIGHTED AVERAGE SHARES FOR EPS:		
Weighted average basic shares	250,619	237,874
Dilutive effect of average stock options and warrants	19,243	1,392
Weighted average diluted shares	269,862	239,266
EARNINGS PER SHARE:		
Basic		
Income before extraordinary item	\$.27	\$.05
Extraordinary item	--	(.03)
Net income	\$.27	\$.02
Diluted		
Income before extraordinary item	\$.25	\$.05
Extraordinary item	--	(.03)

Net income

\$.25
=====\$.02
=====

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<TABLE>
<CAPTION>SOVEREIGN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(continued)

(3) INVESTMENT SECURITIES AVAILABLE-FOR-SALE

The following table presents the composition and fair value of investment securities available-for-sale at the dates indicated: (dollars in thousands)

	March 31, 2002			
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
<S>	<C>	<C>	<C>	<C>
Investment Securities:				
U.S. Treasury and government agency securities	\$ 32,567	\$ 105	\$ 257	\$ 32,415
Corporate debt and asset-backed securities	349,188	8,569	15,692	342,065
Equities	994,437	3,582	111	997,908
State and municipal securities	23,194	3,571	--	26,765
Mortgage-backed securities:				
U.S. government agencies	5,643,207	14,170	69,179	5,588,198
Non-agencies	2,592,292	21,354	3,996	2,609,650
	-----	-----	-----	-----
Total investment securities available-for-sale	\$9,634,885	\$51,351	\$89,235	\$9,597,001
	=====	=====	=====	=====

	December 31, 2001			
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
<S>	<C>	<C>	<C>	<C>
Investment Securities:				
U.S. Treasury and government agency securities	\$ 23,109	\$ 93	\$ 23	\$ 23,179
Corporate debt and asset-backed securities	322,813	5,357	14,310	313,860
Equities	790,391	2,631	160	792,862
State and municipal securities	22,452	1,942	2	24,392
Mortgage-backed securities:				
U.S. government agencies	6,625,498	34,371	33,828	6,626,041
Non-agencies	1,783,485	23,062	5,202	1,801,345
	-----	-----	-----	-----
Total investment securities available-for-sale	\$9,567,748	\$67,456	\$53,525	\$9,581,679
	=====	=====	=====	=====

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)
 (continued)

(4) INVESTMENT SECURITIES HELD-TO-MATURITY

The following table presents the composition and fair value of investment securities held-to-maturity at the dates indicated: (dollars in thousands)

	March 31, 2002			
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
<S>	<C>	<C>	<C>	<C>
Investment Securities:				
U.S. Treasury and government agency securities	\$ 1,705	\$ 60	\$ --	\$ 1,765
State and municipal securities	3,925	36	4	3,957
Mortgage-backed securities:				
U.S. government agencies	810,235	8,061	12,895	805,401
Non-agencies	4,777	49	7	4,819
Total investment securities held-to-maturity	\$820,642	\$ 8,206	\$ 12,906	\$815,942

</TABLE>

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	December 31, 2001			
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
<S>	<C>	<C>	<C>	<C>
Investment Securities:				
U.S. Treasury and government agency securities	\$ 1,905	\$ 55	\$ --	\$ 1,960
State and municipal securities	4,128	35	2	4,161
Mortgage-backed securities:				
U.S. government agencies	872,154	9,851	10,144	871,861
Non-agencies	5,250	47	71	5,226
Total investment securities held-to-maturity	\$883,437	\$ 9,988	\$ 10,217	\$883,208

</TABLE>

(5) COMPOSITION OF LOAN PORTFOLIO

The following table presents the composition of the loan portfolio by type of loan and by fixed and adjustable rates at the dates indicated: (dollars in thousands)

<TABLE>
<CAPTION>

	March 31, 2002		December 31, 2001	
	Amount	Percent	Amount	Percent
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Commercial real estate loans	\$ 3,714,156	17.1%	\$ 3,082,330	15.1%
Commercial and industrial loans	4,629,240	21.2	4,506,198	22.1
Other	1,041,110	4.8	975,075	4.8
	-----	-----	-----	-----
Total Commercial Loans	9,384,506	43.1	8,563,603	42.0
	-----	-----	-----	-----
Home equity loans	4,419,534	20.3	3,756,621	18.4
Auto loans	3,026,170	13.9	2,880,449	14.1
Other	201,609	0.9	193,692	.9
	-----	-----	-----	-----
Total Consumer Loans	7,647,313	35.1	6,830,762	33.4
	-----	-----	-----	-----
Residential Real Estate Loans	4,758,914	21.8	5,005,219	24.6
	-----	-----	-----	-----
Total Loans (1)	\$21,790,733	100.0%	\$20,399,584	100.0%
	=====	=====	=====	=====
Total Loans with:				
Fixed rate	\$13,147,995	60.3%	\$12,875,742	63.1%
Variable rate	8,642,738	39.7	7,523,842	36.9
	-----	-----	-----	-----
Total Loans (1)	\$21,790,733	100.0%	\$20,399,584	100.0%
	=====	=====	=====	=====

</TABLE>

(1) Loan totals include deferred loan fees and unamortized premiums and discounts. These fees, premiums and discounts resulted in a net increase in loans of \$35 million at March 31, 2002 and a net increase of \$22 million at December 31, 2001.

Loans to related parties include loans made to certain officers, directors and their affiliated interests. At March 31, 2002 and December 31, 2001, loans to related parties totaled \$21.6 million and \$20.1 million, respectively.

<TABLE>
<CAPTION>

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(continued)

(6) DEPOSIT PORTFOLIO COMPOSITION

The following table presents the composition of deposits and other customer accounts at the dates indicated: (dollars in thousands)

March 31, 2002

December 31, 2001

Account Type	Amount	Percent	Weighted Average Rate	Amount	Percent	Weighted Average Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Demand deposit accounts	\$ 3,985,739	16%	--%	\$ 3,910,171	17%	--%
NOW accounts	4,207,635	17	0.84	4,162,169	18	0.87
Savings accounts	3,135,102	13	1.40	2,985,464	13	1.44
Money market accounts	5,767,822	23	1.96	4,992,163	21	1.73
Retail certificates	7,292,676	29	3.79	6,985,397	30	4.14
Jumbo certificates	426,576	2	3.02	262,210	1	3.04
Total Deposits	\$24,815,550	100%	1.94%	\$23,297,574	100%	1.99%

(7) SHORT-TERM BORROWINGS

The following table presents information regarding short-term borrowings (original maturities of up to one year) at the dates indicated: (dollars in thousands)

<TABLE>
<CAPTION>

	March 31, 2002	December 31, 2001
<S>	<C>	<C>
Federal funds purchased	\$ 335,000	\$ 452,002
Securities sold under repurchase agreements	--	297,741
FHLB advances	1,869,609	1,929,021
Total Borrowings	\$2,204,609	\$2,678,764
	Weighted Average Rate	Weighted Average Rate
	1.77%	1.75%
	--	1.45
	2.66	3.08
	2.53%	2.67%

(8) LONG-TERM BORROWINGS

Long-term borrowings (original maturities greater than one year) consisted of the following: (dollars in thousands)

	March 31, 2002	December 31, 2001
Securities sold under repurchase agreements	\$ 155,000	\$ 155,000
FHLB advances	4,142,830	4,105,929
Senior secured credit facility	245,000	225,000
Senior and subordinated notes	1,752,850	1,775,077
	\$6,295,680	\$6,261,006

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)
 (continued)

(9) COMPREHENSIVE INCOME

The following table presents the components of comprehensive income/(loss), net of related tax, based on the provisions of SFAS No. 130 for the periods indicated: (dollars in thousands)

	Three-month Period Ended March 31,	
	2002	2001
Net income	\$66,942	\$ 4,563
Cumulative change in accounting principle:		
Fair value of derivative instruments and hedged items	--	(6,736)
Reclassification of held-to-maturity securities to available-for-sale	--	(3,215)
Net unrealized gain/(loss):		
Derivative instruments	13,731	81
Investment securities available-for-sale	(18,432)	27,721
Less reclassification adjustment:		
Derivative instruments	--	35
Investments available-for-sale	13,360	4,961
Net unrealized gain recognized in other comprehensive income	(18,061)	12,855
Comprehensive income	\$48,881	\$17,418

Accumulated other comprehensive loss, net of related tax, consisted of net unrealized losses on securities of \$24.3 million and net unrealized losses on derivatives of \$26.9 million at March 31, 2002 and net unrealized losses on securities of \$15.8 million and net unrealized losses on derivatives of \$9.9 million at March 31, 2001.

(10) DERIVATIVES

Sovereign uses derivative instruments as part of its interest rate risk management process, to manage risk associated with its mortgage banking activities, and to assist its commercial banking customers with their risk management strategies.

Sovereign's primary market risk is interest rate risk. Management uses derivative instruments to protect against the risk of interest rate movements on the value of certain liabilities and on probable future cash outflows. These instruments primarily include interest rate swaps and interest rate caps and floors that have underlying interest rates based on key benchmark indexes. The nature and volume of the derivative instruments used to manage interest rate risk depend on the level and type of assets and liabilities on the balance sheet and the risk management strategies for the current and anticipated rate environment. On January 1, 2001, the Company adopted SFAS 133, "Accounting for Derivative Instruments and Hedging Activities", which requires all derivative instruments to be carried at fair value on the balance sheet. The Company designates derivative instruments used to manage interest rate risk into SFAS 133 hedge relationships with the specific assets, liabilities, or cash flows being hedged.

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)
 (continued)

Fair Value Hedges. Sovereign used receive-fixed interest rate swaps to hedge the fair values of certain brokered CDs for changes in interest rates. All of Sovereign's interest rate swaps accounted for as fair value hedges outstanding as of March 31, 2002 satisfied the criteria in SFAS 133 to use the "short-cut" method of accounting for changes in fair value. The short-cut method allows the Company to assume that there is no ineffectiveness in the hedging relationship and that changes in the fair value of the derivative perfectly offset changes in the fair value of the hedged asset or liability, resulting in no volatility in earnings.

Cash Flow Hedges. Sovereign hedges cash flow variability related to variable-rate liabilities, specifically FHLB advances, through the use of pay-fixed interest rate swaps. Sovereign also held pay-fixed interest rate swaps to hedge forecasted cash flows associated with periodic floating rate interest payments payable subsequent to March 31. All of Sovereign's interest rate swaps accounted for as cash flow hedges outstanding as of March 31, 2002, satisfied the criteria in SFAS 133 to use the short-cut method of accounting for changes in fair value.

Gains and losses on derivative instruments reclassified from accumulated other comprehensive income to current-period earnings are included in the line item in which the hedged cash flows are recorded. At March 31, 2002, accumulated other comprehensive income included a deferred after-tax net loss of \$26.9 million, consisting of a loss on pay-fixed interest rate swaps used to hedge future cash flows on FHLB advances. The loss will be reclassified from other comprehensive income into earnings during the same period the forecasted transactions occur. During the first quarter of 2001, the Company terminated \$950 million of cash flow interest rate swaps. The resulting gain on termination of \$4.7 million is being deferred and amortized as a yield adjustment against the remaining expected future cash flows originally being hedged. This deferred gain will be amortized over the period April, 2002 through June, 2012.

Other Derivative Activities. Sovereign's derivative portfolio also includes derivative instruments not included in SFAS 133 hedge relationships. Those derivatives include mortgage banking loan commitments and forward sales defined as derivatives under SFAS 133 used for risk management purposes, and derivatives executed with customers, primarily interest rate swaps and foreign exchange futures, to facilitate their risk management strategies.

Net gains generated from other than hedging derivative instruments for the three-months ended March 31, 2002 totaled \$2.2 million and are included as capital markets revenue on the income statement.

(11) GOODWILL AND OTHER INTANGIBLE ASSETS

The Company adopted Statement of Financial Accounting Standards No. 142 - Goodwill and Other Intangible Assets ("SFAS No. 142") and discontinued amortizing goodwill effective January 1, 2002. Under SFAS No. 142 goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually for impairment. Separable intangible assets that are not deemed to have an indefinite life continue to be amortized over their useful lives. The Company is required to complete the transitional impairment test within six months of adoption of SFAS No. 142. Any impairment loss resulting from the transitional impairment test will be recorded as a cumulative effect of a change in accounting principle. Subsequent impairment losses will be reflected in expense in the statement of

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)
 (continued)

operations. The Company has costs in excess of net assets acquired (goodwill), which are deemed to be an indefinite life intangible asset, and core deposit intangibles, which are deemed to have a definite life and continue to be amortized.

The estimated aggregate amortization expense related to core deposit intangibles for each of the five succeeding fiscal years ending December 31, is:

Year	Amount
----	-----
2002	\$80,274
2003	73,835
2004	66,856
2005	57,945
2006	51,047

The following table reflects the components of intangible assets (in

thousands):

	Gross Carrying Amount		Accumulated Amortization	
	March 31, 2002	December 31, 2001	March 31, 2002	December 31, 2001
Non-amortized intangible assets:				
Goodwill	\$1,155,945	\$1,086,341	\$131,653	\$131,653
Amortized intangible assets:				
Core Deposit Intangibles	642,543	608,179	239,197	218,963

The following table reflects the pro forma results of operations as if SFAS No. 142 had been adopted as of January 1, 2001 (in thousands, except per share data):

	Three-months ended March 31,	
	2002	2001
Reported income before extraordinary item	\$66,942	\$11,112
Add back goodwill amortization, net of tax	--	6,871
Proforma income before extraordinary item	\$66,942	\$17,983
Proforma net income	\$66,942	\$11,434
Reported diluted EPS before extraordinary item	\$.25	\$.05
Add back goodwill amortization, net of tax	\$ --	.03
Proforma diluted EPS before extraordinary item	\$.25	\$.08
Proforma diluted EPS	\$.25	\$.05

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(continued)

(12) PURCHASE OF MAIN STREET BANCORP, INC. ("MAIN STREET")

On March 8, 2002 Sovereign completed the purchase of Main Street and the results of its operations are included from purchase date through March 31, 2002. Sovereign issued 11.4 million shares of common stock, net of treasury shares, valued at \$145.5 million and made cash payments of \$31.5 million to acquire and convert all outstanding Main Street shares and associated fees. The value of the common stock was determined based on the average price of Sovereign's shares over the ten day period preceding closing as provided in the purchase agreement. The acquisition enhanced Sovereign's market share throughout its existing service area in eastern Pennsylvania. Sovereign's preliminary purchase price allocation is as follows:

Assets and Liabilities Acquired at fair value from Main Street as of March 8, 2002 (dollars in millions):

Assets		Liabilities	
Investments	\$ 305.9	Deposits:	
Loans:		Core	\$ 700.6
Commercial	527.0	Time	554.6
Consumer	152.7		-----
Residential	165.6	Total deposits	1,255.2
	-----	Borrowings and	

Total loans	845.3	long-term debt	86.9
Less allowance for loan losses	(14.9)	Other liabilities	23.7
	-----	Trust preferred securities	10.0
Total loans, net	830.4		
Federal funds and cash	239.3		-----
Premises and equipment, net	26.0		
Other real estate owned	0.8	Total liabilities	\$1,375.8
Prepaid expenses and other assets	14.9		=====
Core deposit intangible	34.4		
Goodwill	69.6		

Total assets	\$1,521.3		
	=====		

In connection with the Main Street acquisition, Sovereign recorded charges against its earnings for the three-month period ended March 31, 2002 for an additional loan loss provision of \$6.0 million pre-tax (\$3.9 million net of tax) to conform Main Street's allowance for loan losses to Sovereign's reserve policies and for merger related expenses of \$15.9 million pre-tax (\$10.3 million net of tax).

These merger-related expenses include the following:

Community grants	\$ 1,000
Branch and office consolidations	11,338
Account conversion and other	3,533

	\$15,871
	=====

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

General

Cash earnings, as defined below, for the three-month period ended March 31, 2002 increased 8% to \$95.2 million, or \$.35 per share, up from \$88.1 million, or \$.37 per share, for the same period in 2001. Operating earnings for 2002 increased 27% to \$81.2 million, or \$.30 per share, as compared to \$63.6 million, or \$.27 per share, for 2001.

Operating earnings exclude certain special charges for 2002 and 2001. Special charges for the quarters ended March 31, 2002 and 2001 were \$14.2 million and \$59.0 million, respectively, after tax, and are outlined in the Reconciliation of Net Income to Operating Earnings table on the following page. Cash earnings are operating earnings excluding amortization (after-tax) of intangible assets and ESOP-related expense.

Net income, including the special charges noted above, was \$66.9 million, or \$.25 per share, for the three-month period ended March 31, 2002, as compared to \$4.6 million, or \$.02 per share, for the same period in 2001. Effective January 1, 2002, the Company ceased to amortize goodwill in accordance with SFAS No. 142 (see Note 11 in Notes to Consolidated Financial Statements). Proforma 2001 net income and operating earnings were \$11.4 million and \$70.4 million, excluding the effects of goodwill amortization.

Cash return on average equity and cash return on average total assets, excluding special charges discussed above, were 16.96% and 1.10% for the three-month period ended March 31, 2002 compared to 17.42% and 1.06% for the same period in 2001.

Main Street Bancorp, Inc. Acquisition ("Main Street")

On March 8, 2002 Sovereign closed the acquisition of Main Street, a commercial bank holding company headquartered in Reading, Pennsylvania. Collectively, Main Street shareholders elected to receive approximately 85% of

the purchase price in Sovereign common stock valued at 145.5 million and 15% in cash, or \$31.5 million, including associated fees. The value of the common stock was determined based on the average price of Sovereign's shares over the ten day period preceding closing as provided in the purchase agreement. Under the terms of the deal, up to 30% of total consideration was available in the form of cash.

In connection with the Main Street acquisition, Sovereign recorded charges against its earnings for the three-month period ended March 31, 2002 for an additional loan loss provision of \$6.0 million pretax (\$3.9 million net of tax) to conform Main Street's allowance for loan losses to Sovereign's reserve policies and for merger related expenses of \$15.9 million pretax (\$10.3 million net of tax).

See Note 12 in the Consolidated Financial Statements for Sovereign's preliminary purchase allocation, including fair values of acquired assets and liabilities, and a description of merger-related expenses.

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Reconciliation of Net Income to Operating Earnings

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

	Three-month Period Ended March 31,			
	Total		Per Share	
	2002	2001	2002	2001
Net income as reported	\$ 66,942	\$ 4,563	\$.25	\$.02
Loss on the early extinguishment of debt	--	6,549	--	.03
Merger-related and integration costs recorded during the period	10,316	--	.04	--
Restructuring expense	--	5,525	--	.02
Non-solicitation expense	--	46,940	--	.20
Provision for loan losses - Main Street Bancorp acquisition	3,900	--	.01	--
Operating earnings	\$ 81,158	\$ 63,577	\$.30	\$.27
Amortization of intangibles	13,468	24,099	.05	.10
ESOP expense	601	399	--	--
Cash earnings	\$ 95,227	\$ 88,075	\$.35	\$.37
Average shares	269,862	239,315		

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

<TABLE>
<CAPTION>

CONSOLIDATED AVERAGE BALANCE SHEET / NET INTEREST MARGIN ANALYSIS
THREE-MONTH PERIOD ENDED MARCH 31, 2002 AND 2001

(in thousands)

	2002			2001		
	Average Balance	Interest (1)	Yield/ Rate	Average Balance	Interest (1)	Yield/ Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>
EARNING ASSETS						

INVESTMENTS	\$10,088,524	\$159,700	6.34%	\$ 7,167,511	\$129,026	7.20%
LOANS:						
Residential loans	4,978,654	86,050	6.91%	7,860,387	153,738	7.82%
Commercial loans	8,772,839	133,764	6.14%	8,138,466	172,886	8.57%
Consumer loans	6,996,999	120,084	6.96%	6,273,139	128,059	8.27%
	-----	-----	-----	-----	-----	-----
Total loans	20,748,492	339,897	6.60%	22,271,992	454,683	8.22%
Allowance for loan losses	(287,100)	--	--	(255,288)	--	--
	-----	-----	-----	-----	-----	-----
NET LOANS	20,461,392	339,897	6.70%	22,016,704	454,683	8.32%
	-----	-----	-----	-----	-----	-----
TOTAL EARNING ASSETS	30,549,916	499,597	6.58%	29,184,215	583,709	8.05%
Other assets	4,700,621	--	--	4,381,587	--	--
	-----	-----	-----	-----	-----	-----
TOTAL ASSETS	\$35,250,537	499,597	5.70%	\$33,565,802	\$583,709	7.00%
	=====	=====	=====	=====	=====	=====
FUNDING LIABILITIES						

DEPOSITS:						
Core deposits	\$16,238,079	42,317	1.06%	\$14,867,116	88,426	2.41%
Time deposits	7,329,853	68,693	3.80%	9,070,640	132,688	5.93%
	-----	-----	-----	-----	-----	-----
TOTAL DEPOSITS	23,567,932	111,010	1.91%	23,937,756	221,114	3.74%
	-----	-----	-----	-----	-----	-----
BORROWED FUNDS:						
FHLB advances	5,939,169	76,007	5.13%	5,231,007	73,561	5.63%
Repurchase agreements	341,002	2,654	3.11%	217,472	2,698	4.96%
Other borrowings	1,990,840	33,227	6.69%	1,394,238	34,993	10.08%
	-----	-----	-----	-----	-----	-----
TOTAL BORROWED FUNDS	8,271,011	111,888	5.42%	6,842,717	111,252	6.51%
	-----	-----	-----	-----	-----	-----
TOTAL FUNDING LIABILITIES	31,838,943	222,898	2.82%	30,780,473	332,366	4.36%
Other liabilities	1,134,377	--	--	735,213	--	--
	-----	-----	-----	-----	-----	-----
TOTAL LIABILITIES	32,973,320	222,898	2.73%	31,515,686	332,366	4.26%
	-----	-----	-----	-----	-----	-----
STOCKHOLDERS' EQUITY	2,277,217	--	--	2,050,116	--	--
	-----	-----	-----	-----	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$35,250,537	222,898	2.55%	\$33,565,802	332,366	4.00%
	=====	=====	=====	=====	=====	=====
NET INTEREST INCOME		\$276,699			\$251,343	
		=====			=====	
NET INTEREST SPREAD (2)			3.15%			3.00%
			----			----
NET INTEREST MARGIN (3)			3.64%			3.45%
			=====			=====

</TABLE>

(1) Tax-equivalent basis

(2) Represents the difference between the yield on total assets and the cost of total liabilities and stockholders' equity.

(3) Represents taxable equivalent net interest income divided by average interest-earning assets

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Net interest income for the three-month period ended March 31, 2002 was \$272 million compared to \$247 million for the same period in 2001. This increase was attributable to an increase in average balances, and an improvement of 19 basis points in net interest margin which was 3.64% for the three-month period ended March 31, 2002 compared to 3.45% for the same period in 2001. Net interest margin has been very stable over the past four quarters, fluctuating within a tight, 10 basis point range despite volatility of market rates. The increase in average balances is a result of leveraging the Company's increased capital position.

Interest on investment securities and interest earning deposits was \$156 million for the three-month period ended March 31, 2002 compared to \$127 million for the same period in 2001. The average balance of investment securities was \$10 billion with an average tax equivalent yield of 6.34% for the three-month period ended March 31, 2002 compared to an average balance of \$7.2 billion with an average yield of 7.20% for the same period in 2001. On a linked-quarter basis, the Company had slight margin compression of 5 basis points as it repositioned its investment portfolio. The transaction involved the sale and subsequent purchase of \$1.1 billion of securities and generated a gain of approximately \$20 million. In addition to the gain, the newly purchased securities had a higher weighted average yield with a shorter blended effective duration. Approximately \$4 million of the gain was mitigated by holding the sale proceeds in short-term, liquid instruments pending reinvestment late in the quarter.

Interest and fees on loans were \$339 million for the three-month period ended March 31, 2002 compared to \$453 million for the same period in 2001. The average balance of loans was \$20.7 billion with an average yield of 6.60% for the three-month period ended March 31, 2002 compared to an average balance of \$22.3 billion with an average yield of 8.22% for the same period in 2001. Average balances of commercial and consumer loans in 2002 increased \$0.6 billion and \$0.7 billion, respectively as compared to 2001 while average residential loans declined \$2.9 billion. These changes are consistent with Sovereign's strategy to emphasize commercial and consumer lending. The decrease in loan rates is due to declining market interest rates and the aforementioned shift in the components of the loan portfolio, which now includes more variable rates and shorter maturity assets.

Interest on deposits was \$111 million for the three-month period ended March 31, 2002 compared to \$221 million for the same period in 2001. The average balance of deposits was \$23.6 billion with an average cost of 1.91% for the three-month period ended March 31, 2002 compared to an average balance of \$23.9 billion with an average cost of 3.74% for the same period in 2001. The decrease in average cost year to year is due to a combination of declining market interest rates generally, and the Company's emphasis on attracting and retaining core deposits.

Interest on borrowings was \$112 million for the three-month period ended March 31, 2002 compared to \$111 million for the same period in 2001. The average balance of borrowings was \$8.3 billion with an average cost of 5.42% for the three-month period ended March 31, 2002 compared to an average balance of \$6.8 billion with an average cost of 6.51% for the same period in 2001.

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Provision for Loan Losses

The provision for loan losses is based upon credit loss experience and on the estimation of losses inherent in the current loan portfolio. The provision for loan losses for the three-month period ended March 31, 2002 was \$44.5 million compared to \$20.0 million for the same period in 2001.

The increase over 2001 was based on several factors:

- o One large commercial loan that was downgraded from pass to adversely classified status, placed on non-accrual and charged down in a very short time period. This accounted for a \$10.7 million charge-off, and the remaining balance was reserved at a high level. The impact on the provision was slightly in excess of \$14.2 million covered entirely in this quarter.

- o A modest increase in adversely classified assets, requiring more allowance driven by our established reserving methodology.
- o A \$20.5 million portfolio of non-performing residential mortgages was sold. This group of loans was concentrated in substandard assets and as such required a charge-off of \$2.3 million.
- o An additional \$6 million of provision related to conform Main Street's allowance for loan losses to Sovereign's reserve policies.

Over the last few years, through several strategic acquisitions and internal restructuring initiatives, Sovereign has diversified its lending efforts and increased its emphasis on providing its customers with small business loans and an expanded line of commercial and consumer products, such as middle market asset-based lending and automobile loans. As a result of the increased risk inherent in these loan products and as Sovereign continues to place emphasis on commercial business and consumer lending in future periods, management will regularly evaluate its loan portfolio, and its allowance for loan losses, and will adjust the loan loss provision as is necessary.

Sovereign's net charge-offs for the three-month period ended March 31, 2002 were \$37.0 million and consisted of charge-offs of \$45.2 million and recoveries of \$8.1 million. This compared to net charge-offs of \$20.3 million consisting of charge-offs of \$33.8 million and recoveries of \$13.5 million for the three-month period ended March 31, 2001. The increased level of charge-offs was driven by the events discussed above.

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The following table presents the activity in the allowance for possible loan losses for the periods indicated: (dollars in thousands)

	Three-month Period Ended March 31, 2002	2001
	-----	-----
Allowance, beginning of period	\$ 264,667	\$ 256,356
Charge-offs:		
Residential	3,784	3,063
Commercial	24,876	9,743
Consumer	16,499	20,961
	-----	-----
Total Charge-offs	45,159	33,767
	-----	-----
Recoveries:		
Residential	131	1,760
Commercial	1,307	458
Consumer	6,692	11,256
	-----	-----
Total Recoveries	8,130	13,474
	-----	-----
Charge-offs, net of recoveries	37,029	20,293
Provision for possible loan losses	44,500	20,000
Main Street's allowance for loan losses	14,877	--
	-----	-----
Allowance, end of period	\$ 287,015	\$ 256,063
	=====	=====

Non-Interest Income

Total non-interest income was \$107.5 million for the three-month period ended March 31, 2002 compared to \$105.3 million for the same period in 2001. Excluding securities and related derivatives transactions, total fees and other

income for the three-month period ended March 31, 2002 was \$87.0 million as compared to \$98.0 million for the same period in 2001.

Consumer banking fees were \$38.6 million for the three-month period ended March 31, 2002 as compared to \$39.4 million for the same period in 2001. Core deposits have grown 8% over the past year and include approximately 250,000 new checking accounts. The slight decrease in consumer banking fees of \$0.8 million is attributed to recent economy-related consumer conservatism. Commercial banking fees were \$22.8 million for the three-month period ended March 31, 2002 as compared to \$18.3 million for the same period in 2001. This increase of \$4.5 million was primarily due to higher loan volumes and increased market share.

Mortgage banking revenue was \$9.5 million for the three-month period ended March 31, 2002 as compared to \$21.3 million for the same period in 2001. The first quarter of 2001 includes a gain of \$19.3 million related to the sale of \$580 million of residential mortgages offset by a charge of \$6.8 million to increase the valuation allowance related to mortgage servicing rights. On a linked-quarter basis mortgage banking revenue declined \$3.6 million on lower refinancing activity.

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Gain on investment securities and related derivatives transactions were \$20.6 million for the three-month period ended March 31, 2002 compared to \$7.3 million for the same period in 2001. During 2002, the Company repositioned its investment portfolio. The transaction involved the sale and subsequent purchase of \$1.1 billion of investment securities. In addition to a gain of approximately \$20 million, the newly purchased securities had a higher weighted average yield and a shorter blended effective duration.

General and Administrative Expenses

General and administrative expenses for the three-month period ended March 31, 2002 were \$191.9 million, compared to \$189.5 million for the same period in 2001 an increase of \$2.4 million or 1.3%. Compensation costs increased due to insourcing of certain technology services and normal annual increases. Expense reduction initiatives have also favorably impacted occupancy and outside services.

Other operating expenses were \$51.7 million for the three-month period ended March 31, 2002 compared to \$131 million for the same period in 2001. Results for the three-month period ended March 31, 2002 included amortization of core deposit intangibles of \$20.2 million compared to \$36.1 million for amortization of goodwill and core deposit intangibles for the same period in 2001. The discontinuance of goodwill amortization is a result of the adoption of Statement of Financial Accounting Standard No. 142. "Goodwill and Other Intangible Assets" effective January 1, 2002 which eliminated goodwill amortization as more fully discussed in the Notes to Consolidated Financial Statements in Part I of this document. The impact of required impairment tests has not yet been determined. Merger-related and integration charges of \$15.9 million (\$10.3 million or \$0.04 per share, net of tax) related to the Main Street acquisition were recorded in the three-month period ended March 31, 2002.

The three-month period ended March 31, 2001, includes \$72.2 million of non-solicitation expense related to the non-solicitation provisions of the SBNE purchase and assumption agreement. Also during the three-month period ended March 31, 2001, Sovereign recorded an \$8.5 million charge (\$5.5 million net of tax) as the last portion of restructuring charges related to its company-wide restructuring announced in November of 2000. The restructuring, completed over the first quarter of 2001 and last quarter of 2000, resulted in elimination of over 600 positions, closure of 14 in-store offices and redirection of e-commerce efforts to consolidate efforts within our geographic footprint.

Income Tax Provision

The income tax provision was \$24.4 million for the three-month period ended March 31, 2002 compared to \$.9 million for the same period in 2001. The effective tax rate for the three-month period ended March 31, 2002 was 26.7%,

compared to 7.5% for the same period in 2001. The current year tax rate differs from the statutory rate of 35% due to income from tax-exempt investments and income related to bank-owned life insurance. The effective tax rate for the 2001 quarter is not meaningful due to the high proportion of permanent tax differences, in relation to the low level of recorded pretax income.

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Extraordinary Item

In last year's quarter ended March 31, 2001, Sovereign completed a \$400 million term and revolving credit facility with Bank of Scotland of which \$350 million was drawn to prepay an existing \$350 million senior secured credit facility. In connection with this transaction, Sovereign wrote-off \$6.5 million net of tax (\$10.1 million pretax) of deferred issuance costs remaining from the existing line of credit. These costs were reflected net of tax as an extraordinary item in accordance with generally accepted accounting principles.

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

FINANCIAL CONDITION

Loan Portfolio

At March 31, 2002, commercial loans totaled \$9.4 billion representing 43% of Sovereign's loan portfolio, compared to \$8.6 billion and 42% of the loan portfolio at December 31, 2001 and \$8.2 billion and 38% of the loan portfolio at March 31, 2001.

The consumer loan portfolio (including home equity loans and lines of credit, automobile loans, and other consumer loans) totaled \$7.6 billion at March 31, 2002, representing 35% of Sovereign's loan portfolio, compared to \$6.8 billion and 33% of the loan portfolio at December 31, 2001 and \$6.5 billion and 30% of the loan portfolio at March 31, 2001.

Residential mortgage loans decreased \$246 million during the quarter to \$4.8 billion and now represent 22% of Sovereign's loan portfolio as compared to \$5.0 billion and 25% at December 31, 2001. The decrease is primarily due to scheduled payments and prepayments. At March 31, 2001 residential mortgage loans totaled \$6.9 billion representing 32% of the loan portfolio.

Non-Performing Assets

At March 31, 2002 Sovereign's non-performing assets increased by \$5 million to \$233 million compared to \$228 million at December 31, 2001. This increase is due to increases in non-performing commercial loans, and to a lesser extent, consumer non-performing loans all related to the Main Street acquisition. These increases are partially offset by a decline in residential non-performing loans as a result of the sale of certain residential assets. Non-performing assets as a percentage of total assets was .63% at March 31, 2002, down from .64% at December 31, 2001. At March 31, 2002 57% of non-performing assets consisted of consumer and residential loans and OREO which are primarily secured by real estate and other collateral. Sovereign places all commercial loans on non-performing status at 90 days (unless return to current status is expected imminently). All other loans continue to accrue until they are 120 days delinquent, at which point they are either charged-off or fully reserved, unless they are evaluated to be well secured based on current appraisals and are in the process of collection.

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The following table presents the composition of non-performing assets at the dates indicated: (dollars in thousands)

	March 31, 2002	December 31, 2001
	-----	-----
Non-accrual loans:		
Residential	\$ 57,473	\$ 74,500
Commercial real estate	30,958	16,957
Commercial	98,185	89,399
Consumer	28,487	26,941
	-----	-----
Total non-accrual loans	215,103	207,797
	-----	-----
Restructured loans	1,498	1,280
	-----	-----
Total non-performing loans	216,601	209,077
Other real estate owned	10,594	9,261
Other repossessed assets	5,989	9,667
	-----	-----
Total non-performing assets	\$233,184	\$228,005
	=====	=====
Past due 90 days or more as to interest or principal and accruing interest (1)	\$ 45,733	\$ 54,599
Non-performing assets as a percentage of total assets	.63%	.64%
Non-performing loans as a percentage of total loans	.99%	1.02%
Non-performing assets as a percentage of total loans and real estate owned	1.07%	1.12%
Allowance for loan losses as a percentage of total non-performing assets	123.1%	116.1%
Allowance for loan losses as a percentage of total non-performing loans	132.5%	126.6%

(1) Includes consumer and residential loans of \$42.6 million and \$50.9 million at March 31, 2002 and December 31, 2001, respectively.

Loans ninety (90) days or more past due and still accruing interest fell by \$8.8 million from December 31, 2001 to March 31, 2002. The decrease is due to a reduction in residential 90 day loans (\$4.8 million) that are well secured and in the process of collection, and a reduction in consumer 90 day past due loans (\$3.7 million).

Potential problem loans (consisting principally of commercial loans delinquent more than 30 days but less than 90 days, although not currently classified as non-performing loans) amounted to approximately \$110 million and \$120 million at March 31, 2002 and December 31, 2001, respectively.

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Allowance for Loan Losses

The following table presents the allocation of the allowance for loan losses and the percentage of each loan type of total loans at the dates indicated:

<TABLE>
<CAPTION>

(dollars in thousands)

	March 31, 2002		December 31, 2001	
	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans
<S>	<C>	<C>	<C>	<C>
Allocated allowance:				
Commercial loans	\$179,675	43%	\$161,075	40%
Residential real estate mortgage loans	21,346	22	20,724	25
Consumer loans	68,054	35	61,200	35
				--
Unallocated allowance	17,940	n/a	21,668	n/a
Total allowance for loan losses	\$287,015	100%	\$264,667	100%

</TABLE>

The adequacy of Sovereign's allowance for loan losses is regularly evaluated. Management's evaluation of the adequacy of the allowance to absorb loan losses takes into consideration the risks inherent in the loan portfolio, past loan loss experience, specific loans which have loss potential, geographic and industry concentrations, delinquency trends, economic conditions, the level of originations and other relevant factors. Management also considers loan quality, changes in the size and character of the loan portfolio, consultation with regulatory authorities, amount of non-performing loans, delinquency trends, economic conditions and industry trends when determining the allowance. Along with higher yields, management believes the shift in loan composition from residential into commercial and consumer brings higher inherent risk.

Sovereign maintains an allowance for loan losses sufficient to absorb inherent losses in the loan portfolio and believes the current allowance to be at a level adequate to cover such inherent losses. The Company gives consideration to other risk indicators when determining the appropriate allowance level.

The allowance for loan losses consists of two elements: (i) an allocated allowance, which is comprised of allowances established on specific loans, and class allowances based on risk ratings, historical loan loss experience and current trends, and (ii) unallocated allowances based on both general economic conditions and other risk factors in the Company's individual markets and portfolios, and to account for a level of imprecision in management's estimation process.

The specific allowance element of the allocated allowance is based on a regular analysis of criticized loans where internal credit ratings are below a predetermined classification. This analysis is performed at the relationship manager level, and periodically reviewed by the loan review department. The specific allowance established for these criticized loans is based on a careful

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

analysis of related collateral value, cash flow considerations and, if applicable, guarantor capacity.

The class allowance element of the allocated allowance is determined by an internal loan grading process in conjunction with associated allowance factors. These class allowance factors are updated as required and are based primarily on

actual historical loss experience, peer group loss experience, and projected future loss experience. While this analysis is conducted quarterly, the Company has the ability to revise the class allowance factors whenever necessary in order to address improving or deteriorating credit quality trends or specific risks associated with a given loan pool classification.

Regardless of the extent of the Company analysis of customer performance, portfolio evaluations, trends or risk management processes established, certain inherent, but undetected losses are probable within the loan portfolio. This is due to several factors including inherent delays in obtaining information regarding a customer's financial condition or changes in their unique business conditions; the judgmental nature of individual loan evaluations, collateral assessments and the interpretation of economic trends; volatility of economic or customer-specific conditions affecting the identification and estimation of losses for larger non-homogeneous credits; and the sensitivity of assumptions utilized to establish allocated allowances for homogeneous groups of loans among other factors. The Company maintains an unallocated allowance to recognize the existence of these exposures. These other risk factors are continuously reviewed and revised by management where conditions indicate that the estimates initially applied are different from actual results.

A comprehensive analysis of the allowance for loan losses is performed by the Company on a quarterly basis. In addition, a review of allowance levels based on nationally published statistics is conducted on an annual basis. The Company has an Asset Review Committee, which has the responsibility of affirming allowance methodology and assessing the general and specific allowance factors in relation to estimated and actual net charge-off trends. This Committee is also responsible for assessing the appropriateness of the allowance for loan losses for each loan pool classification at Sovereign.

Residential Portfolio. The allowance for the residential mortgage portfolio increased from \$20.7 million at December 31, 2001 to \$21.3 million at March 31, 2002. This change was due primarily to the addition of the Main Street residential portfolio and the associated reserves.

Consumer Portfolio. The allowance for the consumer loan portfolio increased from \$61.2 million at December 31, 2001, to \$68.1 million at March 31, 2002. This change was due to increases in loan balances and the addition of the Main Street consumer loan portfolio and the associated reserves.

Commercial Portfolio. The portion of the allowance for loan losses related to the commercial portfolio has increased from \$161.1 million at December 31, 2001 to \$179.7 million at March 31, 2002. This increase is attributable to the softening economy and increase in non-performing loans in this sector and the higher level of loans as part of the Main Street acquisition.

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Unallocated Allowance. The unallocated allowance for loan losses decreased to \$17.9 million at March 31, 2002 from \$21.7 million at December 31, 2001. Management continuously evaluates current economic conditions and loan portfolio trends. A portion of the unallocated reserves were allocated to the commercial portfolio in keeping with their purpose of availability for uncertainty.

Investment Securities

Investment securities consist primarily of mortgage-backed securities, U.S. Treasury and government agency securities, corporate debt securities and stock in the Federal Home Loan Bank of Pittsburgh ("FHLB") Freddie Mac and Fannie Mae. Mortgage-backed securities consist of passthroughs and collateralized mortgage obligations issued by federal agencies or private label issuer. Sovereign's mortgage-backed securities are generally either guaranteed as to principal and interest by the issuer or have ratings of "AAA" by Standard and Poor's and Fitch/IBCA at the date of issuance. Sovereign purchases classes which are senior positions backed by subordinate classes. The subordinate classes absorb the losses and must be completely eliminated before any losses flow through the senior positions. The effective duration of the total investment portfolio at March 31, 2002 was 3.66 years.

Total investment securities available-for-sale were \$9.6 billion at March

31, 2002 and December 31, 2001. Investment securities held-to-maturity were \$821 million at March 31, 2002 compared to \$883 million at December 31, 2001. For additional information with respect to Sovereign's investment securities, see Notes 3 and 4 in the Notes to Consolidated Financial Statements.

Goodwill and Other Intangible Assets

Goodwill and core deposit intangibles increased by \$70 million and \$34 million, respectively, due to the Main Street acquisition offset by core deposit intangible amortization of \$20.2 million in 2002.

Deposits

Sovereign attracts deposits within its primary market area with an offering of deposit instruments including NOW accounts, money market accounts, savings accounts, certificates of deposit and retirement savings plans.

Total deposits at March 31, 2002 were \$24.8 billion compared to \$23.3 billion at December 31, 2001. Average core deposits increased \$541 million while average time deposits declined \$117 million as compared to the three-month period ended December 31, 2001. Sovereign continues to emphasize strategies to grow core deposits and limit higher priced time deposits.

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Short-term Borrowings

Sovereign utilizes short-term borrowings (original maturities of up to one year) as a source of funds for its asset growth and its asset/liability management. Collateralized advances are available from the FHLB provided certain standards related to creditworthiness have been met. Sovereign also utilizes reverse repurchase agreements, which are short-term obligations collateralized by securities fully guaranteed as to principal and interest by the U.S. Government or an agency thereof, and federal funds lines with other financial institutions.

Total short-term borrowings at March 31, 2002 were \$2.2 billion compared to \$2.7 billion at December 31, 2001. See Note 7 in the Notes to Consolidated Financial Statements for additional information.

Long-term Borrowings

Long-term borrowings (original maturities greater than one year) remained essentially flat at \$6.3 billion at March 31, 2002 as compared to December 31, 2001. See Note 8 in the Notes to Consolidated Financial Statements for additional information.

Trust Preferred Securities

Sovereign has outstanding \$514 million (\$548 million par value) of mandatorily redeemable trust preferred obligations that have stated maturities ranging from 2027 through 2031 and have stated dividends of 7.50% to 9.875% of par value. This represents an increase of \$10 million from December 31, 2001 and is due to trust preferred securities acquired with Main Street.

Securitization Transactions

Securitization transactions contribute to Sovereign's overall funding and regulatory capital management. The total face amount of the outstanding debt and equity securities assumed by third parties at March 31, 2002 approximates \$2.6 billion. These transactions involve periodic transfers of loans or other financial assets to special purpose entities ("SPEs") and are either recorded on Sovereign's Consolidated Balance Sheet or off-balance sheet depending on whether the transaction qualifies as a sale of assets in accordance with SFAS 140, "Transfers of Financial Assets and Liabilities" ("SFAS 140"). No securitizations

were enacted in the three-month period ended March 31, 2002.

Off-Balance Sheet Securitizations

In certain transactions, Sovereign has transferred assets to SPEs qualifying for non-consolidation ("QSPE") and has retained interests in the QSPEs. Off-balance sheet QSPEs had \$1.7 billion of debt related to assets that Sovereign sold to the QSPEs which are not included in Sovereign's consolidated Balance Sheet at March 31, 2002. Sovereign retained interests in such QSPEs were \$97 million at March 31, 2002.

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Sovereign does not provide contractual legal recourse to third party investors that purchase debt or equity securities issued by the QSPEs beyond the credit enhancement inherent in Sovereign's subordinated interests in the QSPEs. However, should the performance of the underlying loans held by those QSPEs deteriorate to a level that retained subordinated interests are insufficient to collateralize the QSPE securities held by third party investors, Sovereign may decide to provide the QSPEs with additional credit enhancements to reduce the third party investors' risk of loss, although it is not contractually required to do so. If management decides not to provide additional credit enhancements in such a situation, it could adversely impact the availability and pricing of future transactions. The performance of the underlying collateral in all of Sovereign's transactions at March 31, 2002 is sufficient such that management believes it is unlikely Sovereign will need to provide additional credit enhancements to these transactions in the future.

Securitizations Consolidated in Sovereign's Consolidated Balance Sheet

In a transaction consummated in November 2001, Sovereign accessed the liquidity of international markets and transferred \$957 million of indirect automobile loans to SPEs in a financing transaction that does not qualify as a sale of assets under SFAS 140, and therefore has consolidated both the assets transferred to the SPEs and the debt and minority interests issued by the SPEs in its Consolidated Balance Sheet. At March 31, 2002, Sovereign had \$821 million of debt and \$64 million of minority interest reflected on its Consolidated Balance Sheet related to consolidated SPEs.

Additionally, Sovereign will periodically sell qualifying mortgage loans to FHLMC, GNMA, and FNMA in return for mortgage-backed securities issued by those agencies. Sovereign reclassifies the net book balance of the loans sold to such agencies from loans to investment securities held to maturity and available for sale. For those loans sold to the agencies in which Sovereign retains servicing rights, Sovereign allocates the net book balance transferred between servicing rights and investment securities based on their relative fair values.

Minority Interests

In a financing transaction consummated in November 2001, Sovereign received \$64 million from the sale of ownership interests in consolidated SPEs to outside investors. The SPEs were formed to issue debt and equity interests as parts of a securitization transaction which raised a total of \$885 million for Sovereign. The controlling interests in the SPEs are reflected as minority interests in Sovereign's Consolidated Balance Sheet, and the indirect automobile loans and asset-backed notes remain on Sovereign's Consolidated Balance Sheet as the entire transaction is considered a financing in accordance with SFAS 140.

On August 21, 2000, Sovereign received approximately \$140 million of net proceeds from the issuance of \$161.8 million of 12% Series A Noncumulative Preferred Interests in Sovereign Real Estate Investment Trust ("SREIT"), a subsidiary of Sovereign Bank which holds primarily residential real estate loans. The preferred stock was issued at a discount, which is being amortized over the life of the preferred shares using the effective yield method. The preferred shares may be redeemed at any time on or after May 16, 2020, at the option of

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Sovereign subject to the approval of the OTS. Under certain circumstances, the preferred shares are automatically exchangeable into preferred stock of Sovereign Bank. The offering was made exclusively to institutional investors; however, Sovereign expects to register the SREIT preferred shares so that they may be offered to other investors.

Termination of Employee Stock Ownership Plan

Sovereign terminated in 2002, the employee stock ownership plan it assumed upon acquisition of Peoples Bancorp Inc., in 1999. The Plan repaid debt owed to Sovereign with the proceeds of unallocated Sovereign shares, which the Plan sold.

Bank Regulatory Capital

The Financial Institutions Reform, Recovery and Enforcement Act ("FIRREA") requires institutions regulated by the Office of Thrift Supervision (OTS) to have a minimum leverage capital ratio equal to 3% of tangible assets, and 4% of risk-adjusted assets, and a risk-based capital ratio equal to 8% as defined. The Federal Deposit Insurance Corporation Improvement Act ("FDICIA") requires OTS regulated institutions to have a minimum tangible capital equal to 2% of total tangible assets. Management believes, as of March 31, 2002 and December 31, 2001, that Sovereign Bank met all capital adequacy requirements to which they are subject in order to be well-capitalized.

The FDICIA established five capital tiers: well-capitalized, adequately-capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. A depository institution's capital tier depends upon its capital levels in relation to various relevant capital measures, which include leverage and risk-based capital measures and certain other factors. Depository institutions that are not classified as well-capitalized or adequately-capitalized are subject to various restrictions regarding capital distributions, payment of management fees, acceptance of brokered deposits and other operating activities.

The OTS Order, as amended, applicable to the approval of the New England Acquisition (the "OTS Order") requires Sovereign Bank to be "Well Capitalized", and also to meet certain additional capital ratio requirements above the regulatory minimums, and other conditions. Various agreements with Sovereign's lenders also require Sovereign Bank to be "Well Capitalized" at all times and in compliance with all regulatory requirements. To be "well capitalized", a thrift institution must maintain a Tier 1 Leverage ratio of at least 5%, a Tier 1 risk-based capital ratio of 6% and total risk-based capital of 10%. Although OTS capital regulations do not apply to savings and loan holding companies, the OTS Order requires Sovereign to maintain certain Tier 1 capital levels.

At March 31, 2002, Sovereign had met all quantitative thresholds necessary to be classified as well-capitalized under regulatory guidelines and the OTS Order.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Federal banking laws, regulations and policies also limit Sovereign Bank's ability to pay dividends and make other distributions to Sovereign Bancorp. Sovereign Bank must obtain prior OTS approval to declare a dividend or make any other capital distribution if, after such dividend or distribution, Sovereign Bank's total distributions to the Bancorp within that calendar year would exceed 100% of its net income during the year plus retained net income for the prior two years, Sovereign Bank would not meet capital levels imposed by the OTS in connection with any order, including the OTS Order applicable to the New England Acquisition completed in 2000, as amended, or if Sovereign Bank is not adequately capitalized at the time. In addition, OTS prior approval would be required if Sovereign Bank's examination or CRA ratings fall below certain

levels or Sovereign Bank is notified by the OTS that it is a problem association or an association in troubled condition. The following schedule summarizes the actual capital balances of Sovereign Bank at March 31, 2002 and December 31, 2001 (in thousands):

<TABLE>
<CAPTION>

REGULATORY CAPITAL	TANGIBLE CAPITAL TO TANGIBLE ASSETS -----	TIER 1 LEVERAGE CAPITAL TO TANGIBLE ASSETS -----	TIER 1 RISK-BASED CAPITAL TO RISK ADJUSTED ASSETS -----	TOTAL RISK-BASED CAPITAL TO RISK ADJUSTED ASSETS -----
<S>	<C>	<C>	<C>	<C>
Sovereign Bank at March 31, 2002:				
Regulatory capital	\$2,632,813	\$2,639,076	\$2,539,379	\$2,810,806
Minimum capital requirement (1)	710,502	2,486,757	1,054,181	2,767,224
Excess	\$1,922,311	\$ 152,319	\$1,485,198	\$ 43,582
Capital ratio	7.41%	7.43%	9.64%	10.67%
Sovereign Bank at December 31, 2001:				
Regulatory capital	\$2,464,222	\$2,470,620	\$2,368,893	\$2,616,871
Minimum capital requirement (1)	685,584	2,399,545	979,792	2,571,955
Excess	\$1,778,638	\$ 71,075	\$1,389,101	\$ 44,916
Capital ratio	7.19%	7.21%	9.67%	10.68%

</TABLE>

(1) As defined by OTS Regulations, or the OTS Order, as applicable.

Liquidity and Capital Resources

Liquidity represents the ability of Sovereign to obtain cost effective funding to meet the needs of customers, as well as Sovereign's financial obligations. Sovereign's primary sources of liquidity include retail deposit gathering, Federal Home Loan Bank (FHLB) borrowings, federal funds purchases, reverse repurchase agreements and wholesale deposit purchases. Other sources of liquidity include asset securitizations, liquid investment portfolio securities and debt and equity issuances.

Factors which impact the liquidity position of Sovereign include loan origination volumes, loan prepayment rates, maturity structure of existing loans, core deposit growth levels, CD maturity structure and retention, Sovereign's credit ratings, investment portfolio cash flows, maturity structure of wholesale funding, etc. These risks are monitored and centrally managed. This process includes reviewing all available wholesale liquidity sources. As of March 31, 2002, Sovereign had \$6.5 billion in available overnight liquidity in the form of unused federal funds purchased lines, unused FHLB borrowing capacity and unencumbered investment portfolio securities. Sovereign also forecasts future liquidity needs and develops strategies to ensure that adequate liquidity is available at all times.

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Sovereign Bank has several sources of funding to meet its liquidity requirements, including the securities portfolio, the core deposit base, the ability to acquire large deposits and issue public securities in the local and national markets, FHLB borrowings, federal funds purchased, reverse repurchase agreements, wholesale deposit purchases and the capability to securitize or package loans for sale. Sovereign's holding company has the following major sources of funding to meet its liquidity requirements: dividends and returns of investment from its subsidiaries, a revolving credit agreement and access to the capital markets. Sovereign Bank may pay dividends to its parent subject to approval of the OTS. Sovereign Bank declared and paid dividends to the parent company of \$25 million in 2002. Sovereign also has approximately \$900 million of availability under a shelf registration statement on file with the Securities

and Exchange commission permitting ready access to the public debt and equity markets. The OTS approved payment of up to \$275 million of additional dividends throughout the remainder of 2002 as long as Sovereign and Sovereign Bank comply with the covenants contained within their dividend approval request.

Cash and cash equivalents increased \$67.5 million for 2002. Net cash provided by operating activities was \$402 million for 2002. Net cash used by investing activities for 2002 was \$680 million and consisted primarily of the purchase of investments available for sale of \$2.5 billion offset by sales of investments available for sale of \$2.0 billion and proceeds from the sales of loans of \$741 million. Net cash used by financing activities for 2002 was \$267 million which was primarily due to the repayment of short-term borrowings of \$474 million offset by an increase in deposits of \$258 million.

Contractual Obligations and Commercial Commitments

Sovereign enters into contractual obligations in the normal course of business as a source of funds for its asset growth and its asset/liability management, to fund acquisitions, and to meet required capital needs. These obligations require Sovereign to make cash payments over time as detailed in the table below.

<TABLE>
<CAPTION>

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-3 yrs	4-5 yrs	After 5 yrs
<S>	<C>	<C>	<C>	<C>	<C>
Borrowings	\$ 2,204,609	\$2,204,609	\$ --	\$ --	\$ --
Long-term debt:					
Securities sold under repurchase agreements	155,000	--	--	155,000	--
FHLB advances	4,142,830	350,000	300,700	12,750	3,479,380
Other long-term debt	1,997,850	51,902	379,948	745,000	821,000
Trust Preferred securities	547,500	--	--	--	547,500
Certificates of deposit	7,719,252	5,510,591	1,986,653	185,354	36,654
Operating leases	648,536	93,325	194,975	220,141	140,095
Total contractual cash obligations	\$17,415,577	\$4,956,606	\$5,814,796	\$1,472,682	\$5,171,493

</TABLE>

Certain of Sovereign's contractual obligations require Sovereign to maintain certain financial ratios and to maintain a "well capitalized" regulatory status. Sovereign has complied with these covenants as of March 31,

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

2002 and expects to be in compliance with these covenants for the foreseeable future. However, if in the future Sovereign is not in compliance with these ratios or is deemed to be other than well capitalized by the OTS, and is unable to obtain a waiver from its lenders, the debt would be in default and callable by Sovereign's lenders. Due to cross-default provisions in certain of Sovereign's debt agreements, if more than \$25 million of Sovereign's debt is in default, \$875 million of senior notes and the full amount of the senior secured credit facility then outstanding will become due in full.

Sovereign is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to manage its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, loans sold with recourse, forward contracts and interest rate swaps, caps and floors. These financial instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet. The contract or notional amounts of these financial instruments reflect the extent of involvement Sovereign has in

particular classes of financial instruments.

Sovereign's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit, standby letters of credit and loans sold with recourse is represented by the contractual amount of those instruments. Sovereign uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. For interest rate swaps, caps and floors and forward contracts, the contract or notional amounts do not represent exposure to credit loss. Sovereign controls the credit risk of its interest rate swaps, caps and floors and forward contracts through credit approvals, limits and monitoring procedures. Unless noted otherwise, Sovereign does not require and is not required to pledge collateral or other security to support financial instruments with credit risk.

<TABLE>
<CAPTION>

Other Commercial Commitments	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Less than 1 year	1-3 yrs	4-5 yrs	Over 5 yrs
<S>	<C>	<C>	<C>	<C>	<C>
Commitments to extend credit	\$7,034,329	\$4,293,059	\$ 948,010	\$383,361	\$1,409,899
Standby letters of credit	727,482	243,758	307,364	131,221	45,139
Loans sold with recourse	53,522	--	--	--	53,522
Forward contracts	577,533	577,533	--	--	--
Total commercial commitments	\$8,392,866	\$5,114,350	\$1,255,374	\$514,582	\$1,508,560

</TABLE>

Asset and Liability Management

Interest rate risk arises primarily through Sovereign's traditional business activities of extending loans and accepting deposits. Many factors, including economic and financial conditions, movements in market interest rates

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

and consumer preferences, affect the spread between interest earned on assets and interest paid on liabilities. In managing its interest rate risk, Sovereign seeks to minimize the variability of net interest income across various likely scenarios while at the same time maximizing its net interest income and net interest margin. To achieve these objectives, Sovereign works closely with each business line in the company and guides new business flows. Sovereign also uses various other tools to manage interest rate risk including wholesale funding maturity targeting, investment portfolio purchase strategies, asset securitization/sale, and financial derivatives.

Interest rate risk is managed centrally by the Treasury Group with oversight by the Asset and Liability Committee. Management reviews various forms of analysis to monitor interest rate risk including net interest income sensitivity, market value sensitivity, repricing frequency of assets versus liabilities and scenario analysis. Numerous assumptions are made to produce these analyses including, but not limited to, assumptions on new business volumes, loan and investment prepayment rates, deposit flows, interest rate curves, economic conditions, and competitor pricing.

Sovereign simulates the impact of changing interest rates on its expected future interest income and interest expense (net interest income sensitivity). This simulation is run monthly and it includes nine different stress scenarios. These scenarios shift interest rates up and down. Certain other scenarios shift short-term rates up while holding longer-term rates constant and vice versa.

This scenario analysis helps management to better understand its risk and is used to develop proactive strategies to ensure that Sovereign is not overly sensitive to the future direction of interest rates. At March 31, 2002 and December 31, 2001, the general level of interest rates represented a unique economic environment in which several of Sovereign's declining interest rate simulation scenarios would not apply. At March 31, 2002, if interest rates dropped in parallel 100 basis points or rose in parallel 200 basis points, Sovereign estimates the loss to net interest income to remain under 2.4%.

Sovereign also monitors the relative repricing sensitivities of its assets versus its liabilities. Management attempts to keep assets and liabilities in balance so that when interest rates do change, the net interest income of Sovereign will not experience any significant short-term volatility as a result of assets repricing more quickly than liabilities or vice versa. As of March 31, 2002, the one year cumulative gap was 8.87%, compared to 9% at December 31, 2001 indicating Sovereign is within policy and could benefit from rising rates.

Finally, Sovereign will calculate the market value of its balance sheet including all assets, liabilities and hedges. This market value analysis is very useful because it measures the present value of all estimated future interest income and interest expense cash flows of the company. Management will calculate what it calls Net Portfolio Value (NPV) which is the market value of assets minus

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

the market value of liabilities. As of March 31, 2002, the NPV as a percentage of the present value of assets was 10.56% as compared to 11.68% at December 31, 2001. Management will also review the sensitivity of NPV to changes in interest rates. Management attempts to keep the NPV Ratio relatively constant across various interest rate scenarios. As of March 31, 2002, a 200 basis point rise in interest rates would increase the NPV ratio by 1.65% as compared to 1.18% at December 31, 2001 and a 100 basis point decline in interest rates would decrease the NPV ratio by .82% as compared to .45% at December 31, 2001.

Because the assumptions used are inherently uncertain, the model cannot precisely predict the effect of higher or lower interest rates on net interest income. Actual results will differ from simulated results due to the timing, magnitude and frequency of interest rate changes, the difference between actual experience and the assumed volume and characteristics of new business and behavior of existing positions, and changes in market conditions and management strategies, among other factors.

Pursuant to its interest rate risk management strategy, Sovereign enters into hedging transactions that involve interest rate exchange agreements (swaps, caps, and floors) for interest rate risk management purposes. Sovereign's objective in managing its interest rate risk is to provide sustainable levels of net interest income while limiting the impact that changes in interest rates have on net interest income.

Interest rate swaps are generally used to convert fixed rate assets and liabilities to variable rate assets and liabilities and vice versa. Sovereign utilizes interest rate swaps that have a high degree of correlation to the related financial instrument. At March 31, 2002, Sovereign's principal hedging transactions were to convert liabilities from floating rate to fixed rate for interest rate risk management purposes.

As part of its mortgage banking strategy, Sovereign originates fixed rate residential mortgages. It sells the majority of these loans to FHLMC, FNMA, and private investors. The loans are exchanged for cash or marketable fixed rate mortgage-backed securities which are generally sold. This helps insulate Sovereign from the interest rate risk associated with these fixed rate assets. Sovereign uses forward sales, cash sales and options on mortgage-backed securities as a means of hedging loans in the mortgage pipeline that are originated for sale.

To accommodate customer needs, Sovereign enters into customer-related financial derivative transactions primarily consisting of interest rate swaps, caps, and floors. Risk exposure from customer positions is managed through transactions with other dealers.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Incorporated by reference from Part I, Item 2. "Management's Discussion and Analysis of Results of Operations and Financial Condition - Asset and Liability Management" hereof.

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION

Items 1 through 5 not applicable or the responses are negative.

Item 6 - Exhibits and Reports on Form 8-K.

(a) Exhibits

- (3.1) Articles of Incorporation, as amended and restated, of Sovereign Bancorp, Inc. (Incorporated by reference to Exhibit 3.1 to Sovereign's Registration Statement No. 333-86961-01 on Form S-3)
- (3.2) By-Laws of Sovereign Bancorp, Inc.

(b) Reports on Form 8-K

None.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOVEREIGN BANCORP, INC.

(Registrant)

Date May 10, 2002

/s/Jay S. Sidhu

Jay S. Sidhu, Chairman,
Chief Executive Officer and President
(Authorized Officer)

Date May 10, 2002

/s/George S. Rapp

George S. Rapp
Chief Accounting Officer

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

EXHIBITS INDEX

(3.1) Articles of Incorporation, as amended and restated, of Sovereign Bancorp, Inc. (Incorporated by reference to Exhibit 3.1 to Sovereign's Registration Statement No. 333-86961-01 on Form S-3)

(3.2) By-Laws of Sovereign Bancorp, Inc.

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BYLAWS

OF

SOVEREIGN BANCORP, INC.

ARTICLE ONE
OFFICES

1.01. Registered Office. The registered office of the Company is located at

2000 Market Street, Philadelphia, Pennsylvania 19103, which is also the
principal office for the transaction of the business of the Company.

1.02. Other Offices. The Company may also have offices at such other places

within or without the Commonwealth of Pennsylvania as the Board of Directors may
from time to time designate or the business of the Company may require.

ARTICLE TWO
SEAL

2.01. Seal. The corporate seal shall have inscribed thereon the name of the

Company, the year of its incorporation and the words "Corporate Seal,
Pennsylvania," and shall be in the form imprinted immediately following this
Section 2.01.

ARTICLE THREE
SHAREHOLDERS' MEETINGS

3.01. Place of Meeting. Meetings of shareholders shall be held at any

geographic location within or without the Commonwealth of Pennsylvania as shall
be fixed from time to time by the Board of Directors. In the absence of such
designation, shareholders' meetings shall be held at the executive office of the
Company. Shareholders shall not be permitted to participate in any meeting of
shareholders by means of conference telephone or the Internet or other
electronic communications technology, unless the Board of Directors, by
resolution so directs with respect to such meeting. Meetings held by means of
the Internet conference or telephone or other electronic communications
technology shall not be required to be held at a particular geographic location
and shall provide shareholders with the opportunity to read or hear the
proceedings substantially concurrently with their occurrence, vote on matters
submitted to the shareholders and pose questions to the Directors.

3.02. Annual Meeting. The annual meeting of shareholders shall be held,

commencing with the year 1988, on such day each year as may be fixed from time to time by the Board of Directors, or, if no day be so fixed, on the third Thursday of April of each year, provided, however, that if such day falls upon a legal holiday, then on the next business day thereafter. At such meetings, directors shall be elected, reports of the affairs of the Company shall be considered, and any other business may be transacted which is within the powers of the shareholders.

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3.03. (a) Notice of Meetings. Notice of all meetings of shareholders shall

be delivered, personally, by courier service, charges prepaid, by first class, express or bulk mail, postage prepaid, facsimile transmission, e-mail or other electronic communication addressed to the shareholder at his or her postal address, facsimile number, e-mail address or other electronic communication location as it appears on the books of the Company or as supplied by such shareholder to the Company for the purpose of notice, by or at the direction of the Chief Executive Officer, the Secretary or the officer or persons calling the meeting.

(b) Time of Notice. Notice of any meeting of shareholders shall be

delivered not less than ten (10) days, or in the case of bulk mail not less than twenty (20) days, before the date of the meeting. If the notice is sent by mail or courier, such notice shall be deemed to be delivered when deposited in the United States mail or with a courier service for delivery to the shareholder. If the notice is sent by facsimile, e-mail or other electronic communication, such notice shall be deemed to be delivered when sent to the shareholder.

(c) Contents of Notice. Notice of any meeting of shareholders shall

state the day, hour and geographic location, if any, of the meeting. The notice shall also state the general nature of the business to be transacted if it is a special meeting.

(d) Notice of Adjourned Meeting. When a shareholders' meeting is

adjourned, it shall not be necessary to give any notice of the adjourned meeting or of the business to be transacted thereat other than by announcement at the meeting at which the adjournment is taken, unless the board of directors fixes a new record date for the new meeting.

3.04. (a) Calling of Special Meetings. Upon request in writing to the Chief

Executive Officer, Vice President or Secretary, sent by registered mail or

delivered to the officer in person, by any persons entitled to call a special meeting of shareholders, the Secretary of the Company shall fix as the date of the meeting a date not less than sixty (60) days after the receipt of the request, and cause notice to be delivered to the shareholders entitled to vote thereat in accordance with Section 3.03 of these Bylaws. Nothing contained in this section shall be construed as limiting, fixing, or affecting the time or date when a meeting of shareholders called by action of the Board of Directors may be held.

(b) Persons Entitled to Call Special Meetings. Special meetings of

the shareholders may be called at any time by any of the following: (1) the Board of Directors at a duly called and held meeting of the Board of Directors or upon the unanimous written consent of the members of the Board of Directors; or (2) the Chairman of the Board or the Chief Executive Officer, but only upon receiving written direction of at least a majority of directors then in office.

(c) Business of Special Meeting. Business transacted at all special

meetings shall be confined to the objects stated in the notice and matters germane thereto, unless all shareholders entitled to vote are present and shall have otherwise consented.

3.05. (a) Quorum of Shareholders. The presence, in person or by proxy, of

shareholders entitled to cast at least a majority of the votes which all of shareholders are entitled to cast (after giving effect to any "excess shares" provision contained in the Articles of Incorporation of the Company), shall constitute a quorum at the meeting of shareholders. If a

proxy casts a vote on behalf of a shareholder on any issue other than a procedural motion considered at a meeting of shareholders, the shareholder shall be deemed to be present during the entire meeting for purposes of determining whether a quorum is present for consideration of any other issue. If a quorum is present, the affirmative vote of a majority of all votes represented at the meeting shall be the act of the shareholders, unless the vote of a greater number or the voting by classes is required by the Pennsylvania Business Corporation Law, the Articles of Incorporation of the Company or these Bylaws.

(b) Adjournment for Lack or Loss of Quorum. In the absence of a

quorum or upon the withdrawal of enough shareholders to leave less than a quorum, any meeting of shareholders may be adjourned from time to time by the affirmative vote of a majority of all votes cast at the meeting, but no other business may be transacted. Meetings at which directors are to be elected shall

be adjourned only from day to day or for such longer periods not exceeding fifteen (15) days each and those shareholders who attend the second of such adjourned meetings, although less than a quorum, shall nevertheless constitute a quorum for the purpose of electing directors.

3.06. (a) Closing Transfer Books. For the purpose of determining

shareholders entitled to notice of or to vote at any meeting of shareholders, or shareholders entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors may provide, or may authorize any officer to provide, that the share transfer books shall be closed for a stated period not to exceed fifty (50) days, in which case written or printed notice thereof shall be mailed at least ten (10) days before the beginning of such period to each shareholder of record at the address appearing on the books of the Company or supplied by him to the Company for the purpose of notice.

(b) Record Date. In lieu of closing the share transfer books, the

Board of Directors may fix in advance, or may authorize any officer to fix, a date as the record date for any such determination of shareholders, such date in any case to be not more than ninety (90) days prior to the date on which the particular action requiring such determination of shareholders is to be taken.

(c) Other Determination of Shareholders. If the share transfer books

are not closed and no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the date fifteen (15) days after the date on which the resolution of the Board of Directors declaring such dividend is adopted shall be the record date for such determination of shareholders.

(d) Adjourned Meetings. When any determination of shareholders

entitled to vote at any meeting of shareholders has been made as provided in this Article, such determination shall apply to any adjournment thereof.

3.07. Inspection of Corporate Records. Every shareholder, upon written

demand under oath stating the purpose thereof, shall have the right to examine, in person or by agent or attorney, during the usual hours for business for any proper purpose, the share register, books or records of account, and records of the proceedings of the shareholders and directors, and make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a shareholder. In every instance where an attorney or other agent shall be the person who seeks the right of inspection, the demand under oath shall be accompanied by a power of attorney or other writing which authorizes the attorney or other agent to so act on

behalf of the shareholder. In all cases, the demand under oath shall be directed to the Company at its registered office in the Commonwealth of Pennsylvania, at its principal place of business or in care of the person in charge of the actual business office of the Company. For purposes of this Section 3.07, the Company's principal place of business and its sole actual business office shall be deemed to be the location where the Chief Executive Officer maintains his or her principal office and the person in charge of that office shall be deemed to be the Chief Executive Officer.

3.08. Voting List. The officer or agent having charge of the transfer book

for shares of the Company shall make, at least ten (10) days before each meeting of shareholders, a complete list of the shareholders entitled to vote at such a meeting, arranged in alphabetical order, with the address of and the number of shares held by each, which list, for a period of ten (10) days prior to such meeting, shall be kept on file at the registered office of the Company and shall be subject to inspection by any shareholder at any time during usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting. The original share ledger or transfer book, or a duplicate thereof kept in the Commonwealth of Pennsylvania, shall be prima facie evidence as to who are the shareholders entitled to examine such list or share or transfer book or to vote at any meeting of shareholders.

3.09. Voting of Shares. Except as otherwise provided in the Articles of

Incorporation of the Company, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of shareholders.

3.10. (a) Nominations for Directors. Nominations for the election of

Directors may be made by the Board of Directors or by any shareholder entitled to vote for the election of directors. Nominations made by the shareholders entitled to vote for the election of directors shall be made by notice in writing, delivered or mailed by first class United States mail, postage prepaid, to the Secretary of the Company not less than ninety (90) days nor more than one hundred and twenty (120) days prior to any meeting of shareholders called for election of directors; provided, however, that if less than twenty-one (21) days' notice of the meeting is given to shareholders, such written notice shall be delivered or mailed, as prescribed, to the Secretary of the Company not later than the close of the seventh day following the day on which notice was mailed to shareholders. Notice of nominations, which are proposed by the Board of Directors, shall be given by the Chairman of the Board or any other appropriate officer. Each notice shall set forth (i) the name, age, business address and, if known, residence address of each nominee proposed in such notice, (ii) the principal occupation or employment of each nominee, and (iii) the number of

shares of capital stock of the Company which are beneficially owned by each such nominee and the earliest date of acquisition of any of such stock. The Chairman of a meeting of shareholders may, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

(b) Agenda for Annual Meeting. Matters to be placed on the agenda for

consideration at annual meetings of shareholders may be proposed by the Board of Directors or by any shareholder entitled to vote for the election of Directors. Matters proposed for the agenda by shareholders entitled to vote for the election of Directors shall be made by notice in writing, delivered or mailed by first class United States mail, postage prepaid, to the Secretary of the Company not less than ninety (90) days nor more than one hundred and fifty (150) days prior to any annual meeting of shareholders; provided, however, that if less than twenty-one (21) days' notice of the meeting is given to shareholders, such written notice shall be delivered or mailed, as

prescribed, to the Secretary of the Company not later than the close of the seventh day following the day on which notice of the meeting was mailed to shareholders. Notice of matters, which are proposed by the Board of Directors, shall be given by the Chairman of the Board or any other appropriate officer. Each notice given by a shareholder shall set forth a brief description of the business desired to be brought before the annual meeting. The Chairman of the meeting of shareholders may determine and declare to the meeting that a matter proposed for the agenda was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the matter shall be disregarded.

3.11. Voting by Ballot. Voting by shareholders in elections for Directors

shall be by ballot. No shares shall be voted at any meeting upon which any installment is due and unpaid.

3.12. Reserved

3.13. Proxies and Revocation of Proxies. Every shareholder entitled to vote

at a meeting of shareholders may authorize another person or persons to act for him by proxy. Every proxy shall be executed or authenticated by the shareholder, or by his duly authorized attorney in fact, and filed or transmitted to with the Secretary of the Company A proxy, unless coupled with an interest, shall be revocable at will, notwithstanding any agreement or any provision to the contrary, but the revocation of a proxy shall not be effective until an executed or authenticated notice thereof shall have been given to the Secretary of the

Company or its designated agent in writing or by electronic transmission. A telegram, telex, cablegram, datagram, e-mail, Internet communication or other means of electronic transmission from a shareholder or attorney-in-fact, or a photographic, facsimile or similar reproduction of a writing executed by a shareholder or attorney-in-fact:

(1) may, at the discretion of the Secretary, be treated as properly executed or authenticated for purposes of this subsection; and

(2) shall be so treated if it sets forth or utilizes a confidential and unique identification number or other mark furnished by the Company to the shareholder for the purposes of a particular meeting or transaction.

No unrevoked proxy shall be valid after eleven (11) months from the date of its execution, authentication or transmission, unless a longer time is expressly provided therein, but in no event shall a proxy unless coupled with an interest, be voted on after three years from the date of its execution. A proxy shall not be revoked by the death or incapacity of the maker unless before the vote is counted or the authority is exercised, written notice of such death or incapacity is given to the Secretary of the Company or its designated agent. A shareholder shall not sell his vote or execute a proxy to any person for any sum of money or any other thing of value. A proxy coupled with an interest shall include an unrevoked proxy in favor of a creditor of a shareholder and such proxy shall be valid so long as the debt owed by the shareholder to the creditor remains unpaid.

3.14. Waiver of Notice. Whenever any notice whatever is required to be

given to a shareholder under the provisions of the Pennsylvania Business Corporation Law or under the provisions of the Articles of Incorporation or Bylaws of the Company, a waiver thereof in writing signed by the shareholder entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice; however, in the case of special meetings, the business to be transacted and the purpose of the meeting shall be stated in the waiver of notice.

3.15. (a) Appointment of Judges of Election. In advance of any meeting of

shareholders, the Board of Directors may appoint judges of election, who need not be shareholders, to act at such meeting or any adjournment thereof. If judges of election not be so appointed, the chairman of any such meeting may, and on the request of any shareholder or his proxy shall, make such appointment at the meeting. The number of judges shall be one (1) or three (3) in number. If appointed at a meeting on the request of one (1) or more shareholders or proxies, the majority of all votes entitled to be cast shall determine whether one (1) or three (3) judges are to be appointed. No person who is a candidate

for Director shall act as a judge. In case any person appointed as a judge fails to appear or fails or refuses to act, the vacancy may be filled by appointment made by the Board of Directors in advance of the convening of the meeting, or at the meeting by the person acting as chairman.

(b) Duties of Judges. The judges of election shall determine the

number of shares outstanding and the voting power and rights of each, the shares represented at the meeting, the existence of a quorum, the authenticity, validity, and effect of proxies, receive votes or ballots, hear and determine all challenges and questions in any way arising in connection with the right to vote, count and tabulate all votes, determine the result, and do such acts as may be proper to conduct the election or vote with fairness to all shareholders. The judges of election shall perform their duties impartially, in good faith, to the best of their ability, and as expeditiously as is practical. If there are three (3) judges of election, the decision, act or certificate of a majority shall be effective in all respects as the decision, act or certificate of all.

(c) Report of Judges. On request of the chairman of the meeting, or

of any shareholder or his proxy, the judges shall be made a report in writing of any challenge or question or matter determined by them, and execute a certificate of any fact found by them.

3.16. Conduct of Meetings. Unless the Board of Directors shall designate

another officer or director of the Company to preside and act as the chairman at any regular or special meeting of shareholders, the Chairman of the Board, or in his absence, the Chief Executive Officer (if the Chief Executive Officer is a Director), or in his absence, the Chairman of the Executive Committee shall preside and act as the chairman at any regular or special meeting of shareholders. The chairman of the meeting, consistent with any authority, direction, restriction or limitation given to him by the Board of Directors, shall have any and all powers and authority necessary to conduct an orderly meeting, preserve order and determine any and all procedural matters, including the proper means of obtaining the floor, who shall have the right to address the meeting, the manner in which shareholders will be recognized to speak, imposing reasonable limits on the amount of time at the meeting taken up in remarks by any one shareholder or group of shareholders, the number of times a shareholder may address the meeting, and the person to whom questions should be addressed. Any actions by the Chairman of the Board or any person acting in his place in adopting rules for, or in conducting, a meeting shall be fair to the shareholders. Rules adopted for use at a meeting which are approved in advance by the Board of Directors, and actions taken by the chairman in conducting the meeting pursuant to such rules shall be deemed to be fair to shareholders. The chairman shall announce at the meeting when the polls close for each matter voted upon. If no announcement is made, the ability to cast a vote will be deemed to have closed upon the final adjournment of the meeting. After the polls close, no ballots, proxies, or votes, nor any revocations or changes thereto, may be accepted. In addition, until the business to be completed at a meeting of shareholders is completed, the chairman of a meeting of the shareholders is

expressly authorized to temporarily adjourn and postpone the meeting from time to time. The Secretary of the Company or in his absence, an Assistant Secretary, shall act as Secretary of all meetings of the shareholders. In the absence at such meeting of the Secretary and Assistant Secretary, the chairman of the meeting may appoint another person to act as Secretary of the meeting.

3.17. Action Without Meeting. No action required to be taken or which may

be taken at any annual or special meeting of the shareholders of the Company may be taken without a meeting, and the power of the shareholders of the Company to consent in writing to action without a meeting is specifically denied.

ARTICLE FOUR
DIRECTORS

4.01. Directors Defined. "Directors," when used in relation to any power or

duty requiring collective action, means "Board of Directors."

4.02. Powers. The business and affairs of the Company and all corporate

powers shall be exercised by or under authority of the Board of Directors, subject to any limitation imposed by the Pennsylvania Business Corporation Law, the Articles of Incorporation of the Company, or these Bylaws as to action which requires authorization or approval by the shareholders.

4.03. (a) Number and Classes of Directors. The number of Directors of the

Company shall be not less than six (6) nor more than twenty-five (25) and the Directors shall be divided into classes and be elected for such terms of office, as provided in the Articles of Incorporation of the Company.

(b) Qualifications. Directors need not be residents of the

Commonwealth of Pennsylvania. Unless waived by a majority of the Directors, a majority of the Directors shall be persons who are not directors, officers, employees, agents or holders of record or beneficially of more than 5% of the voting securities, of any corporation or any other entity which holds of record or beneficially 66-2/3% or more of the issued and outstanding shares of any class of capital stock of the Company.

4.04. (a) Vacancies. Vacancies in the Board of Directors shall exist in the

case of the happening of any of the following events: (i) the death or resignation of any Director; (ii) if at any annual, regular or special meeting of shareholders at which any Director is elected, the shareholders fail to elect

the full authorized number of Directors to be voted for at that meeting; (iii) an increase in the number of Directors (up to a maximum of twenty-five (25)) by resolution of the Board of Directors; (iv) the removal of a Director by the affirmative vote of shareholders of the Company in accordance with the Articles of Incorporation of the Company; or (v) if the Board of Directors declares vacant the office of any Director for such just cause as the Directors may determine or because such Director has not accepted the office of Director within seventy-five (75) days of being notified of his election by either responding in writing or attending any meeting of the Board of Directors.

(b) Filling of Vacancies. Except as provided in the Articles of

Incorporation of the Company, any vacancy occurring in the Board of Directors shall be filled by a majority of the remaining members (though less than a quorum of the Board) and each person so elected shall be a Director of the same class as his predecessor until his successor is elected by the shareholders.

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4.05. Place of Meetings. All meetings of the Board of Directors shall be

held at the principal office of the Company or at such place within or without the Commonwealth of Pennsylvania as may be designated from time to time by a majority of the Directors, or may be designated in the notice calling the meeting.

4.06. Regular Meetings. Regular meetings of the Board of Directors shall be

held, without call or notice, immediately following each annual meeting of the shareholders of the Company, and at such other times as the Directors may determine.

4.07. (a) Call of Special Meetings. Special meetings of the Board of

Directors of the Company may be called by the Chief Executive Officer, Chairman of the Board, President or by a majority of the Directors.

(b) Notice of Special Meetings. Notice of the day, hour, geographic

location and purpose of special meetings of the Board of Directors shall be delivered at least two (2) days before the meeting, personally, by courier service, charges prepaid, first class or express mail, postage prepaid, facsimile transmission, e-mail or other electronic communication, to the postal address, facsimile number, e-mail address or other electronic communication location supplied by the Director to the Company for the purpose of notice. Notice sent by United States mail shall be deemed to have been delivered when deposited in the United States mail or with a courier service. Notice sent by facsimile transmission, e-mail or other electronic communication shall be deemed to have been given when sent.

4.08. Validation of Meetings Defectively Called or Noticed. The

transactions of any meeting of the Board of Directors, however called and noticed or wherever held, are as valid as though taken at a meeting duly held after regular call and notice, if a quorum is present and if, either before or after the meeting, each of the Directors not present signs a waiver of notice. All such waivers shall be filed with corporate records or made a part of the minutes of the meeting. Attendance of a Director at any meeting shall constitute a waiver of notice of such a meeting except where a Director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

4.09. Quorum. A majority of the number of Directors in office constitutes a

quorum of the Board for the transaction of business.

4.10. Majority Action. Every action or decision done or made by a majority

of the Directors present at any meeting duly held at which a quorum is present is the act of the Board of Directors. Each Director who is present at a meeting will be conclusively presumed to have assented to the action taken at such meeting unless his dissent to the action is entered in the minutes of the meeting, or, where he is absent from the meeting, his written objection to such action is promptly filed with the Secretary of the Company upon learning of the action. Such right to dissent shall not apply to a Director who voted in favor of such action.

4.11. Action by Consent of Board Without Meeting. Any action required by

the Pennsylvania Business Corporation Law to be taken at a meeting of the Board of Directors, or any other action which may be taken at a meeting of the Board of Directors or the executive or other committee thereof, may be taken without a meeting if, prior or subsequent to the action, a consent or consents thereto by all of the Directors entitled to vote with respect to the subject matter thereof, or by all the members of such committee, as the case may be, and filed with the Secretary of the Company.

4.12. (a) Adjournment. In the absence of a quorum a majority of the

Directors present may adjourn from time to time until the time fixed for the next regular meeting of the Board.

(b) Notice of Adjourned Meeting. Notice of the time and place of

holding an adjourned meeting, whether the meeting is a regular meeting or special meeting, need not be given to absent Directors if the time and place are

fixed at the meeting adjourned.

4.13. Conduct of Meetings. At every meeting of the Board of Directors, the

Chairman of the Board, the Chief Executive Officer, or in their absence, an officer of the Company designated by one of them, or in the absence of such designation, a chairman chosen by a majority of the Directors present, shall preside. The Secretary of the Company shall act as Secretary of the Board of Directors. In case the Secretary shall be absent from any meeting, the chairman of the meeting may appoint any person to act as secretary of the meeting.

4.14. Participation at Meeting. One or more Directors may participate in a

meeting by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other.

4.15. Compensation. The Board of Directors, by the affirmative vote of a

majority of the Directors then in office, and irrespective of any personal interest of any of its members, shall have authority to establish reasonable compensation of all Directors for services to the Company as Directors, officers, or otherwise.

ARTICLE FIVE
COMMITTEES

5.01. Authorization. The Board of Directors, by resolution adopted by a

majority of the whole Board, may create an Executive Committee, an Audit Committee, a Nominating Committee, a Compensation Committee, and such other permanent or temporary committees as the Board deems necessary for the proper conduct of the business of the Company. Each committee shall have and may exercise such powers as shall be conferred or authorized by resolution of the Board and which are not inconsistent with these Bylaws. The creation of any committee and the delegation thereto of authority shall not operate to relieve the Board of Directors of any responsibility imposed on it by law.

5.02. Appointment of Committees. The Chief Executive Officer shall submit

to the Board of Directors, at its first meeting after the annual meeting of the shareholders, his or her recommendations for the members of and chairman of each committee. The Board shall then appoint, in accordance with such recommendations or otherwise, the members and a chairman for each committee. If the appointees accept their appointment, they shall serve for one (1) year or until their successors are appointed. The Board of Directors shall have the power to fill any vacancies occurring on any committee and to remove and replace a member of any committee. Unless otherwise provided, a Director may be a member of more than one (1) committee. If the Chief Executive Officer of the Company is a member of the Board of Directors, the Chief Executive Officer of the Company shall be appointed as a full member of the Executive Committee and as an ex-officio, non-voting member of each committee of which he or she is not a full

5.03. Conduct of Committees. A majority of the membership of each committee

shall constitute a quorum for the transaction of business. Each committee shall meet at such times as the committee may decide or as the Board of Directors may require. Special meetings of committees may be called at any time by its chairman, or by the Chairman of the Board or by the Chief Executive Officer. Except, for its chairman, each committee may appoint a secretary and such other officers as the committee members deem necessary. Each committee shall have the power and authority to obtain from the appropriate officers of the Company all information necessary for the conduct of the proper business of the committee. If required by the Board of Directors, minutes of the proceedings shall be submitted to the Board of Directors upon its request.

5.04. Executive Committee. If created by resolution adopted by a majority

of the whole Board, the Executive Committee shall meet upon not less than two (2) days' notice. The Executive Committee shall have and may exercise all the powers of the Board of Directors in the management of the Company, except as the Board of Directors may specifically limit by resolution, or except where action by the entire Board of Directors is specifically required by law.

5.05. Audit Committee. If created by resolution adopted by a majority of\

the whole Board, the Audit Committee shall consist entirely of outside Directors whose emphasis and background shall preferably be in the areas of accounting, finance, or law or who have significant experience with the Company or any of its subsidiaries. The object of the Audit Committee shall be to give additional assurance of the integrity of the financial information distributed to the shareholders and the public at large. The Audit Committee shall review the internal audit controls of the Company and shall have the authority to cause and supervise such examinations and audits to be made by public accountants of the books and affairs of the Company and subsidiary companies as it, in its discretion, deems advisable. The Audit Committee shall also review audit policies, oversee internal audits, review external audits and review any federal or state examination reports. Members of management of the Company, whether or not directors of the Company, may be invited by the Audit Committee to attend meetings thereof.

5.06. Nominating Committee. If created by resolution adopted by a majority

of the whole Board, the Nominating Committee shall meet at least annually to propose, for consideration by the whole Board, nominees for election as directors of the Company.

ARTICLE SIX

OFFICERS

6.01. Number and Titles. The officers of the Company shall be a Chairman of -----
the Board, a Chief Executive Officer, a President, a Secretary, and a Treasurer. The Company may also have, at the discretion of the Board of Directors, one (1) or more Vice Chairman, one (1) or more Executive Vice Chairman, one (1) or more Executive Vice Presidents or Vice Presidents, one (1) or more Assistant Secretaries, one (1) or more Assistant Treasurers, and such other officers and assistant officers as may be appointed in accordance with the provisions of Section 6.03 of this Article. One person may hold two (2) or more offices. No person shall, however, simultaneously hold the offices of President and Secretary.

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6.02. Election. The Board of Directors shall choose, annually, either the -----
President or Chairman of the Board to be the Chief Executive Officer of the Company. The other officers of the Company, except such officers as may be appointed in accordance with the provisions of Section 6.03 or Section 6.05 of this Article, shall be chosen annually by the Board of Directors. Each officer of the Company shall hold his office until he shall resign or shall be removed or otherwise disqualified to serve, or his successor shall be elected and qualified.

6.03. Subordinate Officers. The Chief Executive Officer may appoint, -----
subject to the power of the Board of Directors to approve or disapprove such appointment, such other officers or agents as he may deem necessary, each of whom shall hold office for such period, have such authority and perform such duties in the management of the property and affairs of the Company as may be determined by the Chairman or the President not inconsistent with these Bylaws. The Board of Directors may delegate to any officer or committee the power to appoint any subordinate officers, committees or agents to specify their duty and authority, and to determine their compensation.

6.04. Removal and Resignation. Any officer or agent may be removed by the -----
Board of Directors whenever in its judgment the best interests of the Company will be served thereby, provided, however, that such removal shall be without prejudice to the contract rights, if any, of the person so removed. Any officer may resign at any time giving written notice to the Board of Directors, to the President or to the Secretary of the Company. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

6.05. Vacancies. If the office of the Chairman of the Board or the Chief

Executive Officer becomes vacant by reason of death, resignation, removal, or otherwise, the Board of Directors shall elect a successor who shall hold office for the unexpired term and until his successor is elected. If any other office becomes vacant by reason of death, resignation, removal or otherwise, the Chief Executive Officer shall appoint a successor who shall hold office for the unexpired term and until his successor is elected or appointed.

6.06. Chairman of the Board. The Chairman of the Board shall perform the

duties of the Chief Executive Officer either when he has (i) been chosen as Chief Executive Officer by the Board of Directors or (ii) when the appointed Chief Executive Officer is legally incapable or physically unable to perform the duties of Chief Executive Officer, and shall perform such duties until the Board of Directors appoints a temporary or permanent successor. The Chairman shall, if present, preside at all meetings of the Board of Directors and exercise and perform such other powers and duties as may be from time to time assigned to him by the Board of Directors or prescribed by the Bylaws.

6.07. Chief Executive Officer. Subject to such supervisory powers, if any,

as may be given by the Board of Directors to the Chairman of the Board, the Chief Executive Officer shall, subject to the control of the Board of Directors, have general supervision, direction and control of the business and officers of the Company, and shall have the general powers and duties of management usually vested in the office of Chief Executive of a corporation and shall have duties of a corporation, and shall have such other powers and duties as may be prescribed by the Board of Directors or the Bylaws. Within this authority and in the course of his duties he shall:

(a) Conduct Meeting. In the absence of the Chairman of the Board,

preside at all meetings of the Board of Directors.

(b) Execute Instruments. When authorized by the Board of Directors or

required by law, execute in the name of the Company, deeds, conveyances, notices, leases, checks, drafts, bills of exchange, warrants, promissory notes, debentures, contracts, and other papers and instruments in writing, and unless the Board of Directors shall order otherwise by resolution, make such contracts as the ordinary conduct of the Company's business may require.

(c) Hire and Fire Employees. Appoint and remove, employ and

discharge, and prescribe the duties and fix the compensation of all agents, employees, and clerks of the Company other than the duly appointed officers, subject to the approval of the Board of Directors, and control, subject to the

direction of the Board of Directors, all of the officers, agents, and employees of the Company.

(d) Meetings of Other Corporations. Unless otherwise directed by the

Board of Directors, attend in person, or by substitute appointed by him, or by proxy executed by him, and vote on behalf of the Company at all meetings of the shareholders of any corporation in which the Company holds stock.

6.08. President. The President shall perform the duties of Chief Executive

Officer either when he has been chosen as Chief Executive Officer or when the Chairman of the Board is absent or unable to perform the duties of the Chief Executive Officer. The President shall have such other powers and perform such other duties from time to time as may be prescribed for him by the Board of Directors or prescribed by the Bylaws.

6.09. Vice Chairman. The Vice Chairman shall have such powers and perform

such duties from time to time as may be prescribed for him by the Board of Directors or prescribed by the Bylaws.

6.10. Chief Financial Officer. Subject to such supervisory powers, if any,

as may be given by the Board of Directors to the Chief Executive Officer, the Chief Financial Officer shall, subject to the control of the Board of Directors have general supervision, direction and control of the financial affairs of the Company, and shall have the general powers and duties of management usually vested in the office of Chief Financial Officer of a corporation, and shall have such other powers and duties as may be prescribed by the Board of Directors or the Bylaws.

6.11. Executive Vice President or Vice President. Except as otherwise

provided in these Bylaws with respect to the performance of the duties of Chief Executive Officer, in the absence or disability of the President, the Executive Vice Presidents and Vice Presidents, in order of their rank as fixed by the Board of Directors, or if not ranked, the Executive Vice President or Vice President designated by the Board of Directors, shall perform all the duties of the President, and when so acting shall have all the powers of, and be subject to all the restrictions on, the President. The Executive Vice Presidents and Vice Presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them, respectively, by the Board of Directors or the Bylaws.

6.12. Secretary. The Secretary shall:

(a) Certify Bylaws. Certify and keep at the registered office or

principal place of business of the Company the original or a copy of its
Bylaws, including all amendments or alterations to date.

(b) Minutes of Meetings. Keep the place where the certified Bylaws or

a copy thereof are kept, a record of the proceedings of meetings of its
Directors, shareholders, Executive Committee, and other committees, with
the time and place of holding, whether regular or special, and, if special,
how authorized, the notice thereof given, the names of those present at
Directors' meetings, the number of shares present or represented at
shareholders' meetings, and the proceedings thereof.

(c) Sign or Attest Documents. Sign, certify, or attest such documents

as may be required by law for the business of the Company.

(d) Notices. See that all notices are duly given in accordance with

the provisions of these Bylaws and as required by law. In case of the
absence or disability of the Secretary or his or her refusal or neglect to
act, notice may given and served by an Assistant Secretary or by the
President or Vice Presidents, or by the Board of Directors.

(e) Custodian of Records and Seals. Be custodian of the records and

of the seal of the Company and see that it is engraved, lithographed, printed,
stamped, impressed upon or affixed to all certificates for shares prior to their
issuance, and to all documents or instruments the execution of which on behalf
of the Company under its seal is duly authorized in accordance with the
provisions of these Bylaws, or which otherwise attested to or certified to by
the Secretary.

(f) Share Register. Keep at the place where the certified Bylaws or a
copy thereof are kept, or at the office of the transfer agent or registrar, a
share register or duplicate share register giving the names of shareholders,
their respective addresses, and the number of classes of shares held by each.
The secretary shall also keep appropriate, complete, and accurate books or
records of account at the Company's registered office or its principal place of
business.

(g) Reports and Statements. See that the books, reports, statements,

certificates and all other documents and records required by law are properly
kept and filed.

(h) Exhibit Records. Exhibit at all reasonable times to proper

persons on such terms as are provided by law on proper application, the Bylaws,

the share register, and minutes of proceedings of the shareholders and Directors of the Company.

(i) Other Duties. In general, perform all duties incident to the

office of Secretary, and such other duties as from time to time may be assigned to him or her by the Board of Directors.

(j) Absence of Secretary. In case of the absence or disability of the

Secretary or his or her refusal or neglect to act, the Assistant Secretary, or if there be none, the Treasurer, acting as Assistant Secretary may perform all of the functions of the Secretary. In the absence or inability to act or refusal or neglect to act of the Secretary, the Assistant Secretary and Treasurer, any person thereunto authorized by the Chief Executive Officer or by the Board of Directors may perform the functions of the Secretary.

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6.13. Assistant Secretary. At the request of the Secretary or in his or her

absence or disability, the Assistant Secretary, designated as set forth in Subparagraph 6.12(j) of these Bylaws, shall perform all the duties of the Secretary, and when so acting, he or she shall have all the powers of, and be subject to all restrictions on, the Secretary. The Assistant Secretary shall perform such other duties as from time to time may be assigned to him or her by the Board of Directors or the Secretary.

6.14. Treasurer.

(a) Subject to such supervisory powers, if any, as may be given by the Board of Directors to the Chief Executive Officer, the Treasurer shall, subject to the control of the Board of Directors, have general supervision, direction and control of the financial affairs of the Company, and shall have the general powers and duties of management usually vested in the office of Treasurer of a corporation, and shall have such other powers and duties as may be prescribed by the Board of Directors or the Bylaws.

(b) The Treasurer and such other Officers as may be designated by the Board of Directors shall receive, take care of, and be responsible for all moneys, securities, and evidences of indebtedness belonging to the Company, deposit the same in the name of the Company in such depositories as the Board of Directors shall direct and shall keep a complete record of all receipts and disbursements of the Company.

(c) The Treasurer shall sign drafts and such other instruments as may, under these Bylaws or by direction of the Board of Directors, require his official signature, and shall keep a record thereof.

(d) The Treasurer shall perform such other duties as may be required by these Bylaws or by the Chief Executive Officer, or by the Board of Directors.

6.15. Assistant Treasurer. At the request of the Treasurer or in his or her

absence or disability, the Assistant Treasurer shall perform all the duties of the Treasurer, and when so acting, shall have all the powers of, and be subject to all the restrictions on, the Treasurer. The Assistant Treasurer shall perform such duties as from time to time may be assigned to him or her by the Board of Directors or the Treasurer.

6.16. Salaries. The salaries of the officers shall be fixed from time to

time by the Board of Directors, and no officer shall be prevented from receiving such salary by reason of the fact that he is also a Director of the Company.

ARTICLE SEVEN ISSUANCE AND TRANSFER OF SHARES

7.01. Classes and Series of Shares. The Company may issue such shares of

stock as are authorized by the Articles of Incorporation of the Company. Except as provided in the Articles of Incorporation, all shares of any one class shall have the same conversion, redemption, and other rights, preferences, qualifications, limitations, and restrictions, unless the class is authorized to be divided into series. Except as provided in the Articles of Incorporation, if a class is divided into series, all the shares of any one series shall have the same conversion, redemption and other rights, preferences, qualifications, limitations and restrictions.

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7.02. Certificates for Fully Paid Shares. Neither shares nor certificates

representing such shares may be issued by the Company until the full amount of the consideration has been paid. When such consideration has been paid to the Company, the certificate representing such shares shall be issued to the shareholder.

7.03. Share Certificates. The share certificates of the Company shall be

numbered and registered in the share register and transfer books of the Company, as they are issued.

7.04. Consideration for Shares. The consideration for the issuance of

shares may be paid, in whole or in part, in money, in other property actually received, tangible or intangible, or in labor done for the Company. Future

services shall not constitute payment, or part-payment, for shares of the Company.

7.05. (a) Contents of Share Certificates. Certificates for shares shall be

of such form and style, printed or otherwise, as the Board of Directors may designate, and each certificate shall state all of the following facts:

- (i) That the Company is organized under the laws of the Commonwealth of Pennsylvania.
- (ii) The name of the registered holder of the shares represented by the certificate.
- (iii) The number and class of shares and the designation of the series, if any, which such certificate represents.

(b) Shares in Classes or Series. If the Company is authorized to

issue shares of more than one class, the certificate shall set forth, either on the face or back of the certificate, a full summary or statement of all of the designations, preferences, limitations, and relative rights of the shares of each class authorized to be issued and, if the Company is authorized to issue any preferred or special class in series the variations in the relative right and preferences between the shares of each such series, so far as the same have been fixed and determined, and authority of the Board of Directors to fix and determine the relative rights and preferences of subsequent series.

(c) Restriction on Transfer. Any restrictions imposed by the Company on the

sale or other disposition of its shares and on the transfer thereof must be noted conspicuously on each certificate representing shares to which the restriction applies.

(d) Incorporation by Reference. In lieu of setting forth a full summary or

statement of any provisions, other than restrictions on transfer, on the face or back of the certificate, such statement may be omitted from the certificate if it shall be set forth upon the face or back of the certificate that such statement, in full, will be furnished by the Company to any shareholder upon request and without charge.

7.06. Signing Certificates -- Facsimile Signatures. All share certificates

shall be signed by such officers as the Board of Directors may determine from time to time, or, in the absence of such any determination, by the Chief Executive Officer or a Vice President and by either the Secretary, Assistant Secretary, Treasurer or Assistant Treasurer, and shall be sealed with the corporate seal, or a facsimile of the seal of the Company. If a certificate is countersigned by a transfer agent or registrar, any other signatures or countersignatures on the certificate may be facsimiles. In case any officer of

the Company or any officer or employee of the transfer agent or registrar who has signed or whose facsimile signature has been placed upon such certificate ceases to be an officer of the Company, or an officer or employee of the transfer agent or registrar before such certificate is issued, the certificate may be issued by the Company with the same effect as if the officer of the Company, or the officer or employee of the transfer agent or registrar, had not ceased to be such at the date of its issue.

7.07. (a) Transfer of Shares. Transfer of shares shall be made on the books

of the Company upon surrender of the certificates therefor, endorsed by the person named in the certificate or by his attorney, lawfully constituted in writing. No transfer shall be made which is inconsistent with law.

(b) Transfer of Lost or Destroyed Shares. Where a share certificate

has been lost, apparently destroyed, or wrongfully taken and the owner fails to notify the Company of that fact within a reasonable time after he has notice of it, and the Company registers a transfer of the share(s) represented by the certificate before receiving such notification, the owner is precluded from asserting against the Company any claim for registering the transfer or any claim to a new certificate.

(c) Replacement of Lost or Destroyed Certificates. Where the holder

of the share certificate claims that the certificate has been lost, destroyed, or wrongfully taken, the Company shall issue a new certificate in place of the original certificate if the owner: (i) so requests before the Company has notice that the shares have been acquired by a bona fide purchaser; (ii) files with the Company a sufficient indemnity bond; and (iii) satisfies any other reasonable requirements imposed by the Board of Directors.

(d) Transfer After Replacement. If, after the issue of a new

certificate as a replacement for a lost, destroyed, or wrongfully taken certificate, a bona fide purchaser of the original certificate presents it for registration of transfer, the Company must register the transfer unless registration would result in over-issue. In addition to any rights on the indemnity bond, the Company may recover the new certificate from the person to whom it was issued or any person taking under him except a bona fide purchaser.

7.08. Transfer Agents and Registrars. The Board of Directors may appoint

one (1) or more transfer agents and one (1) or more registrars, each of which shall be an incorporated bank or trust company, either domestic or foreign, either independent or a subsidiary of the Company, which shall be appointed at such times and places as the requirements of the Company may necessitate and the

Board of Directors may designate.

7.09. Conditions of Transfer. A person in whose name shares of stock stand

on the books of the Company shall be deemed the owner thereof as regards the Company, provided that whenever any transfer of shares shall be made for collateral security, and absolutely, and written notice thereof shall be given to the Secretary of the Company or its transfer agent, if any, such fact shall be stated in the entry of the transfer. When a transfer of shares is requested and there is reasonable doubt as to the right of the person seeking the transfer, the Company or its transfer agent, before recording the transfer of the shares on its books or issuing any certificate therefor,

may require from the person seeking the transfer reasonable proof of his right to the transfer. If there remains a reasonable doubt of the right to the transfer, the Company may refuse a transfer unless the person gives adequate security or a bond of indemnity executed by a corporate surety or by two (2) individual sureties satisfactory to the Company as to form, amount and responsibility of sureties. The bond shall be conditioned to protect the Company, its officers, transfer agents, and registrars, and any of them against any loss, damage, expense, or other liability to the owner of the shares by reason of the recordation of the transfer or the issuance of a new certificate for shares.

ARTICLE EIGHT
LIMITATION OF DIRECTORS' LIABILITY; INDEMNIFICATION

8.01. Limitation of Liability. To the fullest extent permitted by the

Directors' Liability Act (42 Pa. C.S. 8361 et seq.) and the Business Corporation Law of the Commonwealth of Pennsylvania, a director (including a member of any advisory board) of the Company shall not be personally liable to the Company, its shareholders or others for monetary damages for any action taken or any failure to take any action unless the director has breached or failed to perform the duties of his or her office, as set forth in the Directors' Liability Act, and such breach or failure constitutes self-dealing, willful misconduct or recklessness. The provisions of this Article Eight shall not apply with respect to the responsibility or liability of a director (including a member of any advisory board) under any criminal statute or the liability of a director (including a member of any advisory board) for the payment of taxes pursuant to local, state or federal law.

8.02. (a) Indemnification. The Company shall indemnify any person who was

or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or

investigative by reason of the fact that he is or was a director (including a member of any advisory board), officer, employee or agent of the Company, Sovereign Bank, or any other direct or indirect subsidiary of the Bank designated by the Board of directors or is or was serving at the request of the Company as a director (including a member of any advisory board), officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding, provided however, that no indemnification shall be made in any case where the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness.

(b) Advance of Expenses. Expenses (including attorneys' fees)

incurred in defending a civil or criminal action, suit, or proceeding shall be paid by the Company in advance of the final disposition of such action, suit, or proceeding upon receipt of an undertaking by or on behalf of the director (including a member of any advisory board), officer, employee, or agent to repay such amount if it shall be ultimately determined that he or she is not entitled to be indemnified by the Company as authorized in this Article Eight.

(c) Indemnification not Exclusive. The indemnification and

advancement of expenses provided by this Article Eight shall not be deemed exclusive of any other right to which persons seeking indemnification and advancement of expenses may be entitled under any agreement, vote of shareholders or disinterested directors, or otherwise, both as to actions in such persons' official capacity and as to their actions in another capacity while holding office, and shall continue as to a person who has ceased to be a director (including a member of any advisory board), officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of such person.

(d) Insurance, Contracts, Security. The Company may purchase and

maintain insurance on behalf of any person, may enter into contracts of indemnification with any person, and may create a fund of any nature (which may, but need not, be under the control of a trustee) for the benefit of any person and may otherwise secure in any manner its obligations with respect to indemnification and advancement of expenses, whether arising under this Article Eight or otherwise, whether or not the Company would have the power to indemnify such person against such liability under the provisions of this Article Eight.

8.03. Effective Date. The limitation of liability provided in Section 8.01

of this Article Eight and the right to indemnification provided in Section 8.02

of this Article Eight shall apply to any action or failure to take any action occurring on or after January 27, 1987.

8.04. Amendment, Etc. Notwithstanding anything herein contained to the

contrary, this Article Eight may not be amended or repealed, and a provision inconsistent herewith may not be adopted, except by the affirmative vote of 66-2/3% of the members of the entire Board of Directors or by the affirmative vote of shareholders of the Company entitled to cast at least 80% of the votes which all shareholders of the Company are then entitled to cast, except that, if the Pennsylvania Business Corporation Law or Directors' Liability Act is amended or any other statute is enacted so as to decrease the exposure of directors (including a member of any advisory board) to liability or increase the indemnification rights available to directors (including a member of any advisory board), officers or by others, then this Article Eight and any other provisions of these Bylaws inconsistent with such decreased exposure or increased indemnification rights shall be amended, automatically and without any further action on the part of the shareholders or directors, to reflect such reduced exposure or increased indemnification rights, unless such legislation expressly requires otherwise. Any repeal or modification of this Article Eight by the shareholders of the Company shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director (including a member of any advisory board) of the Company or any right to indemnification from the Company with respect to any action or failure to take any action occurring prior to the time of such repeal or modification.

8.05. Severability. If, for any reason, any provision of this Article Eight

shall be held invalid, such invalidity shall not affect any other provision not held so invalid, and each such other provision shall, to the full extent consistent with law, continue in full force and effect. If any provision of this Article Eight shall be held invalid in part, such invalidity shall in no way affect the remainder of such provision, and the remainder of such provision, together with all other provisions of this Article Eight shall, to the full extent consistent with law, continue in full force and effect.

ARTICLE NINE
SEVERABILITY

9.01. If a final judicial determination is made or an order is issued by a court or government regulatory agency having jurisdiction that any provision of these Bylaws is unreasonable or otherwise unenforceable, such provisions shall not be rendered void, but shall be deemed amended to apply to the maximum extent as such court or government regulatory agency may determine or indicate to be reasonable. If, for any reason, any provision of these Bylaws

shall be held invalid, such invalidity shall not affect any other provision of these Bylaws not held so invalid, and each such other provision shall, to the full extent consistent with law, continue in full force and effect. If any provision of these Bylaws shall be held invalid in part, such invalidity shall in no way affect the remainder of such provisions, and the remainder of such provisions, together with all other provisions of these Bylaws shall, to the full extent consistent with law, continue in full force and effect.

ARTICLE TEN
AMENDMENTS

10.01. Except as otherwise specified herein, the authority to make, amend, alter, change, or repeal these Bylaws is hereby expressly and solely granted to and vested in the Board of Directors of the Company, subject always to the power of shareholders to change such action by the affirmative vote of shareholders of the Company entitled to cast at least 66-2/3% of the votes that all shareholders are entitled to cast thereon.

ARTICLE ELEVEN
CONTROL-SHARE ACQUISITIONS AND DISGORGEMENT

11.01. Control-Share Acquisitions. The Control-Share Acquisitions

provisions of the Business Corporation Law of the Commonwealth of Pennsylvania (25 Pa. C.S.[section] 2561 et. seq.), as enacted by Act 36 of 1990 shall not be applicable to the Company.

11.02. Disgorgement. The Disgorgement By Certain Controlling Shareholders

Following Attempt to Acquire Control Provisions of the Business Corporation Law of the Commonwealth of Pennsylvania (25 Pa. C.S.[section] 2577 et. seq.), as enacted by Act 36 of 1990 shall not be applicable to the Company.

11.03. Effective Date. The provisions of Section 11.01 of this Article

Eleven and of Section 11.02 of this Article Eleven are effective as of June 19, 1990.