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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FleetBoston Financial Corporation (FleetBoston or the Corporation), a diversified financial services company with over \$200 billion in assets headquartered in Boston, Massachusetts, is currently the seventh-largest financial holding company in the United States based on total assets. Among its principal lines of business are commercial banking; consumer banking; investment banking and investment services; principal investing; securities brokerage, market-making and clearing services; credit cards; and full service banking in Latin America.

This discussion and analysis updates, and should be read in conjunction with, Management's Discussion and Analysis included in both FleetBoston's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 and its Current Report on Form 8-K dated May 4, 2001. Such Form 8-K contains restated consolidated financial statements for the year ended December 31, 2000 which give retroactive effect to the merger with Summit Bancorp. (Summit), which was completed on March 1, 2001 and accounted for as a pooling of interests. All prior period information included in this discussion and analysis has been restated to reflect the Summit merger.

#### FINANCIAL SUMMARY

Dollars in millions, except per share amounts	Three months ended June 30		Six m ended J
	2001	2000	2001
<b>EARNINGS</b>			
Net interest income (FTE) (a)	\$ 1,918	\$ 2,041	\$ 3,853
Noninterest income	1,326	2,467	2,850
Noninterest expense	2,059	2,466	4,911

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Provision for credit losses	315	335	630
Net income	531	971	672
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PER COMMON SHARE			
Basic earnings	\$ .48	\$ .89	\$ .60
Diluted earnings	.48	.87	.60
Cash dividends declared	.33	.30	.66
Book value	17.47	16.25	17.47
-----			
RATIOS			
Return on average assets	1.01%	1.74%	.64%
Return on average common equity	11.05	22.48	6.94
Total equity to assets (period-end)	9.54	8.23	9.54
Tangible common equity to assets	7.41	6.05	7.41
Tier 1 risk-based capital ratio	8.47	7.58	8.47
Total risk-based capital ratio	12.25	11.50	12.25
Leverage ratio	8.29	7.54	8.29
-----			
AT JUNE 30			
Total assets	\$202,100	\$220,133	\$202,100
Loans and leases	129,066	137,473	129,066
Deposits	124,803	130,897	124,803
Long-term debt	27,816	31,350	27,816
Stockholders' equity	19,276	18,109	19,276
Nonperforming assets	1,394	1,117	1,394
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(a) The fully taxable equivalent (FTE) adjustment included in net interest income was \$17 million for the three months ended June 30, 2001 and 2000, respectively, and \$33 million and \$35 million for the six months ended June 30, 2001 and 2000, respectively.

Results for the three and six months ended June 30, 2001 and 2000 included the following:

THREE MONTHS ENDED JUNE 30, 2001:

- Gains of \$243 million (\$151 million after-tax) from branch divestitures associated with the previously disclosed BankBoston merger.
- Write-downs of \$470 million (\$290 million after-tax) taken against the carrying value of the Principal Investing portfolio.
- Summit merger-related costs of \$93 million (\$58 million after-tax), composed of \$55 million of merger integration costs and \$38 million of accelerated depreciation of assets to be disposed of at a later date.
- An additional loss of \$101 million (\$60 million after-tax) on the sale of the mortgage banking business.

THREE MONTHS ENDED JUNE 30, 2000:

- Branch divestiture gains of \$313 million (\$127 million after-tax).
- Merger integration costs of \$87 million (\$52 million after-tax) incurred in connection with the BankBoston merger.

SIX MONTHS ENDED JUNE 30, 2001:

- Gains of \$333 million (\$204 million after-tax) from branch divestitures associated with the BankBoston merger.

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- Write-downs of \$602 million (\$370 million after-tax) taken against the carrying value of the Principal Investing portfolio.
- Summit merger-related charges of \$811 million (\$511 million after-tax) consisting of \$446 million (\$292 million after-tax) of merger- and restructuring-related charges, \$100 million (\$61 million after-tax) of merger integration costs and a \$265 million (\$158 million after-tax) loss from the sale of low-margin securities following the merger.
- Restructuring charges of \$79 million (\$50 million after-tax) primarily related to a reorganization of capital markets-related businesses.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- An aggregate loss of \$428 million (\$285 million after-tax) from the sale of the mortgage banking business.

SIX MONTHS ENDED JUNE 30, 2000:

- Branch divestiture gains of \$679 million (\$336 million after-tax).
- Merger integration costs of \$187 million (\$112 million after-tax) incurred in connection with the BankBoston merger.

In addition to the items listed above, decreases from the prior year in both the three and six month comparisons resulted from a significant drop in capital markets revenue, beyond the principal investing write-downs already mentioned, associated with the pronounced fallout experienced in U.S. capital markets in the second half of 2000 and the first half of 2001. This drop was partly offset by improved results in International Banking and Commercial Finance, lower operating expenses resulting from a corporate-wide cost containment program, and a drop in revenue-related compensation costs.

#### RESULTS OF OPERATIONS

##### NET INTEREST INCOME

FTE basis In millions	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Interest income	\$3,566	\$4,063	\$7,484	\$8,179
Tax-equivalent adjustment	17	17	33	35
Interest expense	1,665	2,039	3,664	4,107
Net interest income	\$1,918	\$2,041	\$3,853	\$4,107

Net interest income decreased 6% in both the three and six month comparisons, primarily due to the impact of the divestiture of \$9 billion of loans and \$13 billion of low-cost deposits throughout 2000 in connection with

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the BankBoston merger. Additional factors contributing to the decrease were a decline in domestic loan volume and lower brokerage volume and margin lending at Robertson Stephens and Quick & Reilly, respectively. These declines were partially offset by increases in Latin American units, primarily Brazil, from higher loan volumes and wider spreads.

### NET INTEREST MARGIN AND INTEREST RATE SPREAD

FTE basis Dollars in millions	Three months ended June 30				Average Balance
	2001		2000		
	Average Balance	Rate	Average Balance	Rate	Average Balance
Securities	\$ 25,590	6.86%	\$ 34,788	6.62%	\$ 29,016
Loans and leases:					
Domestic	111,648	8.04	125,982	8.70	113,566
International	19,210	11.32	15,106	13.98	18,738
Due from brokers/dealers	4,440	3.98	3,898	5.63	3,918
Mortgages held for sale	3,315	7.29	1,159	8.26	3,042
Other	16,350	6.24	10,042	6.86	13,667
<b>Total interest earning assets</b>	<b>180,553</b>	<b>7.95</b>	<b>190,975</b>	<b>8.58</b>	<b>181,947</b>
Deposits	97,962	3.84	102,451	4.29	98,314
Short-term borrowings	21,090	4.92	23,393	6.11	21,997
Due to brokers/dealers	4,072	4.07	5,574	5.27	3,873
Long-term debt	28,815	5.93	30,926	6.47	29,912
<b>Interest bearing liabilities</b>	<b>151,939</b>	<b>4.39</b>	<b>162,344</b>	<b>5.00</b>	<b>154,096</b>
Interest rate spread		3.56		3.58	
Interest-free sources of funds	28,614		28,631		27,851
<b>Total sources of funds</b>	<b>\$180,553</b>	<b>3.70%</b>	<b>\$190,975</b>	<b>4.29%</b>	<b>\$181,947</b>
<b>Net interest margin</b>		<b>4.25%</b>		<b>4.29%</b>	

The 4 basis point decrease in margin in the quarterly comparison was primarily attributable to the impact of divestitures throughout 2000, partially offset by a strategic repositioning of the balance sheet for a lower interest rate environment.

In the quarterly comparison, average securities decreased \$9.2 billion to \$25.6 billion for the three months ended June 30, 2001, primarily due to the aforementioned sale of \$8 billion of low-margin securities.

Average domestic loans and leases decreased \$14.3 billion to \$111.6 billion for the second quarter of 2001, primarily driven by the divestiture of loans throughout 2000, commercial loan sales in the fourth quarter of 2000, securitization activity, and lower domestic commercial and residential mortgage loan levels. These declines were offset, in part, by strong growth in lease financing receivables. Quarter to quarter, average international loans and leases increased \$4.1 billion to \$19.2 billion due to commercial loan and lease growth in several countries, with the largest increase in Brazil.

Average mortgages held for sale increased \$2.2 billion compared to the second quarter of 2000, due to higher mortgage production volume caused by a

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decline in mortgage interest rates. The decrease in mortgage rates caused average yields on mortgages held for sale to decrease 97 basis points. The Corporation completed the sale of its mortgage banking business in the second quarter of 2001.

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Average other interest earning assets increased \$6.3 billion to \$16.4 billion for the second quarter of 2001, partly the result of the reinvestment of proceeds from securities sales after the Summit merger in federal funds sold and securities purchased under agreements to resell.

The \$4.5 billion decrease in average interest bearing deposits compared to the second quarter of 2000 reflects the impact of the divestitures during the course of 2000, offset, in part, by an increase in international interest bearing deposits.

The \$2.3 billion decrease in average short-term borrowings in the quarterly comparison is mainly attributable to a decrease in federal funds purchased and securities sold under agreements to repurchase and short-term Federal Home Loan Bank borrowings. An additional factor in the six month comparison was the elimination of low-yielding liabilities at the end of the first quarter of 2000 that were previously necessary to support investment banking operations.

Average long-term debt decreased \$2.1 billion to \$28.8 billion for the three months ended June 30, 2001, as a result of maturities throughout the first half of 2001.

#### NONINTEREST INCOME

In millions	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Banking fees and commissions	\$ 406	\$ 403	\$ 796	\$ 80
Investment services revenue	363	450	751	97
Credit card revenue	162	177	327	34
Processing-related revenue	74	153	262	31
Capital markets revenue	(100)	820	(6)	1,88
Gains on branch divestitures	263	313	353	67
Other	158	151	367	28
<b>Total noninterest income</b>	<b>\$ 1,326</b>	<b>\$ 2,467</b>	<b>\$ 2,850</b>	<b>\$ 5,28</b>

Noninterest income for the second quarter of 2001 decreased \$1.1 billion to \$1.3 billion. This 46% decrease from the prior year quarter primarily reflects the effect of the slowdown in the U.S. economy on FleetBoston's capital markets and investment services businesses. Processing-related revenues also declined, due to the sale of the mortgage banking business in the second quarter of 2001. These decreases were offset, in part, by \$263 million of gains from branch

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divestitures.

### BANKING FEES AND COMMISSIONS

Banking fees and commissions, which include fees received for cash management, deposit accounts, electronic banking and other service fees, were relatively flat in both the quarterly and six month comparisons, primarily the result of lower deposit fees following the divestiture of deposits throughout 2000, partly offset by a rise in cash management fees resulting from a higher volume of business.

### INVESTMENT SERVICES REVENUE

In millions	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Investment management revenue	\$234	\$264	\$481	\$524
Brokerage fees and commissions	129	186	270	452
<b>Total investment services revenue</b>	<b>\$363</b>	<b>\$450</b>	<b>\$751</b>	<b>\$976</b>

Investment services revenue decreased \$87 million, or 19%, to \$363 million for the three months ended June 30, 2001, and decreased \$225 million, or 23%, to \$751 million for the first half of 2001.

### Investment Management Revenue

In millions	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Private Clients Group	\$ 95	\$104	\$193	\$205
Institutional businesses	38	44	81	88
International	34	39	72	80
Columbia Management Company	26	29	53	56
Quick & Reilly	22	28	44	57
Mutual Fund & Investment	16	17	32	33
Other	3	3	6	5
<b>Total</b>	<b>\$234</b>	<b>\$264</b>	<b>\$481</b>	<b>\$524</b>

Investment management revenue decreased \$30 million, or 11%, in the quarterly comparison and \$43 million, or 8%, in the six month comparison, in both cases driven by adverse market conditions experienced during the 2001 periods, which resulted in a decline in the valuation of assets under management. At June 30, 2001, assets under management amounted to \$129 billion, compared to \$136 billion at June 30, 2000.

In June 2001, FleetBoston announced a definitive agreement to purchase the asset management businesses of Liberty Financial Companies, Inc. for approximately \$1 billion, consisting of \$900 million in cash and the assumption

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of \$110 million in revolving debt. This transaction will add approximately \$50 billion to FleetBoston's assets under management, and FleetBoston will rank as the world's 29th largest investment management business. The transaction, which is subject to regulatory approvals, is expected to be completed in the second half of 2001.

### Brokerage Fees and Commissions

Brokerage fees and commissions declined \$57 million, or 31%, in the quarterly comparison, and \$182 million, or 40%, in the six month comparison, due mainly to the impact of adverse market conditions on Quick & Reilly and Robertson Stephens in the first half of 2001, compared to the exceptionally strong markets in the first half of 2000. These conditions resulted in lower stock trading volumes and caused declines in revenue.

### CREDIT CARD REVENUE

Credit card revenue decreased \$15 million, or 8%, in the second quarter of 2001 compared to the second quarter

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

of 2000, and \$16 million, or 5%, in the six month comparison. Both decreases were primarily due to lower securitization income, attributable to a higher level of net charge-offs, as the level of bankruptcy filings increased in the second quarter of 2001, and lower penalty fee income, partially offset by improved interchange income driven by increased card usage.

### PROCESSING-RELATED REVENUE

In millions	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Student loan servicing fees	\$ 41	\$ 39	\$ 83	\$ 78
Mortgage banking revenue, net	--	83	107	174
Other	33	31	72	61
<b>Total processing-related revenue</b>	<b>\$ 74</b>	<b>\$153</b>	<b>\$262</b>	<b>\$313</b>

Processing-related revenue decreased \$79 million in the second quarter of 2001 compared to the second quarter of 2000, and \$51 million in the six month comparison, reflecting the sale of the mortgage banking business in the second quarter of 2001. Student loan servicing fees increased at AFSA Data Corporation (AFSA), FleetBoston's student loan servicing subsidiary, as accounts serviced increased approximately 6% from the second quarter of 2000. AFSA is the largest student loan servicer in the United States, with 7.7 million accounts and over \$78 billion of loans serviced.

FleetBoston completed the sale of its mortgage banking business in the



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second quarter of 2001, and recorded an additional pre-tax loss of \$101 million (\$60 million after-tax) in other noninterest expense. The loss was substantially the result of hedge ineffectiveness recorded in accordance with Statement of Financial Accounting Standards (SFAS) No. 133. FleetBoston will continue to originate mortgage loans through its retail banking branches.

### CAPITAL MARKETS REVENUE

In millions	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Market-making revenue	\$ 144	\$ 226	\$ 341	\$ 1,000
Foreign exchange revenue	80	54	123	123
Syndication/agency fees	56	43	96	96
Advisory fees	35	58	76	76
Underwriting revenue	29	95	70	70
Securities gains/(losses)	2	10	(211)	(211)
Trading profits and commissions	(10)	44	(7)	(7)
Principal investing	(436)	290	(494)	(494)
<b>Total capital markets revenue</b>	<b>\$ (100)</b>	<b>\$ 820</b>	<b>\$ (6)</b>	<b>\$ 1,000</b>

Capital markets revenue dropped \$920 million, or 112%, and \$1.9 billion, or 100%, for the second quarter and first six months of 2001, respectively, compared to the same periods a year ago. These decreases were driven by declines in nearly all categories of capital markets revenue from the remarkable levels recorded in the 2000 periods, as a result of the previously mentioned economic slowdown that began in the second quarter of 2000. Revenues from capital markets activities are impacted by a variety of factors, including the condition of the economy, interest rates and equity markets. These markets have experienced a significant slowdown over the past twelve months, and are expected to recover slowly. As such, capital markets revenues are not expected to return to the levels achieved in 2000 in the foreseeable future.

The \$82 million, or 36%, decrease in market-making revenue in the quarterly comparison and the \$106 million, or 24%, decrease in the six month comparison resulted from decreased transaction volumes at Quick & Reilly and Robertson Stephens, due to the effect of market conditions on these businesses.

Foreign exchange revenue increased \$26 million, or 48%, to \$80 million for the three months ended June 30, 2001, and \$23 million, or 23%, to \$123 million for the six months ended June 30, 2001. These increases were the result of favorable positions in Latin America, specifically Argentina, where the Corporation benefited from volatile market conditions.

The \$13 million increase in syndication/agency fees in both comparisons was due to a higher level of transactions during the second quarter of 2001 compared to the 2000 quarter. Such fees are a function of the timing and level of syndication transactions.

Advisory fees decreased \$23 million in the second quarter of 2001, and \$144 million in the first half of 2001. These decreases reflect a lower level of merger and acquisition advisory activities at Robertson Stephens during the 2001 periods, reflecting lower demand for these services in the difficult market environment.

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Underwriting revenue declined \$66 million, or 69%, in the second quarter of 2001. In the first six months of 2001, underwriting revenue declined \$281 million, or 80%. Underwriting revenues are affected by the volume and timing of public offerings and other transactions. As a result of the slowdown in the technology sector, transaction volume at Robertson Stephens decreased 63% compared to the second quarter of 2000, and 80% in the six month comparison.

Securities losses of \$211 million for the first six months of 2001 included a \$265 million loss recorded in the first quarter of 2001 on the previously mentioned sale of securities subsequent to the Summit merger, partly offset by gains from sales of bonds. Losses in the first six months of 2000 resulted from bond sales associated with a repositioning of the portfolio.

Trading profits and commissions declined \$54 million for the quarter ended June 30, 2001, and \$131 million for the six months ended June 30, 2001. These decreases were primarily due to the effect of adverse market conditions.

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Decreases in principal investing revenues in the three and six month comparisons resulted primarily from investment write-downs of \$470 million and \$602 million in the three and six month 2001 periods, respectively. These write-downs were recorded to reflect the significant valuation impairment, particularly in the technology and telecommunications sectors, currently being experienced in the private equity industry. Of the \$470 million of second quarter write-downs, 55%, or \$258 million, related to direct investments in public and privately held companies. In addition, gains from sales of direct investments declined significantly. During the second quarter and first six months of 2001, FleetBoston made new investments of \$215 million and \$430 million, respectively. As of June 30, 2001, the Principal Investing portfolio had an aggregate carrying value of approximately \$4.1 billion, composed of indirect investments in primary or secondary funds, direct investments in privately held companies and direct investments in companies whose stocks are publicly traded.

#### OTHER

Branch divestiture gains of \$263 million and \$353 million recorded in the three and six months ended June 30, 2001, respectively, resulted primarily from the divestitures required in connection with the BankBoston merger. In 2000, \$313 million and \$679 million of gains relating to these divestitures were recorded in the second quarter and first six months, respectively.

In the six month comparison, other noninterest income increased \$79 million, primarily as a result of gains from sales of several small businesses in the 2001 period.

#### NONINTEREST EXPENSE

In millions	Three months ended June 30		Six mont ended Jun
	2001	2000	2001

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Employee compensation and benefits	\$ 985	\$1,273	\$2,029
Occupancy and equipment	277	298	563
Intangible asset amortization	98	97	198
Legal and other professional	62	90	131
Marketing and public relations	58	77	121
Merger- and restructuring-related charges	38	25	525
Loss on sale of mortgage banking business	101	--	428
Other	440	606	916
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Total noninterest expense	\$2,059	\$2,466	\$4,911
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The \$407 million, or 17%, and \$300 million, or 6%, decreases in the quarterly and six month comparisons, respectively, were primarily due to lower compensation and benefits costs directly attributable to lower levels of revenue, as well as lower operating expenses resulting from merger integration activities and the previously disclosed corporate-wide program to contain expenses in light of the slower economic environment.

Employee compensation and benefits costs in the 2001 periods decreased \$288 million compared to the second quarter of 2000 and \$788 million compared to the first half of 2000, due primarily to revenue-related decreases in incentive compensation at Robertson Stephens, Quick & Reilly and the Principal Investing business, as well as expense reductions achieved from merger integration activities and corporate-wide cost containment.

Occupancy and equipment, legal and other professional costs, marketing and public relations and other noninterest expense all decreased in both the three month and six month comparisons. These decreases were generally the result of the aforementioned corporate-wide cost containment effort, cost savings from merger integration activities and divestitures.

The second quarter of 2001 included \$93 million of costs associated with the Summit merger, composed of \$55 million of merger integration costs, included in the preceding table by type of expense, and \$38 million of incremental depreciation on certain assets that will be used in the merger integration and then disposed of. Noninterest expense for the second quarter of 2000 included \$62 million of merger integration costs incurred in connection with the BankBoston merger and \$25 million of incremental depreciation on certain assets that were used in the merger integration and then disposed of.

For the first six months of 2001, noninterest expense included \$525 million of merger and restructuring costs, composed of \$446 million recorded in connection with the Summit merger, to accrue for merger-related costs and a restructuring plan, and \$79 million related to a reorganization of capital markets businesses. Summit merger integration costs totaling \$100 million were also incurred during the six month period. Noninterest expense for the 2000 period included \$125 million of BankBoston merger integration costs and \$62 million of incremental depreciation on certain assets that were used in the merger integration and were then disposed of.

The Summit merger integration produced \$7 million of incremental cost savings in the second quarter of 2001. FleetBoston expects to achieve \$300 million in annualized cost savings by the end of the first quarter of 2002, and has achieved \$52 million of annualized cost savings to date. The Corporation's cost containment program produced approximately \$100 million of incremental cost savings in the second quarter of 2001. FleetBoston expects to achieve \$500 million to \$600 million of annualized cost savings by the end of 2001, and has achieved approximately \$460 million of annualized cost savings to date. Because the cost containment program and integration are ongoing, actual savings in 2001

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will be less than the annualized amounts.

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#### INCOME TAXES

The Corporation recorded income tax expense of \$322 million for the second quarter of 2001, compared to \$719 million for the same period a year ago. FleetBoston's effective tax rate was 37.8% and 42.5% for the second quarters of 2001 and 2000, respectively, and 40.5% and 41.4% for the respective six month periods. The higher tax rate reported for the second quarter of 2000 generally resulted from the write-off of nondeductible goodwill in connection with branch divestitures.

#### LINE OF BUSINESS INFORMATION

FleetBoston is organized and managed along three principal lines of business: Wholesale and Global Banking, Consumer and Investment Services and Capital Markets. These business lines conform to the Corporation's customer-focused organizational structure implemented on January 1, 2001. For additional information about the products and services offered by each line of business, refer to the "Line of Business Information" section of Management's Discussion and Analysis included in the Corporation's Current Report on Form 8-K dated May 4, 2001. Information for the quarter and six months ended June 30, 2001 and 2000 is presented below. Prior period information has been restated for comparative purposes to reflect changes in management reporting implemented in 2001. The information is presented on a fully taxable equivalent basis.

#### LINE OF BUSINESS EARNINGS SUMMARY

Three months ended June 30 Dollars in millions	2001	2000	2001	2000
	Net Income		Total Revenue	
Wholesale and Global Banking	\$ 423	\$ 370	\$ 1,437	\$ 1,437
Consumer and Investment Services	299	358	1,692	1,692
Capital Markets	(284)	183	(283)	(283)
All Other	93	60	398	398
<b>Total</b>	<b>\$ 531</b>	<b>\$ 971</b>	<b>\$ 3,244</b>	<b>\$ 3,244</b>

Six months ended June 30 Dollars in millions	2001	2000	2001	2000
	Net Income		Total Revenue	

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Wholesale and Global Banking	\$ 797	\$ 714	\$ 2,814	\$
Consumer and Investment Services	594	717	3,413	
Capital Markets	(324)	480	(118)	
All Other	(395)	136	594	
Total	\$ 672	\$ 2,047	\$ 6,703	\$

nm - not meaningful

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

WHOLESALE AND GLOBAL BANKING

Dollars in millions	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Income statement data:				
Net interest income	\$ 949	\$ 965	\$ 1,883	\$ 1,909
Noninterest income	488	464	931	907
Provision	166	144	333	288
Noninterest expense	567	663	1,158	1,327
Taxes	281	252	526	487
Net income	\$ 423	\$ 370	\$ 797	\$ 714
Balance sheet data:				
Average assets	\$115,338	\$118,580	\$116,251	\$122,953
Average loans	96,498	97,616	97,196	97,056
Average deposits	31,008	30,001	30,749	29,948
Return on equity	23%	20%	22%	20%

Wholesale and Global Banking earned \$423 million in the second quarter of 2001, a 14% increase over the \$370 million earned in the second quarter of 2000. Increased earnings were driven by strong results in Commercial Finance and International Banking, partly offset by a decline in Corporate Banking.

Three months ended June 30	2001	2000	2001	2000
Dollars in millions	Net Income		Total Revenue	
Commercial Finance	\$ 142	\$ 126	\$ 399	\$ 380
International Banking	128	80	482	425
Corporate Banking	97	108	308	351
Middle Market	56	56	248	273
Total	\$ 423	\$ 370	\$1,437	\$1,429

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### Commercial Finance

Commercial Finance earned \$142 million in the second quarter of 2001, compared to \$126 million a year ago, an increase of 13%. Increased earnings were driven primarily by higher leasing income and investment banking fees, combined with lower operating expenses which resulted from cost saving initiatives.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### International Banking

Compared to the second quarter of 2000, International Banking earnings increased \$48 million, or 60%, mainly due to continued strong loan growth in key Latin American markets, primarily Brazil, coupled with effective control of operating expenses. In addition, strong foreign exchange revenue and improved spreads in Argentina contributed to the quarter over quarter increase in International Banking's earnings. Average deposit balances grew \$1.2 billion, while average loan balances grew \$3.2 billion, over the second quarter of 2000.

#### Corporate Banking

Corporate Banking recorded earnings of \$97 million in the second quarter of 2001, a decrease of \$11 million, or 10%, compared to the second quarter of 2000. This decline was driven by decreases in loan volumes resulting, in part, from repositioning of the portfolio to reduce credit exposure, and capital markets-related revenues associated with the adverse conditions in the financial markets, partially offset by a decrease in operating expenses.

#### Middle Market

For the second quarter of 2001, Middle Market earned \$56 million, consistent with the prior year quarter. Higher cash management fees and cost saving initiatives offset the impact of decreases in the loan portfolio, a portion of which was attributable to divestitures resulting from the BankBoston merger. Average loan and deposit balances were \$16.5 billion and \$11.4 billion, respectively, for the second quarter of 2001, compared to \$18.8 billion and \$11.1 billion, respectively, for the 2000 period.

#### CONSUMER AND INVESTMENT SERVICES

Dollars in millions	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
<b>Income statement data:</b>				
Net interest income	\$ 863	\$ 1,042	\$ 1,750	\$ 2,110
Noninterest income	829	944	1,663	1,891
Provision	101	107	197	243
Noninterest expense	1,092	1,273	2,226	2,544
Taxes	200	248	396	497
<b>Net income</b>	<b>\$ 299</b>	<b>\$ 358</b>	<b>\$ 594</b>	<b>\$ 717</b>

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Balance sheet data:

Average assets	\$45,300	\$48,775	\$45,398	\$49,729
Average loans	32,950	35,256	33,470	36,059
Average deposits	83,260	89,966	82,978	91,180

Return on equity	19%	21%	18%	21%
------------------	-----	-----	-----	-----

Consumer and Investment Services, which includes domestic banking to consumer and small business customers, investment management and retail brokerage services, as well as the domestic credit card business, earned \$299 million in the second quarter of 2001, down from \$358 million in the second quarter of 2000. Results reflect the impact of divestitures--primarily affecting the Consumer Businesses and Small Business units--as well as lower earnings in the Wealth Management and Brokerage units stemming from declines in the equity markets.

Three months ended

June 30	2001	2000	2001	2000
Dollars in millions	Net Income		Total Revenue	
Consumer Businesses	\$ 168	\$ 171	\$ 818	\$ 916
Wealth Management and Brokerage	51	94	385	529
Small Businesses	52	63	261	301
Credit Card	28	30	228	240
Total	\$ 299	\$ 358	\$1,692	\$1,986

Consumer Businesses

The Consumer Businesses unit is composed of the retail distribution network, community banking, consumer lending and student loan processing. The results of the mortgage banking unit, which was sold in the second quarter of 2001, are included in All Other. The Consumer Businesses unit earned \$168 million in the second quarter of 2001, a slight decrease from the prior year. Lower earnings were primarily driven by the impact of 2000 divestitures and lower deposit spreads arising from the declining interest rate environment.

Wealth Management and Brokerage

Wealth Management and Brokerage includes the Investment Services units: the Private Clients Group, Columbia Management, the Mutual Funds & Investments Group and several businesses offering retirement planning, large institutional asset management and not-for-profit investment services, as well as the Quick & Reilly retail brokerage and clearing units. Wealth Management and Brokerage earned \$51 million in the second quarter of 2001, compared to \$94 million in the second quarter of 2000, a decrease of \$43 million, or 46%. These lower results were due to a significant decline in net income at Quick & Reilly (\$41 million), as brokerage-related revenues continued to be negatively impacted by market conditions. In addition, the market value of domestic assets under management declined \$6 billion from June 30, 2000 to approximately \$121 billion at June 30, 2001, reflecting declines in the overall valuation of the stock market.

Small Businesses

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Earnings were \$52 million in the second quarter of 2001, \$11 million, or 17%, lower than the second quarter of 2000, largely the result of 2000 divestitures. For the second quarter of 2001, average loans were \$4.2 billion

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

while average deposits were \$12.8 billion, reflecting decreases of approximately \$900 million and \$1.7 billion, respectively, from a year ago, again primarily due to divestitures.

#### Credit Card

FleetBoston's credit card subsidiary is the tenth largest bank credit card issuer in the nation in terms of managed credit card receivables. This unit earned \$28 million for the second quarter of 2001, a slight decline from a year ago. Decreasing penalty fee income and securitization income due to increased charge-offs from a higher level of bankruptcy filings was partially offset by lower operating expenses and increased interchange income.

#### CAPITAL MARKETS

Dollars in millions	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
<b>Income statement data:</b>				
Net interest income	\$ (29)	\$ 11	\$ (47)	\$ 17
Noninterest income	(254)	623	(71)	1,618
Provision	--	--	--	--
Noninterest expense	182	327	415	839
Taxes	(181)	124	(209)	316
<b>Net income</b>	<b>\$ (284)</b>	<b>\$ 183</b>	<b>\$ (324)</b>	<b>\$ 480</b>
<b>Balance sheet data:</b>				
Average assets	\$ 8,278	\$ 9,673	\$ 8,721	\$ 9,958
Average loans	225	389	255	417
Average deposits	73	40	68	31
<b>Return on equity</b>	<b>nm</b>	<b>36%</b>	<b>nm</b>	<b>46%</b>

nm - not meaningful

Capital Markets includes Fleet Meehan Specialist, Robertson Stephens and Principal Investing. This group incurred a loss of \$284 million for the second quarter of 2001, compared to net income of \$183 million for the same quarter a year ago.



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Three months ended June 30	2001	2000	2001	2000	2000
Dollars in millions	Net Income		Total Revenue		R
Fleet Meehan Specialist	\$ 23	\$ 33	\$ 82	\$ 96	27
Robertson Stephens	(14)	25	104	294	nm
Principal Investing	(293)	125	(469)	244	nm
Total	\$(284)	\$ 183	\$(283)	\$ 634	nm

nm - not meaningful

Fleet Meehan Specialist

Fleet Meehan Specialist, one of the largest specialist firms on the NYSE representing the equity securities of approximately 500 companies, earned \$23 million for the second quarter of 2001, a decrease of \$10 million from the second quarter of 2000. Decreased volatility in market prices and the impact of the conversion to decimal price quotes adopted by the NYSE reduced profit opportunities and narrowed spreads, compared to the second quarter of last year.

Robertson Stephens

Robertson Stephens is a full-service investment banking firm focused on providing growth companies with a comprehensive set of investment banking products and services, including equity underwriting, sales and trading, research, advisory services, convertible securities and equity derivatives. Robertson Stephens channels capital to companies by providing investment banking, brokerage services and research to investors. This unit incurred a net loss of \$14 million in the second quarter of 2001, compared to net income of \$25 million in the second quarter of 2000. Lower earnings were mainly a result of declining underwriting activities. The number of underwriting transactions that went to market in the 2001 period decreased 63% from the second quarter of 2000.

Principal Investing

Principal Investing provides capital and debt financing to business ventures that are predominantly privately or closely held companies, and also invests in primary or secondary funds. The Principal Investing business recorded a loss of \$293 million in the second quarter of 2001, a decrease of \$418 million from the same quarter last year. Principal Investing's earnings were affected by write-downs (\$470 million, \$290 million after-tax) taken by the Corporation against this portfolio, reflecting the impairment of value, particularly in the technology and telecommunications sectors, that has resulted from the slowdown in the U.S. economy, coupled with sharp declines in realized gains from sales of direct investments. At June 30, 2001, the aggregate carrying value of the Principal Investing portfolio was \$4.1 billion.

ALL OTHER

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

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fluctuate with changes affecting the consolidated provision for credit losses, one-time charges, gains and other corporate actions not driven by specific business units. All Other had net income of \$93 million in the second quarter of 2001, compared to \$60 million in the second quarter of 2000. The second quarter of 2001 included \$93 million of net after-tax profits related to divestiture and integration activities, as well as after-tax charges of \$60 million primarily related to hedge ineffectiveness recorded in

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

conjunction with the sale of the mortgage banking unit. The second quarter of 2000 benefited from \$75 million of after-tax divestiture gains, net of merger integration expenses, related to the BankBoston merger.

#### FINANCIAL CONDITION

Total assets were \$202.1 billion as of June 30, 2001 compared to \$219.1 billion at December 31, 2000. This \$17 billion decline reflected a \$10.4 billion decrease in securities resulting primarily from the previously discussed sale of \$8 billion of low-margin securities, and a \$5.8 billion decrease in loans and leases as a result of securitization transactions, loan runoff and lower business volume. In addition, the sale of the mortgage banking business in the second quarter of 2001 removed approximately \$8 billion of assets. These decreases were offset, in part, by a rise in federal funds sold and securities purchased under agreements to resell, due primarily to excess funds following the securities sales.

Total deposits decreased from December 31, 2000 by \$3.9 billion to \$124.8 billion at June 30, 2001, primarily the result of the transfer of escrow deposits in connection with the mortgage banking business sale, partially offset by a \$2.2 billion increase in international deposits.

Short-term borrowings decreased \$7.7 billion from December 31, 2000 to June 30, 2001, attributable to decreased use of federal funds purchased and securities sold under agreements to repurchase, Federal Home Loan Bank borrowings as well as treasury, tax and loan borrowings. The \$3.9 billion decrease in long-term debt was due to maturities during the first half of the year.

#### SECURITIES

In millions	June 30, 2001		March 31, 2001	
	Amortized Cost	Market Value	Amortized Cost	Market Value
-----				
Securities available for sale:				
U.S. Treasury and government agencies	\$ 558	\$ 563	\$ 815	\$ 815
Mortgage-backed securities	14,778	14,840	15,256	15,256
Foreign debt securities	3,258	3,254	2,840	2,840
Other debt securities	2,518	2,519	2,997	2,997
-----				
Total debt securities	21,112	21,176	21,908	21,908

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Marketable equity securities	651	641	846	
Other equity securities	2,192	2,192	2,129	2
Total securities available for sale	23,955	24,009	24,883	25
Total securities held to maturity	578	582	585	
Total securities	\$24,533	\$24,591	\$25,468	\$25

The amortized cost of securities available for sale decreased to \$24 billion at June 30, 2001, compared to \$29.8 billion at December 31, 2000, due to the previously-mentioned securities sales and the write-down of certain securities available for sale to reflect impairment in value that was deemed other than temporary. The overall valuation of securities available for sale decreased \$11 million from December 31, 2000 to a net unrealized (pre-tax) gain position of \$54 million at June 30, 2001. The \$4.5 billion decrease in securities held to maturity from December 31, 2000 resulted from a one-time reclassification of \$5 billion of securities held to maturity to securities available for sale in connection with the adoption of SFAS No. 133.

LOANS AND LEASES

In millions	June 30, 2001	March 31, 2001	Dec. 31, 2000
Domestic:			
Commercial and industrial	\$ 51,642	\$ 54,249	\$ 56,147
Commercial real estate	11,447	11,336	11,641
Consumer	32,244	34,424	36,323
Lease financing	13,796	13,296	13,567
Total domestic loans and leases	109,129	113,305	117,678
International:			
Commercial	17,061	15,415	14,221
Consumer	2,876	2,920	2,935
Total international loans and leases	19,937	18,335	17,156
Total loans and leases	\$129,066	\$131,640	\$134,834

Total loans and leases decreased \$5.8 billion to \$129.1 billion from December 31, 2000. This decrease was due to declines of \$4.5 billion in domestic commercial & industrial (C&I) loans, resulting from loan runoff and lower business volume, and \$4.1 billion in domestic consumer loans. These decreases were offset, in part, by a \$2.8 billion increase in FleetBoston's international loan portfolio, principally in Brazil.

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## FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Consumer Loans

In millions	June 30, 2001	March 31, 2001	Dec. 31, 2000
<b>Domestic:</b>			
Home equity	\$11,662	\$12,375	\$12,507
Residential real estate	9,917	11,051	11,425
Credit card	4,891	4,587	5,126
Student loans	1,058	1,202	1,109
Installment/other	4,716	5,209	6,156
<b>Total domestic loans</b>	<b>32,244</b>	<b>34,424</b>	<b>36,323</b>
<b>International</b>	<b>2,876</b>	<b>2,920</b>	<b>2,935</b>
<b>Total consumer loans</b>	<b>\$35,120</b>	<b>\$37,344</b>	<b>\$39,258</b>

Compared to December 31, 2000, domestic consumer loans decreased \$4.1 billion, or 11%, to \$32.2 billion at June 30, 2001. The \$845 million, or 7%, decline in home equity loans from year-end resulted primarily from a \$750 million securitization transaction completed in the second quarter, while the \$1.5 billion decline in residential real estate loans was mainly attributable to loan runoff. The \$235 million decrease in credit card loans was attributable to new securitizations of approximately \$1.7 billion during the first half of 2001, offset, in part, by growth in the owned portfolio and activity related to prior year securitizations. The decrease of \$1.4 billion in installment/other consumer loans was primarily attributable to lower margin lending at Quick & Reilly.

### Cross-Border Outstandings

In accordance with bank regulatory rules, cross-border outstandings are amounts payable to FleetBoston by residents of foreign countries, regardless of the currency in which the claim is denominated, and local country claims in excess of local country obligations. At June 30, 2001, total cross-border outstandings were \$14.2 billion, compared with \$13.2 billion at December 31, 2000, which included \$6.8 billion and \$6.5 billion, respectively, of cross-border outstandings to Latin America. Further information with respect to FleetBoston's cross-border outstandings is included in the "Cross-Border Outstandings" section of Management's Discussion and Analysis, contained in its Current Report on Form 8-K dated May 4, 2001.

In addition to credit risk, cross-border outstandings have the risk that, as a result of political or economic conditions in a country, borrowers may be unable to meet their contractual repayment obligations of principal and/or interest when due because of the unavailability of, or restrictions on, foreign exchange needed by borrowers to repay their obligations. FleetBoston manages its cross-border outstandings using country exposure limits established by the Country Exposure Committee.

The following table details by country FleetBoston's approximate cross-border outstandings that individually amounted to 1% or more of its consolidated total assets at June 30, 2001 and December 31, 2000.

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### Significant Cross-Border Outstandings (a) (b)

Dollars in millions	June 30, 2001 (c) (d)	Dec. 31, 2000 (c) (d)
<b>Argentina:</b>		
Banks	\$ 189	\$ 115
Government entities and agencies	556	835
Other	1,497	1,425
<b>Total</b>	<b>\$2,242</b>	<b>\$2,375</b>
Percentage of total assets	1.1%	1.1%
Commitments (e)	\$ 50	\$ 13
<b>Brazil:</b>		
Banks	\$ 31	--
Government entities and agencies	1,212	--
Other	809	--
<b>Total</b>	<b>\$2,052</b>	<b>--</b>
Percentage of total assets	1.0%	--
Commitments (e)	\$ 126	--

- (a) Cross-border outstandings include deposits in other banks, resale agreements, trading securities, securities available for sale and held to maturity, loans and leases, amounts due from customers on acceptances, accrued interest receivable and revaluation gains on trading derivatives. Excluded from cross-border outstandings are claims reallocated as a result of external guarantees, cash collateral and insurance contracts primarily issued by U.S. government agencies.
- (b) Cross-border outstandings in countries which totaled between .75% and 1% of consolidated total assets were approximately as follows: June 30, 2001-none; December 31, 2000-Brazil-\$2 billion.
- (c) Local country assets and local country liabilities for Argentina and Brazil are summarized below. Local country assets in excess of local country liabilities are included in cross-border outstandings presented in the table above.

In billions	June 30, 2001 Local Country		December 31, 2000 Local Country	
	Assets	Liabilities	Assets	Liabilities
Argentina	\$ 5.8	\$ 5.2	\$ 6.2	\$ 5.5
Brazil	7.7	6.2	6.5	5.2

Included in local country liabilities are liabilities where the provider of funds assumes the risk of nonpayment due to currency exchange restrictions in a given country. Such liabilities were \$4 billion at June 30, 2001 and \$3.5 billion at December 31, 2000.

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- (d) Excluding net local country outstandings, cross-border outstandings with a remaining maturity of less than one year, as a percentage of total outstandings, were approximately 59% for Argentina and 50% for Brazil at June 30, 2001 and 55% for Argentina and 70% for Brazil at December 31, 2000.
- (e) Commitments include legally binding cross-border letters of credit, guarantees and other commitments defined by the FFIEC guidelines.

The Argentine economy continues to be impacted by the recession that began in 1999, and financial markets have recently experienced periods of significant volatility. While the Corporation's overall financial results relating to its Argentine operations have not been significantly impacted by this situation to date, it is not possible to predict what effect, if any, the economic and political events in Argentina will ultimately have on that country's economic growth or on FleetBoston's operations in Argentina and other Latin American countries. The Corporation will continue to closely monitor the Argentine economic and political situation and the potential impact future developments may have on its Argentine and other Latin American operations.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### NONPERFORMING ASSETS (a)

In millions	June 30, 2001			March 31, 2001		
	Current or less than 90 days past due	Noncurrent	Total	Current or less than 90 days past due	Noncurrent	Total
<b>Domestic:</b>						
Commercial and industrial	\$ 705	\$ 294	\$ 999	\$ 614	\$ 255	\$ 869
Commercial real estate	27	34	61	27	21	48
Consumer	5	57	62	5	68	73
OREO	--	21	21	--	29	29
<b>Total Domestic</b>	<b>\$ 737</b>	<b>\$ 406</b>	<b>\$1,143</b>	<b>\$ 646</b>	<b>\$ 373</b>	<b>\$1,019</b>
<b>International:</b>						
Commercial and industrial	\$ 1	\$ 84	\$ 85	\$ --	\$ 75	\$ 75
Commercial real estate	3	83	86	4	73	77
Consumer	--	66	66	--	59	59
OREO	--	14	14	--	15	15
<b>Total International</b>	<b>\$ 4</b>	<b>\$ 247</b>	<b>\$ 251</b>	<b>\$ 4</b>	<b>\$ 222</b>	<b>\$ 226</b>
<b>Total NPAs</b>	<b>\$ 741</b>	<b>\$ 653</b>	<b>\$1,394</b>	<b>\$ 650</b>	<b>\$ 595</b>	<b>\$1,245</b>

- (a) Throughout this Report, NPAs and related ratios do not include loans greater than 90 days past due and still accruing interest (\$384 million,

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\$352 million, and \$361 million at June 30, 2001, March 31, 2001, and December 31, 2000, respectively). Included in these 90 days past due and still accruing amounts were \$279 million, \$264 million, and \$276 million of consumer loans at June 30, 2001, March 31, 2001, and December 31, 2000, respectively. NPAs and related ratios also do not include assets held for sale by accelerated disposition (AHAD).

Nonperforming assets (NPAs) at June 30, 2001 increased \$264 million to \$1.4 billion compared with December 31, 2000, and increased \$149 million compared to March 31, 2001. The six month rise in NPAs was due primarily to additions to domestic C&I nonperforming loans (NPLs). NPAs at June 30, 2001, as a percentage of total loans, leases and OREO, and as a percentage of total assets, were 1.08% and .69%, respectively, compared to .84% and .52%, respectively, at December 31, 2000. FleetBoston had no significant outstanding commitments to lend additional funds to customers whose loans have been placed on nonaccrual status or the terms of which have been modified.

As noted in previous public comments and prior filings with the Securities and Exchange Commission (the SEC), FleetBoston anticipates further increases in NPAs during 2001, primarily related to domestic C&I loans. Future levels of NPAs will be influenced by the economic environment, interest rates and other internal and external factors existing at the time. As such, no assurance can be given as to future levels of NPAs.

### Impaired Loans

FleetBoston accounts for impaired loans in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." As such, when the recorded investment in a loan exceeds the value of the loan measured using discounted cash flows or, in the case of collateral-dependent loans, the fair value of the collateral, the loan is classified as impaired. Such impairment is recognized as a valuation reserve, which is included as part of the Corporation's overall reserve for credit losses. Impaired loans, which are included in NPAs presented in the table above, are primarily commercial and commercial real estate loans on nonaccrual status. The following table presents the status of impaired loans. The amount of interest income recognized on impaired loans was not significant.

In millions	June 30, 2001	Dec. 31, 2000
Impaired loans with a reserve	\$ 852	\$ 722
Impaired loans without a reserve	304	164
<b>Total impaired loans</b>	<b>\$1,156</b>	<b>\$ 886</b>
Reserve for impaired loans (a)	\$ 348	\$ 268
Quarterly average balance of impaired loans	\$1,069	\$1,007

(a) The reserve for impaired loans is part of the Corporation's overall reserve for credit losses.

At June 30, 2001 and March 31, 2001, FleetBoston had AHAD with a net carrying value of \$125 million and \$177 million, respectively, none of which were accruing interest. At December 31, 2000, the net carrying value of AHAD was \$138 million, of which approximately \$136 million was not accruing interest. Transfers to this category are made in accordance with management's intention to

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focus appropriate resources on the disposition of these assets. Such assets are classified as other assets in the consolidated balance sheet.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### RESERVE FOR CREDIT LOSSES ACTIVITY

Six months ended June 30 Dollars in millions	2001	2000
Balance at beginning of year	\$ 2,709	\$ 2,816
Loans charged off	(717)	(710)
Recoveries of loans charged off	125	107
Net charge-offs	(592)	(603)
Provision for credit losses	630	655
Divestitures/Acquisitions/Other	(1)	(62)
Balance at end of period	\$ 2,746	\$ 2,806
Ratios of net charge-offs to average loans	.90%	.85%
Ratios of reserve for credit losses to period-end loans	2.13	2.04
Ratios of reserve for credit losses to period-end NPLs	202	264

The reserve for credit losses to period-end loans at June 30, 2001 increased to 2.13% from 2.04% at June 30, 2000. The increase was the result of the provision for credit losses exceeding net charge-offs by \$38 million in 2001, coupled with a lower level of loans. Further information with respect to the reserve for credit losses is included in the "Reserve for Credit Losses" section of Management's Discussion and Analysis contained in FleetBoston's Current Report on Form 8-K dated May 4, 2001.

#### ASSET AND LIABILITY MANAGEMENT

The goal of asset and liability management is the prudent control of market risk, liquidity risk and use of capital. Further information with respect to asset and liability management, including related policies, is included in the "Asset and Liability Management" section of Management's Discussion and Analysis contained in FleetBoston's Current Report on Form 8-K dated May 4, 2001.

#### MARKET RISK MANAGEMENT

FleetBoston is exposed to market risk both in its balance sheet management activities and its trading activities. The market risk management process for these activities applies to both balance sheet and off-balance sheet exposures.

Balance Sheet Management -  
U.S. Dollar Denominated Risk



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U.S. dollar denominated assets and liabilities comprise the majority of the consolidated balance sheet. Interest rate risk is by far the most significant non-trading market risk to which the U.S. dollar denominated positions are exposed, and results almost entirely from domestic operations.

To measure interest rate risk, FleetBoston performs net interest income simulation analysis, which involves projecting future net interest income from assets, liabilities, and derivative positions over a 1-3 year horizon in various interest rate scenarios.

The following table reflects the estimated exposure of net interest income for the next 12 months due to an immediate shift in forecasted interest rates.

Rate Change (Basis Points)	Estimated Exposure to Net Interest Income (In millions)		
	June 30, 2001	March 31, 2001	Dec. 31, 2000
+200	\$ 92	\$ 68	\$ (121)
-200	339	(137)	97

Management believes that the exposure of the Corporation's net interest income to modest changes in interest rates, such as the easing by the Federal Reserve Board currently built into the base forecast scenario, is insignificant. Furthermore, the current balance sheet position would tend to benefit from any sudden, severe change in interest rates.

Estimated net interest income exposures changed materially from the prior quarter-end, especially in a scenario of declining interest rates. These changes were a direct result of interest rate risk management strategy. During the quarter, FleetBoston added interest rate floors and principal-only mortgage-backed securities to hedge exposures to lower short- and long-term interest rates.

FleetBoston also performs valuation analysis, which involves projecting future cash flows from assets, liabilities and derivative positions over a very long-term horizon, discounting those cash flows at appropriate interest rates, and then aggregating the discounted cash flows. The "Economic Value of Equity" (EVE) is the estimated net present value of these discounted cash flows.

The following table reflects estimated EVE exposures assuming an immediate shift in interest rates. While an immediate shift in interest rates is used in this analysis to provide an estimate of exposure under an extremely adverse scenario, management believes that a gradual shift in interest rates would have a much more modest impact.

Rate Change (Basis Points)	Estimated Exposure to Economic Value (In millions)		
	June 30, 2001	March 31, 2001	Dec. 31, 2000

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+200	\$ (231)	\$ (399)	\$ (611)
+100	(152)	(372)	(155)
-100	92	150	(315)
-200	(277)	(343)	(451)

As indicated, an immediate 200 basis point change in interest rates in either direction would reduce EVE, but by an amount that is well within Board-approved limits.

Estimated EVE exposures at June 30, 2001 are more modest compared to those at March 31, 2001. These changes reflect the sale of the mortgage banking business, which eliminated exposure to the prepayment risk associ-

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ated with mortgage servicing rights, as well as the impact of the aforementioned risk management strategy.

Risk Management Instruments

June 30, 2001 Dollars in millions	Notional Value	Weighted Average Maturity (Years)	Fair Value	Weighted Receive
<b>DOMESTIC INTEREST RATE RISK MANAGEMENT INSTRUMENTS</b>				
Interest rate swaps:				
Receive fixed/ pay variable hedging:				
variable-rate loans	\$10,100			
fixed-rate deposits	340			
short-term debt	430			
long-term debt	3,835			
	-----			
	14,705	3.4	\$ 860	6.33%
	-----			
Options hedging:				
variable-rate loans	12,000			
securities	500			
fixed-rate deposits	105			
long-term debt	250			
	-----			
	12,855	4.0	155	--
	-----			
Total domestic interest rate risk management instruments	27,560	3.7	1,015	6.33%

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### INTERNATIONAL INTEREST RATE RISK

#### MANAGEMENT INSTRUMENTS

##### Interest rate swaps hedging

foreign currency denominated

variable-rate deposits 145 1.8 (1) 4.98%

-----  
Total international interest rate

risk management instruments 145 1.8 (1) 4.98%

-----  
Total hedges of net interest income \$27,705 3.7 \$1,014 6.32%

### FOREIGN EXCHANGE RISK MANAGEMENT

#### INSTRUMENTS

##### Swaps hedging foreign currency

denominated repurchase and resale

agreements \$ 602 2.0 \$ 26 --

##### Forward contracts hedging foreign

currency denominated fixed-

rate loans; fixed-rate deposits 826 .9 (4) --

##### Futures hedging foreign

currency denominated resale

agreements 1,736 .8 -- --

-----  
Total hedges of foreign

exchange \$ 3,164 1.1 \$ 22 --

-----  
Total risk management instruments \$30,869 3.4 \$1,036 6.32%

### Trading Activities

FleetBoston's trading activities create exposure to price risk, or the risk of loss in earnings arising from adverse changes in the value of trading portfolios of financial instruments. Price risk arises from market-making, dealing and position-taking in interest rate, equity, currency exchange rate and precious metals markets.

FleetBoston uses a VAR methodology, based on industry-standard risk measurement techniques, to measure the overall price risk inherent in its activities. This methodology is more fully described on page 21 of the Corporation's Current Report on Form 8-K dated May 4, 2001. Under this methodology, aggregate VAR averaged \$40 million daily for the six months ended June 30, 2001, essentially unchanged from the daily average for all of 2000. At June 30, 2001, total VAR usage measured \$38 million. In no instance during the current year did FleetBoston's daily VAR measure exceed the approved limit.

For the six months ended June 30, 2001, most of the price risk in the Corporation's trading activities arose from interest rate risk, which includes directional and spread components, and averaged \$23 million, or 59% of aggregate VAR. Interest rate risk arises primarily from trading activity in various domestic fixed-income markets, and in the Argentine and Brazilian sovereign and high-end corporate bond markets.

The contribution to FleetBoston's VAR from equity trading activities for the first half of 2001 decreased somewhat, to an average of \$9 million, or 23% of aggregate VAR. The individual activities that generate most of these risks include the Corporation's large NYSE specialist firm, as well as NASDAQ market-making, equity trading and a convertible bond trading and underwriting

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business.

Risk from foreign exchange trading activities for the six months ended June 30, 2001 remained moderate at an average of \$7 million, or 18% of aggregate VAR. The majority of foreign exchange risk arises from the Corporation's Argentine and Brazilian operations, which establish currency positions with the intention of taking advantage of expected movements in currency exchange rates and/or interest rates. During the first half of 2001, the Corporation primarily maintained local currency assets funded with U.S. dollars. The daily average for the Argentine exposure measured \$247 million, while the daily average for the Brazilian exposure measured \$17 million. This compares with a daily average of \$366 million and \$11 million, respectively, for the first six months of 2000.

FleetBoston's independent Market Risk Management function routinely validates FleetBoston's measurement framework by conducting backtests, which compare the actual daily trading-related results against the estimated VAR with a one-day holding period. In no instance during the current year did a daily aggregate trading loss exceed the one-day aggregate VAR measure associated with that date.

For the six months ended June 30, 2001, daily trading-related revenues, which include certain components of capital markets revenue (trading profits and commissions, foreign exchange revenue and market-making revenue), as well as net interest income from these trading positions, ranged from a loss of \$19.7 million to a profit of \$22.6 million. For the 2000 period, such revenues ranged from a loss of \$.9 million to a profit of \$18 million. Over the 2001 period, VAR with a one-day holding period ranged from \$21 million to \$36 million.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### LIQUIDITY RISK MANAGEMENT

The objective of liquidity risk management is to assure the ability of FleetBoston and its subsidiaries to meet their financial obligations, including the payment of deposits on demand or at their contractual maturity, the repayment of borrowings as they mature, the ability to fund new and existing loan commitments and the ability to take advantage of new business opportunities. Further information with respect to liquidity risk management, including sources of liquidity for FleetBoston and its banking and nonbanking subsidiaries, is included in the "Liquidity Risk Management" section of Management's Discussion and Analysis contained in FleetBoston's Current Report on Form 8-K dated May 4, 2001.

At June 30, 2001, the parent company had commercial paper outstanding of \$1.2 billion, compared with \$1 billion at December 31, 2000. The parent company had excess funds at June 30, 2001 of \$1 billion compared to \$1.7 billion at December 31, 2000. The parent company has backup lines of credit totaling \$1 billion to provide funding should commercial paper not be available. At June 30, 2001 and December 31, 2000, the parent company had no outstanding balances under these lines of credit.

At June 30, 2001, the parent company had \$1.6 billion available for the issuance of senior or subordinated debt securities and other debt securities, common stock, preferred stock or trust preferred securities, under a shelf registration statement filed with the SEC. Management believes the Corporation

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has sufficient liquidity to meet its liabilities to customers and debt holders.

### CAPITAL MANAGEMENT

#### Capital Ratios

	June 30, 2001	Dec. 31, 2000	June 30, 2000
Risk-adjusted assets (in millions)	\$201,757	\$212,438	\$218,505
Tier 1 risk-based capital ratio (4% minimum)	8.47%	8.08%	7.58%
Total risk-based capital ratio (8% minimum)	12.25	11.87	11.50
Leverage (3% minimum)	8.29	8.01	7.54
Common equity to assets	9.38	8.58	7.97
Total equity to assets	9.54	8.84	8.23
Tangible common equity to assets	7.41	6.64	6.05
Tangible common equity to managed assets	6.84	6.18	5.68
Tangible total equity to assets	7.57	6.90	6.31

At June 30, 2001, FleetBoston exceeded all regulatory required minimum capital ratios, as its Tier 1 and Total risk-based capital ratios were 8.47% and 12.25%, respectively, compared with 8.08% and 11.87%, respectively, at December 31, 2000. The leverage ratio, a measure of Tier 1 capital to average quarterly assets, was 8.29% at June 30, 2001 compared with 8.01% at December 31, 2000.

On April 15, 2001, the Corporation redeemed all of the outstanding shares of its 7.25% Series V perpetual preferred stock at its aggregate liquidation value of \$191 million. On April 25, 2001, FleetBoston repurchased 189,420 of the 600,000 outstanding shares of its 6.75% Series VI perpetual preferred stock, having an aggregate liquidation value of \$47.4 million, and on July 11, 2001, repurchased an additional 28,130 shares having an aggregate liquidation value of \$7 million. The Corporation may repurchase additional shares of its preferred stock from time to time, subject to market conditions, capital requirements and other factors.

#### FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains statements relating to future results of FleetBoston (including certain projections and business trends) that are considered "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those contemplated as a result of certain risks and uncertainties. These risks and uncertainties include, but are not limited to (1) changes in general political and economic conditions, either domestically or internationally, including the continuing weakness in the Latin American economies, particularly Argentina, and the potential impact of those economies on the economies of other countries; (2) further deterioration in credit quality, including the resultant effect on the level of the Corporation's NPA's and charge-offs; (3) interest rate and currency fluctuations, equity and bond market fluctuations and perceptions, including continued weakness in the global capital markets and the impact of such weakness on the Corporation's Principal Investing and other capital markets businesses; (4) changes in the competitive environment for financial services organizations

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and the Corporation's ability to manage those changes and to continue to develop competitive products and services; (5) legislative or regulatory developments, including changes in laws concerning taxes, banking, securities, insurance and other aspects of the financial services industry; (6) technological changes, including the impact of the Internet on the Corporation's businesses; (7) the ability of the Corporation to fully realize expected cost savings and to realize those savings within the expected timeframes; and (8) the level of costs related to the integration of acquired businesses.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### RECENT ACCOUNTING DEVELOPMENTS

The FASB recently issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Intangible Assets." SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method of accounting, and prohibits the use of the pooling-of-interests method for such transactions. The new standard also requires identified intangible assets acquired in a business combination to be recognized as an asset apart from goodwill if they meet certain criteria.

SFAS No. 142 applies to all goodwill and identified intangible assets acquired in a business combination. Under the new standard, all goodwill, including that acquired before initial application of the standard, should not be amortized but should be tested for impairment at least annually. Identified intangible assets should be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." Within six months of initial application of the new standard, a transitional impairment test must be performed on all goodwill. Any impairment loss recognized as a result of the transitional impairment test should be reported as a change in accounting principle. In addition to the transitional impairment test, the required annual impairment test should be performed in the year of adoption of the standard.

The new standard is effective for fiscal years beginning after December 15, 2001, and must be adopted as of the beginning of a fiscal year. Retroactive application is not permitted. The Corporation will adopt the new standard on January 1, 2002, and is currently evaluating the potential impact of the standard on its financial position and results of operations.

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#### FLEETBOSTON FINANCIAL CORPORATION CONSOLIDATED STATEMENTS OF INCOME (unaudited)

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Three months ended  
June 30

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Dollars in millions, except per share amounts	2001	2000
<b>Interest income:</b>		
Interest and fees on loans and leases	\$ 2,836	\$ 3,274
Interest on securities and trading assets	477	641
Other	253	148
<b>Total interest income</b>	<b>3,566</b>	<b>4,063</b>
<b>Interest expense:</b>		
Deposits of domestic offices	662	795
Deposits of international offices	276	297
Short-term borrowings	259	375
Long-term debt	427	499
Other	41	73
<b>Total interest expense</b>	<b>1,665</b>	<b>2,039</b>
<b>Net interest income</b>	<b>1,901</b>	<b>2,024</b>
<b>Provision for credit losses</b>	<b>315</b>	<b>335</b>
<b>Net interest income after provision for credit losses</b>	<b>1,586</b>	<b>1,689</b>
<b>Noninterest income:</b>		
Banking fees and commissions	406	403
Investment services revenue	363	450
Credit card revenue	162	177
Processing-related revenue	74	153
Capital markets revenue	(100)	820
Gains on branch divestitures	263	313
Other	158	151
<b>Total noninterest income</b>	<b>1,326</b>	<b>2,467</b>
<b>Noninterest expense:</b>		
Employee compensation and benefits	985	1,273
Occupancy and equipment	277	298
Intangible asset amortization	98	97
Legal and other professional	62	90
Marketing and public relations	58	77
Merger- and restructuring-related charges	38	25
Loss on sale of mortgage banking business	101	--
Other	440	606
<b>Total noninterest expense</b>	<b>2,059</b>	<b>2,466</b>
<b>Income before income taxes</b>	<b>853</b>	<b>1,690</b>
<b>Applicable income taxes</b>	<b>322</b>	<b>719</b>
<b>Net income</b>	<b>\$ 531</b>	<b>\$ 971</b>
<b>Diluted weighted average common shares outstanding (in millions)</b>	<b>1,094.5</b>	<b>1,101.8</b>
<b>Net income applicable to common shares</b>	<b>\$ 523</b>	<b>\$ 961</b>
<b>Basic earnings per share</b>	<b>.48</b>	<b>.89</b>
<b>Diluted earnings per share</b>	<b>.48</b>	<b>.87</b>
<b>Dividends declared</b>	<b>.33</b>	<b>.30</b>

See accompanying Condensed Notes to Consolidated Financial Statements.

FLEETBOSTON FINANCIAL CORPORATION  
 CONSOLIDATED BALANCE SHEETS  
 (unaudited)

Dollars in millions, except per share amounts		Ju
<b>ASSETS</b>		
Cash, due from banks and interest-bearing deposits		\$
Federal funds sold and securities purchased under agreements to resell		
Trading assets		
Mortgages held for sale		
Securities (market value: \$24,591 and \$34,932)		
Loans and leases		1
Reserve for credit losses		
<b>Net loans and leases</b>		<b>1</b>
Due from brokers/dealers		
Premises and equipment		
Mortgage servicing rights		
Intangible assets		
Other assets		
<b>Total assets</b>		<b>\$ 2</b>
<b>LIABILITIES</b>		
<b>Deposits:</b>		
<b>Domestic:</b>		
Noninterest bearing		\$
Interest bearing		
<b>International:</b>		
Noninterest bearing		
Interest bearing		
<b>Total deposits</b>		<b>1</b>
Federal funds purchased and securities sold under agreements to repurchase		
Other short-term borrowings		
Trading liabilities		
Due to brokers/dealers		
Long-term debt		
Accrued expenses and other liabilities		
<b>Total liabilities</b>		<b>1</b>
Commitments and contingencies (Note 8)		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock		



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Common stock, par value \$.01 (1,086.0 million shares issued in 2001 and 1,100.1 million shares issued in 2000)  
 Common surplus  
 Retained earnings  
 Accumulated other comprehensive income  
 Treasury stock, at cost (1.0 million shares in 2001 and 14.6 million shares in 2000)

Total stockholders' equity	
Total liabilities and stockholders' equity	\$ 2

See accompanying Condensed Notes to Consolidated Financial Statements.

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FLEETBOSTON FINANCIAL CORPORATION  
 CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
 (unaudited)

Six months ended June 30	Preferred Stock	Common Stock	Common Surplus	Retained Earnings	Other
Dollars in millions, except per share amounts					
2000					
Balance at December 31, 1999	\$ 691	\$ 11	\$ 5,273	\$12,020	
Net income				2,047	
Other comprehensive income, net of taxes:					
Change in unrealized gain on securities available for sale, net of taxes and reclassification adjustment					
Change in translation adjustment, net of taxes					
Other comprehensive income					
Total comprehensive income					
Cash dividends declared on common stock (\$ .60 per share)				(541)	
Cash dividends declared by pooled company prior to merger				(119)	
Cash dividends declared on preferred stock				(19)	
Common stock issued in connection with dividend reinvestment and employee benefit plans			(26)	3	
Business combinations			(26)		
Redemption of preferred stock	(125)				
Treasury stock purchased					
Settlement of forward purchase contracts					
Other, net			(11)		
Balance at June 30, 2000	\$ 566	\$ 11	\$ 5,210	\$13,391	

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2001

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Balance at December 31, 2000	\$ 566	\$ 11	\$ 4,814	\$14,561
Net income				672
Other comprehensive income, net of taxes:				
Change in unrealized gain on securities available for sale, net of taxes and reclassification adjustment				
Change in translation adjustment, net of taxes				
Change in derivative instruments, net of taxes:				
Cumulative effect of adopting SFAS No. 133				
Net change in fair values of derivatives				
Net losses reclassified to statement of income				
Other comprehensive income				
Total comprehensive income				
Cash dividends declared on common stock (\$ .66 per share)				(716)
Cash dividends declared on preferred stock				(17)
Common stock issued in connection with dividend reinvestment and employee benefit plans			160	62
Redemption and repurchase of preferred stock	(238)			
Exercise of common stock warrants			77	
Treasury stock purchased				
Retirement of treasury stock			(1,033)	
Other, net				1
-----	-----	-----	-----	-----
Balance at June 30, 2001	\$ 328	\$ 11	\$ 4,019	\$14,562
-----	-----	-----	-----	-----

See accompanying Condensed Notes to Consolidated Financial Statements.

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FLEETBOSTON FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

-----  
Six months ended June 30

In millions  
-----

CASH FLOWS FROM OPERATING ACTIVITIES

Net income

Adjustments for noncash items:

    Depreciation and amortization of premises and equipment  
    Amortization of mortgage servicing rights  
    Amortization of other intangible assets  
    Provision for credit losses

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Deferred income tax (benefit)/expense  
 Securities losses  
 Merger- and restructuring-related charges  
 Gains on branch divestitures  
 Loss on sale of mortgage banking business  
 Write-downs of principal investing investments  
 Originations and purchases of mortgages held for sale  
 Proceeds from sales of mortgages held for sale  
 Decrease/(increase) in trading assets  
 Decrease in trading liabilities  
 Increase in due from brokers/dealers  
 Decrease in accrued receivables, net  
 Increase in due to brokers/dealers  
 (Decrease)/increase in accrued liabilities, net  
 Other, net

-----  
 Net cash flow provided by operating activities  
 -----

CASH FLOWS FROM INVESTING ACTIVITIES

Net increase in federal funds sold and securities purchased under agreements to resell  
 Purchases of securities available for sale  
 Proceeds from sales of securities available for sale  
 Proceeds from maturities of securities available for sale  
 Purchases of securities held to maturity  
 Proceeds from maturities of securities held to maturity  
 Net cash and cash equivalents received from businesses acquired  
 Proceeds from sales of loan portfolios by banking subsidiary  
 Net decrease/(increase) in loans and leases  
 Net cash received in conjunction with branch divestitures and sales of businesses  
 Purchase of investment in corporate-owned life insurance  
 Purchases of premises and equipment  
 Purchases of mortgage servicing rights

-----  
 Net cash flow provided by/(used in) investing activities  
 -----

CASH FLOWS FROM FINANCING ACTIVITIES

Net decrease in deposits  
 Net decrease in short-term borrowings  
 Proceeds from issuance of long-term debt  
 Repayments of long-term debt  
 Proceeds from issuance of common stock and exercise of warrants  
 Repurchase of common stock  
 Settlement of forward purchase contracts  
 Redemption and repurchase of preferred stock  
 Cash dividends paid

-----  
 Net cash flow used in financing activities  
 -----

Effect of foreign currency translation on cash

-----  
 Net decrease in cash and cash equivalents  
 -----

Cash and cash equivalents at beginning of period

-----  
 Cash and cash equivalents at end of period

SUPPLEMENTAL DISCLOSURES

Interest paid  
 Income taxes paid

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See accompanying Condensed Notes to Consolidated Financial Statements.

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### FLEETBOSTON FINANCIAL CORPORATION CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2001

#### NOTE 1. BASIS OF PRESENTATION

The accompanying interim consolidated financial statements of FleetBoston Financial Corporation (FleetBoston or the Corporation) are unaudited. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the results of operations contained herein have been made. Certain amounts reported in prior periods have been reclassified to conform to current period classifications.

Prior period financial statements reflect the acquisition of Summit Bancorp. (Summit), which was completed in March 2001 and accounted for as a pooling of interests. This information should be read in conjunction with FleetBoston's Current Report on Form 8-K dated May 4, 2001, which contains restated consolidated financial statements for the year ended December 31, 2000 reflective of the Summit acquisition, and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.

#### NOTE 2. MERGER, ACQUISITION AND DIVESTITURE ACTIVITIES

In connection with the Summit acquisition, aggregate charges totaling \$718 million were recorded in the first quarter of 2001. These charges were composed of \$453 million of merger- and restructuring-related charges and integration costs, and \$265 million of losses on sales of securities available for sale, which were completed as part of a repositioning of the combined balance sheet. An additional \$93 million of merger-related costs were recorded in the second quarter of 2001. The merger- and restructuring-related charges and integration costs are more fully described in Note 5.

FleetBoston completed the sale of its mortgage banking business in the second quarter of 2001. An additional pre-tax loss on the sale of approximately \$101 million was recorded in other noninterest expense.

In June 2001, FleetBoston announced a definitive agreement to purchase the asset management businesses of Liberty Financial Companies, Inc. for approximately \$1 billion, consisting of \$900 million in cash and the assumption of \$110 million in revolving debt. This transaction, which is expected to add approximately \$50 billion to FleetBoston's assets under management, is subject to regulatory approvals, and is expected to be completed in the second half of 2001.

In the second quarter of 2001, FleetBoston recorded gains of \$243 million on branch divestitures associated with the BankBoston merger, and a total of \$333 million during the six months ended June 30, 2001.

#### NOTE 3. LOANS AND LEASES

The following table presents details of loan and lease financing balances:

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In millions	June 30, 2001	Dec. 31, 2000
Domestic:		
Commercial and industrial	\$ 51,642	\$ 56,147
Commercial real estate	11,447	11,641
Home equity	11,662	12,507
Residential real estate	9,917	11,425
Credit card	4,891	5,126
Other consumer	5,774	7,265
Lease financing	13,796	13,567
<b>Total domestic loans and leases</b>	<b>109,129</b>	<b>117,678</b>
International loans and leases	19,937	17,156
<b>Total loans and leases</b>	<b>\$129,066</b>	<b>\$134,834</b>

NOTE 4. RESERVE FOR CREDIT LOSSES

A summary of activity in the reserve for credit losses follows:

Six months ended June 30 In millions	2001	2000
Balance at beginning of year	\$ 2,709	\$ 2,816
Gross charge-offs:		
Domestic:		
Commercial and industrial	415	379
Commercial real estate	2	5
Residential real estate	1	4
Credit card	146	159
Other consumer	51	68
Lease financing	28	15
International	74	80
<b>Total gross charge-offs</b>	<b>717</b>	<b>710</b>
Recoveries:		
Domestic:		
Commercial and industrial	56	36
Commercial real estate	5	5
Residential real estate	1	1
Credit card	18	18
Other consumer	14	22
Lease financing	5	3
International	26	22
<b>Total recoveries</b>	<b>125</b>	<b>107</b>
<b>Net charge-offs</b>	<b>592</b>	<b>603</b>
Provision for credit losses	630	655
Divestitures/Acquisitions/Other	(1)	(62)

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Balance at end of period	\$ 2,746	\$ 2,806
-----		

### NOTE 5. MERGER- AND RESTRUCTURING- RELATED CHARGES

In the first quarter of 2001, FleetBoston recorded aggregate merger- and restructuring-related charges of \$487 million in connection with the Summit merger and a restructuring of its capital markets-related businesses. Of the \$487 million, \$408 million related to Summit and \$79

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### FLEETBOSTON FINANCIAL CORPORATION CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2001

million primarily related to capital markets. The \$408 million charge was composed of \$73 million of merger charges, \$322 million of restructuring-related charges, and \$13 million of accelerated depreciation of assets to be disposed of at a later date, which resulted from revisions to the estimated useful lives of assets currently in use that will be disposed when the Summit integration has been completed.

In addition to the merger- and restructuring-related charges, FleetBoston incurred \$45 million of merger integration costs in the first quarter. These integration costs, which are expensed as incurred, include the costs of converting duplicate computer systems, training and relocation of employees and departments, consolidation of facilities and customer communications.

During the second quarter of 2001, aggregate costs of \$93 million, composed of \$38 million and \$55 million of additional accelerated depreciation and integration costs, respectively, were recorded.

In 1999, the Corporation recorded \$467 million of restructuring charges in connection with the BankBoston merger. Additional information concerning these 1999 charges is included in Note 14 to the Consolidated Financial Statements included in the Corporation's Current Report on Form 8-K dated May 4, 2001. During the second quarter of 2001, \$14 million of such charges were reversed, primarily related to severance and facilities accruals which were not fully utilized.

### RESTRUCTURING-RELATED CHARGES

#### Summit

Of the \$322 million restructuring-related charge, \$150 million related to personnel, \$96 million related to asset write-downs and contract cancellations, \$60 million related to facilities and \$16 million related to other restructuring expenses.

Personnel-related costs of \$150 million included severance, benefit program changes and outplacement services for approximately 2,700 positions identified during the first quarter for elimination in connection with restructuring, principally as a result of the elimination of duplicate functions within the combined company. During the first six months of 2001, approximately \$35 million of personnel-related benefits were paid and approximately 890 employees were terminated and left the Corporation.

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Asset write-downs and contract cancellation costs of \$96 million related to costs to dispose of duplicate or obsolete equipment and computer software, and penalties incurred to cancel leases and other contracts. During the first six months of 2001, \$6 million of costs were paid and \$49 million of write-downs were recorded.

Facilities charges of \$60 million represented minimum lease payments related to duplicate branch and other facilities. Other costs of \$16 million included expenses and various other costs incurred to merge the two companies. During the first six months of 2001, \$9 million of other costs were paid.

### Capital Markets

Of the \$79 million charge, \$52 million related to severance, benefit program changes and outplacement services for approximately 750 positions identified during the first quarter for elimination in connection with the restructuring; \$23 million of costs related to future lease obligations and write-downs of capitalized assets; and \$4 million of other restructuring expenses. During the first six months of 2001, approximately 675 employees were terminated and left the Corporation, and \$25 million of related benefits were paid.

The following table presents activity in restructuring-related accruals during the six months ended June 30, 2001.

#### Restructuring Accrual Activity

	Summit & Capital Markets	BankBoston
Balance at December 31, 2000	\$ --	\$ 146
Restructuring accrual/(reversal)	401	(14)
Cash payments	(75)	(84)
Noncash write-downs	(49)	--
Balance at June 30, 2001	\$ 277	\$ 48

The \$84 million of cash payments included in the table above related to the BankBoston merger consisted of \$70 million of personnel benefits, \$13 million in facilities charges, and \$1 million of other restructuring expenses. The remaining accrual at June 30, 2001 is composed primarily of expected cash outlays related to severance and facilities obligations.

#### NOTE 6. LINE OF BUSINESS INFORMATION

Information about operating segments for the quarters and six months ended June 30, 2001 and 2000 is included in the "Line of Business Information" section of Management's Discussion and Analysis included in this Report.

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JUNE 30, 2001

NOTE 7. EARNINGS PER SHARE

A summary of the calculation of earnings per common share follows:

Three months ended June 30		2001	
Dollars in millions, except per share amounts	BASIC	DILUTED	
Average shares outstanding	1,083,752,849	1,083,752,849	1,080
Additional shares due to:			
Stock options	--	10,766,704	
Warrants	--	--	
Total equivalent shares	1,083,752,849	1,094,519,553	1,080
Earnings per share:			
Net income	\$531	\$531	
Less preferred stock dividends	(8)	(8)	
Net income available to common stockholders	\$523	\$523	
Total equivalent shares	1,083,752,849	1,094,519,553	1,080
Earnings per share	\$.48	\$.48	

Six months ended June 30		2001	
Dollars in millions, except per share amounts	BASIC	DILUTED	
Average shares outstanding	1,083,626,155	1,083,626,155	1,080
Additional shares due to:			
Stock options	--	11,296,677	
Warrants	--	274,706	
Total equivalent shares	1,083,626,155	1,095,197,538	1,080
Earnings per share:			
Net income	\$672	\$672	
Less preferred stock dividends	(17)	(17)	
Net income available to common stockholders	\$655	\$655	
Total equivalent shares	1,083,626,155	1,095,197,538	1,080





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In connection with balance sheet management activities, non-trading derivative financial instruments are used to manage market risk, primarily interest rate risk.

**FAIR VALUE HEDGES.** Derivatives categorized as fair value hedges are utilized to convert fixed-rate debt to floating-rate debt, as part of the Corporation's overall interest rate risk management process.

For the quarter and six months ended June 30, 2001, FleetBoston recognized net pre-tax losses of approximately \$115 million and \$131 million, respectively, which represented the ineffective portion of all fair value hedges, primarily hedges of mortgage servicing rights, excluding the time value of option contracts and the interest rate differential on foreign currency forward contracts. The components of fair value excluded from the assessment of fair value hedge effectiveness for the quarter and six months ended June 30, 2001 were losses of approximately \$5 million and \$19 million, respectively. All components of each derivative's gain or loss are included in the assessment of hedge effectiveness, unless otherwise noted.

**CASH FLOW HEDGES.** Derivatives categorized as cash flow hedges are utilized primarily to convert floating-rate loans to fixed-rate loans; and to convert floating-rate, non-functional currency denominated assets to fixed-rate, functional currency denominated assets.

For the quarter and six months ended June 30, 2001, FleetBoston recognized net pre-tax gains of approximately \$.1 million and \$.5 million, respectively, which represented the total ineffectiveness of all cash flow hedges.

Gains and losses on derivative contracts that are reclassified from accumulated other comprehensive income to current period earnings are included in the line item in which the hedged item is recorded. As of June 30, 2001, approximately \$214 million of the deferred net after-tax gains on derivative instruments included in accumulated other comprehensive income is expected to be reclassified to earnings during the next twelve months. This expectation is based on the net discounted cash flows from derivative instruments hedging variable-rate assets, as well as the amortization of gains from the termination of cash flow hedge derivatives.

**HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS.** Derivatives categorized as hedges of net investments in foreign operations are utilized to protect the value of an investment against adverse exchange rate fluctuations. For the quarter and six months ended June 30, 2001, net after-tax gains related to these derivatives, recorded in other comprehensive income, were approximately \$6 million.

### CREDIT RISK

The use of non-trading and trading derivatives creates exposure to credit risk. This credit exposure relates to accounting losses that would be recognized if the counterparties completely failed to perform their obligations. The amount of credit exposure can be estimated by calculating the cost to replace all profitable derivative contracts, on a present value basis and at current market prices. To manage its level of credit exposure, FleetBoston deals only with counterparties of good credit standing, establishes counterparty credit limits, in certain cases has the ability to require securities collateral, and enters into master netting agreements whenever possible. Reserves related to credit exposure associated with derivative instruments are included in other liabilities in the consolidated balance sheet.

Non-trading derivative instruments, other than those used for foreign exchange, had credit exposure of \$1,063 million at June 30, 2001, versus \$690 million at March 31, 2001. Foreign exchange derivative instruments had credit

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exposure of \$43 million at June 30, 2001, versus \$103 million at March 31, 2001. Trading derivatives had credit exposure of \$2.2 billion at June 30, 2001, versus \$2.7 billion at March 31, 2001.

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### PART II. OTHER INFORMATION

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

##### (a) Exhibit Index

Exhibit Number	
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- |      |   |
|------|---|
| 3(a) | Certificate of Correction filed with the Rhode Island Secretary of State correcting a typographical error in the Corporation's Restated Articles of Incorporation.                                    |
| 3(b) | Certificate of Votes filed with the Rhode Island Secretary of State reducing the number of reserved shares of the Corporation's Cumulative Participating Junior Preferred Stock.                      |
| 3(c) | Statement of Resolutions establishing the Corporation's Cumulative Participating Junior Preferred Stock (Series 2000) as a Series of Preferred Stock, filed with the Rhode Island Secretary of State. |
| 12   | Computation of Consolidated Ratios of Earnings to Fixed Charges.  |

##### (b) Current Reports on Form 8-K

FleetBoston filed three Current Reports on Form 8-K during the period from April 1, 2001 to the date of the filing of this report.

- Current Report on Form 8-K, dated April 17, 2001, announcing the Corporation's first quarter 2001 earnings.
- Current Report on Form 8-K, dated May 4, 2001, containing restated consolidated financial statements of the Corporation reflecting the merger with Summit Bancorp, which was completed on March 1, 2001.
- Current Report on Form 8-K, dated July 18, 2001, announcing the Corporation's second quarter 2001 earnings.

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### SIGNATURES

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

FleetBoston Financial Corporation

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(Registrant)

/s/ Eugene M. McQuade  
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Eugene M. McQuade  
Vice Chairman and  
Chief Financial Officer

/s/ Ernest L. Puschaver  
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Ernest L. Puschaver  
Chief Accounting Officer

DATE: August 13, 2001