FLEETBOSTON FINANCIAL CORP
Form 10-K
March 01, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-6366

FleetBoston Financial Corporation
(Exact name of Registrant as specified in its charter)

Rhode Island	**05-0341324**
(State of incorporation)	*(I.R.S. Employer Identification No.)*
100 Federal Street, Boston, Massachusetts	**02110**
(Address of principal executive office)	*(Zip Code)*

617 / 434-2200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
Common Stock, $.01 Par Value	New York Stock Exchange Boston Stock Exchange
Depositary Shares each representing a one-fifth interest in a share of Series VI 6.75% Perpetual Preferred Stock, $1 Par Value	New York Stock Exchange
8.00% Trust Originated Preferred Securities issued by Fleet Capital Trust I, Guaranteed by FleetBoston Financial Corporation	New York Stock Exchange
7.05% Trust Originated Preferred Securities issued by Fleet Capital Trust III, Guaranteed by FleetBoston Financial Corporation	New York Stock Exchange
7.17% Trust Originated Preferred Securities issued by Fleet Capital Trust IV, Guaranteed by FleetBoston Financial Corporation	New York Stock Exchange
	New York Stock Exchange

8.80% Trust Originated Preferred Securities issued by Fleet Capital Trust VI, Guaranteed by FleetBoston Financial Corporation	
7.20% Capital Securities issued by Fleet Capital Trust VII, Guaranteed by FleetBoston Financial Corporation	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange Boston Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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, and (2) has been subject to such filing requirements for the past 90 days. YES XX NO __

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

As of January 31, 2002, the aggregate market value of the voting stock held by nonaffiliates of the Registrant was $34.9 billion.

The number of shares of common stock of the Registrant outstanding as of January 31, 2002 was 1,043,733,399.

DOCUMENTS INCORPORATED BY REFERENCE

Pertinent extracts from Registrant's Proxy Statement for its 2002 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission are incorporated into Part III.

Such information incorporated by reference shall not be deemed to specifically incorporate by reference the information referred to in Item 402(a)(8) of Regulation S-K.

Table of Contents and Cross-Reference Index

*The information required by this Item is incorporated herein by reference to the Corporations Proxy Statement for its 2002 Annual Meeting of Stockholders.

PART I.

Item 1. *Business*

General

FleetBoston Financial Corporation (FleetBoston or the Corporation) is a diversified financial services company organized under the laws of the State of Rhode Island. FleetBoston is a legal entity separate and distinct from its subsidiaries, assisting those subsidiaries by providing financial resources and management. At December 31, 2001, the Corporation had total assets of $203.6 billion, total deposits of $129.3 billion, total stockholders equity of $17.6 billion and approximately 56,000 employees. In terms of total assets, FleetBoston is the seventh largest financial holding company in the United States. The executive office of the Corporation is located at 100 Federal Street, Boston, Massachusetts, 02110 (telephone (617) 434-2200).

On March 1, 2001, FleetBoston completed its acquisition of Summit Bancorp. (Summit). Approximately 180.5 million shares of FleetBoston common stock were issued in exchange for substantially all of Summits outstanding shares, through the exchange of 1.02 shares of FleetBoston stock for each outstanding Summit share. The transaction was accounted for as a pooling of interests and, as such, financial information included in this Report presents the combined financial condition and results of operations of both companies as if they had operated as a combined entity for all periods presented.

FleetBoston, through its subsidiaries, offers a comprehensive array of financial solutions to approximately 20 million customers. Its key businesses include consumer and small business banking; commercial banking, including middle-market lending, asset-based lending, leasing, cash management, trade finance and government banking; international banking; corporate banking; principal investing; investment banking; securities brokerage, market-making and clearing services; investment services, including asset management, mutual funds and retirement planning; credit card services; commercial real estate lending; and student loan and other processing. FleetBoston owns three national banking subsidiaries, including its principal banking subsidiary, Fleet National Bank (FNB). FNB is a member of the Federal Reserve System, and its domestic deposits are insured by the Federal Deposit Insurance Corporation (the FDIC) to the extent provided by law.

FleetBoston's principal business lines, including their operating results and other key financial measures, are more fully discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this Report under Item 7, and in Note 16 of the "Notes to Consolidated Financial Statements" included under Item 8 of this Report. For discussions of FleetBoston's business activities, including its lending activities, its cross-border outstandings and its management of credit risk, liquidity risk and other risks inherent in its businesses, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations," included under Item 7 of this Report.

This Report contains statements (including, without limitation, statements in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this Report under Item 7), that are considered "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. In addition, FleetBoston may make other written and oral communications from time to time (including, without limitation, in the Corporation's 2001 Summary Annual Report to Stockholders) that contain such statements. Forward-looking statements, including statements as to industry trends, future expectations of the Corporation and other matters that do not relate strictly to historical facts, are based on certain assumptions by management. Actual results may differ materially from those projected as a result of the following risks and uncertainties, as well as any other risks and uncertainties detailed from time to time in the filings of the Corporation with the Securities and Exchange Commission (the SEC):

- general political and economic conditions, either domestically or internationally, may be less favorable than expected;
- Argentina may continue to experience economic, political and social instability, and those conditions may affect the economies of other countries in which the Corporation is doing business;
- the adverse economic effects of the September 11, 2001 terrorist attacks against the United States and related events, including the potential expansion of hostilities, may be greater than expected;
- credit quality may continue to deteriorate, resulting in an increase in the level of the Corporation's provision for credit losses, nonperforming assets, net charge-offs and reserve for credit losses;
- interest rate and currency fluctuations, equity and bond market fluctuations, and inflation may be greater than expected;
- global capital markets in general, and the technology and telecommunications industries in particular, may continue to exhibit weakness, adversely affecting our principal investing and other capital markets businesses, including Robertson Stephens;
- competitive product and pricing pressures among financial institutions within the Corporation's markets may increase significantly;

- legislative or regulatory developments, including changes in laws or regulations concerning taxes, banking, securities, capital requirements and risk-based capital guidelines, reserve methodologies, insurance and other aspects of the financial services industry, may adversely affect the businesses in which the Corporation is engaged or the Corporations financial results;
- changes in accounting rules, policies, practices and procedures may be required as a result of certain proposals under consideration by U.S. legislators and regulatory and self-regulatory bodies;
- legal and regulatory proceedings and related matters could adversely affect the Corporation or the financial services industry generally; and
- technological changes, including the impact of the Internet on the Corporations businesses, may be more difficult or expensive than anticipated.

Competition

FleetBostons banking and non-banking subsidiaries compete with other major financial institutions, including commercial banks, investment banks, mutual savings banks, savings and loan associations, credit unions, consumer finance companies and other non-bank institutions, such as insurance companies, major retailers, brokerage firms, and investment companies in the Northeast, throughout the United States and internationally. The principal methods of competing effectively in the financial services industry include improving customer service through the quality and range of services provided, improving efficiencies and pricing services competitively.

One outgrowth of the competitive environment discussed above has been significant consolidation within the financial services industry on a global, national and regional level. FleetBoston continues to implement strategic initiatives focused on expanding its core businesses and to explore, on an ongoing basis, acquisition, divestiture and joint venture opportunities. FleetBoston analyzes each of its businesses in the context of customer demands, competitive advantages, industry dynamics and growth potential.

For additional information with regard to FleetBostons acquisition and divestiture activities, refer to Note 2 of the Notes to Consolidated Financial Statements included under Item 8 of this Report.

Supervision and Regulation

The business in which FleetBoston and its subsidiaries are engaged is subject to extensive supervision, regulation and examination by various bank regulatory authorities and other governmental agencies in the states and countries where the Corporation and its subsidiaries operate. The supervision, regulation and examination to which FleetBoston and its subsidiaries are subject are intended primarily for the protection of depositors and the deposit insurance funds that insure the deposits of banks, rather than for the protection of security holders.

Several of the more significant regulatory provisions applicable to banks and financial holding companies to which the Corporation and its subsidiaries are subject are discussed below, along with certain regulatory matters concerning the Corporation and its subsidiaries. To the extent that the following information describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statutory provisions. Any change in applicable law or regulation may have a material effect on the business and prospects of FleetBoston and its subsidiaries.

Regulatory Agencies

Financial Holding Company. As a registered bank holding company and financial holding company, FleetBoston is subject to regulation under the Bank Holding Company Act of 1956 and to inspection, examination and supervision by the Board of Governors of the Federal Reserve System (the Federal Reserve Board).

Subsidiary Banks. FNB and FleetBoston’s other national banking subsidiaries are subject to regulation, supervision and examination primarily by the Office of the Comptroller of the Currency (the OCC) and secondarily by the Federal Reserve Board and the FDIC. FNB’s and FleetBoston’s operations in other countries are also subject to various restrictions imposed by the laws of those countries.

Non-bank Subsidiaries. Many of FleetBoston’s non-banking subsidiaries also are subject to regulation by the Federal Reserve Board and other applicable federal and state agencies. FleetBoston’s brokerage subsidiaries are regulated by the SEC, the New York Stock Exchange, the National Association of Securities Dealers, Inc. and state securities regulators. FleetBoston’s insurance subsidiaries are subject to regulation by applicable state insurance regulatory agencies. Other non-banking subsidiaries of the Corporation are subject to the laws and regulations of both the federal government and the various states in which they conduct business.

Other Requirements and Regulations. FleetBoston and its subsidiaries are also affected by the fiscal and monetary policies of the U.S. federal government and the Federal Reserve Board, and by various other governmental requirements and regulations in the states and countries where FleetBoston and its subsidiaries operate.

Financial and Bank Holding Company Activities

“Financial in Nature” Requirement. As a financial holding company, the Corporation may engage in, and acquire companies engaged in, activities that are considered “financial in nature,” as defined by the Gramm-Leach-Bliley Act and Federal Reserve Board interpretations. These activities include, among other things, securities underwriting, dealing and market-making, sponsoring mutual funds and investment companies, insurance underwriting and agency activities, and merchant banking. If any banking subsidiary of the Corporation ceases to be “well capitalized” or “well managed” under applicable regulatory standards, the Federal Reserve Board may, among other things, place limitations on the Corporation’s ability to conduct the broader financial activities permissible for financial holding companies or, if the deficiencies persist, require the Corporation to divest the banking subsidiary. In addition, if any banking subsidiary of the Corporation receives a Community Reinvestment Act rating of less than satisfactory, the Corporation would be prohibited from engaging in any additional activities other than those permissible for bank holding companies that are not financial holding companies. The Corporation may engage

directly or indirectly in activities considered financial in nature, either *de novo* or by acquisition, as long as it gives the Federal Reserve board after-the-fact notice of the new activities. The Gramm-Leach-Bliley Act also permits national banks, such as FNB, to engage in activities considered financial in nature through a financial subsidiary, subject to certain conditions and limitations and with the approval of the OCC.

Interstate Banking and Branching. As a bank holding company, the Corporation is required to obtain prior Federal Reserve Board approval before acquiring more than 5% of the voting shares, or substantially all of the assets, of a bank holding company, bank or savings association. Under the Riegle-Neal Interstate Banking and Branching Efficiency Act (Riegle-Neal), subject to certain concentration limits and other requirements, bank holding companies such as the Corporation may acquire banks and bank holding companies located in any state. Riegle-Neal also permits banks to acquire branch offices outside their home states by merging with out-of-state banks, purchasing branches in other states and establishing *de novo* branch offices in other states. The ability of banks to acquire branch offices is contingent, however, on the host state having adopted legislation “opting in” to those provisions of Riegle-Neal. In addition, the ability of a bank to merge with a bank located in another state is contingent on the host state not having adopted legislation “opting out” of that provision of Riegle-Neal.

Control Acquisitions. The Change in Bank Control Act prohibits a person or group of persons from acquiring “control” of a bank holding company, unless the Federal Reserve Board has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve Board, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, such as the Corporation, would, under the circumstances set forth in the presumption, constitute acquisition of control of the bank holding company. In addition, a company is required to obtain the approval of the Federal Reserve Board under the Bank Holding Company Act before acquiring 25% (5% in the case of an acquiror that is a bank holding company) or more of any class of outstanding voting stock of a bank holding company, or otherwise obtaining control or a “controlling influence” over that bank holding company.

Liability for Banking Subsidiaries

Under Federal Reserve Board policy, a bank holding company is expected to act as a source of financial and managerial strength to each of its subsidiary banks and to commit resources to their support. This support may be required at times when the bank holding company may not have the resources to provide it. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act, the FDIC can hold any FDIC-insured depository institution liable for any loss suffered or anticipated by the FDIC in connection with (1) the “default” of a commonly controlled FDIC-insured depository institution; or (2) any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution “in danger of default.” All of FleetBoston’s subsidiary banks are FDIC-insured depository institutions.

Capital Requirements

Information concerning FleetBoston and its subsidiaries with respect to capital requirements is incorporated by reference from Note 10, “Regulatory Matters,” of the “Notes to Consolidated Financial Statements” included under Item 8 of this Report, and from the “Capital Management” section of “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included under Item 7 of this Report.

FDICIA

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), and the regulations promulgated under FDICIA, among other things, established five capital categories for insured depository institutions--well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized--and requires federal bank regulatory agencies to implement systems for “prompt corrective action” for insured depository institutions that do not meet

minimum capital requirements based on these categories. Unless a bank is well capitalized, it is subject to restrictions on its ability to offer brokered deposits and on certain other aspects of its operations. An undercapitalized bank must develop a capital restoration plan and its parent bank holding company must guarantee the bank’s compliance with the plan up to the lesser of 5% of the bank’s assets at the time it became undercapitalized and the amount needed to comply with the plan. As of December 31, 2001, each of FleetBoston’s banking subsidiaries was considered well capitalized based on the guidelines implemented by the bank regulatory agencies.

Dividend Restrictions

FleetBoston’s funds for cash distributions to its stockholders are derived from a variety of sources, including cash and temporary investments. One of the principal sources of those funds and funds used to pay principal and interest on FleetBoston’s indebtedness is dividends received from its subsidiary banks. Various federal laws limit the amount of dividends FleetBoston’s banking subsidiaries can pay to FleetBoston without regulatory approval. In addition, federal bank regulatory agencies have authority to prohibit the Corporation’s banking subsidiaries from engaging in an unsafe or unsound practice in conducting their business. The payment of dividends, depending upon the financial condition of the bank in question, could be deemed to constitute an unsafe or unsound practice. The ability of FleetBoston’s banking subsidiaries to pay dividends in the future is currently, and could be further, influenced by bank regulatory policies and capital guidelines. Additional information concerning FleetBoston and its banking subsidiaries with respect to dividends is incorporated by reference from Note 10, “Regulatory Matters,” of the “Notes to Consolidated Financial Statements” included under Item 8 of this Report, and the “Liquidity Risk Management” and “Capital Management” sections of “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included under Item 7 of this Report.

Deposit Insurance Assessments

The deposits of FleetBoston’s banking subsidiaries are insured up to regulatory limits by the FDIC, and, accordingly, are subject to deposit insurance assessments to maintain the Bank Insurance Fund (the BIF) and/or the Savings Association Insurance Fund (the SAIF) administered by the FDIC. As of December 31, 2001, FleetBoston’s banking subsidiaries held approximately $101 billion and $9 billion, respectively, of BIF- and SAIF-assessable deposits. FleetBoston currently pays no insurance assessments on these deposits under the

FDIC’s risk-related assessment system. However, insurance assessments could be required as early as 2003.

Depositor Preference Statute

In the “liquidation or other resolution” of an institution by any receiver, U.S. federal legislation provides that deposits and certain claims for administrative expenses and employee compensation against the insured depository institution would be afforded a priority over other general unsecured claims against that institution, including federal funds and letters of credit.

Future Legislation

Changes to the laws and regulations in the states and countries where FleetBoston and its subsidiaries do business can affect the operating environment of bank holding companies and their subsidiaries in substantial and unpredictable ways. FleetBoston cannot accurately predict whether those changes in laws and regulations will occur, and, if those changes occur, the ultimate effect they would have upon the financial condition or results of operations of FleetBoston.

Statistical Disclosure by Bank Holding Companies

The following information, included under Items 6, 7 and 8 of this Report, is incorporated by reference herein:

“Consolidated Average Balances/Interest Earned-Paid/Rates 1999-2001” table - presents average balance sheet amounts, related taxable equivalent interest earned or paid, and related average yields and rates paid.

“Rate/Volume Analysis” table - presents changes in the taxable equivalent interest income and expense for each major category of interest earning assets and interest bearing liabilities.

Note 3, “Securities,” of the “Notes to Consolidated Financial Statements” - discloses information regarding book values, market values, maturities, and weighted average yields of securities (by category).

Note 4, “Loans and Leases,” of the “Notes to Consolidated Financial Statements” and “Loans and Leases” table included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” - discloses distribution of loans of the Corporation.

“Loans and Leases Maturity” table and “Interest Sensitivity of Loans and Leases Over One Year” table - presents maturities and sensitivities of loans to changes in interest rates.

Note 1, "Summary of Significant Accounting Policies - Loans and Leases" of the "Notes to Consolidated Financial Statements" and "Nonperforming Assets" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" - discloses information on nonaccrual and past due loans and leases and the Corporation's policy for placing loans on nonaccrual status.

"Loans and Leases" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" - discloses information regarding cross-border outstandings and other loan concentrations of the Corporation.

"Reserve for Credit Losses" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" - presents an analysis of loss experience, the allocation of the reserve for credit losses, and a description of factors which influenced management's judgment in determining the amount of additions to the reserve charged to operating expense.

"Consolidated Average Balances/Interest Earned-Paid/Rates 1999-2001" table and the "Components of Funding Sources" table included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" - discloses deposit information.

"Selected Financial Highlights" - presents return on assets, return on equity, and equity-to-assets ratio.

Note 6, "Short-Term Borrowings," of the "Notes to Consolidated Financial Statements" - discloses information on short-term borrowings of the Corporation.

Item 2. *Properties*

FleetBoston maintains its corporate headquarters at 100 Federal Street, Boston, Massachusetts. FleetBoston or its domestic subsidiaries also maintain principal offices at One Federal Street, Boston, Massachusetts; 111 Westminster Street and One Financial Plaza, Providence, Rhode Island; 777 Main Street, Hartford, Connecticut; 1185 Avenue of the Americas and 26 Broadway, New York, New York; 555 California Street, San Francisco, California; and 301 Carnegie Center, Princeton, New Jersey. FleetBoston or its subsidiaries also maintain administration and operations centers located in New York, Massachusetts, Pennsylvania, Rhode Island, Connecticut, Colorado, Illinois, Delaware, New Jersey and California.

In Latin America, where FNB operates under the corporate name "BankBoston, N.A.," BankBoston, N.A. maintains banking headquarters in Buenos Aires, Argentina, and Sao Paulo, Brazil. In 1998, BankBoston, N.A. acquired an undeveloped site in Sao Paulo, Brazil to construct a new corporate office building. Construction commenced in July 1999 and is expected to be completed in the second quarter of 2002.

None of these properties is subject to any material encumbrance. FleetBoston's subsidiaries also own or lease numerous other premises used in their domestic and foreign operations.

Item 3. *Legal Proceedings*

The Corporation and its subsidiaries are involved in various legal proceedings arising out of, and incidental to, their respective businesses, including the following matter:

During 2001, Robertson Stephens, the Corporation’s investment banking subsidiary, and many other underwriters, as well as various issuers and their officers and directors, were named as defendants in approximately 200 class action lawsuits alleging violations of federal securities laws in connection with the underwriting of initial public offerings (IPOs). The plaintiffs contend that the defendants violated the securities laws by failing to make certain required disclosures in prospectuses, by manipulating the prices of IPO securities in the aftermarkets through, among other things, alleged agreements with companies receiving allocations to purchase additional shares in the aftermarket and by false and misleading analyst reports. Robertson Stephens and other leading underwriters have also been named as defendants in class action lawsuits under the antitrust laws alleging that the underwriters conspired to manipulate the aftermarkets for the IPO securities and to extract anticompetitive fees in connection with the IPOs. Robertson Stephens believes that it acted lawfully in respect to the foregoing allegations and is contesting these suits. Robertson Stephens is also involved in various governmental reviews and investigations concerning the foregoing.

Management of the Corporation, based on its review with counsel of all actions and proceedings pending against the Corporation and its subsidiaries, considers that the aggregate loss, if any, resulting from the final outcome of these proceedings should not be material to the Corporation’s financial condition or results of operations.

Item 3A. ***Executive Officers of the Corporation***

The names, positions, ages and business experience during the past five years of the “executive officers” of the Corporation, as defined in the Securities Exchange Act of 1934, as of February 25, 2002 are set forth below. The term of office of each executive officer extends until the meeting of the Board of Directors immediately following the Annual Meeting of Stockholders, and until a successor is chosen and qualified, unless they sooner resign, retire, die or are removed.

Name	**Positions with the Corporation**	**Age as of February 25, 2002**
Terrence Murray	Chairman	62
Charles K. Gifford	President and Chief Executive Officer	59
Henrique C. Meirelles	President of Global Banking	56
Eugene M. McQuade	Vice Chairman and Chief Financial Officer	53
H. Jay Sarles	Vice Chairman, Wholesale Banking	56
Paul F. Hogan	Vice Chairman and Chief Risk Officer	56
Peter J. Manning	Vice Chairman	63
T. Joseph Semrod	Vice Chairman	65
Joseph Smialowski	Vice Chairman, Technology and Operations	53
Bradford H. Warner	Vice Chairman, Consumer Financial Services	50
Anne M. Finucane	Executive Vice President	49

John L. Mastromarino	Executive Vice President	48
Brian T. Moynihan	Executive Vice President	42
Gary A. Spiess	Executive Vice President, General Counsel and Secretary	61
M. Anne Szostak	Executive Vice President	51
Ernest L. Puschaver	Chief Accounting Officer	54

Terrence Murray has served as Chairman of the Corporation since 1982 (except from 1988 to 1989 and from 1995 to 1996, when he served as President) and Chief Executive Officer from 1982 through December 2001 (except from 1988 to 1989, when he served as Chief Operating Officer). Mr. Murray has been a Director of the Corporation since 1976.

Charles K. Gifford became President and Chief Operating Officer of the Corporation following the merger of BankBoston Corporation (BankBoston) with Fleet Financial Group, Inc. in 1999 (the BankBoston merger) and became President and Chief Executive Officer in December 2001. Prior to the BankBoston merger, Mr. Gifford had served as Chairman, President and Chief Executive Officer of BankBoston from 1995 to 1996, Chief Executive Officer from 1996 to 1997 and Chairman and Chief Executive Officer from 1997 to 1999. Mr. Gifford has been a Director of the Corporation since 1999.

Henrique C. Meirelles became President of Global Banking and Financial Services of the Corporation following the BankBoston merger, was named President of Corporate and Global Banking in November 2000 and became President of Global Banking in October 2001. Prior to the BankBoston merger, Mr. Meirelles had served as BankBoston's President and Chief Operating Officer from 1996 to 1999. Mr. Meirelles has been a Director of the Corporation since 1999.

Eugene M. McQuade was named Executive Vice President and Chief Financial Officer of the Corporation in 1993, and has served as Vice Chairman and Chief Financial Officer since 1997.

H. Jay Sarles became Vice Chairman of the Corporation in 1993, Vice Chairman and Chief Administrative Officer in 1997 and Vice Chairman, Wholesale Banking, in October 2001.

Paul F. Hogan became Vice Chairman, Corporate and Investment Banking, of the Corporation following the BankBoston merger and was named Vice Chairman and Chief Risk Officer in 2000. Prior to the BankBoston merger, Mr. Hogan had served as Vice Chairman, Corporate Banking, of BankBoston from 1996 to 1997 and Vice Chairman, Wholesale Banking, from 1997 to 1999.

Peter J. Manning became Vice Chairman of the Corporation following the BankBoston merger. Prior to the BankBoston merger, Mr. Manning had served as Executive Vice President, Mergers and Acquisitions, of BankBoston from 1996 to 1999.

T. Joseph Semrod became Vice Chairman of the Corporation following the acquisition of Summit by the Corporation in March 2001. Prior to the Summit acquisition, Mr. Semrod had served as Chairman of the Board and Chief Executive Officer of Summit from 1981 to March 2001.

Joseph Smialowski became Vice Chairman, Technology and Operations, of the Corporation following the BankBoston merger. Prior to the BankBoston merger, Mr. Smialowski had served as Executive Vice President, Technology and Operations, of BankBoston from 1998 to 1999. Before joining BankBoston, Mr. Smialowski served as Senior Vice President and Chief Information Officer of Sears, Roebuck & Co. from 1993 to 1998.

Bradford H. Warner became Vice Chairman, Investment Services, of the Corporation following the BankBoston merger and was named Vice Chairman, Consumer Business Group, in 2000 and Vice Chairman, Consumer Financial Services, in January 2002. Prior to the BankBoston merger, Mr. Warner had served as Executive Vice President, Global Capital Markets, of BankBoston from 1996 to 1998 and Vice Chairman, Regional Banking, from 1998 to 1999.

Anne M. Finucane has served as Senior Vice President and Director of Corporate Marketing and Corporate Communications of the Corporation from 1995 to 1999 and Executive Vice President since 1999.

John L. Mastromarino became Executive Vice President of the Corporation following the BankBoston merger. Prior to the BankBoston merger, Mr. Mastromarino had served as Executive Vice President, Risk Management, of BankBoston from 1995 to 1999.

Brian T. Moynihan was named Managing Director, Corporate Strategy and Development, of the Corporation in 1994, Senior Vice President in 1998 and Executive Vice President in 1999.

Gary A. Spiess was named Senior Vice President, Deputy General Counsel and Assistant Secretary of the Corporation following the BankBoston merger and became Executive Vice President, General Counsel and Secretary in January 2002. Prior to the BankBoston merger, Mr. Spiess had served as General Counsel and Clerk of BankBoston from 1987 to 1999 and as Executive Vice President from 1998 to 1999.

M. Anne Szostak was named Senior Vice President, Human Resources, of the Corporation in 1994 and has served as Executive Vice President since 1998.

Ernest L. Puschaver was named Chief Accounting Officer of the Corporation in 2000. Prior to joining the Corporation, Mr. Puschaver had been a partner at PricewaterhouseCoopers LLP since 1983.

Item 4. ***Submission of Matters to a Vote of Security Holders***

There were no matters submitted to a vote of security holders in the fourth quarter of 2001.

PART II.

Item 5. *Market for the Registrant's Common Stock and Related Stockholder Matters*

The Corporation's common stock is listed on the New York and Boston Stock Exchanges. At December 31, 2001, FleetBoston had 85,312 stockholders of record. For information regarding high and low quarterly sales prices, and quarterly dividends declared and paid, in each case on the Corporation's common stock, see the "Quarterly Summarized Financial Information" table included under Item 8 of this Report, which is incorporated by reference herein.

Item 6. *Selected Financial Data*

SELECTED FINANCIAL HIGHLIGHTS

Dollars in millions, except per share amounts *Prepared on a fully taxable equivalent basis*	2001	2000	1999	1998	1997
For the Year					
Net interest income	$ 7,454	$ 7,975	$ 8,091	$ 7,653	$ 7,344
Noninterest income	5,340	9,461	7,366	5,625	4,508
Total revenue	12,794	17,436	15,457	13,278	11,852
Noninterest expense	8,913	9,610	10,253	7,847	6,878
Provision for credit losses	2,330	1,295	1,061	916	581
Net income	931	3,910	2,476	2,771	2,606
Per Common Share					
Basic earnings	$ .84	$ 3.58	$ 2.21	$ 2.48	$ 2.32
Diluted earnings	.83	3.52	2.16	2.42	2.27
Market price (year-end)	36.50	37.56	34.81	44.69	37.56
Cash dividends declared	1.34	1.23	1.11	1.00	.92
Book value (year-end)	16.61	17.31	15.92	14.78	13.43
At Year-End					
Assets	$ 203,638	$219,085	$226,808	$210,828	$190,278
Securities	26,662	34,964	36,009	33,356	29,077
Loans	128,180	134,834	142,861	133,037	125,433
Reserve for credit losses	3,634	2,709	2,816	2,628	2,440
Deposits	129,337	128,739	139,592	141,310	131,826
Short-term borrowings	15,457	23,106	22,700	22,472	22,821
Long-term debt	25,530	31,684	29,214	17,878	9,239
Total stockholders' equity	17,608	19,361	18,074	16,896	15,641
Ratios					
Return on average assets	.45%	1.75%	1.11%	1.38%	1.44%
Return on average common equity	4.77	22.04	14.45	17.51	18.74
Net interest margin	4.15	4.17	4.19	4.35	4.60
Common equity-to-assets (year-end)	8.51	8.58	7.66	7.69	7.71
Average total equity-to-assets	9.25	8.10	7.83	8.12	8.12

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

OVERVIEW

The following discussion and analysis of FleetBoston Financial Corporation’s (FleetBoston or the Corporation) financial condition and results of operations should be read in conjunction with its Consolidated Financial Statements and Notes to Consolidated Financial Statements included under Item 8 of this Report. Certain prior period amounts presented in this discussion and analysis have been reclassified to conform to current period classifications. The preparation of consolidated financial statements requires management to make estimates and assumptions, in the application of certain of its accounting policies, about the effect of matters that are inherently uncertain. These estimates and assumptions affect the reported amounts of certain assets, liabilities, revenues and expenses. Different amounts could be reported under different conditions, or if different assumptions were used in the application of these accounting policies. The accounting policies considered significant in this respect are the valuation of principal investing securities and derivative instruments, and the determination of the reserve for credit losses. These significant accounting policies are discussed in the Capital Markets Revenue and Reserve for Credit Losses sections of this discussion and analysis and in Note 1 of the “Notes to Consolidated Financial Statements.”

This discussion and analysis may contain statements relating to future results of the Corporation (including certain projections and business trends) that are considered “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projected as a result of certain risks and uncertainties, which are more fully discussed under Item 1 of this Report.

On March 1, 2001, FleetBoston acquired Summit Bancorp. (Summit). The acquisition was accounted for as a pooling of interests and, as such, financial information included in this discussion and analysis has been restated to present the combined financial condition and results of operations of both companies as if the acquisition had been in effect for all periods presented. Refer to Note 2 of the “Notes to Consolidated Financial Statements,” included under Item 8 of this Report, for further discussion of the acquisition.

FleetBoston’s earnings for 2001 were $931 million, or $.83 per diluted share, compared with $3.9 billion, or $3.52 per diluted share, in 2000. Return on assets and return on common equity were .45% and 4.77%, respectively, in 2001, compared to 1.75% and 22.04%, respectively, in 2000.

Decreases in earnings and operating ratios from 2000 were mainly a result of the impact of the slowdown in the U.S. economy throughout 2001 on revenues of the capital

markets and investment services businesses, increased credit costs, and the impact of political and economic instability in Argentina.

Results for 2001 and 2000 included the following, which are more fully discussed in other sections of this Report:

Year ended December 31, 2001:

- Aggregate charges of $1.1 billion, composed of a provision of $725 million ($434 million after-tax) to increase loan loss reserves in light of the economic and political turmoil in Argentina; a charge of $200 million ($120 million after-tax) related to the estimated impact of Argentine government actions with respect to FleetBoston’s

Argentine operations; and write-downs of $175 million ($105 million after-tax) taken against the carrying value of Argentine government bonds.
- Write-downs of $1.1 billion ($679 million after-tax) taken against the carrying value of the Principal Investing portfolio.
- Summit merger-related charges of $866 million ($545 million after-tax) consisting of $459 million ($300 million after-tax) of merger- and restructuring-related charges, $142 million ($87 million after-tax) of merger integration costs and a $265 million ($158 million after-tax) loss from the sale of low-margin securities following the acquisition.
- A loss of $428 million ($285 million after-tax) from the sale of the mortgage banking business.
- Aggregate credit-related charges of $325 million, consisting of incremental credit provisions of $175 million ($105 million after-tax) to increase loan loss reserves in light of the stresses in the domestic economy, and $150 million ($89 million after-tax) related to charge-offs arising from the transfer of problem credits to accelerated disposition status.
- Restructuring charges of $179 million ($112 million after-tax), primarily severance and related costs, associated with business unit restructurings.
- Gains of $333 million ($204 million after-tax) from branch divestitures associated with the BankBoston merger, $77 million ($48 million after-tax) related to the sales of non-strategic branches in upstate New York and $146 million ($91 million after-tax) from the sale of an investment in the NYCE Corporation.

Year ended December 31, 2000:

- Merger and integration costs of $249 million ($151 million after-tax) primarily associated with the BankBoston merger.
- Gains of $843 million ($420 million after-tax) from BankBoston merger-related branch divestitures.

LINE OF BUSINESS INFORMATION

FleetBoston is managed along a customer-focused organizational structure that includes five principal lines of business: Wholesale Banking, Consumer Financial Services, Wealth Management and Brokerage, International Banking, and Capital Markets. Business line results are subject to periodic restatements based on modifications to management accounting methodology, profitability measurement enhancements and organizational changes. Accordingly, information for the years ended December 31, 2001 and 2000 presented in this section has been restated for comparative purposes to reflect management reporting changes implemented in 2001, including the revised organizational structure adopted in October 2001, and the March 2001 acquisition of Summit. The table below highlights FleetBoston's segment results and is presented on a fully taxable equivalent (FTE) basis.

Line of Business Earnings Summary

Year ended December 31	2001	2000	2001	2000	2001	2000
Dollars in millions	Net Income/(Loss)		Revenue		Return on Equity	

Wholesale Banking	$1,242	$1,364	$ 4,689	$ 5,085	19%	20%
Consumer Financial Services	866	803	4,955	5,129	22	19
Wealth Management and Brokerage	149	359	1,581	1,966	8	21
International Banking	(214)	353	1,486	1,756	nm	24
Capital Markets	(642)	700	(255)	2,622	nm	32
All Other	(470)	331	338	878	nm	nm
Total	$ 931	$3,910	$12,794	$17,436	5%	22%

nm not meaningful

The following discussion focuses on the components of each of the five major business lines, and explains results in terms of their underlying businesses.

Wholesale Banking

Year ended December 31 *Dollars in millions*	2001	2000
Income Statement Data:		
Revenue	$ 4,689	$ 5,085
Provision for credit losses	652	540
Noninterest expense	1,930	2,220
Taxes	865	961
Net income	$ 1,242	$ 1,364
Balance Sheet Data:		
Average assets	$94,075	$106,723
Average loans	83,205	88,372
Average deposits	32,925	34,488
Return on equity	19%	20%

Wholesale Banking earned $1.2 billion in 2001, a decrease of $122 million from the prior year. Earnings from the wholesale banking units reflected weak demand for both loan and capital markets-related products as the economic environment has deteriorated. In addition, economic conditions have impacted credit quality, contributing to increases in nonperforming loans and the provision for credit losses. Strong sales of cash management and interest rate protection products, along with the impact of cost saving initiatives, helped to moderate the impact of the weak economic climate.

Year ended December 31	2001	2000	2001	2000	2001	2000
Dollars in millions	Net Income		Revenue		Return on Equity	
Commercial Finance	$ 500	$ 495	$1,509	$1,503	18%	18%
Corporate Banking	319	414	1,166	1,384	18	22
Commercial Banking	216	219	972	1,040	17	16
Small Business	207	236	1,042	1,158	25	27

Total	$1,242	$1,364	$4,689	$5,085	19%	20%

The Commercial Finance unit offers creative financing solutions for the complex needs of a nationwide customer base using commercial real estate lending, leasing and asset-based financing products. Commercial Finance earned $500 million in the current year, compared to $495 million in 2000. Increased customer demand for cash management and trade services, along with strong fee generation in the leasing unit and cost saving initiatives, combined to offset declining investment banking fees and higher credit costs. The loan and lease portfolio experienced strong growth in leasing and real estate loans, but this growth was limited by declines in the asset-based portfolio, which was repositioned to reduce credit exposure. Total average loans grew to $38.1 billion for 2001 from $37.9 billion a year earlier.

Corporate Banking includes national specialized industry lending, institutional banking, and certain capital markets activities. These units provide solutions with capital formation, acquisition finance and long-term financing strategies. The specialized industry and institutional lending units provide financial services to corporate customers across the nation in industries such as media, communications, high technology, energy, financial institutions and healthcare. This group also services international clients through its multinational and European units.

The Corporate Banking unit earned $319 million for the year, a decrease of 23% compared to 2000. This decline was driven by decreases in loan volumes resulting, in part, from repositioning of the portfolio to reduce credit exposure, and from declines in capital markets-related revenues, primarily venture capital and investment banking fees, due to adverse market conditions. These declines were partially offset by decreases in operating expenses as a result of the corporate-wide cost containment program. Average loans were $24.7 billion for 2001, compared to $27.3 billion for 2000, a decline of $2.6 billion, or 10%.

Commercial Banking is composed of middle market commercial lending, which provides credit, cash management and trade services to companies with annual revenues between $10 million to $500 million, and government banking services, which supports cash management, lockbox, investment services and underwriting to municipal, state and national government agencies.

Earnings of the Commercial Banking group were $216 million, down slightly from the prior year, but increased approximately 4% if the impact of the regulatory required divestitures in 2000 is excluded. Commercial Banking was adversely impacted by weaker loan demand. However, the impact of higher cash management fees and lower operating expenses from cost saving initiatives offset the effects of declining loan portfolios and higher credit costs. Average loan balances decreased $2.1 billion to $16.3 billion, while deposits grew approximately $800 million to $11.6 billion, when compared to the prior year.

The Small Business group provides a full range of financial services to businesses with annual sales up to $10 million and credit needs of up to $2 million. Services and products include commercial lending, real estate lending, deposits and cash management. FleetBoston is widely recognized as the leading small business lender in the Northeast, and has been ranked the number one Small Business Administration (SBA) lender in the country for the past two years.

Earnings for this group were $207 million in 2001, compared to $236 million in 2000, reflecting the impact of regulatory required divestitures in 2000, combined with declining deposit spreads that were driven by the eleven Federal Reserve interest rate cuts in 2001. This business also experienced declining expense levels as a result of the previously mentioned divestitures coupled with cost saving initiatives implemented during the year. For 2001, average loans were $4.2 billion while average deposits were $13.1 billion, compared to $4.8 billion and $14 billion, respectively, in 2000. Excluding the impact of divestitures, deposits grew modestly when compared to 2000.

11

Consumer Financial Services

Year ended December 31 *Dollars in millions*	2001	2000
Income Statement Data:		
Revenue	$ 4,955	$ 5,129
Provision for credit losses	934	908
Noninterest expense	2,610	2,884

Consumer Financial Services, which provides a host of basic banking products and services to individuals in domestic markets, earned $866 million in the current year, an increase of $63 million, or 8%, over 2000.

Year ended December 31	2001	2000	2001	2000	2001	2000
Dollars in millions	Net Income		Revenue		Return on Equity	
Retail Distribution	$ 588	$ 531	$ 2,586	$ 2,836	34%	28%
Credit Card	166	168	1,633	1,594	11	11
Consumer Lending	112	104	736	699	14	13
Total	$ 866	$ 803	$ 4,955	$ 5,129	22%	19%

Retail Distribution offers consumer retail services to more than 5.5 million consumer households through various delivery channels, and includes consumer deposit products and direct banking services. FleetBoston distributes consumer retail products and services through a network of 1,500 branches, over 3,800 ATMs, electronic banking products, Internet banking and customer call centers. The Corporation continues to expand its electronic banking customer base, primarily through its HomeL ink product, which has grown from just over 1.2 million customers in 2000 to 2.3 million customers.

Retail Distribution earned $588 million in 2001, compared to $531 million in 2000. Included in 2001 earnings were gains related to the sale of the Corporation s interest in the NYCE ATM network ($146 million, $91 million after-tax) and certain non-strategic branches in upstate New York ($77 million, $48 million after-tax), as well as the impact of lost revenues associated with the prior year s regulatory required divestitures. Declines in retail interest rates, which have not kept pace with the declines in wholesale rates and reflect a decision made by FleetBoston to preserve customer relationships in accordance with its customer-focused strategy, have further reduced 2001 revenues. In addition, expense levels were reduced significantly by divestitures and cost saving initiatives. Excluding the impact of the aforementioned divestitures, average deposits increased $1.3 billion over the prior year, primarily reflecting growth in the unit s core money market deposit products.

Operating out of its Horsham, Pennsylvania headquarters, FleetBoston s credit card unit is the ninth largest bank credit card issuer in the nation in terms of managed credit card receivables with balances totaling $15.7 billion at December 31, 2001.

This unit earned $166 million for the year ended December 31, 2001, a decline of $2 million from a year ago, as the deteriorating economic environment slowed volume growth in the second half of 2001. Higher credit costs associated with increased charge-offs due to a higher level of bankruptcy filings were partially offset by revenue growth.

Consumer Lending offers a convenient and competitive selection of loan products and services to individuals. These products and services are delivered through the Corporation s many types of retail distribution channels. Home equity lines and loans, mortgages, as well as student loans and other forms of consumer credit, are available. This business unit also includes FleetBoston s student loan processing subsidiary, AFSA Data Corporation (AFSA). AFSA services approximately 8.1 million accounts nationwide and is the largest student loan service provider, with approximately $83.6 billion of student loans serviced.

Consumer Lending earned $112 million in 2001, an increase of 8% over 2000. Increased earnings were driven by expense management and a shift in product mix achieved through a planned exit of the less profitable indirect lending products acquired in connection with the Summit acquisition. The core consumer lending portfolio increased $477 million, or 4%, over 2000.

Wealth Management and Brokerage

Year ended December 31 *Dollars in millions*	2001	2000
Income Statement Data:		
Revenue	$ 1,581	$ 1,966
Provision for credit losses	34	17
Noninterest expense	1,286	1,343
Taxes	112	247
Net income	$ 149	$ 359
Balance Sheet Data:		
Average assets	$ 13,103	$ 14,501
Average loans	7,207	8,601
Average deposits	4,153	3,786
Return on equity	8%	21%

The Wealth Management and Brokerage business line earned $149 million in 2001, compared to $359 million in 2000. These lower results were primarily due to significant declines in performance levels at Quick & Reilly, with net income down $178 million from the prior period, as the negative impacts of market conditions weighed heavily on this business.

Year ended December 31 *Dollars in millions*	2001	2000	2001	2000	2001	2000
	Net Income/(Loss)		Revenue		Return on Equity	
Wealth Management	$ 200	$ 232	$ 974	$ 959	15%	20%
Quick & Reilly	(51)	127	607	1,007	nm	24
Total	$ 149	$ 359	$ 1,581	$ 1,966	8%	21%

nm not meaningful

Wealth Management includes the Private Clients Group and Columbia Management Group. The Private Clients Group offers specialized asset management, estate settlement and deposit and credit products to high-net-worth customers. Columbia Management sells proprietary and third-party mutual funds as well as a wide range of investment products to retail and institutional customers. In addition, Columbia Management includes several businesses offering retirement planning, large institutional asset management and not-for-profit investment services. This business group also houses Liberty Asset Management, a Boston-based firm acquired from Liberty Financial Companies, Inc. in November 2001.

These units were negatively impacted by deteriorating market conditions and saw their earnings decline 14% to $200 million in the current year, compared to $232 million in 2000. A decline in the market value of assets under management, which reflected the overall lower valuation of the stock market, drove these results. The market value of domestic assets under management was approximately $167 billion as of December 31, 2001 versus $126 billion as of December 31, 2000. The acquisition of Liberty Asset Management added approximately $50 billion to assets under management, and ranked FleetBoston as the 30th largest asset manager in the world.

Quick & Reilly, a leading provider of retail brokerage and securities clearing activities, recorded a net loss of $51 million for 2001, compared to net income of $127 million in 2000. A decline of over 40% in transaction volumes and reduced net interest income related to nearly $1.2 billion of runoff in margin lending drove the net income decline and reflected market conditions during the year. A corresponding 24% decline in compensation costs, resulting from lower incentive compensation and staff reductions, helped to offset declines in revenue.

International Banking

Year ended December 31 *Dollars in millions*	2001	2000
Income Statement Data:		
Revenue	$ 1,486	$ 1,756
Provision for credit losses	865	135
Noninterest expense	998	1,053
Taxes	(163)	215
Net income/(loss)	$ (214)	$ 353
Balance Sheet Data:		
Average assets	$ 26,888	$ 23,327
Average loans	17,206	14,276
Average deposits	12,113	11,017
Return on equity	nm	24%

nm not meaningful

The International Banking unit includes the Corporations international operations, the largest of which are in Brazil and Argentina, where the Corporation has been in business since 1947 and 1917, respectively. In both countries, FleetBoston is a recognized leader among financial institutions. The Corporation has 67 branch banking locations in Brazil with total average assets in that country of $10.9 billion for 2001, up from $8.4 billion in 2000. In Argentina, the Corporation currently operates 133 branches with total average assets of $9.4 billion for 2001, down slightly from $9.5 billion for 2000. This business unit also includes operations in other Latin American countries, as well as Asia.

Compared to 2000, International Bankings earnings decreased $567 million to a net loss of $214 million. Brazil continued to perform well in a turbulent market, earning $225 million in 2001, an increase of $47 million, or 26%, as a result of increased net interest income due to continued strong loan growth coupled with effective control of operating expenses. The loan growth was primarily concentrated in trade-related financing.

Argentina recorded a net loss of $521 million in 2001, compared to earnings of $120 million in 2000, reflecting the impact of the political and economic instability in that country. Additional information relating to actions taken in Argentina, as well as international cross-border outstandings and risks related to the Corporation’s International Banking units, is included in the Country Risk section of this discussion and analysis.

Capital Markets

Year ended December 31 *Dollars in millions*	2001	2000
Income Statement Data:		
Revenue	$ (255)	$ 2,622
Noninterest expense	780	1,451
Taxes	(393)	471
Net income/(loss)	$ (642)	$ 700
Balance Sheet Data:		
Average assets	$ 8,178	$ 10,139
Average loans	247	393
Average deposits	63	52
Return on equity	nm	32%

nm — not meaningful

Capital Markets was adversely affected by the current year’s market conditions and incurred losses of $642 million in 2001, compared to net income of $700 million for the prior year.

Year ended December 31 *Dollars in millions*	Net Income/(Loss) 2001	Net Income/(Loss) 2000	Revenue 2001	Revenue 2000	Return on Equity 2001	Return on Equity 2000
Fleet Specialist	$ 94	$ 101	$ 328	$ 310	26%	43%
Robertson Stephens	(61)	216	453	1,557	nm	32
Principal Investing	(675)	383	(1,036)	755	nm	30
Total	$ (642)	$ 700	$ (255)	$ 2,622	nm	32%

nm — not meaningful

Fleet Specialist, one of the largest specialist firms on the NYSE representing over 500 listed companies and accounting for roughly 19% of the dollar trading volume the Big Board, earned $94 million in 2001, a decrease $7 million, or 7%, from 2000. The impact of mandated changes on the NYSE, primarily the conversion to decimal price quotes, reduced profit opportunities and narrowed spreads.

Robertson Stephens is a full-service investment banking firm focused on providing growth companies with a comprehensive set of investment banking products and services, including equity underwriting, sales and trading, research, advisory services, convertible securities and equity derivatives. This unit, which has its head-quarters in San Francisco, focuses on the high-technology business sector.

In 2001, Robertson Stephens results were negatively impacted by current economic conditions, and in particular, the collapse in IPO activity within the high technology business sector. During 2001 Robertson Stephens incurred a net loss of $61 million, compared to net income of $216 million in 2000. Lower earnings were mainly a result of limited underwriting activities and decreased brokerage revenues. The number of underwriting transactions that went to market in 2001 decreased 73% from the prior year. In addition to significant reductions in incentive-related compensation, the unit moved aggressively in 2001 to reduce non-incentive compensation costs in an effort to better align the cost base with existing revenue opportunities.

Principal Investing provides start-up capital and debt financing to business ventures that are predominantly privately or closely held companies, and also invests in primary or secondary funds. Principal Investing earnings fluctuate with the conditions in the equity markets, the general state of the economy and the timing of sales. In light of current economic conditions and the decline in stock market valuations, particularly those in the technology and telecommunications sectors, the Principal Investing business recorded a net loss of $675 million in 2001, compared to a net profit of $383 million last year. Results were affected by write-downs ($1.1 billion, $679 million after-tax) taken against this portfolio, reflecting impairment in value, particularly in the technology and telecommunications sectors. At December 31, 2001, the aggregate carrying value of the Principal Investing portfolio was $3.6 billion, compared to $4.4 billion at December 31, 2000. Additional information concerning the Principal Investing portfolio is included in the Capital Markets Revenue section of this discussion and analysis.

All Other

All Other includes transactions not allocated to the principal business lines, the residual impact of methodology allocations, such as the provision for credit losses, credit loss reserves and equity allocations, combined with transfer pricing offsets. The business activities of FleetBostons Treasury unit are also included in All Other. The Treasury unit is responsible for managing the Corporations securities and residential mortgage portfolios, the balance sheet management function and wholesale funding needs.

Earnings in All Other can fluctuate with changes affecting the consolidated provision for credit losses, one-time charges, gains and other corporate actions not driven by specific business units. All Other showed a net loss $470 million in the current year, compared to a net income of $331 million in 2000. For the current year, All Other included after-tax charges related to the Summit acquisition and related integration activity, the loss on sale of the mortgage banking business, and restructuring charges to cover severance and related costs associated with downsizing to reflect lower revenues on a business-specific basis. Partially offsetting the impact of these items were gains on sales of securities and gains related to BankBoston merger-related divestitures. In 2000, All Others earnings were dominated by after-tax gains related to the regulatory required divestiture of 312 branches in conjunction with the BankBoston merger. The above-described costs related to Summit and business unit restructurings are more fully disclosed in Note 12 of the Notes to

Consolidated Financial Statements included under Item 8 of this Report.

CONSOLIDATED RESULTS OF OPERATIONS

Net Interest Income

Year ended December 31 FTE basis *In millions*	2001	2000	1999
Interest income	$ 13,793	$ 16,402	$ 15,423
Tax-equivalent adjustment	57	70	68
Interest expense	6,396	8,497	7,400
Net interest income	$ 7,454	$ 7,975	$ 8,091

Net interest income decreased $521 million, or 7%, compared to 2000, due principally to the lower interest rate environment, lower domestic loan volume, and the impact of current year retail deposit pricing strategies and 2000 BankBoston merger-related branch divestitures. Also contributing to the decline was the sale of the mortgage banking business in the second quarter of 2001, specifically the transfer of escrow deposits. This decrease was partially offset by an increase in Latin American units, primarily Brazil, from higher loan volumes and wider spreads.

Net Interest Margin and Interest Rate Spread

Year ended December 31	2001		2000	
FTE basis	Average		Average	
Dollars in millions	Balance	Rate	Balance	Rate
Securities	$ 26,225	6.66%	$ 35,298	6.63%
Loans and leases:				
Domestic	110,448	7.82	123,661	8.78
International	19,477	11.19	15,857	13.98
Due from brokers/dealers	4,122	3.55	3,603	5.55
Mortgages held for sale	1,788	7.26	1,544	8.16
Other	17,808	5.68	11,427	6.35
Total interest earning assets	179,868	7.70	191,390	8.61
Deposits	98,219	3.63	102,069	4.42
Short-term borrowings	20,950	5.04	25,796	6.14
Due to brokers/dealers	3,854	3.84	4,829	5.66
Long-term debt	27,855	5.83	31,191	6.77
Interest bearing liabilities	150,878	4.24	163,885	5.17
Interest rate spread		3.46		3.44
Interest free sources of funds	28,990		27,505	
Total sources of funds	$ 179,868	3.55%	$ 191,390	4.44%
Net interest margin		4.15%		4.17%

Net interest margin represents the relationship between net interest income and average earning assets. Net interest margin is affected by several factors, including fluctuations in the overall interest rate environment, funding strategies, the mix of interest earning assets, interest bearing liabilities and noninterest bearing liabilities, as well as the use of derivative instruments in managing interest rate risk.

Net interest margin for 2001 was 4.15%, a modest decrease from 4.17% in 2000. Changes in the components of interest earning assets and interest bearing liabilities are discussed in more detail below.

Average securities decreased $9.1 billion to $26.2 billion due to the sale of $8 billion of low-margin securities following the Summit acquisition, as well as sales of mortgage backed and other securities during 2001.

Average domestic loans and leases decreased $13.2 billion to $110.4 billion in 2001, as a result of lower domestic commercial and residential loan volumes, commercial loan sales, securitization activity in the fourth quarter of 2000, as well as securitization activity during the current year. This decline was offset in part by growth in lease financing receivables. Average yields on domestic loans and leases decreased from 2000 as a result of interest rate reductions throughout 2001. Average international loans and leases increased $3.6 billion, with approximately half of the increase the result of continued growth in the Brazilian portfolio, primarily trade-related financing, and the remainder from Asia, Europe and other Latin American countries.

Other interest earning assets increased $6.4 billion to $17.8 billion during 2001, partly the result of the reinvestment of proceeds from sales of securities into federal funds sold and securities purchased under agreements to resell.

Average interest bearing deposits decreased $3.9 billion to $98.2 billion in 2001, reflecting the impact of divestitures during 2000 and the transfer of escrow deposits in connection with the sale of the mortgage banking business. Partly offsetting these decreases was an increase in money market and international deposits.

Average short-term borrowings decreased $4.8 billion to $21 billion during 2001, reflecting the elimination of low-yielding liabilities at the end of the first quarter of 2000 that were previously necessary to support a higher level of investment banking operations. Also contributing to the decline was a decrease in federal funds purchased and securities sold under agreements to repurchase and short-term Federal Home Loan Bank borrowings.

Average long-term debt decreased $3.3 billion to $27.9 billion in 2001, reflecting maturities of debt throughout the year, partially offset by the issuance of $1.3 billion of senior medium-term floating rate notes throughout the year, $500 million of trust preferred securities in September 2001 and $1 billion of senior fixed-rate notes in November 2001.

Provision for Credit Losses

The provision for credit losses for 2001 amounted to $2.3 billion compared to $1.3 billion for 2000. The 2001 provision included incremental provisions of $175 million and $725 million related to domestic problem loans and Argentine loans, respectively, as well as $150 million associated with the transfer of problem loans to accelerated disposition status.

The provision for credit losses reflects management's assessment of the adequacy of the reserve for credit losses, considering the current risk characteristics of the loan portfolio and economic conditions. In 2001, the level of provision reflected the impact of the U.S. economic slowdown and economic and political conditions in Argentina on the Corporation's domestic commercial loans and Argentine loans, respectively. The amount of future provisions will continue to be a function of management's assessment of credit risk based upon its quarterly review of the reserve for credit losses, including assessments of the potential impact of a continued domestic recession and continued economic and political instability in Argentina. Since the domestic economic downturn and economic volatility in Argentina have continued into 2002, management currently expects continued pressure on credit costs, although substantially less than in 2001. As such, there can be no assurance as to the level of future provisions. Additional information on the reserve for credit losses can be found in the Reserve for Credit Losses section of this discussion and analysis and in Notes 1 and 5 of the "Notes to Consolidated Financial Statements" included under Item 8 of this Report.

Noninterest Income

Year ended December 31 *In millions*	2001	2000	1999
Banking fees and commissions	$1,603	$1,615	$1,666
Investment services revenue	1,491	1,803	1,606
Credit card revenue	757	738	762
Processing-related revenue	401	622	629
Capital markets revenue	222	3,173	2,118
Gains on branch divestitures	430	843	—
Other noninterest income	436	667	585
Total noninterest income	$5,340	$9,461	$7,366

The decline in total noninterest income from prior years primarily reflects the effect of the continued sluggishness in the U.S. economy on FleetBoston's capital markets and investment services businesses. Also contributing to the decline in noninterest income were lower processing-related revenues, due to the sale of the mortgage banking business, and a lower level of branch divestiture gains. The previously mentioned $146 million gain from the sale of an investment in the NYCE Corporation partially offset these declines.

Banking Fees and Commissions

Year ended December 31 *In millions*	2001	2000	1999

Banking fees and commissions declined only slightly from 2000, as a decline in deposit account charges related to the impact of divestitures and changes in pricing were offset by increases in cash management fees, the result of increased business volume, and a rise in electronic banking fees.

Investment Services Revenue

Year ended December 31 *In millions*	2001	2000	1999
Investment management revenue	$ 991	$1,043	$ 974
Brokerage fees and commissions	500	760	632
Total investment services revenue	$1,491	$1,803	$1,606

Investment Management Revenue

Year ended December 31 *In millions*	2001	2000	1999
Private Clients Group	$371	$ 409	$ 403
Institutional businesses	152	178	172
International	139	161	142
Columbia Management Company	103	113	98
Quick & Reilly	90	109	29
Mutual Fund & Investment	65	66	126
Liberty Asset Management	60		
Other	11	7	4

Investment management revenue fell $52 million, or 5%, driven by adverse market conditions experienced during 2001, which resulted in a decline in the valuation of assets under management. At December 31, 2001, assets under management were approximately $174 billion, compared to $134 billion at December 31, 2000. Of the 2001 total, approximately $50 billion were added through the November 2001 acquisition of Liberty Asset Management. For more information on this acquisition, refer to Note 2 of the Notes to Consolidated Financial Statements included under Item 8 of this Report. The Corporation is among the largest mutual fund providers in Latin America, primarily Brazil, with approximately $7 billion of assets under management at December 31, 2001, compared to approximately $8 billion at December 31, 2000.

Brokerage Fees and Commissions

Brokerage fees and commissions decreased $260 million, or 34%, in 2001, reflecting the impact of adverse market conditions on Quick & Reilly and Robertson Stephens. These conditions resulted in lower stock trading volumes and caused declines in revenue.

Credit Card Revenue

Credit card revenue increased $19 million, primarily the result of higher interchange fees, reflective of greater card usage, and enhanced card issuance incentives. This increase was partially offset by lower securitization income, the result of a reduction in the average securitization program size, lower fee income and increased charge-offs, driven by a higher level of bankruptcy filings in 2001.

FleetBoston services approximately $15.7 billion of managed (securitized and owned) credit card receivables. The primary components of credit card revenue include the excess spread and servicing revenue related to the Corporation's securitization activities, interchange fees and complementary product revenues, offset by amortization of deferred acquisition costs. Additional information with respect to this business unit is included in the Line of Business Information section of this discussion and analysis.

The securitization of credit card receivables changes the Corporation's status from that of a lender to that of a loan servicer. Accordingly, there is a change in the classification of the revenue associated with the securitization when reported in the income statement. Revenue over the term of the securitization may vary depending upon the credit performance of the receivables supporting the securitization, because credit losses become a component of the cash flows arising from those securitized receivables.

The following table depicts the consolidated financial statement impact as if the securitized credit card receivables had, in fact, been owned, as well as additional financial information pertaining to credit card receivables.

Credit Card Securitization Summary

Year ended December 31, 2001 *In millions*	Reported	Credit Card Securitizations	Managed
Net interest income (FTE)	$ 7,454	$ 973	$ 8,427
Provision for credit losses	2,330	612	2,942
Noninterest income	5,340	(361)	4,979
Noninterest expense	8,913	—	8,913
Net income	931	—	931
Assets at year-end	$ 203,638	$ 10,177	$ 213,815
Average assets	208,882	9,663	218,545

Additional information concerning FleetBoston's credit card securitization activities is included in the Liquidity Risk Management section of this discussion and analysis and in Note 17 of the "Notes to Consolidated Financial Statements" included under Item 8 of this Report.

Processing-Related Revenue

Year ended December 31 *In millions*	2001	2000	1999
Student loan servicing fees	$172	$159	$142
Mortgage banking revenue, net	107	333	384
Other	122	130	103
Total processing-related revenue	$401	$622	$629

Processing-related revenue decreased $221 million to $401 million in 2001, principally due to the sale of the mortgage banking business in the second quarter of 2001. FleetBoston recorded an aggregate loss of $428 million ($285 million after-tax) on this sale, which was recorded in other noninterest expense. FleetBoston continues to originate mortgage loans through its retail banking branches. Student loan servicing fees increased $13 million, or 8%, at AFSA as accounts serviced increased 6.6% to 8.1 million in 2001. The decrease in other processing-related revenue reflects the sale of a business in the first quarter of 2001, offset partly by an increase in revenues at the Corporation's health and human services outsourcing division.

Capital Markets Revenue

Year ended December 31 *In millions*	2001	2000	1999
Market-making revenue	$ 585	$ 808	$ 426
Foreign exchange revenue	249	205	206
Syndication/agency fees	173	188	174
Advisory fees	151	341	230
Underwriting revenue	115	552	366
Trading profits and commissions	24	172	205
Securities (losses)/gains	(275)	13	17
Principal investing	(800)	894	494
Total capital markets revenue	$ 222	$3,173	$2,118

Capital markets revenue decreased 93%, falling nearly $3 billion from the level achieved in 2000. This decrease reflects a drop in almost all categories within capital markets revenue, most notably principal investing, underwriting revenue and market-making revenue, as well as securities losses realized during the year. These decreases were a result of the previously mentioned economic slowdown that began in the second half of 2000 and has continued into 2002. Revenues from capital markets activities are impacted by a variety of factors, including the condition of the economy, interest rates and equity markets. These markets could be subject to additional volatility in the future.

Market-making revenue decreased $223 million, or 28%, reflecting decreased transaction volumes at Robertson Stephens and Quick & Reilly resulting from adverse market conditions.

Foreign exchange revenue increased $44 million, or 21%, over 2000 due to favorable positions in Latin America during the year, where the Corporation benefited from volatile market conditions.

Syndication/agency fees fell $15 million to $173 million for 2001, as a result of decreased syndication volume during 2001. Such fees are a function of the timing and level of syndication transactions.

Advisory fees declined $190 million, or 56%, during 2001, as a result of a lower level of fees at Robertson Stephens resulting from lower demand for investment banking services in the difficult market environment. Advisory fees include fees received for providing financial advice on mergers and acquisitions, private clients transactions and other transactions.

Underwriting revenue decreased $437 million, or 79%, compared to 2000. Underwriting revenues are affected by the volume and timing of public offerings and other transactions. Underwriting volume at Robertson Stephens fell 73% from the number of transactions underwritten in 2000, due to lower demand.

Trading profits and commissions declined $148 million to $24 million in 2001, primarily due to the effect of NASDAQ market conditions on Robertson Stephens.

Securities losses of $275 million in 2001 included the previously mentioned $265 million loss on the sale of securities subsequent to the Summit acquisition and write-downs of the Argentine government bond portfolio, partially offset by gains from sales of domestic corporat bonds.

The decrease in principal investing revenue resulted mainly from investment write-downs of $1.1 billion recorded during 2001 to reflect the significant valuation impairment experienced in the private equity industry, compared with appreciation in the value of investments and a significant level of gains from sales of direct investments recorded in 2000. Partly offsetting the write-downs recorded in 2001 was the previously mentioned gain of $146 million from the sale of FleetBoston's investment in the NYCE Corporation.

Of the total write-downs taken in 2001, 47% were related to direct investments in private companies, 43% were related to investments in funds and 10% were related to direct investments in public companies. Nearly 70% of the direct investment write-downs related to the technology and telecommunications sectors.

During 2001, FleetBoston made new investments totaling approximately $775 million, compared to $2 billion in 2000, and as of December 31, 2001, had unfunded commitments to invest in funds totaling approximately $2 billion. These commitments are drawn down periodically throughout the life of the respective fund. The principal investing portfolio had an aggregate carrying value of approximately $3.6 billion at December 31, 2001, compared to $4.4 billion at December 31, 2000.

The following table presents an industry breakdown of the direct investment (public and private) portfolio, which totaled $1.4 billion at December 31, 2001.

Direct Portfolio Diversification

December 31, 2001	Percentage of total direct portfolio
General Industry	26%
Information Technology (U.S. and Europe)	13
Telecommunications (U.S. and Europe)	12
Other Europe	9
Restaurants	9
Consumer/Retail	8
Media/Entertainment	6
Healthcare	6
Other International	6
Financial Services	5
Total	100%

Approximately 82% of the direct investment portfolio is invested domestically, with the remainder invested overseas, primarily in Europe. In addition, approximately 66% of the portfolio has been held for three years or less, with an additional 23% held between three and five years.

Direct investments in private companies are carried in the consolidated balance sheet at cost. These investments do not trade on established exchanges and, accordingly, their fair value is not readily determinable. Gains and losses related to these investments are recorded in the statement of income when they are sold or otherwise exchanged. Direct investments in public companies are carried at fair value in the consolidated balance sheet, with unrealized gains and losses recorded, net of tax, as a component of stockholders' equity. When such investments are liquidated, gains and losses are recognized in the statement of income. Net unrealized gains related to direct investments in public companies at December 31, 2001 were not significant. Investments in funds are generally carried at fair value, with changes in such value recognized currently in the statement of income. Declines in value of individual investments that are deemed other than temporary are recognized in the statement of income through write-downs of such investments. The valuation of these investments is subject to the overall condition of the economy and its impact on the equity markets.

Other

Other noninterest income, including gains on branch divestitures, decreased $644 million, or 43%, to $866 million for 2001, mainly due to a lower level of gains on BankBoston merger-related branch divestitures in 2001 compared to 2000, $333 million compared to $843 million, partly offset by $77 million of gains from sales of non-strategic branches in upstate New York. Also contributing to the decline in other noninterest income was a $200 million charge related to the estimated impact of Argentine government actions with respect to the Corporation's Argentine operations. This charge is more fully discussed in the Country Risk section of this discussion and analysis.

Noninterest Expense

Year ended December 31 *In millions*	2001	2000	1999
Employee compensation and benefits	$4,021	$ 5,047	$ 5,023

Noninterest expense decreased $697 million compared to 2000, primarily due to lower compensation and benefits costs directly attributable to lower levels of revenue, as well as lower operating expenses resulting from merger integration activities and the previously disclosed corporate-wide cost containment program. Partially offsetting these decreases were Summit merger- and restructuring-related charges and the loss on the sale of the mortgage banking business.

The decline in employee compensation and benefits costs of $1 billion from 2000 was due primarily to revenue-related decreases in incentive compensation at Robertson Stephens and Quick & Reilly, as well as expense reductions achieved from Summit merger integration activities and corporate-wide cost containment.

Occupancy and equipment, legal and other professional, marketing and public relations, and other noninterest expense all decreased from 2000, generally the result of the aforementioned cost containment effort, expense reductions from Summit merger integration activities and the mortgage banking and other business sales.

In 2001, the Corporation recorded net merger- and restructuring-related charges of $639 million, composed of $467 million recorded in connection with the Summit acquisition, offset by a reversal of $8 million of such charges later in the year, $179 million related to restructurings of capital markets and other businesses, and $15 million recorded in connection with the acquisition of the Liberty asset management businesses. Slightly offsetting these charges was a reversal of $14 million of original BankBoston charges.

During 2000, merger- and restructuring-related charges represented $68 million of incremental depreciation on certain assets that were used in the BankBoston merger integration and were then disposed, and $21 million related to accelerated vesting of outstanding Summit restricted stock. Additional Summit charges in 2001 included merger integration costs totaling $142 million, included in the preceding table by expense type. Noninterest expense for 2000 included $159 million of similar costs related to the BankBoston merger.

The Summit merger integration produced an additional $23 million of cost savings during the fourth quarter of 2001, bringing the total cost savings realized to date, on an annualized basis, to $245 million. FleetBoston expects to achieve $300 million in annualized cost savings by the end of the first quarter of 2002. The Corporation’s cost containment program achieved approximately $575 million of annualized cost savings during 2001.

Income Taxes

The Corporation recorded income tax expense of $563 million for 2001 compared with $2.6 billion for 2000, with respective effective tax rates of 37.7% in 2001 and 39.5% in 2000. The reduction in the effective tax rate was primarily due to the tax effects of charges related to Argentina, write-downs of investments in the Principal Investing portfolio, the sale of the mortgage banking business and merger- and restructuring-related charges recorded during the year.

FINANCIAL CONDITION

Risk Management

FleetBoston’s management of the risks inherent in its businesses is essential for financial performance and creating long-term value. Risk management is governed by policies reviewed and approved annually by the Corporation’s Board of Directors (the Board). The goal of risk management is the control of FleetBoston’s four primary risk factors — credit risk, market risk, operating risk and liquidity risk — to support the prudent use of capital. These risks, if not effectively managed, can result in current losses to the Corporation as well as erosion of its capital and damage to its reputation. FleetBoston has a series of risk processes to identify the extent of risk involved in a business activity, to establish appropriate

controls and to monitor compliance with its risk mitigation strategies.

Risk management techniques are structured around certain fundamental risk principals, including commitment from senior level management; business unit ownership; clearly defined policies and procedures; training; independent oversight; established approval processes; management information systems, measurement and analytical tools; and capital allocation and performance evaluation processes. These processes assist FleetBoston in managing its risk exposures, but they cannot fully insulate the Corporation from losses. The Corporation’s business requires it to take risks while ensuring that it receives adequate compensation for the risks undertaken. Despite best efforts, losses will periodically occur, particularly with respect to credit risk, during the later part of the credit cycle, and with respect to other risk factors, when unanticipated events challenge the limits of risk management processes. Consequently, FleetBoston continues to seek improvements to its risk management culture to better balance risks and returns while operating in a dynamic environment.

In response to the risks inherent in the financial services industry, FleetBoston has organized its key areas of risk management into two control infrastructures. Management of credit risk, market risk from trading activities and operating risk is organized under the Vice Chairman and Chief Risk Officer (CRO), who reports directly to the Chairman. Management of liquidity risk, market risk from non-trading activities, and capital is organized under the Corporation's Treasurer, who reports directly to the Vice Chairman and Chief Financial Officer (CFO). The risk management group under the CRO also has administrative oversight for FleetBoston's global assurance functions, Audit, Corporate Compliance and Risk Review, which monitor credit risk rating integrity and compliance with regulatory requirements and various operating risk policies.

FleetBoston uses a series of cross-functional committees to provide oversight of its risk management processes, including the Credit Policy Committee (CPC), the Market Risk Committee, the Loan Loss Reserve Committee, the Country Exposure Committee, the Consumer Risk Committee and the Operating Risk Committee, which are chaired by the CRO or various senior executives within the risk management group as appointed by the CRO. There is also a Portfolio Management Committee, which is co-chaired by the CRO and the Vice Chairman for Wholesale Banking.

The Asset, Liability and Capital Committee (ALCCO), which provides specific oversight for the management of market risk, liquidity risk and capital, is chaired by the Treasurer and includes as members various Vice Chairmen, including the CFO and representatives of major business lines. ALCCO sets strategic directives that guide the day-to-day market risk management activities of the Corporation, and also reviews and approves all major market risk, liquidity risk and capital management programs. Additional information on certain of FleetBoston's risk management processes and certain of the above-mentioned committees is included in the Credit Risk Management, Country Risk, Liquidity Risk Management, Market Risk Management and Operating Risk Management sections of this discussion and analysis.

Credit Risk Management

Credit risk is defined as the risk of loss arising from a counterparty's failure or inability to meet payment or performance terms of a contract with the Corporation. The Corporation's credit risk management processes are intended to address the management of all forms of credit risk, including balance sheet and off-balance sheet exposures. The CPC governs the credit risk process of the Corporation by establishing all credit policies, approving underwriting standards and concentration limits, and granting credit approval authorities. The processes are intended to ensure that risks are accurately assessed, properly approved, and continuously monitored. An independent credit function monitors compliance by individual units with FleetBoston's credit policies, works to ensure that credit due diligence and credit administration meet acceptable standards, and is responsible for the effectiveness of the loan review process. The credit function includes a staff of credit officers reporting directly to the Chief Credit Officer (CCO). These credit officers are assigned to work with the various business units to ensure that each individual credit exposure is appropriately risk rated, and monitor and manage credit risks within policy and portfolio guidelines. In addition, a credit information unit provides reports on credit exposures on a corporatewide basis. A risk review unit, which reports independently of both the business and credit units, audits the integrity of risk ratings and the adequacy of the credit process for all units of FleetBoston.

Senior management in Boston oversees the world-wide credit activities, both corporate and consumer, of the Corporation. The level of management required to approve credit exposures varies according to the size and level of perceived risk. Portfolio limits and underwriting standards are established by the CPC for both commercial and consumer credit exposures with common risk characteristics, such as industry or product type. An important aspect of FleetBoston's portfolio management process is the management of large, individual credits, which are governed by relationship limits that are set according to risk rating. The CPC also establishes target risk rating profiles for the Corporation. All limits are reviewed regularly and adjusted based on the CPC's assessment of relevant conditions. In addition, the Country Exposure Committee, chaired by the CCO, sets country limits on cross-border exposures to borrowers and counterparties domiciled in other countries. These limits are more fully discussed in the Country Risk section of this discussion and analysis.

The Corporation's Loan Syndications unit, which is part of Wholesale Banking, plays an integral role in portfolio

management by enhancing the liquidity of the wholesale loan portfolio. This unit, which is responsible for arranging participations in loans where the Corporation is the lead bank, maintains contact with other institutional lenders and investors in bank structured loans, maintains information on credit structure and pricing by risk category, evaluates the market liquidity of facilities, and syndicates FleetBoston-agented facilities to attain desired hold levels.

FleetBoston employs a corporate-wide process to review individual credits and identify emerging problems. Credits that deteriorate into certain defined risk categories are managed by a separate managed asset unit composed of professional asset recovery specialists who establish detailed asset management plans designed to mitigate risk of credit loss to the Corporation.

Consumer credit risk management uses sophisticated portfolio modeling, credit scoring and decision support tools to project credit risk and therefore to establish underwriting standards. Consumer portfolios are monitored closely to identify deviations from expected performance and shifts in consumers' patterns of behavior.

Loans and Leases

The following table presents a breakdown of the loan and lease portfolio for the past five year-ends.

December 31 *In millions*	2001	2000	1999	1998	1997
Domestic:					
Commercial and industrial	$ 48,486	$ 56,147	$ 63,035	$ 61,377	$ 53,249
Commercial real estate	11,518	11,641	11,119	11,064	11,975
Consumer	32,349	36,323	42,572	40,467	41,546
Lease financing	14,413	13,567	11,382	6,197	5,888

Total domestic loans and leases	106,766	117,678	128,108	119,105	112,658
International:					
Commercial	18,631	14,221	11,855	11,126	10,817
Consumer	2,783	2,935	2,898	2,806	1,958
Total international loans and leases	21,414	17,156	14,753	13,932	12,775
Total loans and leases	$128,180	$134,834	$142,861	$133,037	$125,433

Commercial and Industrial Loans

Domestic commercial and industrial (C&I) loans decreased $7.7 billion from year-end 2000 to $48.5 billion at December 31, 2001, with the decline due primarily to loan runoff and lower business volume in this portfolio, the result of weakened demand for loans in light of the economic slowdown. International commercial loans increased $4.4 billion, partly due to continued growth in the Brazilian portfolio, mainly trade-related financing, as well as growth in Asia, Europe and other Latin American countries.

Domestic C&I borrowers consist primarily of middle-market and large corporate customers, and are well-diversified as to industry and companies within each industry. International commercial borrowers are primarily concentrated in the energy production, telecommunications, agriculture production and services and transportation industries.

Consumer Loans

December 31 *In millions*	2001	2000
Domestic:		
Home equity	$13,862	$12,507
Residential real estate	8,131	11,425
Credit card	5,547	5,126
Consumer margin loans	1,976	3,501
Student loans	949	1,109
Installment/other	1,884	2,655
Total domestic loans	32,349	36,323
International	2,783	2,935
Total consumer loans	$35,132	$39,258

Domestic consumer loans declined $4 billion from December 31, 2000 to $32.3 billion, the result of decreases in all loan categories except home equity and credit card loans. Approximately 68% of the domestic portfolio at December 31, 2001 consisted of loans secured by residential real estate, including first and second mortgages, home equity loans and home equity lines of credit.

The $1.4 billion increase in home equity loans from the prior year resulted primarily from a home equity loan promotion during the fourth quarter of 2001, offset, in part, by a $750 million securitization transaction completed in the second quarter of the year.

Domestic residential real estate loans, secured by one- to four-family properties, decreased $3.3 billion to $8.1 billion at December 31, 2001. This decline was primarily the result of loan runoff and lower business volume in a refinancing environment.

Domestic credit card loans increased $421 million to $5.5 billion at December 31, 2001. The increase was mainly the result of growth in owned receivables and activity related to prior year securitizations, offset, in part, by $2.6 billion of new securitizations during 2001.

Consumer margin loans decreased $1.5 billion from December 31, 2000, with the decrease due to lower margin lending at Quick & Reilly, as adverse market conditions impacted the demand for such loans.

The aggregate decreases in the remaining domestic consumer loan categories were attributable to loan runoff.

Lease Financing

FleetBoston is engaged in lease financing on both a domestic and international basis. Domestic lease financing totaled $14.4 billion at December 31, 2001, compared with $13.6 billion at December 31, 2000. This $846 million, or 6%, increase was primarily attributable to new business growth.

Country Risk

Non-U.S. Operations

FleetBoston's overseas activities are subject to economic and political conditions related to, and economic and regulatory policies of, the governments and the countries in which the activities are conducted, including the policies of such governments toward indebtedness to foreign lenders. In addition, local and regional economic conditions affect local economies and governments in varying degrees of severity and, accordingly, may also affect FleetBoston's Latin American and other overseas activities.

In broad terms, the total assets of the Corporation's overseas operations are subject to a number of risks collectively referred to as "country risk." Country risk includes the following:

- the possibility of deteriorating economic conditions
- political and social upheaval
- nationalization and expropriation of assets
- exchange controls/restrictions on the remittance of funds (transfer or cross-border risk)
- currency depreciation or devaluation

FleetBoston manages its overall country risk using limits established by the Country Exposure Committee. Within these limits, sublimits are established for the following:

- cross-border risk
- nontrade-related lending
- transactions with long-term tenors
- sovereign government exposure
- assets for which a third party accepts transfer risk

In establishing these limits, the Corporation considers the economic and political situation of individual countries using both internal and external analyses. The Country Exposure Committee reviews these limits at least annually.

Cross-border outstandings, which are included in the total assets of the Corporation□s overseas operations, are subject to transfer, or cross-border, risk in addition to credit risk. Cross-border outstandings include claims on third parties, as well as investments in, and funding of, the Corporation□s overseas operations. Cross-border risk is the risk that customers will be unable to meet their contractual repayment obligations as a result of actions taken by foreign governments, such as exchange controls, debt moratoria and restrictions on the remittance of funds.

Cross-border outstandings to Argentina and Brazil each amounted to 1% or more of FleetBoston□s consolidated total assets at December 31, 2001, 2000 and 1999. There were no cross-border outstandings to other countries which exceeded .75% of consolidated total assets at December 31, 2001, 2000 and 1999.

The sections that follow discuss the Corporation□s Argentine and Brazilian operations in detail. Included is a discussion of the total assets of each operation, as well as the cross-border outstandings included in those assets.

Argentina

Argentine Government Measures

Since 1998, Argentina has been impacted by a severe recession that has caused continued economic and political instability, as well as significant volatility in its financial markets. This situation culminated in December 2001 with the resignation of the president and an ongoing series of new economic measures and governments. The Argentine government continues to announce new measures to manage the country□s financial situation. Some of the more significant measures include:

- the elimination of the Argentine peso□s one-to-one link to the U.S. dollar and the allowance of the peso to float against the U.S. dollar
- the conversion of certain U.S. dollar loans into pesos at a one-to-one exchange rate and the conversion of all U.S. dollar deposits into pesos at an exchange rate of 1.4 pesos to one U.S. dollar
- the announcement by the Argentine government that it will provide compensation to the banking system for the mismatch between converting loans and deposits into pesos at different exchange rates
- the requirement that deposits be repaid based on an extended repayment schedule, as well as restrictions on the amount that depositors can withdraw from their account
- the implementation of restrictions on the transfer of U.S. dollars outside of Argentina

The discussion that follows considers the impact of these measures on FleetBoston□s Argentine operations and actions taken by FleetBoston.

The Corporation operates 133 branches in Argentina with total assets of approximately $9.3 billion at December 31, 2001. These assets are subject to the country risk described above. The overall composition of these assets is summarized as follows:

In billions	
Loans	$6.7
Placements with central bank and other banks	1.3
Securities	.3
Fixed assets and other nonearning assets	1.0
Total assets	$9.3
Components of total assets:	
Assets recorded in the Argentine operation funded by liabilities from local residents	$4.5
Cross-border outstandings — see separate table	$4.8

The table below presents the components of loans.

In billions	
Consumer	$1.8
Corporate	3.7
Middle market	.8
Sovereign	.4
Total loans	$6.7

Approximately two thirds of the **consumer loans** are secured, primarily by residential mortgages with an average loan to value ratio of approximately 50%. **Corporate loans** include loans to subsidiaries of U.S. and European multinationals, and to large Argentine corporations. **Sovereign loans** and related exposures include provincial loans and federal government obligations acquired in the fourth quarter 2001 Argentine government bond swap, which were reclassified from securities.

The Corporation has $1.1 billion on deposit with the Argentine central bank to meet statutory reserve requirements related to the Corporation's Argentine operation's $4.4 billion of local deposits. The Corporation is required by local regulations to place the required reserves with the central bank based on a fixed percentage of each deposit received. Local deposits and intercompany borrowings are the primary funding sources for the Corporation's Argentine operation's balance sheet.

The securities portfolio of $250 million is after the government bond swap discussed in the "2002 Actions" portion of this section. All of these securities are obligations due from the Argentine government, and include $140 million, that mature in April 2002, to meet reserve requirements.

The Argentine government's recent actions led to the conversion of the majority of the assets presented in the preceding table and of all deposits from U.S. dollars into pesos. Since the assets and deposits are converted into pesos, the amount reported in U.S. dollars will decrease as the peso devalues against the U.S. dollar. Of the $6.7 billion of loans, $2.6 billion represent U.S. dollar assets that will not be converted.

The Argentine government's measures may significantly impact FleetBoston's interest rate and liquidity risk related to the balance sheet recorded in its Argentine operations. To date, there is not sufficient information to fully analyze the potential liquidity and interest rate risk. FleetBoston will continue to monitor the impact such measures will have on these risks.

Included in Argentine total assets of $9.3 billion are cross-border outstandings, which follow:

December 31 *In billions*	2001	2000	1999
Argentina:			
Trade-related claims	$1.0	$1.0	$1.2
Other claims on third parties	1.8	1.9	1.0
Investment in and funding of local operation	2.0	1.6	2.5
Total cross-border outstandings	$4.8	$4.5	$4.7
Cross-border risk mitigation:			
Insurance contracts	.8	.2	.2
Guarantees	.7	1.2	1.1
Total cross-border outstandings, net of cross-border risk mitigation	$3.3	$3.1	$3.4

(a) Commencing at December 31, 2001, FleetBoston has changed its method of reporting cross-border outstandings to include amounts not required for regulatory reporting. Prior periods presented have been restated. If Federal Financial Institutions Examination Council (FFIEC) guidelines were used for reporting, total cross-border outstandings would have been $3.1 billion, $2.6 billion and $2.7 billion for the three year-ends.
(b) Total cross-border outstandings to Argentina as a percentage of FleetBoston's total assets were 2.3%, 2.1% and 2.1% at December 31, 2001, 2000 and 1999, respectively.
(c) The sector percentage allocations for banks, public and private cross-border claims on third parties under FFIEC guidelines for Argentina were 1.7%, 10.9% and 87.4% at December 31, 2001, 2.5%, 23.5% and 74.0% at December 31, 2000 and 8.6%, 31.2% and 60.2% at December 31, 1999, respectively.
(d) Cross-border commitments for Argentina at December 31, 2001, 2000 and 1999 were $160 million, $13 million and $12 million, respectively.

The $4.8 billion of cross-border outstandings at December 31, 2001 have the following cross-border risk mitigation:

- $.8 billion are covered by insurance contracts. The insurance coverage is purchased from U.S. and foreign government, multilateral and private insurers. This coverage protects the Corporation from non-payment due to the inability of the customer to transfer funds or convert the necessary funds into the obligation currency due to government actions. The Corporation is required to follow specific procedures if a cross-border event occurs, including timely notification of such an event to the insurer.
- $.7 billion are loans with guarantees that cover credit and cross-border risk.

In addition, there is another $1 billion of trade-related outstandings, which historically have received preferential treatment in cross-border risk events.

The following table presents changes in aggregate cross-border outstandings to Argentina from December 31, 2000 to December 31, 2001. This table is provided in accordance with the SEC's Industry Guide 3 requirements for foreign countries experiencing liquidity difficulties.

In billions	Argentina
Aggregate outstandings at January 1, 2001	$4.5
Net change in short-term trade-related outstandings	.2
Reduction in nontrade-related loans and leases	(.2)
Increase in claims and intercompany funding covered by insurance contracts	.6
Other, primarily government securities and other assets	(.3)
Aggregate outstandings at December 31, 2001	$4.8

The Argentine government enacted exchange controls in December 2001 that limited the transfer of funds outside of that country. These regulations continue to be modified. As of December 31, 2001, FleetBoston's cross-border outstandings were not significantly impacted by these regulations. However, it is expected that over time such regulations may result in the delay of the transfer of dollars outside of Argentina. The Corporation is unable to determine at the present time the ultimate impact such measures will have on its cross-border outstandings.

Argentine Mutual Funds

The Corporation's Argentine operation managed approximately $700 million of mutual funds, composed of $600 million invested in bank deposits and $100 million invested in government securities, at December 31, 2001. The Argentine government's measures, announced subsequent to December 31, 2001, which restricted withdrawals of bank deposits, also applied to mutual fund redemptions. Therefore, mutual fund investors currently cannot receive redemptions of their funds.

Argentine Currency Position

Periodically, FleetBoston establishes currency positions in certain countries with the intention of taking advantage of expected movements in currency exchange rates and/or interest rates. Currency positions expose FleetBoston to gains or losses that depend on the relationship between currency price movements and interest rate differentials. The following table presents the Argentine currency position, which was a long dollar position of $52 million at December 31, 2001. However, this position was significantly impacted by the Argentine government's conversion of U.S. dollar assets and deposits into pesos. Based on the information available, the impact of these measures resulted in a net peso position of approximately $500 million.

	At Year-End		Daily Average	
In millions	2001	2000	2001	2000
Argentina[(a)(b)]	$52	$(262)	$(141)	$(328)

(a) Positive value reflects U.S. dollar assets exceeding funding from local currency liabilities (i.e., long position in U.S. dollars).
(b) Negative values reflect local currency assets exceeding funding from U.S. dollars (i.e., short positions in U.S. dollars).

The change in the country's financial system from U.S. dollars to pesos is expected to result in a change in the functional currency of the Argentine unit from the U.S. dollar to the peso, as required by SFAS No. 52, "Foreign Currency Translation." Therefore, it is expected that the majority of any future exchange rate impact would be recorded in comprehensive income, a component of stockholders' equity. It is not expected that the transition adjustment related to the conversion to the peso as the functional currency will significantly impact the Corporation's total stockholders' equity. The remaining currency position after the conversion to the peso as the functional currency is not expected to significantly impact the Corporation's results of operations.

2002 Actions

As mentioned, the Argentine government enacted and announced certain measures subsequent to December 31, 2001. These measures have increased the Corporation's credit, cross-border, market, liquidity and operating risks related to its $9.3 billion of Argentine assets. In response to these measures, which continue to be subject to change, the Corporation utilized the information available at the time to record certain charges incurred to address the increase in risks as of December 31, 2001.

- A charge of $200 million related to the estimated impact of the Argentine government's actions on the Corporation's Argentine balance sheet was recorded. This charge considered a number of issues:
  - ♦ the conversion of loans, other earning assets and deposit liabilities into pesos;
  - ♦ the change in the Corporation's market risk position due to a change in the net peso position after the conversion of loans and deposits; and
  - ♦ operational and legal issues resulting from the implementation of the measures.
- The Corporation increased its reserve for credit losses related to Argentine loans by $725 million due to concerns that the Argentine government's actions and ongoing recession may impact customers' ability to service their existing obligations. The Argentine government's actions may lead to delays in customer debt service for loans made by FleetBoston in that country, as well as those loans that are part of the Corporation's aggregate Argentine cross-border outstandings. The impact of the government actions on the Corporation's Argentine loans may lead to a substantial increase in Argentine NPAs from the December 31, 2001 level of $253 million, as well as higher credit losses.
- A charge of $175 million was recorded against the Corporation's Argentine government bond portfolio. This included $125 million for the securities swapped by the Corporation in the fourth quarter of 2001 as part of the Argentine government's local bond swap. The Corporation swapped approximately $478 million of Argentine government securities for loans. The resulting loans pay an interest rate of approximately 5.5% and extend the principal maturity of the portion of the swapped debt due before 2010 by three years.

The Corporation continues to monitor and evaluate the Argentine economic measures discussed above, and will adjust its strategy as deemed appropriate. However, in light of the changing economic measures and continuing economic, political and social uncertainty in

the country, it is not possible to predict the impact that future developments may have on that country's economic growth, or on the Corporation's operations in Argentina.

Brazil

The Corporation operates 67 branches in Brazil with total assets of approximately $12 billion at December 31, 2001. These assets are subject to the country risk described above.

The overall composition of these assets is summarized as follows:

In billions	
Loans	$ 7.3
Securities	1.5
Resale agreements	1.5
Other treasury assets	1.0
Fixed assets and other nonearning assets	.7
Total assets	$12.0
Components of total assets:	
Assets recorded in Brazilian operations funded by liabilities from local residents	$ 3.6
Cross-border outstandingssee separate table	$ 8.4

Of the total loans of $7.3 billion, $400 million were consumer loans and $6.9 billion were corporate loans. The corporate loans included $3.1 billion to multinationals, $3.3 billion to large Brazilian corporations, and $500 million to financial institutions and middle market companies. Nonperforming loans were $14 million at December 31, 2001, and credit losses for the year were not significant.

As part of the Corporations Brazilian operations balance sheet management, there were approximately $4 billion of treasury assets at December 31, 2001. Available for sale securities totaled $1.5 billion, composed mainly of government bonds. These securities have an average duration of approximately two years. There were $1.5 billion of resale agreements with banks in Brazil, which were collateralized by Brazilian government bonds. The $1 billion of other treasury assets included trading assets of approximately $700 million.

The Corporations Brazilian operations balance sheet is funded by third party liabilities where the provider assumes the transfer risk, which is discussed below, intercompany funding and local liabilities.

Included in Brazilian total assets of $12 billion are cross-border outstandings, which follow:

December 31	2001&#16