

# Acquisition of Sovereign Bancorp

Madrid - October 2008

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# Disclaimer (cont.)

## **Additional Information About This Transaction**

In connection with the proposed transaction, Santander will file with the SEC a Registration Statement on Form F-4 that will include a proxy statement of Sovereign that also constitutes a prospectus of Santander. Sovereign will mail the proxy statement/prospectus to its stockholders. Sovereign shareholders and other investors are urged to read the proxy statement/prospectus regarding the proposed transaction when it becomes available because it will contain important information. You may obtain copies of all documents filed with the SEC regarding this transaction, free of charge, at the SEC's website ([www.sec.gov](http://www.sec.gov)).

## **Proxy Solicitation**

Santander, Sovereign and their respective directors, executive officers and certain other members of management and employees may be soliciting proxies from stockholders in favor of the transaction. Information regarding the persons who may, under the rules of the SEC, be considered participants in the solicitation of the stockholders in connection with the proposed transaction will be set forth in the proxy statement/prospectus when it is filed with the SEC. You can find information about Santander's executive officers and directors in its annual report on Form 20-F filed with the SEC on June 27, 2008. You can find information about Sovereign's executive officers and directors in its definitive proxy statement filed with the SEC on March 24, 2008. You can obtain free copies of these documents as described above

## **Description of the deal**

**Strategic rationale**

**Description of Sovereign**

**Financial impact**

**Appendix**

# Transaction Overview

- **Santander acquires remaining outstanding Sovereign shares (502mn)**
  - **Fixed exchange ratio**
    - 0.2924x Santander shares for each Sovereign share
    - \$3.81 per Sovereign share<sup>1</sup>
    - Total consideration of \$1.9bn<sup>1</sup>
  - **Required approvals**
    - Customary regulatory
    - Sovereign shareholders
      - Relational Investors has agreed to vote its 8.9% of SOV shares in favor of the transaction
    - Santander EGM
  - **Closing anticipated Q1 2009**
  - **Sovereign shareholders will receive Santander dividends following completion of transaction**

**Transaction recommended by Sovereign's board**

<sup>1</sup> Based on Santander's ADR closing price on October 10, 2008 of \$13.03

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# Strategic Rationale

- **Santander enters the Northeastern banking market in the U.S.; a region resilient to current credit conditions**
- **Largest remaining independent franchise in Northeast**
- **Provides scale entry into demographically attractive and stable markets**
  - Presence in some of the most attractive and wealthiest regions in the U.S.
  - Leading retail and commercial franchise in its core markets
  - Strong regional market share
- **Significant opportunity for growth and enhanced profitability**
  - Well-positioned, operationally under-levered franchise
- **Like other Santander expansions, Sovereign represents opportunity to export Santander's efficient commercial banking model and its industry-leading product and sales capabilities**
- **Low risk transaction, given Santander's successful acquisition track record and in-depth knowledge of Sovereign franchise**
- **Diversification: SOV would bring 8% of the pro-forma deposits of the group**

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## Sovereign: Overview

- **Sovereign is the largest thrift institution in the United States by assets**
  - Total Assets: \$77.3bn at September 30, 2008
  - Total Deposits: \$43.1bn at September 30, 2008
- **The Company operates in eight attractive Northeastern and Mid Atlantic states**
  - Stable and affluent markets less subject to cyclical swings
  - Six of the top 26 U.S. cities are in Sovereign's footprint
- **Sovereign holds strong market share positions in its core states**
  - Strong deposit share in five of eight states in which it operates
  - A contiguous branch system from Boston to Philadelphia
- **Business model is focused on the consumer and small business banking**

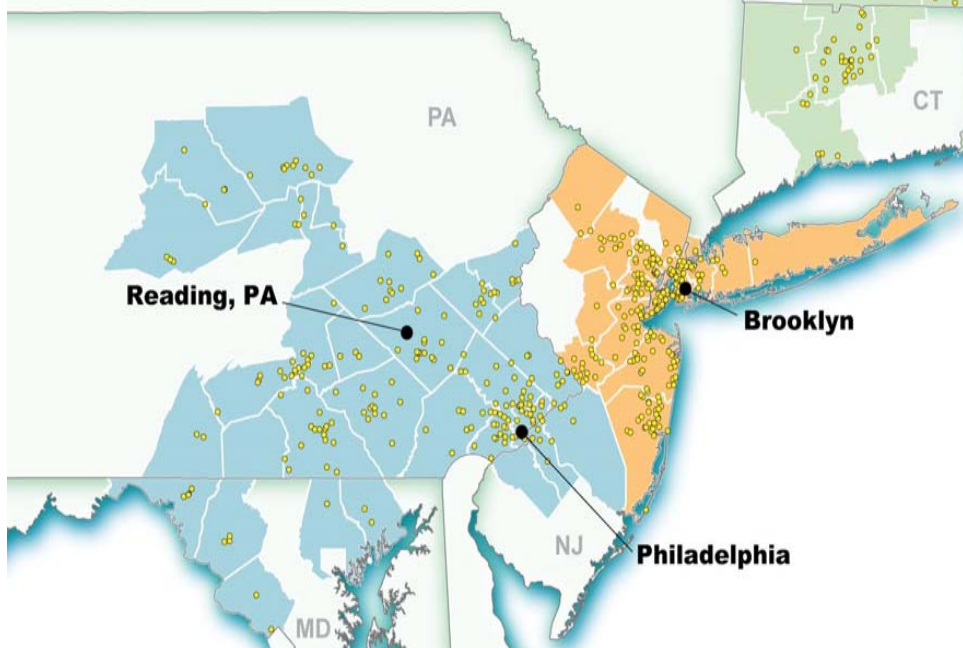
## **Sovereign: History with Santander**

- **Investment in Sovereign began in October 2005**
  - Initial investment position: 19.9% ownership
  - Increased ownership to 24.4% over the past two years
  - Participated pro rata in Sovereign's May 2008 follow-on offering
- **Santander has held three out of twelve seats on the Sovereign Board**
- **Santander has executives as advisors in Sovereign's Internal Audit, Risk Management, IT and Operations, and Marketing departments for the last two years**
- **Santander has also provided Sovereign with technology consulting services**

**SAN has a good knowledge of the franchise and its potential**

# Sovereign: A Solid Franchise Serving the Northeastern U.S.

State	Market Rank	# Branches	Deposits (\$mn)	Market Share (%)
Pennsylvania	4	188	14,064	5.33
Massachusetts	3	232	12,999	8.59
New Jersey	7	158	9,211	4.11
New York	16	73	6,813	0.94
Rhode Island	3	31	1,902	7.00
Connecticut	11	32	1,628	1.96
New Hampshire	5	20	867	3.77
Maryland	32	13	295	0.31
<b>Total</b>		<b>747</b>	<b>47,779</b>	



Market Rank	Institution <sup>1</sup>	# Branches	Deposits (\$mn)	Market Share (%)
1	JPMorgan Chase	1,208	271,101	16.99
2	Bank of America	1,664	187,229	11.74
3	Wells Fargo	864	89,263	5.60
4	Royal Bank of Scotland	1,105	75,410	4.73
5	PNC	931	70,538	4.42
6	Citigroup	380	70,087	4.39
7	HSBC	425	68,201	4.27
8	Toronto-Dominion	938	66,625	4.18
<b>9</b>	<b>Sovereign</b>	<b>747</b>	<b>47,294</b>	<b>2.99</b>
10	Bank of New York Mellon	28	43,581	2.73
<b>Total For Institutions in Market</b>			<b>1,595,378</b>	

Note: Deposit data as of June 30, 2008; pro forma for pending acquisitions  
<sup>1</sup> Reflects operations within PA, MA, NJ, NY, RI, CT, NH, MD



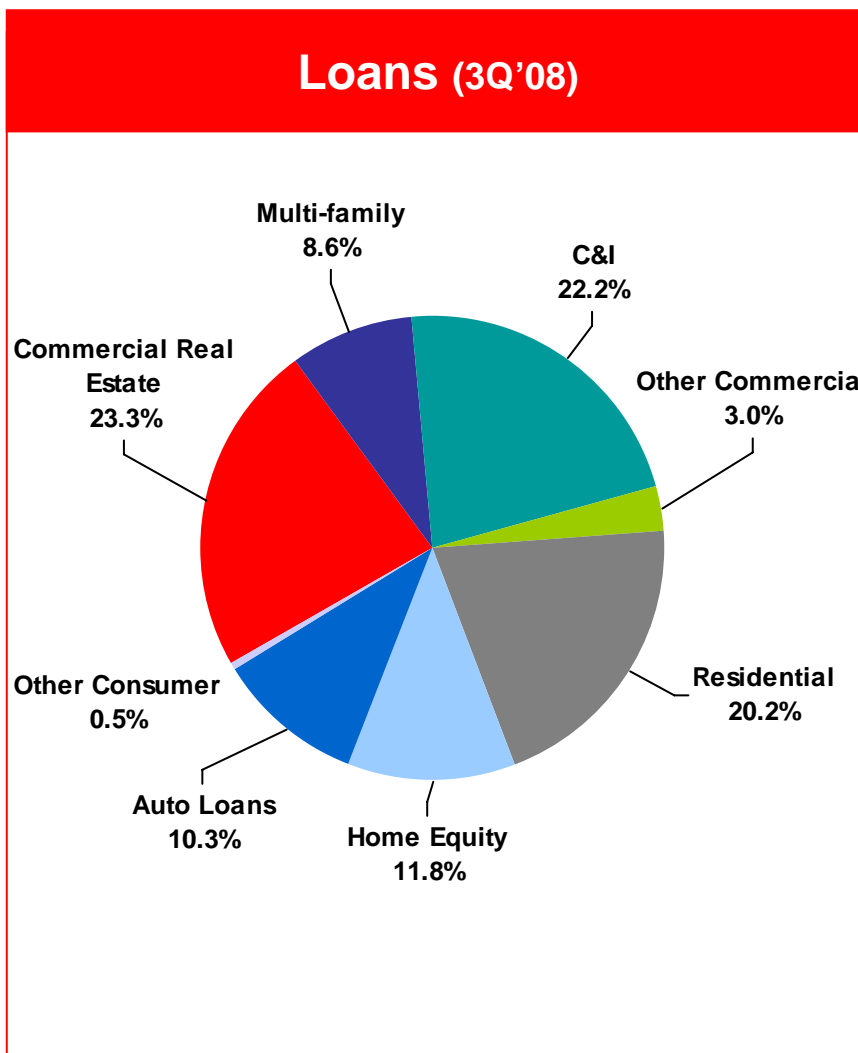
## Sovereign: Financial Statistics

(3Q'08)

■ Branches	747
■ ATMs	2,300+
■ Employees	11,976
■ Assets	\$77.3bn
■ Tangible Common Equity (June 2008)	\$3.7bn
■ Deposits	\$43.1bn
■ Net Loans	\$56.9bn

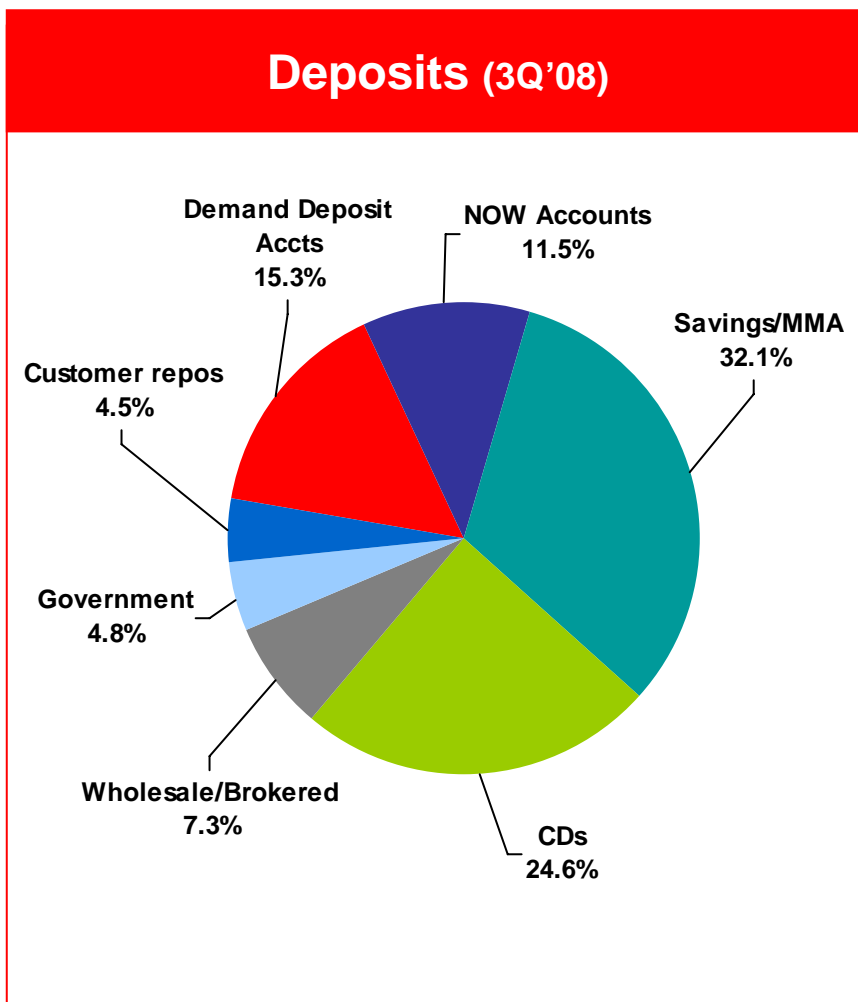
Market statistics as of (10/10/08)

■ Market Cap.	\$2.5bn
■ Share Price	\$3.81



Loans Composition (\$mn)		
Commercial Real Estate	13,281	23.3%
Multi-family	4,888	8.6%
C&I	12,631	22.2%
Other Commercial	1,718	3.0%
Residential	11,515	20.2%
Home Equity	6,732	11.8%
Auto Loans	5,854	10.3%
Other Consumer	296	0.5%
<b>Total Gross Loans</b>	<b>56,914</b>	<b>100.0%</b>
Credit Quality Metrics (3Q'08)		
Allowances/Loans		1,68%
Non performing assets/Assets		0,91%
Net charge offs/Avg Loans		0,91%

# Sovereign: Deposit Composition

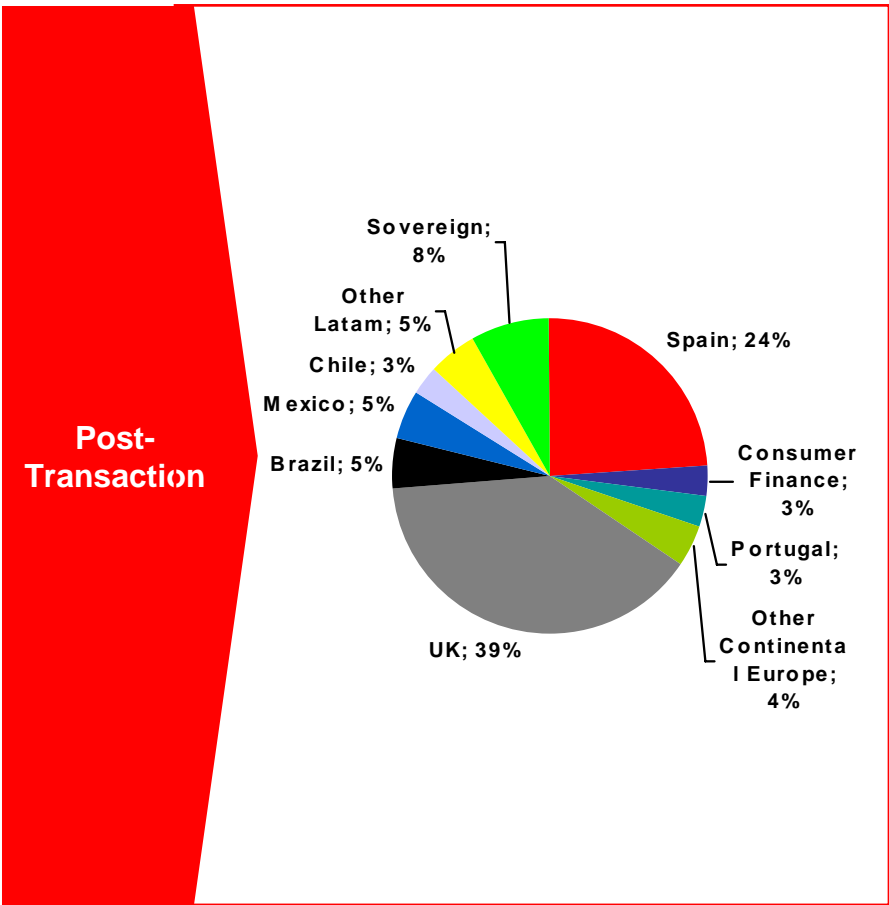
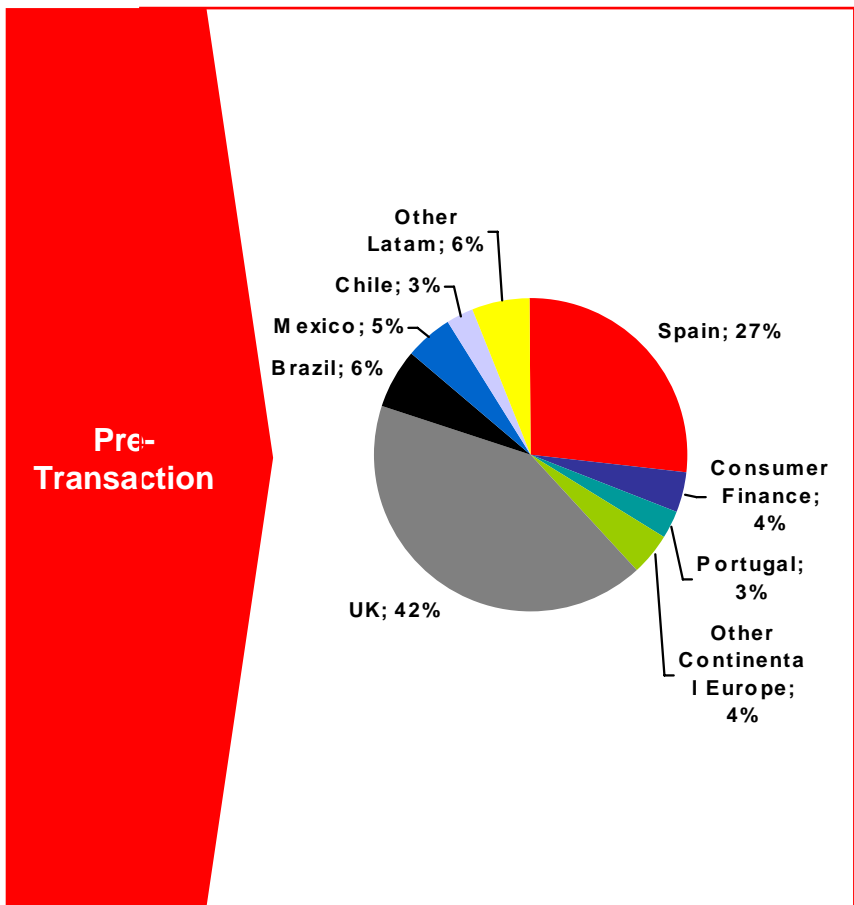


### Deposit Composition (\$mn)

Demand Deposit Accts	6,578	15.3%
NOW Accounts	4,959	11.5%
Savings/MMA	13,835	32.1%
CDs	10,613	24.6%
Wholesale/Brokered	3,131	7.3%
Government	2,081	4.8%
Customer repos	1,926	4.5%
<b>Total Deposits</b>	<b>43,123</b>	<b>100.0%</b>

# Sovereign: SOV diversify SAN business portfolio representing 8% of SAN deposit base

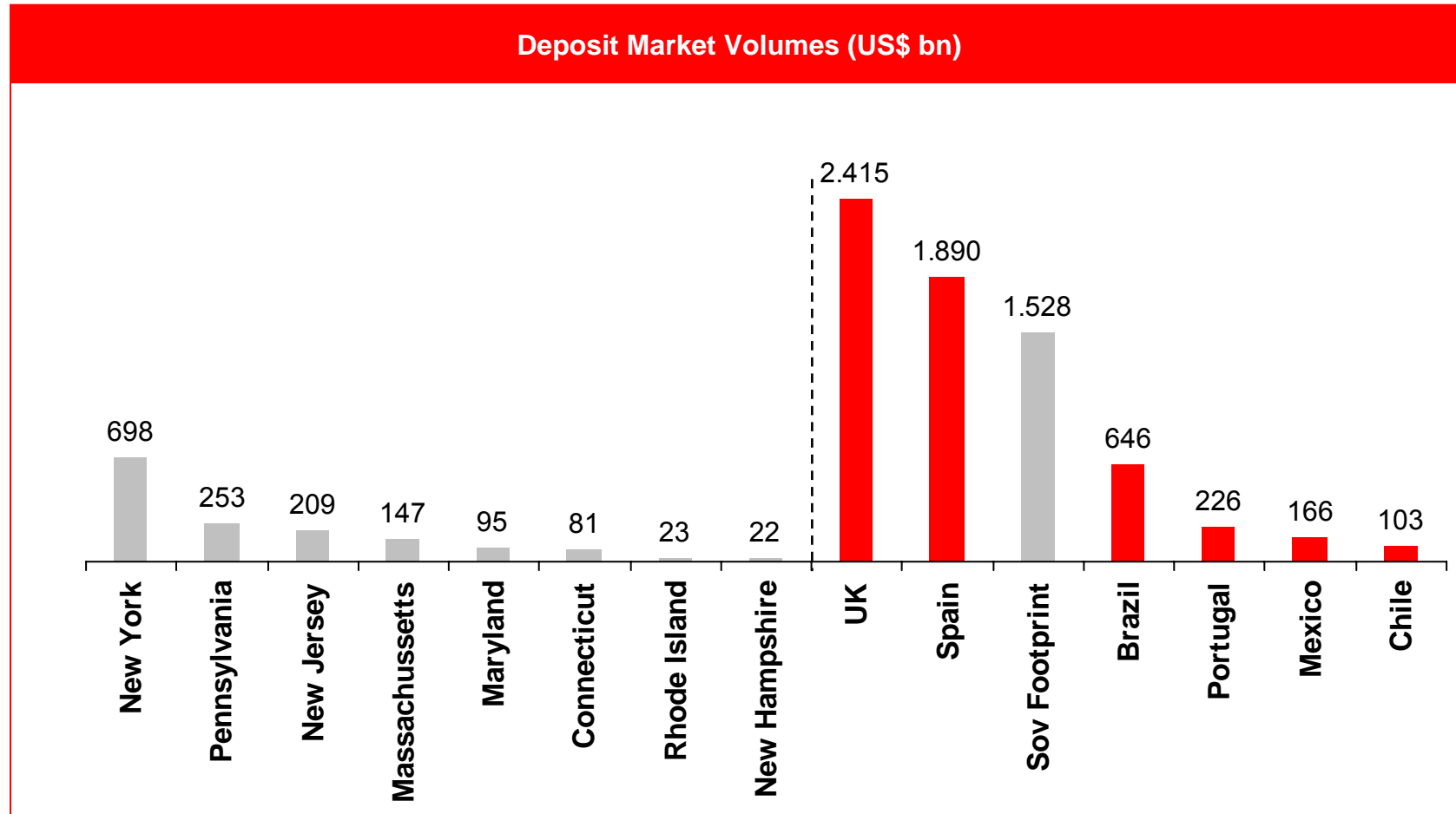
1H08 Deposits



Source: Company Data. Adjusted for A&L and B&B



## Sovereign: SOV footprint is a market almost the size of Spain





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**Appendix**

# Financial Highlights

- **Diversifies Santander Business mix (8% of the deposit base of the group in US)**
- **Generates positive EPS impact by 2011 (+0.5%)**
- **Marginal capital impact on the overall Santander group (ca. 20 bp)**
- **Marginal ROI above 30% and total ROI (100% of Sovereign) of 15%**
- **Acquired well below TBV**

# Financial initiatives

## De-lever

- Reduce RWA by approximately \$10bn (from \$61bn) by the end of 2009

## De-risk

- Fair value adjustments and restructuring of securities and credit portfolio

## Improve efficiency

- Reduce costs and invest in franchise to drive commercial improvement

# Financial initiatives

## De-lever

- **Reduce RWA by approximately \$10bn (from \$61bn) by the end of 2009**
  - Reduce securities portfolio
  - Manage down non core credit portfolios: National CRE / Multifamily, Indirect Auto, Large Corp / CRE, etc.

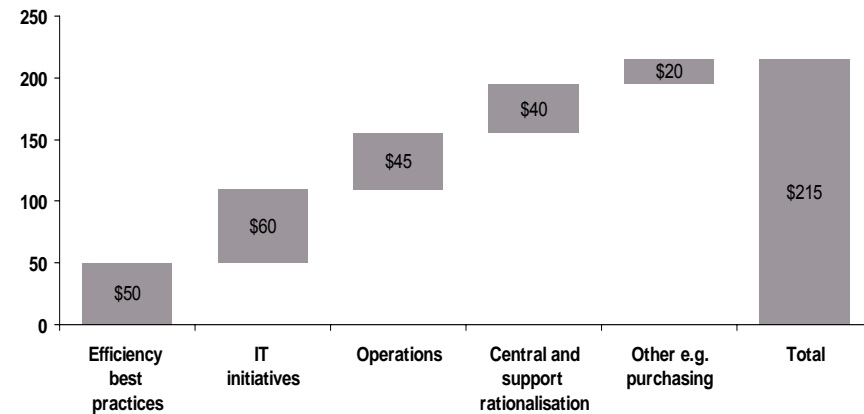
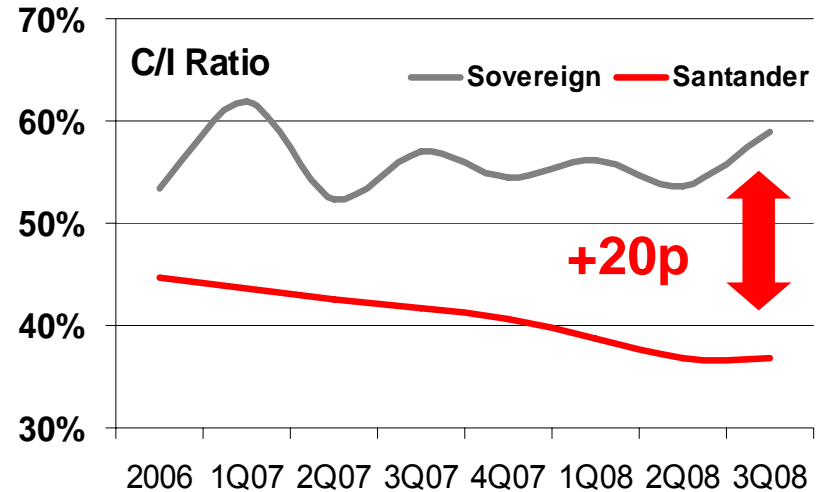
## De-risk

- **Fair value adjustments and restructuring of securities and credit portfolio**
  - Provisions and fair value adjustments of \$2 bn pre-tax (\$ 1.4 bn post tax) driving TE from \$ 4.6 bn (June 08) to \$ 3.2 bn.
    - Sovereign to execute first leg in Q3 results (\$ 1.25bn pre-tax; \$900mn post- tax) mainly in securities portfolio write offs
    - Increase reserve by additional \$ 750 mn pre-tax provisions for the credit portfolio which adds to the \$ 1bn existing provisions in SOV balance sheet. These two figures amount to 3,1% of the credit portfolio.
  - Protect the bank against future deterioration of treasury portfolio
  - ...while anticipating increased credit costs on loan portfolios through the cycle and improving coverage ratios

# Improve efficiency

## Efficiency initiatives

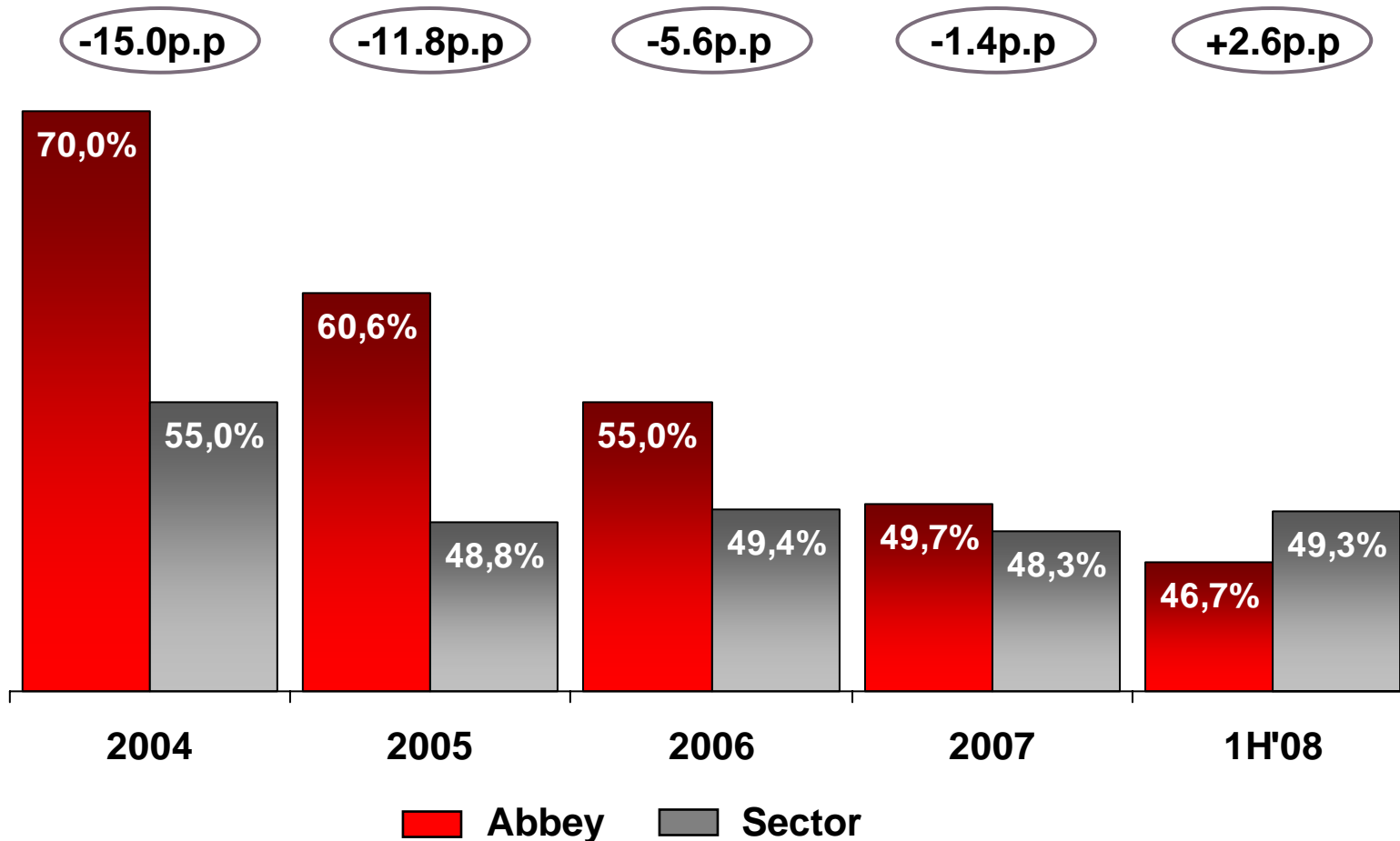
- Implement best practices
- IT platform enhancements
- Headquarters and operations optimization
- Estimated cost savings of \$215mn pre-tax (~13% of expense base) over the next 3 years



# The UK example: Santander has a proven track record in reducing costs in cross border acquisitions

## Abbey Cost to Income ratio – Historical Trends

Gap vs. Sector



Sector average based on internal segmental analysis of the results of Lloyds TSB, HBOS, Barclays, Royal Bank of Scotland and Bradford & Bingley



# Summary financial impact

	2009	2010	2011
Net Profit	\$446	\$620	\$680
Higher provisions after tax	(400)	(400)	0
Cost of de-leveraging after tax	(70)	(80)	(80)
Synergies after tax	100	115	151
<b>Adjusted net profit</b>	<b>\$76</b>	<b>\$255</b>	<b>\$751</b>
Foregone earnings - asset sales	(123)	(123)	(123)
SOV earnings equity accounted	(11)	(55)	(170)
<b>Net attributable profit increase for SAN</b>	<b>(\$59)</b>	<b>\$77</b>	<b>\$457</b>
EPS accretion / (dilution)	(2.6%)	(1.7%)	0.5%
"Marginal" ROI (current 75%)	3%	10%	30%
"Total" ROI (100%)	1%	5%	15%

Additional \$ 1.2bn provisions over the next two years; 600 pre-tax per annum on top of consensus figures

Credit portfolio to be reduced by \$10bn over three years

After synergies, Sovereign expected to earn \$750mn in 2011

Generates positive EPS impact by 2011

"Marginal" ROI above 30% and 15% including the price paid for first leg

# Capital implications

- **Santander anticipates ca. 20 bps reduction in core Tier 1 capital from mark-to-market and credit adjustments**
- **Santander expects to maintain its core Tier 1 ratio above 6%**
- **Potential offsets to the capital impact include the sale of:**
  - Industrial stakes (i.e.: Cepsa)
  - Product factories (asset management / insurance)
  - Banco de Venezuela
  - Ciudad Financiera
  - Shared assets ABN Amro



# Summary

- **The acquisition of Sovereign represents an attractive entry point into the U.S. market**
  - A familiar franchise
  - Strong regional presence
  - Potential to improve efficiency and commercial productivity
  
- **Business plan incorporates conservative assumptions**
  - \$2bn upfront pre-tax fair value adjustments and provisions to cover potential losses
  - Future provisioning significantly above market consensus estimates (180bps projected in 2009 and 2010)
  
- **The acquisition meets Santander's financial criteria**
  - ROI above cost of capital by year 3: 15% in 2011, reflecting the full cost of the acquisition
  - EPS enhancing by year 3: +0.5% in 2011
  - SAN is acquiring SOV at 0.55 P/TE June 08; 0.68 P/TE as of first leg of write downs (Sept 08) and 0.79 P/TE after extra provisions to perform by Santander

**Overall, the deal creates value for  
both Santander and Sovereign shareholders**

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**Appendix**

# Sovereign: Franchise is Focused on New England and Mid Atlantic <sup>27</sup> Regions

Pennsylvania				
Market Rank	Institution	# Branches	Deposits (\$mn)	Market Share (%)
1	PNC	400	43,142	16.36
2	Wells Fargo	303	30,903	11.72
3	Royal Bank of Scotland	404	23,622	8.96
<b>4</b>	<b>Sovereign</b>	<b>188</b>	<b>14,064</b>	<b>5.33</b>
5	National City	218	13,635	5.17
6	Bank of New York Mellon	17	8,995	3.41
7	Toronto-Dominion	109	8,752	3.32
8	Bank of America	116	7,613	2.89
9	M&T Bank	220	7,189	2.73
10	National Penn	134	5,902	2.24
<b>Total For Institutions In Market</b>		<b>4,856</b>	<b>263,720</b>	

Massachusetts				
Market Rank	Institution	# Branches	Deposits (\$mn)	Market Share (%)
1	Bank of America	309	38,128	25.20
2	Royal Bank of Scotland	257	21,712	14.35
<b>3</b>	<b>Sovereign</b>	<b>232</b>	<b>12,999</b>	<b>8.59</b>
4	Toronto-Dominion	161	7,526	4.97
5	Eastern	89	5,263	3.48
6	Middlesex	27	2,972	1.96
7	Independent	61	2,479	1.64
8	Boston Private	9	1,839	1.22
9	Salem Five	20	1,754	1.16
10	Cambridge	16	1,667	1.10
<b>Total For Institutions In Market</b>		<b>2,234</b>	<b>151,293</b>	

New Jersey				
Market Rank	Institution	# Branches	Deposits (\$mn)	Market Share (%)
1	Bank of America	396	47,514	21.20
2	Wells Fargo	317	28,429	12.69
3	Toronto-Dominion	323	25,153	11.22
4	PNC	329	17,831	7.96
5	Hudson City	94	14,520	6.48
6	JPMorgan Chase	257	10,078	4.50
<b>7</b>	<b>Sovereign</b>	<b>158</b>	<b>9,211</b>	<b>4.11</b>
8	Valley	180	7,833	3.50
9	Provident	84	4,197	1.87
10	Investors	56	4,064	1.81
<b>Total For Institutions In Market</b>		<b>3,401</b>	<b>224,101</b>	

New York				
Market Rank	Institution	# Branches	Deposits (\$mn)	Market Share (%)
1	JPMorgan Chase	894	257,305	35.42
2	HSBC	390	66,046	9.09
3	Citigroup	261	64,379	8.86
4	Bank of America	388	46,617	6.42
5	Bank of New York Mellon	6	34,515	4.75
6	Capital One	291	26,306	3.62
7	M&T Bank	292	20,990	2.89
8	Toronto-Dominion	173	16,494	2.27
9	KeyCorp	229	15,126	2.08
<b>16</b>	<b>Sovereign</b>	<b>73</b>	<b>6,813</b>	<b>0.94</b>
<b>Total For Institutions In Market</b>		<b>5,404</b>	<b>726,515</b>	

# Sovereign: Franchise is Focused on New England and Mid Atlantic <sup>28</sup> Regions

Rhode Island				
Market Rank	Institution	# Branches	Deposits (\$mn)	Market Share (%)
1	Royal Bank of Scotland	80	13,109	48.22
2	Bank of America	49	6,718	24.71
<b>3</b>	<b>Sovereign</b>	<b>31</b>	<b>1,902</b>	<b>7.00</b>
4	Washington Trust	15	1,545	5.68
5	Bancorp Rhode Island	16	1,041	3.83
6	OceanPoint	12	781	2.87
7	Centreville	6	605	2.23
8	Webster	11	356	1.31
9	First Marblehead	1	245	0.90
10	Newport	5	240	0.88
<b>Total For Institutions In Market</b>		<b>245</b>	<b>27,187</b>	

Connecticut				
Market Rank	Institution	# Branches	Deposits (\$mn)	Market Share (%)
1	Bank of America	174	17,816	21.45
2	Webster	143	10,337	12.44
3	People's United	162	8,824	10.62
4	Wells Fargo	75	7,378	8.88
5	Toronto-Dominion	88	4,497	5.41
6	NewAlliance	77	4,133	4.97
7	JPMorgan Chase	55	3,717	4.47
8	Royal Bank of Scotland	51	2,836	3.41
9	Liberty	35	2,167	2.61
<b>11</b>	<b>Sovereign</b>	<b>32</b>	<b>1,628</b>	<b>1.96</b>
<b>Total For Institutions In Market</b>		<b>1,305</b>	<b>83,074</b>	

New Hampshire				
Market Rank	Institution	# Branches	Deposits (\$mn)	Market Share (%)
1	Royal Bank of Scotland	83	5,850	25.45
2	Bank of America	37	4,286	18.64
3	Toronto-Dominion	75	4,088	17.78
4	People's United	38	1,335	5.81
<b>5</b>	<b>Sovereign</b>	<b>20</b>	<b>867</b>	<b>3.77</b>
6	LSB	18	696	3.03
7	New Hampshire Thrift	19	520	2.26
8	Northway	18	503	2.19
9	Meredith Village	11	458	1.99
10	Merrimack	7	413	1.80
<b>Total For Institutions In Market</b>		<b>435</b>	<b>22,988</b>	

Maryland				
Market Rank	Institution	# Branches	Deposits (\$mn)	Market Share (%)
1	Bank of America	195	18,536	19.21
2	PNC	202	9,565	9.91
3	B.F. Saul	141	8,213	8.51
4	Wells Fargo	83	7,464	7.73
5	M&T Bank	151	7,418	7.69
6	SunTrust	136	6,589	6.83
7	BB&T	129	6,245	6.47
8	Provident	100	3,815	3.95
9	Sandy Spring	39	2,161	2.24
<b>32</b>	<b>Sovereign</b>	<b>13</b>	<b>295</b>	<b>0.31</b>
<b>Total For Institutions In Market</b>		<b>1,831</b>	<b>96,501</b>	

**Relations with Investors and Analysts**

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