FLEETBOSTON FINANCIAL CORP
Form 10-K
March 05, 2003

Table of Contents

UNITED STATES
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, 2002

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

8.80% Trust Originated Preferred Securities issued by Fleet Capital Trust VI, Guaranteed by FleetBoston Financial Corporation	New York Stock Exchange
7.20% Capital Securities issued by Fleet Capital Trust VII, Guaranteed by FleetBoston Financial Corporation	New York Stock Exchange
7.20% Trust Originated Preferred Securities issued by Fleet Capital Trust VIII, 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 [X] 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. [X]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES [X] NO [ ]

As of June 30, 2002, the aggregate market value of the voting stock held by nonaffiliates of the Registrant was $33.6 billion.

The number of shares of common stock of the Registrant outstanding as of January 31, 2003 was 1,050,029,774.

TABLE OF CONTENTS

Table of Contents

DOCUMENTS INCORPORATED BY REFERENCE

Pertinent extracts from Registrant s Proxy Statement for its 2003 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, in whole or in part, to the Corporation s Proxy Statement for its 2003 Annual Meeting of Stockholders.

Table of Contents

PART I.

Item 1. ***Business***

General

FleetBoston Financial Corporation is a diversified financial services company organized under the laws of the State of Rhode Island. Unless otherwise indicated or unless the context requires otherwise, all references in this Report to FleetBoston, Corporation, we, us, our or similar references mean FleetBoston Financial Corporation. We are a legal entity separate and distinct from our subsidiaries, assisting those subsidiaries by providing financial resources and management. At December 31, 2002, we had total assets of $190.5 billion, total deposits of $125.8 billion, total stockholders equity of $16.8 billion and approximately 50,000 employees. In terms of total assets, FleetBoston is the seventh largest financial holding company in the United States. Our executive office is located at 100 Federal Street, Boston, Massachusetts, 02110 (telephone (617) 434-2200).

We make available free of charge through our website at www.fleet.com all reports we electronically file with, or furnish to, the Securities and Exchange Commission, or SEC, including our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as any amendments to those reports, as soon as reasonably practicable after those documents are filed with, or furnished to, the SEC. These filings are also accessible on the SEC s website at www.sec.gov.

Our businesses include consumer and small business banking; commercial banking, including middle-market lending, asset-based lending, leasing, cash management, trade finance and government banking; commercial real estate lending; international banking; principal investing; securities brokerage, market-making and clearing services; investment services, including asset management, mutual funds and retirement planning; and credit card services. We own three national banking subsidiaries, including our principal banking subsidiary, Fleet National Bank, or FNB. FNB is a member of the Federal Reserve System, and its domestic deposits are insured by the Federal Deposit Insurance Corporation, or FDIC, to the extent provided by law.

Our 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 18 of the Notes to Consolidated Financial Statements included under Item 8 of this Report. For discussions of our business activities, including our lending activities, our cross-border outstandings and our management of credit risk, liquidity risk and other risks inherent in our 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 that contain such statements. Forward-looking statements, including statements as to industry trends, future expectations of FleetBoston and other matters that do not relate strictly to historical facts, are based on certain assumptions by management, and are often identified by words or phrases such as anticipate, believe, expect, intend, seek, plan, objective, trend and goal. Forward looking statements are subject t assumptions, risks and uncertainties, which change over time, and speak only as of the date they are made.

FleetBoston undertakes no obligation to update any forward-looking statements. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance. In addition to factors mentioned elsewhere in this Report or previously disclosed in our SEC reports (accessible on the SEC s website at www.sec.gov or on our website at www.fleet.com), the following factors, among others, could cause actual results to differ materially from forward-looking statements and future results could differ materially from historical performance:

- general political and economic conditions, either domestically or internationally, may be less favorable than expected;
- Latin America may continue to experience economic, political and social uncertainties;
- developments concerning credit quality in various corporate lending industry sectors, particularly airlines and merchant energy, as well as consumer and other types of credit, may result in an increase in the level of our provision for credit losses, nonperforming assets, net charge-offs and reserve for credit losses;

domestic demand for commercial loan and capital markets-related products may continue to be weak; customer borrowing, repayment, investment and deposit practices generally may be less favorable than anticipated; and interest rate and currency fluctuations, equity and bond market fluctuations, and inflation may be greater than expected;

the mix of interest rates and maturities of our interest earning assets and interest bearing liabilities (primarily loans and deposits) may be less favorable 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-related businesses, as well

Table of Contents

as our wealth management and brokerage business line, and the availability and terms of funding necessary to meet our liquidity needs;

competitive product and pricing pressures among financial institutions within our markets may increase;

legislative or regulatory developments, including changes in laws or regulations concerning taxes, banking, securities, capital requirements and risk-based capital guidelines, reserve methodologies, deposit insurance and other aspects of the financial services industry, may adversely affect the businesses in which we are engaged or our financial results;

legal and regulatory proceedings and related matters with respect to the financial services industry, including those directly involving FleetBoston and its subsidiaries, could adversely affect FleetBoston or the financial services industry generally;

pending and proposed changes in accounting rules, policies, practices and procedures could adversely affect our financial results;

instruments and strategies used to hedge or otherwise manage exposure to various types of market and credit risk could be less effective than anticipated, and we may not be able to effectively mitigate our risk exposures in particular market environments or against particular types of risk;

terrorist activities or other hostilities, including the situation surrounding Iraq, may adversely affect the general economy, financial and capital markets, specific industries, and FleetBoston; and

technological changes, including the impact of the Internet on our businesses, may be more difficult or expensive than anticipated.

Competition

Our 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. We continue to implement strategic initiatives focused on expanding our core businesses and to explore, on an ongoing basis, acquisition, divestiture and joint venture opportunities. We analyze each of our businesses in the context of customer demands, competitive advantages, industry dynamics and growth potential.

For additional information regarding our acquisition and divestiture activities, refer to Notes 2 and 3 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 FleetBoston 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 FleetBoston and its subsidiaries are subject are discussed below, along with certain regulatory matters concerning FleetBoston 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, we are subject to regulation under the Bank Holding Company Act of 1956, or Bank Holding Company Act, and to inspection, examination and supervision by the Board of Governors of the Federal Reserve System, or 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, or 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.

Table of Contents

Non-bank Subsidiaries. Many of our non-banking subsidiaries also are subject to regulation by the Federal Reserve Board and other applicable federal and state agencies. Our brokerage subsidiaries are regulated by the SEC, the New York Stock Exchange, the National Association of Securities Dealers, Inc., or NASD, and state securities regulators. Our insurance subsidiaries are subject to regulation by applicable state insurance regulatory agencies. Other non-banking subsidiaries of FleetBoston are subject to the laws and regulations of both the federal government and the various states and countries 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, we 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 FleetBoston ceases to be well capitalized or well managed under applicable regulatory standards, the Federal Reserve Board may: (1) place limitations on FleetBoston s ability to conduct the broader financial activities permissible for financial holding companies; or (2) impose any limitations or conditions on the conduct or activities of FleetBoston or any of its affiliates as the Federal Reserve Board finds to be appropriate and consistent with the purposes of the Bank Holding Company Act. If the deficiencies persist, the Federal Reserve Board may require us to divest any banking subsidiary or cease to engage in any activities permissible for financial holding companies that are not permissible for bank holding companies. In addition, if any banking subsidiary of FleetBoston receives a Community Reinvestment Act rating of less than satisfactory, FleetBoston would be prohibited from engaging in any additional activities, other than those permissible for bank holding companies that are not financial holding companies. We 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, we are 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, or Riegle-Neal, subject to certain concentration limits and other requirements, bank holding companies such as FleetBoston may acquire banks and bank holding companies located in any state without regard to state law. 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 FleetBoston, 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 acquirer 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 our 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 12 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, or 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, 2002, each of our 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 our indebtedness is dividends received from our subsidiary banks. Various federal laws limit the amount of dividends our banking subsidiaries can pay to us without regulatory approval. In addition, federal bank regulatory agencies have authority to prohibit our 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 our banking subsidiaries to pay dividends in the future is currently, and could be further, influenced by bank regulatory policies and capital guidelines. Also, bank regulatory authorities have the authority to prohibit bank holding companies from paying dividends if they deem such payment to be an unsafe or unsound practice. Additional information concerning FleetBoston and its banking subsidiaries with respect to dividends is incorporated by reference from Note 12 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 our 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, or BIF, and/or the Savings Association Insurance Fund, or SAIF, administered by the FDIC. As of December 31, 2002, our banking subsidiaries held approximately $100 billion and $10 billion, respectively, of BIF- and SAIF-assessable deposits. We currently pay no insurance assessments on these deposits under the FDIC s risk-related assessment system. However, it is possible that we could be required to pay insurance assessments in 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 financial holding companies and their subsidiaries in substantial and unpredictable ways. We 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 2000-2002 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 4, 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 5, 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 FleetBoston.

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 Nonperforming Assets 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 our policy for placing loans on nonaccrual status.

Loans and Leases and Country Risk sections of Management s Discussion and Analysis of Financial Condition and Results of Operations discloses information regarding cross-border outstandings and other loan concentrations of FleetBoston.

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 2000-2002 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 average assets, return on average common equity, common dividend payout and equity-to-assets ratio.

Note 8, Short-Term Borrowings, of the Notes to Consolidated Financial Statements discloses information on short-term borrowings of FleetBoston.

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; and 301 Carnegie Center, Princeton, New Jersey. FleetBoston or its domestic subsidiaries also maintain administration and operations centers located in New York, Massachusetts, Pennsylvania, Rhode Island, Connecticut, Colorado, Illinois, Delaware and New Jersey.

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.

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

Table of Contents

Item 3. ***Legal Proceedings***

We are involved in various legal proceedings arising out of, and incidental to, our respective businesses, including the following matters:

Robertson Stephens Securities Law Actions and Investigations. During 2001, Robertson Stephens, our investment banking subsidiary which ceased operations during 2002, and many other underwriters, as well as various issuers and their officers and directors, were named as defendants in approximately 230 class action lawsuits alleging violations of federal securities laws in connection with the underwriting of initial public offerings, or 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 was also involved in various governmental reviews and investigations concerning the foregoing. As previously reported in our Current Report on Form 8-K filed on January 10, 2003, Robertson Stephens settled these investigations with the SEC and NASD on January 9, 2003.

Robertson Stephens Employee-Related Claims. In connection with our decision during 2002 to wind down the operations of Robertson Stephens, numerous former employees of Robertson Stephens have filed or threatened to file actions or claims regarding their entitlement to additional compensation and benefits from Robertson Stephens and FleetBoston. Robertson Stephens and FleetBoston believe that they acted lawfully in respect to the foregoing claims and intend to defend such actions and claims vigorously.

Argentina Corralito Litigation and Related Matters. Information regarding this matter is incorporated by reference from the discussion of the Argentine corralito litigation and related matters, under the caption *Argentine Balance Sheet,* in the Country Risk section of Management s Discussion and Analysis of Financial Condition and Results of Operations included under Item 7 of this Report. Separately, in November 2002, customers of our Argentine operation filed a class action suit in the U.S. District Court for the Southern District of Florida against FNB, Citibank and HSBC, seeking to collect from the U.S. head offices of those banks the deposits frozen in their Argentine offices. In February 2003, plaintiffs in that action filed a Notice of Voluntary Dismissal Without Prejudice, thereby dismissing the lawsuit.

Summit Bancorp Shareholders Litigation. Four class action lawsuits have been filed and consolidated in the U.S. District Court for the District of New Jersey against FleetBoston and certain of its current and former directors and officers on behalf of former shareholders of Summit Bancorp. The lawsuits allege violations of the federal securities laws in connection with our January 25, 2001 registration statement and merger proxy/prospectus (and incorporated prior SEC filings) for our acquisition of Summit. In particular, the complaints allege that we made false or misleading statements or omitted material facts regarding operations in Argentina and our loan loss provisioning regarding Argentina. FleetBoston and the defendant directors and officers deny the allegations of the complaint and intend to defend the action vigorously.

Management of FleetBoston, based on its review with counsel of all actions and proceedings pending against FleetBoston and its subsidiaries, considers that the aggregate loss, if any, resulting from the final outcome of these proceedings should not be material to FleetBoston s financial condition or annual results of operations. However, the outcome of a particular proceeding may be material to FleetBoston s results of operations for any particular quarterly period depending on the size of the loss or liability relative to FleetBoston s earnings for that quarterly period.

Table of Contents

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

The names, positions, ages and business experience during the past five years of the executive officers of FleetBoston, as defined in the Securities Exchange Act of 1934, as of February 24, 2003 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 24, 2003
Charles K. Gifford	Chairman and Chief Executive Officer	60
Eugene M. McQuade	President and Chief Operating Officer	54
H. Jay Sarles	Vice Chairman and Chief Administrative Officer	57
Anne M. Finucane	Executive Vice President	50
Paul F. Hogan	Chief Risk Officer	57
Robert C. Lamb, Jr.	Executive Vice President and Chief Financial Officer	47
Brian T. Moynihan	Executive Vice President	43
Joseph A. Smialowski	Executive Vice President	54
M. Anne Szostak	Executive Vice President	52
Bradford H. Warner	Executive Vice President	51
Douglas L. Jacobs	Executive Vice President and Treasurer	55
Gary A. Spiess	Executive Vice President, General Counsel and Secretary	62
Terrence P. Laughlin	Senior Vice President	48
Ernest L. Puschaver	Chief Accounting Officer	55
Kenneth Sax	Chief Credit Officer	45

Charles K. Gifford became President and Chief Operating Officer of the Corporation following the merger of BankBoston Corporation, or BankBoston, with Fleet Financial Group, Inc. in 1999 (the BankBoston merger), President and Chief Executive Officer in 2001, and Chairman and Chief Executive Officer in December 2002. 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.

Eugene M. McQuade was named Executive Vice President and Chief Financial Officer of the Corporation in 1993, Vice Chairman and Chief Financial Officer in 1997, and President and Chief Operating Officer effective December 31, 2002.

H. Jay Sarles became Vice Chairman of the Corporation in 1993 and was named Chief Administrative Officer in December 2002, a capacity in which he also served from 1997 to 2001. From 2001 to December 2002, Mr. Sarles served as Vice Chairman, Wholesale Banking, of the Corporation.

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.

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, and Chief Risk Officer in December 2002. Prior to the BankBoston merger, Mr. Hogan had served as Vice Chairman, Wholesale Banking, of BankBoston from 1997 to 1999.

Robert C. Lamb, Jr. rejoined the Corporation in December 2002 as Executive Vice President and Chief Financial Officer, after having served as Executive Vice President and Chief Financial Officer of BearingPoint, Inc. (formerly KPMG Consulting) from 2000 until December 2002. From 1993 to 2000, Mr. Lamb served as Controller of the Corporation.

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 with responsibility for Wealth Management and Brokerage since 2000.

Joseph A. Smialowski became Vice Chairman, Technology and Operations, of the Corporation following the BankBoston merger and Executive Vice President in December 2002. 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.

Table of Contents

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

Bradford H. Warner became Vice Chairman, Investment Services, of the Corporation following the BankBoston merger, Vice Chairman, Consumer Business Group, in 2000, Vice Chairman, Consumer Financial Services, in January 2002 and Executive Vice President in December 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.

Douglas L. Jacobs became Treasurer of the Corporation in 1995, Senior Vice President in 1998 and Executive Vice President in 2001.

Gary A. Spiess was named Senior Vice President, Senior 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.

Terrence P. Laughlin was named Director of Corporate Development of the Corporation in 1993, Managing Director of Strategic Planning in 2000 and Senior Vice President in 2001.

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.

Kenneth Sax became Vice President, Operational Assurance, of the Corporation following the BankBoston merger and was named Chief Credit Officer in April 2002. Prior to the BankBoston merger, Mr. Sax had served as General Auditor of BankBoston from 1998 to 1999, and previously had been the OCC s Examiner-in-Charge at BankBoston from 1996 to 1998.

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 2002.

PART II.

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

Our common stock is listed on the New York and Boston Stock Exchanges. At December 31, 2002, we had 83,191 stockholders of record. For information regarding high and low quarterly sales prices, and quarterly dividends declared and paid, in each case on our common stock, see the Quarterly Summarized Financial Information table included under Item 8 of this Report, which is incorporated by reference herein.

Table of Contents

Item 6. ***Selected Financial Data***

SELECTED FINANCIAL HIGHLIGHTS

Dollars in millions, except per share amounts *Prepared on a fully taxable equivalent basis*	2002	2001	2000	1999	1998
For the Year					
Net interest income	$ 6,483	$ 7,344	$ 7,826	$ 8,041	$ 7,626
Noninterest income	5,036	4,555	7,559	6,091	5,303
Total revenue	11,519	11,899	15,385	14,132	12,929
Noninterest expense	6,404	7,977	8,100	9,089	7,454
Provision for credit losses	2,760	2,324	1,290	1,056	907
Income from continuing operations	1,524	968	3,572	2,381	2,805
(Loss)/income from discontinued operations	(336)	(37)	338	95	(34)
Net income	1,188	931	3,910	2,476	2,771
Per Common Share					
Basic earnings:					
Continuing operations	$ 1.44	$ .88	$ 3.27	$ 2.12	$ 2.51
Net income	1.12	.84	3.58	2.21	2.48
Diluted earnings:					
Continuing operations	1.44	.87	3.22	2.07	2.45
Net income	1.12	.83	3.52	2.16	2.42
Market price (year-end)	24.30	36.50	37.56	34.81	44.69
Cash dividends declared	1.40	1.34	1.23	1.11	1.00
Book value (year-end)	15.78	16.61	17.31	15.92	14.78
At Year-End					
Assets	$190,453	$203,744	$219,095	$226,817	$210,834
Securities	30,425	26,604	34,937	35,919	33,283
Loans	120,380	126,988	133,831	142,204	132,426
Reserve for credit losses	3,864	3,634	2,709	2,816	2,628
Assets of discontinued operations	654	5,034	6,463	5,997	3,222
Deposits	125,814	127,730	126,911	139,177	140,695
Short-term borrowings	11,310	14,579	21,694	19,932	21,416
Long-term debt	20,581	25,530	31,683	29,214	17,878
Liabilities of discontinued operations	548	2,993	4,483	4,383	2,230
Total stockholders equity	16,833	17,608	19,361	18,074	16,896
Ratios					
Continuing operations:					
Return on average assets[(a)]	.82%	.48%	1.66%	1.12%	1.41%
Return on average common equity	8.84	4.96	20.12	13.88	17.73
Net income:					
Return on average assets	.63	.45	1.75	1.11	1.38
Return on average common equity	6.87	4.77	22.04	14.45	17.51
Common dividend payout ratio	125.00	159.52	34.36	50.23	40.32
Net interest margin	4.01	4.18	4.26	4.35	4.39
Common equity-to-assets (year-end)	8.70	8.51	8.58	7.66	7.69
Average total equity-to-assets	9.12	9.25	8.10	7.83	8.12

(a) Net income from continuing operations divided by total average assets less average assets of discontinued operations.

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

OVERVIEW

The following discussion and analysis of our financial condition and results of operations is part of our Annual Report on Form 10-K to the Securities and Exchange Commission, or SEC, and should be read in conjunction with our 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.

This discussion and analysis may contain statements with respect to our financial condition, results of operations, future performance and business that are considered forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those anticipated as a

result of certain risks, uncertainties and other factors, which are more fully discussed under Item 1 of this Report.

The preparation of consolidated financial statements requires management to make judgments in the application of certain of its accounting policies that involve significant estimates and assumptions about the effect of matters that are inherently uncertain. These estimates and assumptions, which are based on information available as of the date of the financial statements, may materially impact the reported amounts of certain assets, liabilities, revenues and expenses as the information changes over time. Accordingly, different amounts could be reported as a result of the use of revised estimates and assumptions in the application of these accounting policies. The accounting policies considered relatively more significant in this respect are the determination of the reserve for credit losses, the valuation of principal investing securities, accounting for goodwill and accounting for income taxes. These accounting policies are discussed in the Significant Accounting Policies section of this discussion and analysis, as well as in Note 1 of the Notes to Consolidated Financial Statements included under Item 8 of this Report.

Unless otherwise indicated or unless the context requires otherwise, all references in this discussion and analysis to FleetBoston, we, us, our or similar references mean FleetBoston Financial Corporation. Headquartered in Boston, Massachusetts, we are a diversified financial services company with approximately $190.5 billion in assets. Our lines of business include Commercial Financial Services, which includes commercial banking and small business services, corporate banking and specialized finance; Personal Financial Services, which includes consumer and community banking, credit card lending, wealth management and brokerage; Capital Markets, which includes brokerage market-making and principal investing; and International Banking. You can read more about these business lines and their supporting business units in the Line of Business Information section of this discussion and analysis.

Net income for 2002 was $1.2 billion, or $1.12 per diluted share, compared to $931 million, or $.83 per diluted share, for 2001. Return on average assets and return on average common equity were .63% and 6.87%, respectively, in 2002 compared to .45% and 4.77%, respectively, in 2001.

Included in 2002 results was a net loss of $336 million from discontinued operations, related to winding down the operations of Robertson Stephens, the disposal of our fixed income business in Asia, the discontinuance of Fleet Trading, our NASDAQ market-making business, and the sale of our student loan processing subsidiary, AFSA Data Corporation, or AFSA.

We completed the sale of AFSA in June 2002, and recorded a related after-tax gain of $173 million in the second quarter. We ceased operations and substantially completed the winding down of Robertson Stephens during 2002, and expect to substantially complete the disposal of the Asia fixed income business in early 2003. In the fourth quarter of 2002, Fleet Trading ceased its operations by formally withdrawing from the NASDAQ market-making business. The remaining assets of Robertson Stephens, Fleet Trading and the Asia fixed income business are held for sale as of December 31, 2002, and are presented separately in the accompanying consolidated balance sheet at the lesser of their carrying value or estimated fair value less costs to dispose. The remaining liabilities, including related exit costs, are presented separately in the consolidated balance sheet.

The operating results of these businesses for 2002, as well as the AFSA sale gain and estimated after-tax losses related to the exits of Robertson Stephens, Asia and Fleet Trading recorded in 2002, are included in results from discontinued operations in our 2002 income statement. We have presented all prior period information on the same basis. For more financial information with respect to these businesses, refer to Note 2 of the Notes to Consolidated Financial Statements included under Item 8 of this Report.

The remainder of this discussion and analysis reflects results from continuing operations, unless otherwise noted. On this basis, income from continuing operations for 2002 was $1.5 billion, or $1.44 per diluted share, compared to $968 million, or $.87 per diluted share, for 2001. Return on average assets and return on average common equity were .82% and 8.84%, respectively, in 2002, compared to .48% and 4.96%, respectively, in 2001.

Overall higher earnings and earnings per share in 2002 were driven by improvements in revenues from our investment services business, primarily due to the fourth quarter 2001 Liberty Asset Management, or Liberty, acquisition, and our principal investing business, the result of a lower level of investment portfolio writedowns (approximately $360 million in 2002 compared to $1.1 billion in 2001). In addition, 2002 results were positively impacted by lower operating expenses from the corporate-wide cost containment program we implemented in 2001, a decline in merger and restructuring costs of $478 million, the absence of the $428 million loss from the sale of our mortgage banking business in 2001 and the discontinuance of goodwill amortization beginning January 1, 2002.

Partially offsetting these improvements was a $436 million increase in the provision for credit losses, a decline in net interest income, and declines in other capital markets-related revenues, reflecting the impact of continued weakness in the U.S. economy on commercial credit as well as the impact of Argentine government measures on Argentina s financial system and the continued economic deterioration in that country. Results for 2001 included $430 million of branch divestiture gains and a $146 million gain from the sale of our investment in the NYCE Corporation. These current and prior year items are discussed in more detail later in this discussion and analysis.

Table of Contents

LINE OF BUSINESS INFORMATION

We are managed along a customer-focused organizational structure that includes four lines of business: Commercial Financial Services; Personal Financial Services; Capital Markets and International Banking. Business line results are subject to periodic restatements based on modifications to management accounting methodology, profitability measurement enhancements and organizational changes. Accordingly, information presented in this sec-

tion for the year ended December 31, 2001 has been restated for comparative purposes to reflect the implementation of management reporting modifications and changes in organizational structure in 2002. The table below highlights our segment results and is presented on a fully taxable equivalent, or FTE, and continuing operations basis. For more financial information about these business lines, refer to Note 18 of the Notes to Consolidated Financial Statements included under Item 8 of this Report.

Line of Business Earnings Summary

Year ended December 31 *Dollars in millions*	2002	2001	2002	2001	2002	2001
	Net Income/(Loss)		Total Revenue		Return on Equity	
Commercial Financial Services	$1,209	$1,268	$ 4,547	$ 4,696	17%	18%
Personal Financial Services	1,080	1,141	6,227	6,231	17	20
Capital Markets	(76)	(568)	71	(718)	nm	nm
International Banking	(392)	(220)	548	1,407	nm	nm
All Other	(297)	(653)	126	283	nm	nm
Total	$1,524	$ 968	$11,519	$11,899	9%	5%

nm not meaningful

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

Commercial Financial Services

Year ended December 31 *Dollars in millions*	2002	2001
Income statement data:		
Net interest income	$ 3,041	$ 3,254
Noninterest income	1,506	1,442
Total revenue	4,547	4,696
Provision for credit losses	720	700
Noninterest expense	1,814	1,895
Tax expense	804	833
Net income	$ 1,209	$ 1,268
Balance sheet data:		
Average assets	$85,060	$93,815

Average loans and leases	74,424	83,205
Average deposits	36,269	32,691
Return on equity	17%	18%

Our Commercial Financial Services unit provides financial solutions to support the growth of large corporations, middle market corporations, small businesses, and multinational corporations, as well as institutional and public sector clients. While we provide expertise in industry specialties, commercial real estate, leasing, asset-based lending, and debt capital, our extensive range of products and services allows us to have a much broader role in our customers financial strategies. Our products and services include cash management, loan syndications, global trade services, foreign exchange, interest rate risk management, mergers and acquisitions, and retirement plan services. Cash management services continues to be an area of strength and growth for us. We are the fifth-largest provider of cash management services in the U.S. and provide our customers with tools necessary to manage their treasury operations.

Commercial Financial Services earned $1.2 billion in 2002, a decrease of $59 million from the prior year. Earnings from the underlying business units reflected reduced demand for commercial loans and capital markets products as the economic environment remained weak. In addition, Commercial Financial Services results reflected the impact of our ongoing risk reduction strategy, under which targeted, non-strategic exposures, composed of both funded loans and unfunded commitments to extend credit, have been reduced by $25 billion, or 14%, over the past two years. This includes the impact of the $10 billion exposure reduction program announced in April 2002 that was completed in the fourth quarter of 2002. We anticipate further reductions in exposure in 2003. Higher cash management fees and deposit balances, resulting from higher sales and cross-selling activities, combined with the impact of cost saving initiatives initially implemented in 2001, helped to moderate the negative impact of the weak economic climate. Expense management continues to be a focus in 2003. Commercial Financial Services operating expenses declined $81 million, or 4%, compared to 2001 and reflected the impact of incentive compensation reductions that corresponded with lower revenue levels in the group.

As we more fully explain in the All Other portion of this Line of Business Information section, provisions for credit losses are generally allocated to Commercial Financial Services and our other lines of business on an expected loss basis over an economic cycle. This method of allocating provisions for credit losses to the business lines differs from the method used to determine our consolidated provision for credit losses for any given period.

Table of Contents

In accordance with this methodology, in the second and fourth quarters of 2002, we recorded, in All Other, consolidated pre-tax provisions totaling $907 million, primarily reflecting the impact of U.S. economic conditions on commercial credit, specifically the ongoing deterioration within Commercial Financial Services lending portfolios. Including the after-tax impact of these provisions currently, instead of prospectively over the economic cycle, earnings of Commercial Financial Services would have been $648 million, a reduction of 49% from the prior year level, and the related return on equity would have been 9%.

Year ended December 31	2002	2001	2002	2001	2002	2001
Dollars in millions	Net Income		Total Revenue		Return on Equity	
Corporate Banking	$ 717	$ 799	$ 2,579	$ 2,677	15%	16%
Commercial Banking and Financial Services	492	469	1,968	2,019	23	21
Total	$ 1,209	$ 1,268	$ 4,547	$ 4,696	17%	18%

Corporate Banking, which includes our commercial finance, commercial real estate, leasing, asset-based lending, industry banking and acquisition finance businesses, earned $717 million in the current year compared to $799 million in 2001, a decrease of 10%. This decline was driven by decreases in loan volumes resulting, in part, from repositioning of the portfolio to reduce credit exposure, and by lower trading revenues due to market conditions. This decline was partially offset by higher cash management fees and lower compensation levels. Average loans and leases were $56.1 billion in 2002, compared to $62.8 billion in 2001, a decline of $6.7 billion, or 11%.

Commercial Banking and Financial Services, which is composed of our middle market lending, small business and government banking businesses, earned $492 million in 2002, an increase of $23 million, or 5%, from the prior year. The increase in net income was driven by increased deposit balances, higher tax processing revenues, a higher level of cash management fees and derivative sales. These earnings, combined with lower operating expenses resulting from cost saving initiatives implemented in 2001, more than offset the impact of reduced loan demand. Average loan balances decreased $2.1 billion to $18.3 billion, while deposits grew approximately $3.5 billion to $28.8 billion, when compared to the prior year.

Personal Financial Services

Year ended December 31 *Dollars in millions*	2002	2001
Income statement data:		
Net interest income	$ 3,713	$ 3,693
Noninterest income	2,514	2,538
Total revenue	6,227	6,231
Provision for credit losses	911	967
Noninterest expense	3,655	3,466
Tax expense	581	657
Net income	$ 1,080	$ 1,141
Balance sheet data:		
Average assets	$ 52,365	$ 48,829
Average loans and leases	41,526	38,333
Average low-cost core deposits	53,836	49,052
Return on equity	17%	20%

Personal Financial Services is composed of two main segments, Consumer Financial Services and Wealth Management and Brokerage. Consumer Financial Services provides consumer retail banking and investment services to more than 5.5 million households. Customers can access products and services through a variety of distribution channels including a network of approximately 1,460 branches and 3,500 ATMs, electronic banking products, Internet banking (HomeLink), and customer call centers that provide our customers with convenience. HomeLink continues to grow at a rapid pace with 3.1 million customers, up from 2.3 million customers last year.

Wealth Management and Brokerage offers a wide range of services, including specialized asset management, estate settlement, and deposit and credit products to high-net-worth customers. We sell proprietary and third-party mutual funds as well as an array of investment products to retail and institutional customers. We offer retirement planning, large institutional asset management, and not-for-profit investment services. Retail brokerage services and securities and clearing activities are provided through Quick & Reilly, a leading provider of these services. We now operate more than 100 Quick & Reilly Investor Centers with 1,000 financial consultants.

Personal Financial Services earned $1.1 billion in 2002, a decline of $61 million, or 5%, from the prior year. Included in 2001 results were gains from the sale of our equity interest in the NYCE ATM network and gains from the sale of non-strategic branches. Excluding these prior year one-time transactions, the segment had a 7% increase in earnings. This improvement in earnings was driven by solid loan growth, particularly in home equity products and credit card receivables, and strong growth in low-cost core deposits, partially offset by the impact of lower deposit spreads and a decline in the market value of assets under management.

Year ended December 31	2002	2001	2002	2001	2002	2001
Dollars in millions	Net Income		Total Revenue		Return on Equity	
Consumer Financial Services	$ 863	$ 964	$4,489	$4,706	22%	25%
Wealth Management and Brokerage	217	177	1,738	1,525	8	10
Total	$1,080	$1,141	$6,227	$6,231	17%	20%

Consumer Financial Services earned $863 million in 2002, an increase of $27 million, or 3%, over the prior year, excluding the aforementioned gains. This increase in earnings resulted from higher loan volumes and a beneficial change in deposit mix, as low-cost core deposit balances increased approximately $4.6 billion, or 10%, over the prior year. Low-cost core deposits have grown as improved customer experience has resulted in higher sales and lower attrition during a period when our customers are seeking liquidity due to the unstable equity markets. The declining interest rate environment, which drove down loan yields and put pressure on spreads in the deposit-taking businesses, partially offset these improvements.

Table of Contents

Wealth Management and Brokerage earned $217 million, which represented an increase of 23% over the prior year level despite difficult market conditions. The increase in earnings was largely the result of effective expense management and improved sales mix within the Quick & Reilly brokerage group. The market value of assets under management, which reflected the overall lower valuation of the stock market, was approximately $143 billion as of December 31, 2002 versus $167 billion as of December 31, 2001.

Capital Markets

Year ended December 31 *Dollars in millions*	2002	2001
Income statement data:		
Net interest income	$ (87)	$ (127)
Noninterest income	158	(591)
Total revenue	71	(718)
Noninterest expense	190	207
Tax benefit	(43)	(357)
Net loss	$ (76)	$ (568)
Return on equity	nm	nm

nm not meaningful

Year ended December 31 *Dollars in millions*	2002 Net Income/(Loss)	2001	2002 Total Revenue	2001	2002 Return on Equity	2001
Fleet Specialist	$ 110	$ 106	$ 325	$ 328	32%	29%
Principal Investing	(186)	(674)	(254)	(1,046)	nm	nm
Total	$ (76)	$ (568)	$ 71	$ (718)	nm	nm

nm not meaningful

Fleet Specialist is one of the largest specialist firms on the New York Stock Exchange, or NYSE, making markets in common and preferred stocks of more than 425 listed companies and accounting for roughly 20% of the volume on the Big Board. The unit earned $110 million in 2002, an increase of $4 million from 2001. Although transaction volume increased in 2002, average trade size and average price per share decreased as a result of market conditions, which in turn resulted in lower revenues per trade.

Principal Investing provides start-up capital and debt financing to business ventures that are predominantly privately or closely held companies, and also invests in investment fund partnerships. Principal Investing recorded a net loss of $186 million in 2002, compared to a net loss of $674 million in 2001. These results were affected by after-tax investment writedowns of $228 million in 2002, reflecting the impairment of value that resulted from the continued weakness in the U.S. economy, versus $679 million in 2001. At December 31, 2002, the aggregate carrying value of the Principal Investing portfolio was $3.4 billion, a decline of 6% from the prior year, due primarily to writedowns.

International Banking

Year ended December 31 *Dollars in millions*	2002	2001
Income statement data:		
Net interest income	$ 715	$ 1,181
Noninterest income	(167)	226
Total revenue	548	1,407
Provision for credit losses	432	859
Noninterest expense	694	943
Tax benefit	(186)	(175)
Net loss	$ (392)	$ (220)
Balance sheet data:		
Average assets	$20,694	$25,327
Average loans and leases	13,966	16,283
Average deposits	7,881	10,946
Return on equity	nm	nm

nm not meaningful

Year ended December 31 *Dollars in millions*	2002 Net Income/(Loss)	2001	2002 Total Revenue	2001	2002 Return on Equity	2001
Brazil	$ 120	$ 225	$ 553	$ 729	24%	53%
Argentina	(559)	(513)	(302)	350	nm	nm
All other international	47	68	297	328	13	21
Total	$(392)	$(220)	$ 548	$1,407	nm	nm

nm not meaningful

International Banking includes our international operations, the largest of which are in Brazil and Argentina, where we have been in business since 1947 and 1917, respectively. This business line also includes operations in other Latin American countries. We have 66 branch banking locations in Brazil and total average assets were $10.3 billion for 2002, down from $10.9 billion for 2001. Period-end assets at December 31, 2002 were $9.1 billion compared to $12 billion at December 31, 2001. In Argentina, we currently operate 109 branches and had total average assets of $5 billion for 2002, down 47% from $9.4 billion for 2001. Period-end assets were $3.7 billion at December 31, 2002, down $5.6 billion from December 31, 2001. International Banking recorded a net loss of $392 million for 2002, compared to a net loss of $220 million for 2001. These losses were directly related to the social, political and economic situation in Argentina and our decision in April 2002 to reduce our Brazilian exposure.

Argentina s net loss for 2002 was $559 million, compared to a net loss of $513 million for 2001, and reflected the deterioration in the local economy as well as the impact of dramatic changes in the Argentine government s monetary and fiscal policies. These government-mandated policies included the pesofication of loans and deposits that had been denominated in U.S. dollars, the abolishment of the fixed currency exchange rate, the elimination of the inflation indexation on many consumer loans, the court-ordered payout of certain frozen deposits at pre-devaluation values, and valuation adjustments on foreign exchange contracts. Brazil reported earnings of $120 million for 2002, a decrease of $105 million, or 47%, compared to 2001. Brazil s results reflected our decision, which we announced in April 2002, to reposition the balance sheet and reduce risk in that country due to the economic uncertainty that existed in the country for much of 2002. You can read more detailed information

Table of Contents

about Argentina and Brazil in the Country Risk section of this discussion and analysis.

All Other

All Other includes transactions not allocated to our principal business lines, the residual impact of methodology allocations, such as the provision for credit losses, reserve for credit losses and equity, combined with funds transfer pricing offsets.

Funds transfer pricing is used to assign interest income and interest expense to each line of business on a matched funding concept based on each business s net asset or liability position. The provision for credit losses is generally allocated to business lines on an expected loss basis. Expected loss is an estimate of the average loss rate that individual credit portfolios will experience over an economic cycle, based on our historical loss experience and various market data. This economic cycle methodology differs from the methodology used to determine our consolidated provision for credit losses for any given period, which is based on an evaluation of the adequacy of the reserve for credit losses considering the risk characteristics in the portfolio at a point in time. The difference between the sum of the provisions for each line of business determined using the expected loss methodology and the consolidated provision is included in All Other.

You can find more information about our consolidated reserve methodology in the Reserve for Credit Losses section of this discussion and analysis and in Note 1 of the Notes to Consolidated Financial Statements included under Item 8 of this Report.

The business activities of our Treasury unit are also included in All Other. The Treasury unit is responsible for the balance sheet management function, which consists of managing our wholesale funding needs, the structural non-trading interest rate risk inherent in our banking franchise and our capital levels. To manage interest rate risk, Treasury utilizes the residential mortgage portfolio, along with other financial instruments such as securities and derivatives. While the Treasury unit utilizes the mortgage portfolio as an interest rate risk management tool and earning asset, other business units manage and have responsibility for credit risk management, accounting and general operations.

For the year ended December 31, 2002, All Other incurred a net loss of $297 million, compared to a net loss of $653 million for the prior year. Net income for our Treasury unit was $549 million in 2002 compared to $353 million in 2001, with the increase resulting from net securities gains. In 2002, All Other also included consolidated provisions for credit losses recorded in the second and fourth quarters ($982 million or $653 million after-tax), primarily to acknowledge the poor environment surrounding telecommunications and other large corporate credits, and the residual impact of the consolidated provision for credit loss methodology discussed earlier ($196 million after-tax).

In the 2001 period, All Other included $250 million of after-tax provision for credit losses in excess of that allocated to our various business lines and $137 million of after-tax income related to transfer pricing offsets. In addition, All Other in 2001 included an after-tax loss of $285 million from the sale of our mortgage banking business, after-tax merger-, restructuring- and integration-related costs of $604 million, and after-tax gains of $235 million, principally related to divestitures associated with the BankBoston merger. The 2001 period also included $255 million of after-tax goodwill amortization. In connection with the adoption of SFAS No. 142, which is more fully discussed in Note 1 of the Notes to Consolidated Financial Statements included under Item 8 of this Report, goodwill amortization recorded in previous years was reclassified from the business units to All Other for comparative purposes.

SIGNIFICANT ACCOUNTING POLICIES

FleetBoston s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, including prevailing practices within the financial services industry. The preparation of consolidated financial statements requires management to make judgments, involving significant estimates and assumptions, in the application of certain of its accounting policies about the effects of matters that are inherently uncertain. These estimates and assumptions, which may materially affect the reported amounts of certain assets, liabilities, revenues and expenses, are based on information available as of the date of the financial statements, and changes in this information over time could materially impact amounts reported in the financial statements as a result of the use of different estimates and assumptions. Certain accounting policies, by their nature, have a greater reliance on the use of estimates and assumptions, and could produce results materially different from those originally reported.

Based on the sensitivity of financial statement amounts to the methods, estimates and assumptions underlying reported amounts, the relatively more significant accounting policies followed by FleetBoston have been identified by management as the determination of the reserve for credit losses; the valuation of principal investing securities; accounting for goodwill; and accounting for income taxes. These policies require the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

The following is a brief discussion of these significant accounting policies. An understanding of the judgments, estimates and assumptions underlying these accounting policies is essential in order to understand our reported financial condition and results of operations. These accounting policies are described in more detail in Note 1 of the Notes to Consolidated Financial Statements included under Item 8 of this

Report.

Table of Contents

Reserve for Credit Losses

The reserve for credit losses represents the amount available for estimated probable credit losses existing in our lending portfolio. The methodology used to provide the appropriate level of reserve is inherently subjective, and involves many complex estimates and assumptions.

We perform periodic, systematic reviews of our credit portfolios to identify inherent losses and assess the overall probability of collection. These reviews include an analysis of historical default and loss experience which results in the identification and quantification of loss factors. These loss factors are used in determining the appropriate level of reserve to cover the estimated probable losses existing in each lending category. Management judgment involving the estimates of loss factors can be impacted by many variables, such as the number of years of actual default and loss history included in the evaluation, the volatility of forecasted net credit losses, and the financial models used in the forecasting process.

The methodology used to determine the appropriate level of the reserve for credit losses and related provisions differs for commercial versus consumer loans, and involves other overall evaluations, such as a sovereign risk analysis, which is performed as part of our review of our international commercial and consumer loan portfolios, and assesses the cross-border risk of credit loss. In addition, significant estimates are involved in the determination of the appropriate level of reserve related to impaired loans, which are commercial and industrial and commercial real estate loans on nonaccrual status and troubled debt restructurings. The portion of the reserve related to impaired loans is based on discounted cash flows using the loan s effective interest rate, or the fair value of the collateral for collateral-dependent loans, or the observable market price of the impaired loan. Each of these variables involves judgment and the use of estimates. For instance, discounted cash flows are based on estimates of the amount and timing of expected future cash flows.

In addition to periodic estimation and testing of loss factors, we periodically evaluate prevailing economic, business and, in some cases, political conditions, including emerging markets risks and the impact of currency devaluation on cross-border exposures, industry concentrations, changes in the size and characteristics of the portfolio, recent loss experience and other pertinent factors. Management judgment is involved at many levels of these evaluations.

An integral aspect of our risk management process is allocating the reserve for credit losses to various components of the lending portfolio based upon an analysis of risk characteristics, demonstrated losses, industry and other segmentations, and other factors, as well as providing an appropriate unallocated component. The unallocated component represents management s view that, given the complexities of the lending portfolio and the assessment process, including the inherent imprecision in the financial models used in the loss forecasting process, there are estimable losses that have been incurred but not

yet specifically identified, and as a result not fully provided for in the allocated portion of the reserve.

The unallocated component may change periodically after evaluating factors impacting assumptions utilized in the allocated reserve calculation, such as recent loss experience, industry concentrations, and the impact of current economic conditions on historical or forecasted net credit losses. Although the unallocated portion of the reserve is provided to absorb losses in excess of the amounts allocated to specific lending categories, both allocated and unallocated components are available to absorb losses in any lending category.

For more information about the methodology used in the determination of the reserve for credit losses, refer to the Financial Condition Reserve for Credit Losses section of this discussion and analysis.

Principal Investing Securities

Investments in private companies are generally accounted for using the cost method and are carried in the consolidated balance sheet at cost less declines in value deemed other than temporary. 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 capital markets revenue when they are sold or otherwise exchanged, or when declines in value are deemed other than temporary. Certain equity investments in private companies are accounted for using the equity method, with changes in carrying value recognized currently in capital markets revenue. A determination to use the equity method is generally based on the level of our ownership interest and whether we have the ability to influence the operating or financial decisions of the investee.

Investments in public companies are carried at fair value, based on quoted market prices, with unrealized gains and losses recorded, net of tax, as a component of stockholders equity. When such investments are liquidated or deemed impaired, gains and losses are recorded in capital markets revenue. Investments in investment fund partnerships are accounted for under the equity method of accounting, using financial information for the partnerships provided by the respective investment fund managers, with changes in carrying value recognized currently in capital markets revenue.

Significant management judgment is involved in the evaluation of declines in value of individual investments. Declines that are deemed other than temporary are recognized currently in the income statement through write-downs of the investments. The estimates and assumptions used by management to evaluate declines in value can be impacted by many factors, such as the financial condition, earnings capacity and near-term prospects of the company in which we have invested and, for publicly-traded securities, the length of time and the extent to which fair value has been less than cost. The evaluation of these investments is also subject to the overall condition of the economy and its impact on the capital markets. If sufficient evidence does not exist to support a realizable value equal

Table of Contents

to or greater than the carrying value of the investment, an impairment loss is recorded.

For more information about our principal investing portfolio, refer to the Capital Markets Revenue section of this discussion and analysis.

Goodwill

Goodwill, which arises from the purchase price exceeding the assigned value of net assets of acquired businesses, represents the value attributable to unidentifiable intangible elements being acquired. The majority of our goodwill resulted from business acquisitions, and its value is inherent primarily in our banking, credit card and asset management businesses. Of the total goodwill included in our consolidated balance sheet, about 65% is recorded in our Personal Financial Services business line; 26% in Commercial Financial Services; 7% in Capital Markets; and 2% in International Banking.

The value of this goodwill is supported ultimately by revenue from our banking and credit card businesses and the market value of the assets under management. A decline in earnings as a result of a lack of growth, or our inability to deliver cost-effective services over sustained periods, could lead to impairment of goodwill, which would be recorded as a writedown in our income statement.

On an annual basis, or as circumstances dictate, management reviews goodwill and evaluates events or other developments that may indicate impairment in the carrying amount. The evaluation methodology for potential impairment is inherently complex, and involves significant management judgment in the use of estimates and assumptions.

We evaluate impairment using a two-step process. First, we compare the aggregate fair value of the reporting unit to its carrying amount, including goodwill. If the fair value exceeds the carrying amount, no impairment exists. If the carrying amount of the reporting unit exceeds the fair value, then we compare the implied fair value, defined below, of the reporting unit s goodwill with its carrying amount. If the carrying amount of the goodwill exceeds the implied fair value, then goodwill impairment is recognized by writing the goodwill down to the implied fair value.

We use quoted market prices where available to value the reporting unit being evaluated for goodwill impairment. If not available, we estimate future cash flows using present value techniques. These estimates involve many assumptions, including expected results of the reporting unit, an assumed discount rate and an assumed growth rate for the reporting unit. In some cases, expected results are normalized to adjust for material nonrecurring transactions if considered necessary for a more meaningful estimate. The discount rate used is the rate used by FleetBoston in evaluating external acquisitions. The implied fair value is determined by allocating the fair value of the reporting unit to all of the assets and liabilities of that unit, as if the unit had been acquired in a busi-

ness combination and the fair value of the unit was the purchase price.

Events that may indicate goodwill impairment include significant or adverse changes in the business, economic or political climate; an adverse action or assessment by a regulator; unanticipated competition; and a more-likely-than-not expectation that a business of FleetBoston will be sold or otherwise disposed of.

More information about goodwill is included in Note 7 of the Notes to Consolidated Financial Statements included under Item 8 of this Report.

Income Taxes

Our overall tax position is fundamentally complex, and management judgment is involved in the analysis of income tax assets and liabilities. An integral aspect of this analysis involves estimating the expected realization of deferred tax assets and liabilities. Management s determination of the likelihood that deferred tax assets can be realized is subjective, and involves estimates and assumptions about matters that are inherently uncertain. The realization of deferred tax assets, including foreign tax credits, arises from carrybacks to prior taxable periods, levels of future taxable income, including net foreign source income in certain periods, and the achievement of tax planning strategies. Underlying estimates and assumptions can change over time, influencing our overall tax positions, as a result of unanticipated events or circumstances, in particular the level of foreign source earnings.

Management continually monitors and evaluates the worldwide impact of tax decisions, rulings and current developments on the estimates and assumptions underlying our analysis of the expected realization of deferred tax assets and valuation reserves. More information about our income taxes is included in Note 16 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*	2002	2001	2000
Interest income	$10,102	$13,604	$16,080
Tax-equivalent adjustment	63	57	70
Interest expense	3,682	6,317	8,324
Net interest income	$ 6,483	$ 7,344	$ 7,826

Net interest income decreased $861 million, or 12%, compared to 2001, with $413 million of this decrease related to Argentina and $47 million related to Brazil.

The decrease in Argentina resulted mainly from a higher level of nonperforming assets and changes in government policies which resulted in higher funding costs. Such government policies included the government-mandated rule change subjecting all deposits to inflation-related indexation adjustments, which is more fully dis-

Table of Contents

cussed in the Country Risk section of this discussion and analysis. The decline in Brazil was primarily due to our previously discussed risk reduction actions.

The remaining decrease in net interest income was primarily due to higher levels of nonperforming assets and narrower spreads, continued weak loan demand, our previously disclosed efforts to reduce non-strategic domestic corporate exposures and the sale of our mortgage banking business in the second quarter of 2001. Partially offsetting these declines was an increase in home equity loans and domestic low-cost core deposits.

Net Interest Margin and Interest Rate Spread

Year ended December 31 FTE basis *Dollars in millions*	2002 Average Balance	Rate	2001 Average Balance	Rate
Securities	$ 28,199	5.10%	$ 26,178	6.66%
Loans and leases:				
Domestic	101,448	6.63	108,288	7.87
International	18,484	7.93	20,504	10.95
Due from brokers/dealers	3,937	1.46	4,099	3.54
Mortgages held for sale	342	6.31	1,788	7.26
Other	9,090	5.01	14,881	5.85
Total interest earning assets	161,500	6.29	175,738	7.77
Deposits	91,928	2.25	96,717	3.62
Short-term borrowings	13,949	2.99	19,845	5.25
Due to brokers/dealers	3,896	1.18	3,849	3.84
Long-term debt	22,658	5.06	27,945	5.81
Interest bearing liabilities	132,431	2.78	148,356	4.26
Interest rate spread		3.51		3.51
Interest-free sources of funds	29,069		27,382	
Total sources of funds	$ 161,500	2.28%	$ 175,738	3.59%
Net interest margin		4.01%		4.18%

Net interest margin represents the relationship between net interest income and average earning assets. Changes in the components of interest earning assets, as well as interest bearing liabilities, are discussed in more detail below. Net interest margin for 2002 declined 17 basis points to 4.01%, compared to 4.18% in 2001, with 16 basis points of this decrease related to Latin America, primarily Argentina. Excluding Argentina, net interest margin was fairly flat compared to 2001, as an increase in the level of nonperforming loans and a change in asset mix were offset by the favorable impact of growth in low-cost core deposits.

Net interest margin is affected by several factors, including fluctuations in the overall interest rate environment, funding strategies, and 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. We utilize derivative instruments which qualify for hedge accounting as an interest rate risk management tool. These derivatives serve to stabilize net interest income and net interest margin when interest rates fluctuate. Accordingly, the impact of derivatives on net interest income and net interest margin should be viewed in the overall context of our risk management strategy. For 2002 and 2001, net interest margin would have been approximately 3.45% and 4.13%, respectively, if hedges were not entered into to mitigate interest rate fluctuations. More information about our use of derivative instruments to manage interest rate risk is

included in the Market Risk Management section of this discussion and analysis, and in Note 13 of the Notes to Consolidated Financial Statements included under Item 8 of this Report.

Average securities increased $2 billion to $28.2 billion due to net purchases of domestic debt securities throughout 2002.

Average domestic loans and leases decreased $6.8 billion to $101.4 billion in 2002, as a result of lower average commercial and industrial, or C&I, loan levels resulting from weaker loan demand combined with our targeted reduction of non-strategic domestic corporate exposures. Also contributing to this decline were higher charge-offs and a decrease in average residential loans due to loan run-off. Partially offsetting these declines were increases in average home equity loans, due to the low interest rate environment, and credit card receivables.

Average international loans and leases decreased $2 billion, primarily due to the devaluation of the Argentine peso, as well as our continuing efforts to reduce risk exposures in Latin America.

Average other interest earning assets decreased $5.8 billion to $9.1 billion in 2002, primarily due to a decrease in average federal funds sold and securities purchased under agreements to resell, partly the result of a shift in our earning asset mix resulting from an increase in home equity loans.

The $4.8 billion decrease in average interest bearing deposits from 2001 was primarily the result of the pesofication and devaluation of the local currency in Argentina, coupled with maturities of domestic time deposits. These declines were partially offset by growth in average domestic low-cost core deposits.

Average short-term borrowings decreased $5.9 billion to $13.9 billion in 2002, due to lower short-term borrowing needs resulting from the overall reduction in average loans and growth in domestic low-cost core deposits.

Average long-term debt decreased $5.3 billion to $22.7 billion in 2002, primarily due to net maturities of senior notes throughout 2002, partially offset by the issuance of trust preferred securities.

Provision for Credit Losses

The provision for credit losses for 2002 amounted to $2.8 billion compared to $2.3 billion for 2001. The 2002 provision primarily reflected the impact of continued weakness in the U.S. economy on domestic commercial credit, as well as economic conditions in Latin America.

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 lending portfolio and economic conditions. Levels of future provisions will continue to be a function of management s assessment of credit risk based upon periodic reviews of the reserve for credit losses, including assessments of the potential impact of domestic economic conditions and the difficult operating environment in Latin America.

Table of Contents

As a result of our lending to corporate borrowers, we are significantly impacted by the depressed portions of the economic cycle. The domestic commercial credit environment remains stressed, and therefore the level of future provisions cannot be determined with certainty. In April 2002, we announced that we would reduce our credit exposure to targeted, non-strategic areas of corporate lending by approximately $10 billion, of which 30% consisted of funded credits. We completed that reduction effort during the fourth quarter of 2002, and we anticipate further reductions in exposure in 2003. Additional information about commercial credit and the reserve for credit losses can be found in the Loans and Leases and Reserve for Credit Losses sections of this discussion and analysis, respectively. Information about Latin America is included in the Country Risk section of this discussion and analysis.

Noninterest Income

Year ended December 31 *In millions*	2002	2001	2000
Investment services revenue	$1,559	$1,349	$1,534
Banking fees and commissions	1,533	1,577	1,588
Credit card revenue	785	757	738
Capital markets revenue	462	(148)	1,791
Gains from merger-related branch divestitures		430	843
Other	697	590	1,065
Total noninterest income	$5,036	$4,555	$7,559

Noninterest income increased $481 million, or 11%, in 2002, reflecting improvements in investment services revenues, mainly the result of the fourth quarter 2001 Liberty acquisition, and capital markets revenues, the result of a lower level of investment writedowns in our principal investing portfolio (approximately $360 million in 2002 compared to $1.1 billion in 2001). In addition, we recorded net securities gains of $6 million in 2002 compared to net losses of $275 million in 2001. Partially offsetting these improvements was the absence of $430 million of branch divestiture gains and a $146 million gain from the sale of our investment in the NYCE Corporation, both recorded in 2001, as well as the absence of $107 million of revenue recorded in the first half of 2001 from our mortgage banking business, which we sold in June 2001.

Investment Services Revenue

Year ended December 31 *In millions*	2002	2001	2000
Investment management revenue	$1,092	$ 901	$ 935
Brokerage fees and commissions	467	448	599
Total investment services revenue	$1,559	$1,349	$1,534

Investment Management Revenue

Year ended December 31 *In millions*	2002	2001	2000
Columbia Management Group	$ 671	$380	$356
Private Clients Group	322	371	406
International	85	139	161
Other	14	11	12

Total investment management revenue	$1,092	$901	$935

Investment management revenue increased $191 million, or 21%, primarily due to the acquisition of Liberty in November 2001, included in Columbia Management Group in the table above. Partially offsetting this increase was a decline in fees from domestic assets under management, due to lower market valuations, and lower international revenues due to the economic difficulties experienced in Argentina and Brazil. At December 31, 2002, total domestic and international assets under management were approximately $148 billion compared to $174 billion at December 31, 2001.

Brokerage Fees and Commissions

Brokerage fees and commissions increased $19 million, or 4%, compared to 2001, due primarily to higher sales of specialty mutual fund and annuity products at Quick & Reilly, which is transitioning into an advisory-based business. Growth in these product sales helped offset lower retail brokerage fees and commissions resulting from the continued weak market conditions.

Banking Fees and Commissions

Year ended December 31 *In millions*	2002	2001	2000
Cash management fees	$ 460	$ 375	$ 300
Deposit account charges	414	483	608
Electronic banking fees	267	249	223
Other	392	470	457
Total banking fees and commissions	$1,533	$1,577	$1,588

Banking fees and commissions declined $44 million from 2001, and mainly reflected declines in Argentina as the currency devaluation impacted deposit account charges and other fees, as well as declines in Brazil. Excluding decreases from Argentina and Brazil, banking fees and commissions increased $57 million from 2001. This increase was primarily due to higher cash management fees reflecting growth in sales from cross-selling, and higher electronic banking fees. These increases were partially offset by declines related to a change in fee structure in line with our customer-focused strategy.

Credit Card Revenue

Credit card revenue increased $28 million from 2001 to $785 million in 2002, mainly the result of higher interchange income driven by increased sales volume and a pre-tax gain of $77 million in 2002 from the sale of credit card receivables unrelated to securitization activities, compared to a pre-tax gain of $39 million in 2001. These revenues were partially offset by amortization of a higher level of deferred loan origination costs.

We service approximately $16.3 billion of managed (both securitized and owned) domestic credit card receivables. The primary components of credit card revenue associated with the securitized portion of the portfolio include gains on sale and servicing revenue. The primary components of credit card revenue associated with the owned portion of the portfolio include net interest in-

Table of Contents

come, interchange fees and complementary product revenues, offset by the provision for credit losses and amortization of deferred loan origination costs.

The securitization of credit card receivables changes our status from that of a lender to that of a loan servicer. Accordingly, there is a change in the classification of revenue associated with the securitized receivables when reported in the income statement. We do not record net interest income or provisions for credit losses on securitized receivables, since we do not own the balances. Instead, interest and fees earned on the receivables, net of credit losses, are transferred to the securitization trust, which is responsible for the payment of funding costs. We retain a contractual right to residual cash flows and calculate a gain on sale based on the present value of those cash flows over time. In future periods, the excess cash flows transferred to FleetBoston are recorded as a reduction in the carrying value of our retained residual interest.

For 2002, as a result of the securitization of credit card receivables, we recorded securitization income, primarily composed of gains on sale of $245 million and servicing income of $187 million, in credit card revenue. For 2001, as a result of the securitization of credit card receivables, we recorded securitization income, primarily composed of gains on sale of $182 million and servicing income of $177 million, in credit card revenue. The gains on sale were recognized on new credit card securitizations and replenishment of revolving credit card securitization pools.

Future revenues from securitization activities may vary depending upon the credit performance of the receivables supporting the securitization, because credit losses are a component of the gain on sale calculation associated with those securitized receivables.

Additional information concerning our 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.

Capital Markets Revenue

Year ended December 31 *In millions*	2002	2001	2000
Market-making revenue	$ 271	$ 291	$ 261
Syndication/agency fees	138	169	185
Trading profits and commissions	127	187	196
Foreign exchange revenue	59	239	196
Underwriting and advisory fees	50	41	46
Securities gains/(losses)	6	(275)	13
Principal investing	(189)	(800)	894
Total capital markets revenue	$ 462	$(148)	$1,791

Capital markets revenue increased $610 million in 2002 compared to 2001. This increase was driven by lower levels of investment writedowns in the principal investing portfolio and an improvement in the level of securities gains/losses in 2002. These improvements were offset by a decline in foreign exchange revenue, partly due to the release of Argentine deposits previously frozen by judicial decrees, as well as the absence of the previously men-

tioned $146 million gain from the sale of our investment in the NYCE Corporation. Revenues from capital markets activities are impacted by a variety of factors, including investor sentiment, the condition of the economy, interest rates and equity markets.

Market-making revenue decreased $20 million, or 7%, to $271 million in 2002. Although transaction volume increased at Fleet Specialist in 2002, average trade size and average price per share decreased as a result of market conditions, which in turn resulted in lower revenues per trade.

Syndication/agency fees declined $31 million to $138 million for 2002, as a result of lower syndication volume during 2002. Such fees are a function of the timing and level of syndication transactions, which were generally lower in 2002 due to market conditions.

Trading profits and commissions declined $60 million, or 32%, mainly due to a charge recorded in the fourth quarter of 2002 for an Enron-related financing.

Foreign exchange revenue decreased $180 million, or 75%, from 2001, due, in part, to unfavorable Argentine government-related actions, as mentioned above.

Net securities gains of $6 million in 2002 resulted mainly from gains on sales of domestic debt securities, offset mostly by losses attributable to Argentina, as well as losses in the Brazilian securities portfolio resulting from portfolio repositioning. The 2001 net securities loss of $275 million included a $265 million loss on sale of securities following the Summit acquisition as well as writedowns of the Argentine government bond portfolio, partially offset by gains from sales of domestic corporate bonds.

Principal investing losses were lower in 2002 compared to 2001, mainly due to lower levels of investment portfolio writedowns (approximately $360 million in 2002 compared to $1.1 billion in 2001), partially offset by the previously mentioned $146 million gain from the sale of our investment in the NYCE Corporation in 2001.

Of the total investment writedowns recorded in 2002, 54% were related to investments in private companies, 35% were related to investments in investment fund partnerships and 11% were related to investments in public companies. Approximately 54% of the aggregate public and private investment writedowns related to the technology and telecommunications sectors. The carrying values of these investments are subject to the overall condition of the economy and its impact on the equity markets.

Over the past two years, private equity investing has experienced significant illiquidity and impairment in value as a result of deterioration in financial markets and continued weakness in the U.S. economy. Certain industry sectors have been particularly impacted by these conditions, including technology and telecommunications. As a result of our investment in these industry sectors, as well as the manufacturing and distribution, retailing, and media and entertainment sectors, we expect the principal investing portfolio to continue to experience stress. We will continue our previously disclosed efforts to reduce our overall principal investing exposure.

Table of Contents

During 2002, we made new investments totaling $530 million ($37 million of new investments and $493 million of previously committed investments), compared to $775 million ($218 million of new investments and $557 million of previously committed investments) in 2001. As of December 31, 2002, we had unfunded commitments to invest in funds totaling approximately $1.6 billion. These commitments are drawn down periodically throughout the life of the respective investment fund partnership. The principal investing portfolio had an aggregate carrying value of approximately $3.4 billion at December 31, 2002, compared to $3.6 billion at December 31, 2001.

The following table presents an industry breakdown of our investments in public and private companies and primary investment fund partnerships, which accounted for approximately $3.1 billion of the $3.4 billion aggregate carrying value of the principal investing portfolio at December 31, 2002. The industry breakdown for the investments in investment fund partnerships is based on information for the individual investments provided by the various funds, and is one to two quarters in arrears.

Portfolio Diversification

December 31, 2002	Percentage of total investments in public and private companies	Percentage of total investments in primary investment fund partnerships
Manufacturing and distribution	26%	21%
Consumer/retail	22	10
Communication	12	9
Information technology	11	10
Healthcare	7	9
Media/entertainment	7	11
Financial services	6	7
General services	5	12
Real estate	3	7
Energy	1	2
Other		2
Total	100%	100%

Approximately 82% of our aggregate investment in public and private companies is invested domestically, with the remainder invested overseas, primarily in Europe. In addition, approximately 47% of the portfolio has been held for three years or less, with an additional 33% held between four and five years.

We utilize a variety of tools and processes to manage risk within our principal investing portfolio. These tools include a stringent evaluation and approval process for individual investments, portfolio diversification guidelines, risk rating systems, and portfolio monitoring processes which include procedures for identifying troubled investments and taking appropriate action. With respect to diversification, we have established portfolio guidelines for stage of investment (seed, early or later stage), geographic concentration and industry concentration. These guidelines are reviewed for compliance on a regular basis. An eight-level rating system is used to rate investment quality, and valuations and investment ratings are changed as company-specific facts and circumstances

dictate. In addition, all investments are reviewed at least quarterly.

To further manage risk within the principal investing portfolio, we utilize derivative contracts to offset foreign currency exposure resulting from certain investments that are denominated in a foreign currency. Publicly-traded investments are generally liquidated within a six-month period after expiration of trading restrictions unless such action is not practical. When publicly-traded securities are received as distributions from investment fund partnerships, these securities are liquidated as soon as possible.

Other Noninterest Income

Gains on branch divestitures of $430 million were recorded in 2001 in connection with the BankBoston merger.

Other noninterest income of $697 million in 2002 was $107 million, or 18%, higher than 2001. This increase resulted from the absence of a $200 million charge recorded in the fourth quarter of 2001 related to the estimated impact of Argentine government actions with respect to our Argentine operations, partially offset by the absence of $107 million of revenues recorded in the first half of 2001 from our mortgage banking business, which we sold in June 2001. Excluding these items in 2001, noninterest income increased $14 million compared to 2001.

Noninterest Expense

Year ended December 31 *In millions*	2002	2001	2000
Employee compensation and benefits	$3,255	$3,626	$4,030
Occupancy and equipment	982	1,040	1,113
Marketing and public relations	225	233	281
Legal and other professional	175	216	321
Intangible asset amortization	93	381	377
Merger- and restructuring-related charges	71	549	89
Other	1,603	1,932	1,889
Total noninterest expense	$6,404	$7,977	$8,100

Noninterest expense decreased $1.6 billion, or 20%, compared to 2001. This decrease was primarily due to a $478 million decline in merger and restructuring costs; the absence of the $428 million loss from the 2001 sale of our mortgage banking business; lower incentive compensation levels; the discontinuance of goodwill amortization beginning January 1, 2002 in connection with our adoption of the new goodwill accounting standard; and full-year cost savings realized in 2002 from our corporate-wide expense containment program implemented in 2001.

In 2002, we recorded $71 million of restructuring charges, composed of severance and outplacement costs, in connection with our plan for a modest streamlining of operations. We expect this action to result in expense reductions of approximately $100 million in 2003. 2001 merger- and restructuring-related charges of $549 million related mainly to the Summit acquisition and the reorganization of capital markets and other businesses. Additional information concerning these charges is included in

Table of Contents

Note 15 of the Notes to Consolidated Financial Statements included under Item 8 of this Report.

In 2002, we adopted the fair value accounting provisions of SFAS No. 123, Accounting for Stock-Based Compensation, for stock options granted after January 1, 2002. In accordance with the standard, options granted prior to January 1, 2002 will continue to be accounted for under APB Opinion No. 25, Accounting for Stock Issued to Employees, with no compensation expense recognized. As a result of our adoption of fair value accounting, we recorded approximately $6 million of employee compensation and benefits expense in 2002.

Additional information concerning stock-based compensation is included in Note 1 of the Notes to Consolidated Financial Statements included under Item 8 of this Report. As a result of our election to account for adoption of the fair value accounting provisions of SFAS No. 123 under the prospective method, employee compensation and benefits expense related to stock options is expected to increase from $6 million for 2002 to approximately $16 million for 2003. Beyond 2003, additional increases in expense, if any, cannot be reliably estimated, as they will depend on the number and type of awards granted, as well as future economic conditions related to our stock price and related volatility, our dividend yield, risk free interest rates and other factors.

Given the performance of investment markets over the past few years and the related implications for long-term trends, for financial accounting purposes we will reduce our assumption for expected long-term rate of return on pension plan assets from 9.25%, used in 2002, to 8.00% for 2003. In addition, based on market yields at December 31, 2002, the discount rate will be reduced from 7.00%, used in 2002, to 6.50%. We anticipate that the combined impact of these two assumption changes along with plan experience, including recent investment losses, will result in additional noninterest expense of $30 million to $50 million per year for the next three years. These assumptions and projected expense levels are based on pension asset and obligation levels as of December 31, 2002. Notwithstanding these changes, for cash funding purposes, the minimum required contribution for 2003 is expected to be zero. Additional information about our pension plan, including funded status, is included in Note 14 of the Notes to Consolidated Financial Statements included under Item 8 of this Report.

Income Taxes

We recorded income tax expense of $768 million for 2002 compared to $573 million for 2001, with respective effective tax rates of 33.5% in 2002 and 37.2% in 2001. The higher 2001 effective tax rate reflected the effect of nondeductible merger- and restructuring-related charges recorded in connection with the Summit acquisition. The effective tax rate for 2002 was reduced by the impact of eliminating goodwill amortization in accordance with SFAS No. 142, as well as tax credits and other items, on a lower pre-tax income level. More information about our income taxes is included in Note 16 of the

Notes to Consolidated Financial Statements included under Item 8 of this Report.

FINANCIAL CONDITION

Risk Management

Our business requires us to take risks while ensuring that we receive adequate compensation for the risks undertaken. Management of the risks inherent in our businesses is essential for financial performance and creating long-term value. Risk management is governed by policies reviewed and approved annually by our Board of Directors, or Board. The goal of risk management is the control of our 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 FleetBoston as well as erosion of our capital and damage to our reputation. We have 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 our risk mitigation strategies.

Risk management techniques are structured around certain fundamental risk principles, 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 us in managing our risk exposures, but they cannot fully insulate us from losses. Despite best efforts, losses will periodically occur, particularly with respect to credit risk during any part of the credit cycle, and with respect to other risk factors, when unanticipated events challenge the limits of risk management processes. Consequently, we continue to seek improvements to our risk management process to better balance risks and returns while operating in a dynamic environment.

In response to the risks inherent in the financial services industry, we have organized our 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 Chief Risk Officer, or CRO, who is a member of the Office of the Chief Executive Officer, or OCEO. The CRO has administrative oversight for our global assurance functions Audit, Corporate Compliance and Risk Review which monitor internal control, credit risk rating integrity and compliance with regulatory requirements and various operating risk policies. The Audit and Corporate Compliance functions report directly to the Audit

Committee of the Board, and Risk Review reports directly to the Risk Management Committee of the Board. Management of liquidity risk, market risk from non-trading activities and capital is organized under our Treasurer, who reports directly to the Vice Chairman and Chief Administrative Officer.

We use a series of cross-functional committees to provide oversight of our risk management processes. The Asset, Liability, Capital & Credit Committee, or ALCCCO, is the most senior committee, and is chaired by our Treasurer, with membership including various members of the OCEO and senior business and staff executives. ALCCCO is a strategic business and risk management forum that directs utilization of our balance sheet resources and assures consistency across tactical and technical committees. ALCCCO reviews and approves all major market risk, liquidity risk, and capital management programs. In addition, ALCCCO sets the balance sheet utilization limits for credit exposure concentration across FleetBoston.

Tactical and technical committees chaired by the CRO or various senior executives within Risk Management include: the Credit Policy Committee, or CPC, the Market Risk Committee, the Loan Loss Reserve Committee, the Country Exposure Committee, the Consumer Risk Committee and the Operating Risk Committee. There is also a joint Risk Management and line of business committee called the Portfolio Management Committee, or PMC, which is co-chaired by the CRO and the President and Chief Operating Officer. The PMC is charged with implementing ALCCCO s strategic directives relating to credit portfolio risk. Additional information on certain of our 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. Information concerning our management of risk inherent in our principal investing portfolio is included in the Capital Markets Revenue section 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 FleetBoston. Our 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 PMC oversees FleetBoston s portfolio composition and trends, determining adjustments to optimize risk and return in accordance with strategies approved by ALCCCO. The CPC governs the credit risk process of FleetBoston by ensuring that risk tolerances for specific lines of business and market segments are consistent with corporate strategy and capital allocations set by the PMC. The CPC establishes house, product, industry and geographic limits and approves limit changes as required. In addition, the CPC reviews all existing and proposed credit policies for consistency with corporate policy and appropriateness of risks taken by the lines of business.

An independent credit function monitors compliance by individual units with our credit policies, works to ensure that credit due diligence and credit administration meet acceptable standards, and is jointly responsible, along with the business units, for the effectiveness of the loan review process. The credit function includes a staff of credit officers reporting directly to the Chief Credit Officer, or 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 to monitor and manage credit risks within policy and portfolio guidelines. A risk review unit, which reports independently of both the business and credit units, assesses the integrity of risk ratings and the adequacy of the credit process for all units of FleetBoston. Senior management oversees our worldwide credit activities, both corporate and consumer. The level of management required to approve credit exposures varies according to the size and level of perceived risk.

An important aspect of our portfolio management process is the management of large, individual credits, which are governed by relationship limits that are set according to risk rating. Portfolio limits are approved by ALCCCO, 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. The CPC establishes target risk rating profiles for FleetBoston in accordance with strategies and capital allocations set by ALCCCO and the PMC. All limits are reviewed regularly and adjusted based on ALCCCO 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, which are subject to approval of the President and Chief Operating Officer, are more fully discussed in the Country Risk section of this discussion and analysis.

Our Credit Capital Management unit, which reports to the CRO, plays an integral role in portfolio management by enhancing the liquidity and diversity of the loan portfolio while reducing and re-balancing risk exposure.

Our Loan Syndications unit, which is part of Commercial Financial Services, is also important to our portfolio management process. This unit, which is responsible for arranging participations in loans where FleetBoston 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.

We employ 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 our risk of loss.

23

Table of Contents

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*	2002	2001	2000	1999	1998
Domestic:					
Commercial and industrial	$ 39,359	$ 48,486	$ 56,147	$ 63,035	$ 61,296
Commercial real estate	11,001	11,517	11,641	11,119	11,064
Consumer	43,168	32,225	36,045	42,239	40,466
Lease financing	11,199	12,370	11,813	9,933	5,092
Total domestic loans and leases	104,727	104,598	115,646	126,326	117,918
International:					
Commercial[(a)]	11,469	16,640	13,090	10,933	10,095
Consumer	1,005	2,776	2,935	2,898	2,806
Lease financing	3,179	2,974	2,160	2,047	1,607
Total international loans and leases	15,653	22,390	18,185	15,878	14,508
Total loans and leases	$ 120,380	$ 126,988	$ 133,831	$ 142,204	$ 132,426

(a) Includes commercial real estate loans, which are not significant.

Commercial Loans

Domestic C&I and commercial real estate, or CRE, loans approximated $50.4 billion at December 31, 2002 compared to $60.0 billion at December 31, 2001, a decrease of $9.6 billion, or 16%. This decline was composed of a $9.1 billion decrease in C&I loans and a $.5 billion decrease in CRE loans. The decrease in C&I loans was mainly attributable to lower business volume as a result of continued weak loan demand, our previously disclosed targeted, non-strategic corporate exposure reductions, $1.6 billion of charge-offs and a $1 billion commercial loan securitization transaction. More information about the securitization transaction is included in Note 17 of the Notes to Consolidated Financial Statements included under Item 8 of this Report.

International commercial loans totaled $11.5 billion at December 31, 2002 compared to $16.6 billion at December 31, 2001, a decrease of $5.2 billion, or 31%. This decline was primarily due to the impact of the Argentine peso devaluation on the U.S. dollar carrying value of Argentine loans and a decline in Brazilian commercial loans, the latter mainly the result of loan maturities that were not renewed, in connection with our Brazilian exposure reduction efforts.

The following tables present domestic and international C&I exposure, loan outstandings and related nonperforming loans, or NPLs, at December 31, 2002 and December 31, 2001, to the ten most significant industry sectors based on total consolidated exposure at December 31, 2002. These amounts are composed of domestic C&I and international commercial loans presented in the Loans and Leases table above, excluding $64 million and $363 million of international commercial real estate loans at December 31, 2002 and 2001, respectively.

Domestic	December 31, 2002			December 31, 2001		
In millions	Total Exposure[a]	NPLs[b]	Outstanding	Total Exposure[a]	NPLs[b]	Outstanding
Retailing	$ 9,181	$ 13	$ 2,115	$ 9,688	$ 123	$ 2,656
Energy production and distribution:						
Merchant energy	936	150	683	1,162	178	596
Other energy production and distribution	6,681	22	1,804	8,331	21	2,172
Media:						
Cable television	2,164	159	1,354	2,266	10	1,202
Other media	5,481	37	2,216	5,649	59	2,381
Financial services	8,126	12	1,253	12,148	14	1,702
Insurance	6,473		381	6,222	8	729
Technology	5,536	75	1,556	6,972	42	2,191
Business services	4,711	134	2,088	5,341	213	2,427
Banking and finance	4,349	26	1,002	5,555	4	1,726
Healthcare services	4,713	16	1,836	4,608	29	2,022
Transportation and transportation services	4,172	100	1,691	5,554	61	2,418
Other[c]	49,421	565	21,380	55,617	541	26,264
Total	$111,944	$1,309	$39,359	$129,113	$1,303	$48,486

Refer to the following table for footnote information.

Table of Contents

International	December 31, 2002			December 31, 2001		
In millions	Total Exposure[a]	NPLs[b]	Outstanding	Total Exposure[a]	NPLs[b]	Outstanding
Retailing	$ 550	$ 22	$ 305	$ 818	$ 1	$ 579
Energy production and distribution:						
Merchant energy	25	8	11	103		43
Other energy production and distribution	1,488	262	1,215	2,536	1	1,941
Media:						
Cable television	181	33	176	227		198
Other media	781	96	570	936		705
Financial services	192		123	319		212
Insurance	63		8	214		23
Technology	584	4	357	955		722
Business services	519	8	330	713	10	590
Banking and finance	793	179	510	846		498
Healthcare services	36	1	27	48		30
Transportation and transportation services	364	17	187	482	4	330
Other[d]	8,923	693	7,586	12,014	92	10,406
Total	$ 14,499	$ 1,323	$ 11,405	$ 20,211	$ 108	$ 16,277

(a) Includes outstanding loans, unfunded commitments to extend credit and other off-balance sheet financial instruments.
(b) NPLs are included in outstanding amounts.
(c) Includes exposure to the automotive industry of $1.7 billion ($.5 billion outstanding) and $1.9 billion ($.7 billion outstanding) at December 31, 2002 and 2001, respectively. Also includes exposure to the telecommunications industry of $1.3 billion ($.7 billion outstanding) and $3.6 billion ($1.1 billion outstanding) at December 31, 2002 and 2001, respectively.
(d) Includes exposure to the automotive industry of $.6 billion ($.5 billion outstanding) and $1.3 billion ($1.2 billion outstanding) at December 31, 2002 and 2001, respectively. Also includes exposure to the telecommunications industry of $1 billion ($.9 billion outstanding) and $1.4 billion ($1.3 billion outstanding) at December 31, 2002 and 2001, respectively.

Commercial Real Estate Loans

December 31, 2002 domestic CRE loans outstanding, composed of loans secured by real estate, totaled $11.0 billion, and total exposure (outstandings and unfunded commitments to extend credit, including letters of credit and financial guarantees) totaled $13.8 billion. Significant property types included in outstandings and total exposure, respectively, were offices $2.6 billion and $3.0 billion; apartments $1.9 billion and $2.3 billion; and retail $1.7 billion and $1.9 billion. Total NPLs related to domestic CRE loans were $73 million at December 31, 2002, with $39 million related to retail properties.

Consumer Loans

December 31 *In millions*	2002	2001
Domestic:		
Home equity	$ 22,840	$ 13,862
Residential real estate	11,092	8,131
Credit card	5,894	5,547
Consumer margin loans	1,166	1,852
Student loans	849	949
Installment/other	1,327	1,884
Total domestic loans	43,168	32,225

International:		
Residential real estate	498	1,550
Credit card	142	337
Installment/other	365	889
Total international loans	1,005	2,776
Total consumer loans	$44,173	$35,001

Domestic consumer loans totaled $43.2 billion at December 31, 2002 compared to $32.2 billion at December 31, 2001, an increase of $10.9 billion, or 34%. This increase was primarily attributable to strong growth ($9 billion) in home equity loans, mainly attributable to home equity loan promotions and high demand due to low interest rates, as well as a $3 billion rise in residential real estate

loans, the result of increased loan volume, both originated and purchased. The $.3 billion increase in credit card receivables resulted from growth in owned receivables and activity related to prior year securitizations, offset, in part, by $2.3 billion of new securitizations in 2002 as well as sales of receivables in the fourth quarter of 2002. More information about the securitization transactions is included in Note 17 of the Notes to Consolidated Financial Statements included under Item 8 of this Report.

The decline in the remaining domestic consumer loan categories resulted mainly from loan run-off and weaker loan demand.

Approximately 79% of the domestic consumer portfolio at December 31, 2002 consisted of loans secured by residential real estate, including first and second mortgages, home equity loans and home equity lines of credit.

International consumer loans were approximately $1 billion at December 31, 2002 compared to $2.8 billion at December 31, 2001, a decrease of $1.8 billion, or 64%. This decrease was mainly due to the impact of the Argentine peso devaluation on the U.S. dollar carrying value of Argentine loans.

Lease Financing

Domestic lease financing totaled $11.2 billion at December 31, 2002 compared with $12.4 billion at December 31, 2001. This $1.2 billion, or 9.5%, decrease was a result of runoff and weaker demand. International lease financing totaled $3.2 billion at December 31, 2002 compared with $3 billion at December 31, 2001, an increase of 7% resulting mainly from new business volume.

Our consolidated leasing portfolio of $14.4 billion at December 31, 2002 primarily included full-payout, direct financing leases to corporate customers. Included in the portfolio was $4 billion of investments in leveraged leases and operating lease receivables of $1.2 billion. This portfolio was primarily concentrated in the United States,

Table of Contents

Europe, Australia and Canada. The largest components of the consolidated leasing portfolio in terms of exposure to industry sectors were air transportation $1.5 billion; railroad $1.4 billion; energy production and distribution $1.4 billion; food and beverage $900 million; and healthcare - $900 million.

Country Risk

Non-U.S. Operations

Our overseas activities are subject to economic and political conditions related to, and economic and regulatory policies of, the governments of the countries in which we conduct activities. These activities can also be impacted by perceptions in local and international financial markets of these economic and political conditions and related government policies. In addition, local and regional economic conditions affect local economies and governments in varying degrees of severity and, accordingly, may also affect our Latin American and other overseas activities.

The following tables present the total assets of, and cross-border outstandings to, Latin American countries in which we do business at December 31, 2002 and 2001. The total assets in each country include the related cross-border outstandings.

Total Assets *In billions*	December 31, 2002	December 31, 2001
Argentina	$ 3.7	$ 9.3
Brazil	9.1	12.0
Chile	1.5	1.7
Colombia	.3	.3
Mexico	1.3	1.4
Panama	.5	.5
Peru	.5	.6
Uruguay	.6	.8
Other Latin America	.1	.3
Total Latin America	$17.6	$26.9

Cross-Border Outstandings[(a)] *In billions*	December 31, 2002	December 31, 2001
Argentina	$1.5	$3.3
Brazil	2.2	2.5
Chile	.7	.8
Colombia	.2	.1
Mexico	.8	.8
Panama	.2	.2
Peru	.1	.3
Uruguay	.2	.1
Other Latin America	.1	.3
Total Latin America	$6.0	$8.4

(a) Amounts are net of cross-border risk mitigation.

The remainder of this section presents updated information about our operations in Argentina and Brazil, including information concerning the effects of the ongoing economic, political and social situation in Argentina on these operations, as well as information concerning economic and political conditions in Brazil and Uruguay.

In broad terms, the total assets of our 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); and
- currency depreciation or devaluation.

We manage our overall country risk using geographic asset limits established by our 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; and
- assets for which a third party accepts transfer risk.

In establishing these limits, we consider 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 our overseas operations, are subject to transfer, or cross-border risk in addition to credit risk. Cross-border risk is the risk that customers will be unable to meet their contractual repayment obligations of principal and/or interest 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 include claims on third parties, as well as investments in, and funding of, our overseas operations.

Total cross-border outstandings to Argentina and Brazil, as defined, each amounted to 1% or more of our consolidated total assets at December 31, 2002, 2001 and 2000. There were no total cross-border outstandings to other countries which exceeded .75% of consolidated total assets at December 31, 2002, 2001 and 2000.

Argentina

In early 2002, the Argentine government implemented measures to convert all onshore U.S. dollar denominated loans and deposits into pesos, and additional measures to deal with the economic crisis. Since the beginning of the Argentine crisis, we have taken cumulative pre-tax charges of approximately $2.4 billion. Of this amount, $1.1 billion of charges were recorded in 2001. During 2002, we recorded pre-tax charges of $1.3 billion. This included a pre-tax unrealized loss of $.6 billion ($.4 billion after-tax), which was recorded, net of taxes, in the cumulative translation adjustments component of other comprehensive income. The remaining charges in 2002 were recorded in the second quarter, and related to an increase in our Argentine reserve for credit losses of $.3

Table of Contents

billion and Argentine government security writedowns of $.4 billion.

At the beginning of 2002, we had 135 branches in Argentina and 4,796 employees, compared to 109 branches and 3,551 employees at December 31, 2002. In response to the Argentine crisis and reduced business volume, we scaled down our Argentine operations by closing 26 branches and reducing staff levels.

Argentine Balance Sheet

We had Argentine total assets of approximately $3.7 billion and $9.3 billion at December 31, 2002 and 2001, respectively. These assets, which are subject to the country risk previously described, have the following components:

In billions	Dec. 31, 2002	Dec. 31, 2001
Loans	$ 2.4	$ 6.7
Placements with central bank and other banks	.3	1.3
Securities	.4	.3
Fixed assets and other nonearning assets	.6	1.0
Total assets	$ 3.7	$ 9.3
Local funding from Argentine operations	$ 1.4	$ 4.5
Cross-border outstandings see separate table	$ 2.3	$ 4.8

The table below presents the components of loans.

In billions	Dec. 31, 2002	Dec. 31, 2001[a]
Consumer	$ .3	$ 1.8
Corporate:		
Multinationals	.2	1.0
Argentine corporations	1.6	2.5
Middle market and financial institutions	.1	1.0
Sovereign	.2	.4
Total loans	$ 2.4	$ 6.7

[a] Certain amounts at December 31, 2001 have been reclassified for comparative purposes.

The decline in Argentine total assets from December 31, 2001 resulted from the involuntary conversion of the majority of these assets into pesos and their subsequent devaluation as the peso weakened versus the U.S. dollar, as well as loan payments and the previously disclosed write-down of Argentine government securities. The peso has devalued by approximately 70% from December 31, 2001. The decline in loans from $6.7 billion at December 31, 2001 to $2.4 billion at December 31, 2002, was mainly attributable to the peso devaluation and loan payments.

During the second quarter of 2002, we placed substantially all sovereign-related loans and securities and a significant portion of private sector loans on nonaccrual status. We believe that it was prudent to take this action in light of the deteriorating situation in Argentina, even though many of the relationships were current in their payments at that time. At December 31, 2002, total nonperforming assets, or NPAs, in Argentina were $1.7 billion, of which $1.3 billion were loans and $.4 billion were sovereign securities. Of the $1.3 billion of loans,

approximately $575 million were less than 90 days past due at December 31, 2002. Included in our consolidated reserve for credit losses at December 31, 2002 was $870 million related to Argentina. Net charge-offs for 2002 were $342 million, and we expect that net charge-offs in 2003 will be higher than in 2002.

In addition, since the second quarter of 2002, the Interagency Country Exposure Review Committee, or ICERC, of U.S. banking regulators has required the banking industry to maintain an Allocated Transfer Risk Reserve, or ATRR, to cover certain Argentine cross-border exposure. Our ATRR requirement was $474 million at December 31, 2002, and was covered by the aforementioned $870 million reserve for credit losses.

We have $277 million on deposit with the Argentine central bank to meet statutory reserve requirements related to our Argentine operation s $1.3 billion of local deposits. We are required by local regulations to place the required reserves with the central bank based on a fixed percentage of each deposit received. The local deposits, and intercompany borrowings, primarily fund the balance sheet of our Argentine operation.

In December 2001, the Argentine government issued an order imposing limitations on the ability of bank customers in Argentina to withdraw funds from their accounts in Argentine banks (the corralito). Since the corralito was issued, a large number of customers of our Argentine operation, or BankBoston Argentina, have filed complaints in the Argentine courts against BankBoston Argentina seeking to invalidate the corralito on constitutional grounds and withdraw their funds.

As a result of these claims, we recorded foreign exchange losses of $204 million during 2002. These losses represented the impact of the judicially mandated payments to depositors at the current exchange rate versus the 1.40 exchange rate originally used to convert U.S. deposits into pesos as part of the Argentine government s economic measures instituted in early 2002 to deal with that country s economic crisis. We cannot determine the total number of claims pending in the judicial system at this time, which may result in additional losses. Foreign exchange losses related to these deposits were partially offset by foreign exchange gains on our long U.S. dollar currency position and forward and spot trading transactions. Total net foreign exchange losses from Argentina, including losses related to the deposits as described above, were $89 million for 2002. Separately, in November 2002, customers of BankBoston Argentina commenced legal action in the United States, seeking to collect from Fleet National Bank in the United States the deposits frozen at BankBoston Argentina. This lawsuit was dismissed in February 2003. More information about this legal action is included under Item 3, Legal Proceedings, in Part I of this Report.

In November 2002, a judge in Argentina issued criminal indictments against the President of the BankBoston Argentina branch in Buenos Aires, Argentina, and seventeen other senior employees of the branch, alleging fraudulent administration of business. These indictments resulted from the purported failure of the branch to

Table of Contents

honor time deposits and other payment instruments presented at various offices of the branch after November 30, 2001, the date on which deposits were frozen by actions of the Argentine government. In not honoring the presentations, the branch and its employees were following Argentine law and Central Bank Regulations. The branch has appealed these indictments on a number of legal bases available under Argentine law. Management believes that the indictments are without merit and the branch will vigorously pursue the appeal.

Also during the second quarter of 2002, the Argentine government reversed a measure that had allowed banks to charge customers an inflation adjustment on consumer loans. However, deposit liabilities have continued to accrue the inflation adjustment. This situation has created a mismatch between inflation-adjusted assets and liabilities. This measure resulted in a reduction of net interest income of approximately $109 million in 2002.

These situations, as well as other Argentine government economic measures, may continue to significantly impact interest rate and liquidity risk related to the balance sheet of our Argentine operation. To date, we have not experienced significant liquidity issues, but we continue to closely monitor the impact of these measures, including the corralito-related claims, on our liquidity position. The future rate of inflation may increase the negative impact from the mismatch between inflation-adjusted assets and liabilities.

Included in Argentine total assets of $3.7 billion and $9.3 billion at December 31, 2002 and 2001 are cross-border outstandings, as follows. The cross-border outstandings have not been reduced by reserves for credit losses specifically allocated to Argentina.

December 31 *In billions*	2002	2001[e]	2000[e]
Argentina:[a][b][c]			
Trade-related claims	$ .4	$ 1.0	$ 1.0
Other claims on third parties	1.3	2.1	1.3
Investment in and funding of local operation[d]	.6	1.7	2.2
Total cross-border outstandings	$ 2.3	$ 4.8	$ 4.5
Cross-border risk mitigation:			
Insurance contracts	.5	.8	.2
Guarantees, including trade-related of $.03, $.2 and $.2	.3	.7	1.2
Total cross-border outstandings, net of cross-border risk mitigation	$ 1.5	$ 3.3	$ 3.1

(a) Total cross-border outstandings to Argentina as a percentage of total consolidated assets were 1.2%, 2.3% and 2.1% at December 31, 2002, 2001 and 2000, respectively.

(b) The sector percentage allocations for banks, public and private cross- border claims on third parties under FFIEC guidelines for Argentina were 2.5%, 7.8% and 89.7% at December 31, 2002, 1.7%, 10.9% and 87.4% at December 31, 2001 and 2.5%, 23.5% and 74.0% at December 31, 2000, respectively.

(c) Cross-border commitments for Argentina at December 31, 2002, 2001 and 2000 were $84 million, $160 million and $13 million, respectively.

(d) Represents contributed capital and funding from FleetBoston head office and/or offshore affiliates to local operations.

(e) Certain amounts at December 31, 2001 and 2000 have been reclassified for comparative purposes.

The following table presents the components of our total cross-border outstandings, net of cross-border risk mitigation.

December 31 *In billions*	2002	2001	2000

Argentina:			
Trade-related claims	$ .4	$ .8	$ .8
Other claims on third parties	.9	1.2	.9
Investment in and funding of local operation	.2	1.3	1.4
Total cross-border outstandings, net of cross-border risk mitigation	$1.5	$3.3	$3.1

The decrease in cross-border outstandings from December 31, 2001 was primarily due to losses recorded by the Argentine operation, including loan charge-offs and translation losses, the latter of which were recorded, net of tax, in other comprehensive income as discussed earlier in this section, and loan payments.

The $2.3 billion of cross-border outstandings at December 31, 2002 have the following cross-border risk mitigation:

$450 million were covered by insurance, which included $380 million of investment in and funding of local operation and $70 million of third party loans. The insurance coverage is purchased from U.S. and foreign government, multilateral and private insurers. This coverage protects us from situations where repayment of the investment in and funding of local operation and third party loans is not permitted due to the inability to transfer funds or convert the necessary funds into the obligation currency due to government actions.

With respect to the coverage of $70 million of third party loans, we are required to provide evidence that the customer s nonpayment is not credit-related. If the customer s nonpayment is due to a credit issue, we are unable to file a claim under the policy. In all cases, we are required to follow specific procedures to ensure coverage if a cross-border event occurs, including timely notification of such an event to the insurer.

Of the $440 million of trade-related outstandings, $270 million were short-term, and $30 million were guaranteed and are included in the $330 million of guarantees presented in the preceding cross-border outstandings table that cover credit and cross-border risk. The guarantees include a combination of cash and securities used as collateral and placed offshore, guarantees from non-Argentine domiciled companies and other third party guarantees. The cross-border risk related to these claims represents the country of the guarantor or the country in which the cash collateral is held.

Due to the current Argentine economic and political conditions, it is not possible to predict the impact that future developments may have on this cross-border risk mitigation, including our ability to file a claim under the

Table of Contents

insurance policies or to be reimbursed under the guarantee if such a situation arises.

The following table presents changes in aggregate cross-border outstandings to Argentina from December 31, 2001 to December 31, 2002.

In billions	Argentina
Aggregate outstandings at January 1, 2002	$ 4.8
Net change in short-term trade-related outstandings	(.7)
Reduction in nontrade-related loans and leases	(1.3)
Net reduction in other assets	(.5)
Aggregate outstandings at December 31, 2002	$ 2.3

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, 2002, our cross-border outstandings continued to be impacted by these regulations, and this has resulted in delays in the transfer of U.S. dollars outside of Argentina. We are unable to determine at the present time the ultimate impact those measures will have on our cross-border outstandings.

Argentine Mutual Funds

Our Argentine operation managed approximately $84 million of mutual funds at December 31, 2002. Certain of the Argentine government s economic measures, which restricted withdrawals of bank deposits, also applied to mutual fund investments. Therefore, mutual fund investors could not receive redemptions of their funds, and this has resulted in litigation, which we discussed earlier in the Argentine Balance Sheet section as the corralito-related litigation.

Argentine Currency Position

Currency positions expose us to gains or losses that depend on the relationship between currency price movements and interest rate differentials. The following table presents our Argentine long U.S. dollar currency position, for which related foreign exchange gains or losses are recorded in our income statement. The increase in the long position in U.S. dollars is mainly due to the U.S. dollar denominated compensation bond, the majority of which was received in 2002. The continued evolution of the Argentine government s economic measures may impact the size and direction of our currency position in future periods.

	At Year-End		Daily Average	
In millions	2002	2001	2002	2001
Argentina[(a)(b)]	$147	$52	$188	$(141)

(a) Positive values reflect U.S. dollar assets funded by local currency liabilities (i.e., a long position in U.S. dollars).

(b) Negative values reflect local currency assets funded by U.S. dollars (i.e., a short position in U.S. dollars).

In addition to the currency exposure discussed above, our investment in and funding of local operations creates translation exposure, which arises from changes in the local currency exchange rate versus the U.S. dollar. As a

result of the change in Argentina s financial system from U.S. dollars to pesos, we changed the functional currency of the Argentine unit from the U.S. dollar to the peso, in accordance with SFAS No. 52, Foreign Currency Translation, at the beginning of 2002. Translation gains and losses that result from this exposure, along with any offsetting hedge gains or losses related to covering this exposure, are recorded directly to other comprehensive income, net of tax, as discussed earlier in this section.

The government measures created a situation where our translation exposure could not be fully hedged against currency rate changes, and at December 31, 2002, our translation exposure was approximately $.4 billion, which is included in our investment in and funding of local operation presented in the table of cross-border outstandings on the previous page. The cumulative impact recorded in other comprehensive income since implementing this accounting change, and the impact of foreign exchange forward contracts hedging translation exposure on a portion of the investment in and funding of local operation, was a $594 million pre-tax unrealized loss, or $358 million after-tax.

Recent Events

As previously mentioned, the Argentine government implemented measures in early 2002 to convert all onshore U.S. dollar denominated loans and deposits into pesos. The Argentine government is now considering the implementation of measures to convert these deposits back into U.S. dollars. To date, however, the courts in Argentina have not ruled on such a change. Until such action is completed and the Argentine government decrees how such a change will be implemented, we cannot determine the ultimate impact such a measure may have on our deposits and results of operations in Argentina.

The Argentine government continues to implement measures to manage the economic crisis and to reach a long-term agreement with the International Monetary Fund, or IMF, on a refinancing package. In January 2003, the IMF agreed to a short-term rollover of the maturities of $16.1 billion of debt owed to the IMF and multilateral lending organizations until August 31, 2003. Also in January, the Argentine government made past due payments to the IMF and other multilateral lending organizations. Negotiations continue on a long-term financing package with the IMF.

During the fourth quarter of 2002, the Argentine peso strengthened versus the U.S. dollar by approximately 10% from September 30, 2002. During the same period, the monthly rate of inflation declined to a modest level. The Argentine government s economic policy and the low level of economic activity have led to a lack of demand for U.S. dollars. Recently, the Argentine government relaxed some restrictions on the remittance of U.S. dollars outside of Argentina. We will continue to monitor the impact of the exchange rate and inflation on our currency position and Argentine operations.

During the first quarter of 2003, a number of banks announced to depositors an offering to repay, in advance,

Table of Contents

certain deposits that were subject to the corralito. Our Argentine operation made this offer to all holders of certificates of rescheduled deposits. We have approximately $500 million to $600 million of certificates of rescheduled deposits. We estimate that approximately $100 million to $200 million of certificates of rescheduled deposits will be prepaid under the offering. We do not expect this program to have a material adverse impact on our liquidity position.

The presidential election is currently scheduled for April 2003. The outcome of this election may result in a change to the Argentine government s economic policies, which may impact the country s financial situation.

We continue to monitor and evaluate the Argentine economic situation and related economic measures discussed above, and will adjust our strategy as deemed appropriate. However, in light of the changing economic measures and continuing economic, political, including the outcome of the presidential elections, and social uncertainty in the country, it is not possible to predict the impact that future developments may have on our operations in Argentina or the necessity to take future charges.

Brazil

We operate 66 branches in Brazil and had total assets of approximately $9.1 billion and $12 billion at December 31, 2002 and 2001, respectively. These assets are subject to country risk as previously described and have the following components:

In billions	Dec. 31, 2002[(a)]	Dec. 31, 2001
Loans	$ 5.3	$ 7.3
Securities:		
Available for sale	.7	1.5
Trading	.1	.4