OFFICE OF THRIFT SUPERVISION

Approval of an Application to Acquire Assets and Assume Liabilities

Order No: 2000-25
Date: February 29, 2000

Sovereign Bank, Wyomissing, Pennsylvania ("Sovereign"), has applied to the Office of Thrift Supervision ("OTS"), under Section 18(c) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. § 1828(c), and 12 CFR § 563.22 to acquire certain assets and liabilities from: Fleet National Bank, Providence, Rhode Island; Fleet Bank-NH, Manchester, New Hampshire; and BankBoston, N.A., Boston, Massachusetts. (Collectively, the "Application").

The proposed transaction will be consummated in accordance with the Amended and Restated Purchase and Assumption Agreement By and Among Fleet Boston Corporation, Fleet National Bank, Fleet Bank-NH, BankBoston, N.A., Sovereign Bank and Sovereign Bancorp, Inc. dated February 28, 2000 (herein the "Agreement").

The OTS has considered the factors set forth in 12 U.S.C. § 1828(c), and 12 C.F.R. § 563.22(a) and other applicable statutes and regulations. The OTS also has considered the Application under the Community Reinvestment Act (the "CRA"), 12 U.S.C. § 2901 et seq., and the OTS regulations thereunder, 12 C.F.R. Part 563e. In addition, the OTS has considered a digest from the Northeast Regional Office and a legal opinion from the Regional Counsel (collectively, the "Staff Memoranda").

Accordingly, the Application is hereby approved, subject to the following conditions:

1. Each Closing (as defined in the Agreement) shall be consummated in accordance with the Agreement, the Application, all applicable laws and regulations and this Order, not less than fifteen nor more than 180 calendar days after the date of this Order, unless the Northeast Regional Director ("Regional Director") or his designee grants an extension of the 180 calendar day period for good cause;

2. Prior to the date of each Closing, Sovereign shall: (a) receive all required regulatory approvals and submit satisfactory evidence of those approvals to and (b) promptly notify the Regional Director of any action by any governmental entity that may impact on the ability of Sovereign to consummate the proposed transaction;

3. Sovereign shall:

   (a) not proceed with any scheduled Closing if, after giving effect to such Closing, it would be less than "Well Capitalized" as that term is defined in 12 CFR Part 565; and
(b) at all times after such Closing maintain:

(i) "Well Capitalized" status; and

(ii) "Tier 1 Leverage" ("Leverage") and "Risk Based Capital" ratios that equal or exceed the ratios set forth in the schedules entitled "Capital Ratios Analysis" as submitted to the OTS on February 8, 2000 (the "Capital Schedules");

4. At each Closing date, and at each quarter thereafter, Sovereign Bancorp, Inc. ("Bancorp") shall maintain its "Tier 1 Leverage" ratios at levels that equal or exceed the levels set forth on the Capital Schedules. For purposes of this Condition 4, such computations shall be made in accordance with the definition of "Sovereign Leverage Ratio" contained in the Agreement;

5. Neither Sovereign nor Bancorp shall make any payment related to the "Deferred Contingent Amount" (as defined in the Agreement), except in accordance with Section 3.6 of the Agreement. Any discretionary payment of the Deferred Contingent Amount that is not contractually required, but is permitted by Section 3.6(f) of the Agreement, shall require 15 days advance notice to and written non-objection by the Regional Director;

6. On the business day prior to each Closing, the Chief Executive Officer of Sovereign and Bancorp shall certify in writing to Regional Director that no material adverse events or material adverse changes have occurred with respect to the financial condition or operations of the respective entities since the last date of the financial statements submitted with the Application;

7. Bancorp shall not make any voluntary principal payments on any debt issued to support the proposed transaction that would leave less than $240 million in liquid assets available at Bancorp to make scheduled principal payments on any debt without: (a) providing 30 days advance notice to the Regional Director and (b) receiving written non-objection of the Regional Director. This condition shall expire on June 30, 2001, unless extended by the Regional Director;

8. No later than five calendar days after the date of each Closing, Sovereign and Bancorp shall file with the Regional Director a certification of legal counsel stating the effective date of the Closings and that the Closings: (a) have been consummated in accordance with the provisions of the Agreement, all applicable laws and regulations, the Application, and this Order and (b) Sovereign's and Bancorp's actions toward effecting such Closings have not triggered a default under the terms of any outstanding debt instruments;
9. No later than 30 days after the date of each Closing, Sovereign shall submit to Regional Director: (a) a detailed description of the accounting treatment and entries made to effect the Closing, (b) a statement that the Closing has been consummated consistently with the pro forma statements of condition and the description of proposed accounting treatment set forth in the Application and (c) an opinion from Bancorp's independent auditor stating that the accounting for the Closing is appropriate under GAAP;

10. Sovereign shall advise each accountholder whose withdrawable accounts in Sovereign would increase above $100,000 as a result of the proposed transaction of the effect of the Transaction on insurance coverage no later than 30 calendar days after the date of the Closing that causes such accountholder’s withdrawable accounts to exceed $100,000. Please submit a copy of the proposed accountholder notice to the Regional Director;

11. No later than 45 days prior to the last Closing, Sovereign must deliver:

(a) executed definitive agreements for the proposed sale-leaseback and branch sale transactions described in the Application in a manner acceptable to the Regional Director; or

(b) commitments for such other transactions which provide Tier 1 Capital to Bancorp prior to the final Closing, on a basis which shall be more advantageous to Sovereign than those described in 11(a) above, each on a basis acceptable to, and approved by, the Regional Director;

12. For each of the four states in which it is acquiring branches, Sovereign shall compute, on a monthly basis, whether the total assets attributable to all branches in that State would qualify the branches as a whole, were they otherwise eligible, for treatment as: (i) a domestic building and loan association under 26 USC § 7701(a)(19) or (ii) a qualified thrift lender, as determined under 12 USC § 1467a(m). Sovereign shall immediately notify the Regional Director in the event that it determines that it would fail to meet those tests in any of the four states. Alternatively, and in lieu of such calculations, Sovereign may submit a reasoned opinion of counsel in support of its representations that the state law requirements referred to in 12 U.S.C. § 1464(r)(2)(C) are satisfied with respect to each of the four states in which it is acquiring branches. To be acceptable, the opinion must, at a minimum, be prepared by counsel who is licensed in the state on which the opinion is being rendered and who has substantial experience and background in the interpretation and application of state banking law;

13. Within 10 days of each month-end prior to the final Closing and within 30 days following each quarter-end after the final Closing, Sovereign and Bancorp shall submit to the Regional Director updated financial statements in a form similar to the financial projections submitted to OTS as supporting schedules to the Application.
Management must provide a complete description of any material adverse deviations from the financial projections and describe what actions management is taking to rectify any such deviations. This condition shall expire on June 30, 2001, unless extended by the Regional Director;

14. Sovereign shall take all steps necessary to ensure that, upon completion of each Closing, and at all times thereafter, it will comply with the aggregate limitations on investment in commercial loans set forth in 12 U.S.C. § 1464(c)(2)(A). Sovereign’s Chief Financial Officer shall certify compliance and submit supporting documentation of such compliance to the Regional Director no later than: (i) 15 days following each Closing and (ii) 30 days from the end of each calendar quarter. This condition shall expire on June 30, 2001, unless extended by the Regional Director;

15. Within 30 days of the end of each calendar quarter and continuing for a period of two years following the final Closing, Sovereign shall provide to the Regional Director a detailed written analysis of its progress in meeting the goals contained in its Community Reinvestment Plan submitted on February 8, 2000, as amended through February 18, 2000, for loans, investments, and services in both its historical assessment areas, and those assessment areas added by this transaction. The first report shall be as of June 30, 2000 and shall be submitted to the Regional Director no later than July 31, 2000. The written analysis shall include, at a minimum, the total number and dollar volume of loans granted in each assessment area: (a) within low- and moderate-income census tracts; and (b) to low- and moderate-income persons, by specific loan type;

16. At each Closing, Sovereign shall refrain from accepting any asset that is not a permissible investment for a federal savings association;

17. Sovereign and Bancorp shall not, directly or indirectly, pledge any of its assets or otherwise permit any of its assets to be used as collateral (including any blanket lien) to secure repayment of the Deferred Contingent Amount; and

18. Considering the scope of the proposed transaction, and to assure the proper supervision of Sovereign’s expanded business affairs and operations:

(a) Within 30 days of this Order, Sovereign shall submit and implement a risk management plan in a form acceptable to the Regional Director; and

(b) Within 45 days of this Order, Sovereign must submit a written comprehensive compliance management plan, acceptable to the Regional Director, that addresses the implementation of effective compliance management systems into its operations. The compliance plan must:
(i) specifically address all consumer protection laws and regulations as well as the Bank Secrecy Act ("BSA") and implementing regulations (31 CFR Part 103, 12 CFR 563.177, and 12 CFR 563.180);

(ii) provide a detailed framework and timetable for implementing compliance and BSA policies and procedures, internal controls, and training for personnel of the historical and acquired operations; and,

(iii) identify specific individuals responsible for implementation and monitoring within each business unit of Sovereign.

Within 30 days of the end of each calendar quarter, for a period of two years following the final Closing, Sovereign shall provide a detailed written analysis of implementation activities to the Regional Director, including any changes in personnel responsibilities for implementing the compliance plan, and the results of self-assessment reviews conducted to monitor compliance with the consumer protection laws and regulations, and the BSA.

Any time specified herein may be extended by the Regional Director, for good cause, for up to 120 calendar days.

By order of the Director of the Office of Thrift Supervision, or her designee, effective February 29, 2000.

Scott M. Albinson
Managing Director
Office of Supervision