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PNC FINANCIAL SERVICES GROUP INC  
 Form 10-Q/A  
 March 29, 2002

THE PNC FINANCIAL SERVICES GROUP, INC.

Quarterly Report on Form 10-Q/A, Amendment No. 1  
 For the quarterly period ended March 31, 2001

Pages 1 and 2 represent a portion of the first quarter 2001 Financial Review which is not required by the Form 10-Q/A report and is not "filed" as part of the Form 10-Q/A.

The Form 10-Q/A and cross reference index is on page 39.

FINANCIAL REVIEW  
 THE PNC FINANCIAL SERVICES GROUP, INC.

By filing this amendment ("Amendment No. 1"), the registrant, The PNC Financial Services Group, Inc., hereby amends its Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 ("March 2001 Form 10-Q") primarily to reflect the correction of an error related to the accounting for the January 2001 sale of the registrant's residential mortgage banking business.

By this Amendment No. 1, the registrant is amending and restating its entire March 2001 Form 10-Q.

March 31            March 31 For the three months ended - dollars in millions, except  
 per share data

200

FINANCIAL PERFORMANCE

Revenue

Net interest income (taxable-equivalent basis) \$55

Noninterest income 70

Total revenue 1,26

Income from continuing operations 26

Discontinued operations

Income before cumulative effect of accounting change 27

Cumulative effect of accounting change (

Net income \$26

Per common share

DILUTED EARNINGS

Continuing operations \$.8

Discontinued operations .0

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Before cumulative effect of accounting change	.9
Cumulative effect of accounting change	(.0)
	-----
Net income	\$ .8
	=====
Cash dividends declared	\$.4

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SELECTED RATIOS  
FROM CONTINUING OPERATIONS

Return on	
Average common shareholders' equity	16.5
Average assets	1.4
Net interest margin	3.6
Noninterest income to total revenue	55.6
Efficiency (a)	57.9
FROM NET INCOME	
Return on	
Average common shareholders' equity	16.5
Average assets	1.4
Net interest margin	3.5
Noninterest income to total revenue	55.9
Efficiency (b)	57.7

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- (a) Excludes amortization and distributions on capital securities.  
(b) Excludes amortization, distributions on capital securities and residential mortgage banking risk management activities.

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	March 31 2001	December 2000
Dollars in millions, except per share data		
-----		
BALANCE SHEET DATA		
Assets	\$70,966	\$69,800
Earning assets	60,548	59,300
Loans, net of unearned income	45,626	50,600
Securities available for sale	11,976	5,900
Loans held for sale	1,765	1,600
Investment in discontinued operations		300
Deposits	47,189	47,600
Borrowed funds	12,279	11,700
Shareholders' equity	6,781	6,600
Common shareholders' equity	6,470	6,300
Book value per common share	22.39	21.00
Loans to deposits	97%	100%
CAPITAL RATIOS		
Leverage	7.8%	8.0%
Common shareholders' equity to total assets	9.12	9.0%

ASSET QUALITY RATIOS

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Nonperforming assets to total loans,		
loans held for sale and foreclosed assets	.81%	.
Allowance for credit losses to total loans	1.48	1.
Allowance for credit losses to nonperforming loans	200.89	208.
Net charge-offs to average loans	.65	.

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### FINANCIAL REVIEW THE PNC FINANCIAL SERVICES GROUP, INC.

This Financial Review should be read in conjunction with The PNC Financial Services Group, Inc. ("Corporation" or "PNC") unaudited Consolidated Financial Statements and Statistical Information included herein and the Financial Review and audited Consolidated Financial Statements included in the Corporation's 2000 Annual Report. For information regarding business risks, see the Risk Management and Risk Factors sections in this Financial Review. Also, see the Forward-Looking Statements section in this Financial Review for other factors that could cause actual results to differ materially from forward-looking statements or historical performance.

The amounts contained in this Amendment No. 1 include the restatement of the results for the first quarter 2001 to reflect the correction of an error related to the accounting for the sale of the residential mortgage banking business. This restatement reduced income from discontinued operations and net income for the three months ended March 31, 2001 by \$35 million, or \$.12 per diluted share. The consolidated balance sheet was not affected by this restatement as the impact of the error had been reflected in retained earnings at March 31, 2001.

### OVERVIEW

#### THE PNC FINANCIAL SERVICES GROUP, INC.

The Corporation is one of the largest diversified financial services companies in the United States, operating businesses engaged in community banking, corporate banking, real estate finance, asset-based lending, wealth management, asset management and global fund services. The Corporation provides certain products and services nationally and others in PNC's primary geographic markets in Pennsylvania, New Jersey, Delaware, Ohio and Kentucky. The Corporation also provides certain asset management and processing products and services internationally.

Financial services organizations today are challenged to demonstrate that they can generate high-quality earnings growth in an increasingly competitive and weakening economic environment. As a result, PNC has been aggressively pursuing strategies to create a more diverse and valuable business mix by increasing the contribution from more highly-valued businesses such as asset management, processing and treasury management and by decreasing the contribution from lending-based traditional banking businesses. Earnings from asset management and processing businesses increased to nearly 30% of total business earnings for the first three months of 2001 and noninterest income was approximately 60% of total revenue. At the same time, PNC sold its residential mortgage banking business and has been downsizing certain institutional lending portfolios resulting in a reduction of the loan to deposit ratio to below 100%.

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On January 31, 2001, PNC closed the sale of its residential mortgage banking business. The net loss on sale and income from operations for the first three months of 2001 resulted in income from discontinued operations of \$5 million or \$.02 per diluted share. Certain closing date adjustments are currently in dispute between PNC and the buyer, Washington Mutual Bank, FA. The ultimate financial impact of the sale will not be determined until the disputed matters are finally resolved.

Return on average common shareholders' equity was 16.59% and return on average assets was 1.43% for the first three months of 2001 compared with 21.71% and 1.66%, respectively, for the first three months of 2000. Returns during the first three months of 2001 reflect PNC's stronger capital position that resulted from balance sheet downsizing initiatives.

### SUMMARY FINANCIAL RESULTS

Consolidated net income for the first three months of 2001 was \$265 million or \$.89 per diluted share. Excluding the effect of adopting the new accounting standard for financial derivatives, net income was \$270 million or \$.91 per diluted share compared with \$308 million or \$1.03 per diluted share for the first three months of 2000. These results include the negative impact of a \$27 million or \$.09 per diluted share net loss from venture capital activities. Excluding this loss and the effect of the accounting change, results for the first three months of 2001 were \$297 million or \$1.00 per diluted share.

The residential mortgage banking business, which was sold in January 2001, is reflected in discontinued operations throughout the Corporation's consolidated financial statements. Accordingly, the income and net assets of the residential mortgage banking business are shown separately on one line in the income statement and balance sheet, respectively, for all periods presented. The remainder of the discussion and information in this Financial Review reflects continuing operations, unless otherwise noted.

Income from continuing operations for the first three months of 2001 was \$265 million or \$.89 per diluted share. Excluding the \$27 million net loss from venture capital activities and a \$32 million charge related to loans designated for exit or downsizing and severance costs, income from continuing operations was \$324 million or \$1.09 per diluted share for the first three months of 2001. Income from continuing operations was \$302 million or \$1.01 per diluted share during the same period a year ago.

Taxable-equivalent net interest income of \$559 million for the first three months of 2001 remained relatively unchanged compared with the first three months of 2000. The net interest margin was 3.62% for the first three months of 2001 compared with 3.68% for the first three months of 2000. The narrowing of the net interest margin was primarily due to a higher proportion of securities available for sale in the mix of earning assets.

The provision for credit losses was \$80 million for the first three months of 2001 and net charge-offs were \$80 million or .65% of average loans. The provision for credit losses was \$31 million and net charge-offs were \$31 million or .25% of average loans for the same period in 2000. The increases were primarily due to \$41 million of provision for credit losses related to charge-offs of loans in the communications and energy, metals and mining portfolios that PNC has designated for exit or downsizing. Excluding this amount, net charge-offs were \$39 million or .32% of average loans for the first three months of 2001.

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Noninterest income was \$701 million for the first three months of 2001 and included \$39 million of equity management losses from venture capital activities. Excluding equity management gains and losses from both years, noninterest income increased 15% compared with the first three months of 2000 primarily due to growth in asset management and processing revenue.

Noninterest expense was \$775 million for the first three months of 2001 compared with \$792 million for the first three months of 2000 and the efficiency ratio remained flat at 58% during both periods.

Total assets were \$71.0 billion at March 31, 2001 compared with \$69.8 billion at December 31, 2000. Average interest-earning assets were \$61.5 billion for the first three months of 2001 compared with \$60.5 billion for the first three months of 2000. The increase was primarily due to a higher level of securities available for sale that resulted from balance sheet and interest rate risk management activities.

Shareholders' equity totaled \$6.8 billion at March 31, 2001. The regulatory capital ratios were 7.8% for leverage, 8.7% for tier I risk-based and 12.6% for total risk-based capital. During the first three months of 2001, PNC repurchased 2.3 million shares of common stock.

The ratio of nonperforming assets to total loans, loans held for sale and foreclosed assets was .81% at March 31, 2001 compared with .71% at December 31, 2000 and .65% at March 31, 2000. The increase primarily resulted from a decrease in loans. Nonperforming assets were \$386 million at March 31, 2001 compared with \$372 million and \$344 million at December 31, 2000 and March 31, 2000, respectively.

The allowance for credit losses was \$675 million and represented 1.48% of total loans and 201% of nonperforming loans at March 31, 2001. The comparable ratios were 1.33% and 209%, respectively, at December 31, 2000 and 1.34% and 225%, respectively, at March 31, 2000.

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### FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

### REVIEW OF BUSINESSES

PNC operates seven major businesses engaged in community banking, corporate banking, real estate finance, asset-based lending, wealth management, asset management and global fund services.

Business results are presented based on PNC's management accounting practices and the Corporation's management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to generally accepted accounting principles; therefore, PNC's business results are not necessarily comparable with similar information for any other financial services institution. Financial results are presented, to the extent practicable, as if each business operated on a stand-alone basis.

The management accounting process uses various balance sheet and income statement assignments and transfers to measure performance of the businesses. Methodologies change from time to time as management accounting practices are

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enhanced and businesses change. Securities available for sale or borrowings and related net interest income are assigned based on the net asset or liability position of each business. Capital is assigned based on management's assessment of inherent risks and equity levels at independent companies providing similar products and services. The allowance for credit losses is allocated based on management's assessment of risk inherent in the loan portfolios. Support areas not directly aligned with the businesses are allocated primarily based on the utilization of services.

Total business financial results differ from consolidated results from continuing operations primarily due to differences between management accounting practices and generally accepted accounting principles, loan portfolios and businesses that have been divested or designated for exit during 2000 or earlier, equity management activities, minority interests, residual asset and liability management activities, eliminations and unassigned items, the impact of which is reflected in the "Other" category. The operating results and financial impact of the disposition of the residential mortgage banking business, previously PNC Mortgage, are included in discontinued operations.

### RESULTS OF BUSINESSES

Three months ended March 31	Earnings		Revenue (taxable-equivalent basis)		Re
Dollars in millions	2001	2000	2001	2000	Assig
<hr/>					
PNC Bank					
Community Banking	\$162	\$129	\$542	\$477	24%
Corporate Banking	24	64	192	214	8
<hr/>					
Total PNC Bank	186	193	734	691	19
<hr/>					
Secured Finance					
PNC Real Estate Finance	20	13	53	46	21
PNC Business Credit	16	13	38	28	41
<hr/>					
Total Secured Finance	36	26	91	74	26
<hr/>					
Total Banking	222	219	825	765	20
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Asset Management and Processing					
PNC Advisors	44	41	199	204	32
BlackRock	25	19	134	108	26
PFPC	17	6	184	161	33
<hr/>					
Total Asset Management and Processing	86	66	517	473	30
<hr/>					
Total business results	308	285	1,342	1,238	22
Other	(43)	17	(82)	50	
<hr/>					
Results from continuing operations	265	302	1,260	1,288	17
Discontinued operations	5	6			
Cumulative effect of accounting change	(5)				
<hr/>					
Total Consolidated	\$265	\$308	\$1,260	\$1,288	17
<hr/>					

## COMMUNITY BANKING

Three months ended March 31

Dollars in millions

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INCOME STATEMENT

Net interest income	\$354	\$344
Other noninterest income	161	137
Net securities gains (losses)	27	(4)

Total revenue	542	477
Provision for credit losses	10	12
Noninterest expense	279	264

Pretax earnings	253	201
Income taxes	91	72

Earnings	\$162	\$129
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AVERAGE BALANCE SHEET

## Loans

Consumer		
Home equity	\$5,932	\$5,252
Indirect	943	1,435
Education	135	97
Other consumer	917	786

Total consumer	7,927	7,570
Commercial	3,611	3,725
Residential mortgage	11,701	11,603
Leasing	1,703	1,179
Other	140	141

Total loans	25,082	24,218
Securities available for sale	7,551	5,676
Loans held for sale	1,324	1,429
Assigned assets and other assets	6,660	6,543

Total assets	\$40,617	\$37,866
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Deposits

Noninterest-bearing demand	\$4,476	\$4,594
Interest-bearing demand	5,506	5,274
Money market	11,769	9,482
Savings	1,860	2,077
Certificates	13,256	13,611

Total deposits	36,867	35,038
Other liabilities	1,010	274
Assigned capital	2,740	2,554

Total funds	\$40,617	\$37,866
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PERFORMANCE RATIOS

Return on assigned capital	24%	20%
Noninterest income to total revenue	35	28

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Efficiency

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Community Banking provides deposit, branch-based brokerage, electronic banking and credit products and services to retail customers as well as deposit, credit, treasury management and capital markets products and services to small businesses primarily within PNC's geographic region.

Community Banking's strategic focus is on driving sustainable revenue growth, aggressively managing the revenue/expense relationship and improving the risk/return dynamic of this business. Community Banking utilizes knowledge-based marketing capabilities to analyze customer demographic information, transaction patterns and delivery preferences to develop customized banking packages focused on improving customer satisfaction and profitability.

Community Banking has also invested heavily in building a sales culture and infrastructure while improving efficiency. Capital investments have been strategically directed towards the expansion of multi-channel distribution, consistent with customer preferences, as well as the delivery of relevant customer information to all distribution channels.

Community Banking contributed 53% of total business earnings for the first three months of 2001 compared with 45% for the first three months of 2000. Earnings increased \$33 million or 26% to \$162 million for the first three months of 2001 primarily due to net securities gains and strong business growth. Excluding net securities gains from the first three months of 2001 and net securities losses from the first three months of 2000, earnings increased 11% primarily driven by higher noninterest income, deposit growth and improved efficiency.

Total revenue was \$542 million for the first three months of 2001 compared with \$477 million for the first three months of 2000. The increase was primarily due to net securities gains and higher consumer transaction activity in 2001. Excluding net securities gains and losses from both periods, revenue increased 7% in the period-to-period comparison.

The provision for credit losses for the first three months of 2001 decreased \$2 million compared with the same period in 2000 primarily due to lower net charge-offs in indirect lending.

Total loans increased in the comparison as higher home equity loans and leases that resulted from strategic acquisitions were partially offset by the continued downsizing of the indirect automobile lending portfolio. Total deposits grew 5% in the comparison driven by a \$2.3 billion increase in money market deposits. The increase in money market deposits resulted from targeted consumer marketing initiatives to add new accounts and retain existing customers as funds shifted from savings and certificates of deposit.

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FINANCIAL REVIEW  
THE PNC FINANCIAL SERVICES GROUP, INC.

CORPORATE BANKING

Three months ended March 31  
Dollars in millions

2001

2000



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INCOME STATEMENT

Credit-related revenue	\$104	\$99
Noncredit revenue	88	115

Total revenue	192	214
Provision for credit losses	57	15
Noninterest expense	101	101

Pretax earnings	34	98
Income taxes	10	34

Earnings	\$24	\$64
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AVERAGE BALANCE SHEET

Loans

Middle market	\$5,969	\$6,067
Large corporate	3,199	3,032
Energy, metals and mining	1,383	1,360
Communications	1,262	1,449
Leasing	2,185	1,719
Other	326	382

Total loans	14,324	14,009
Other assets	2,615	1,941

Total assets	\$16,939	\$15,950
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Deposits	\$4,901	\$4,526
Assigned funds and other liabilities	10,768	10,228
Assigned capital	1,270	1,196

Total funds	\$16,939	\$15,950
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PERFORMANCE RATIOS

Return on assigned capital	8%	22%
Noncredit revenue to total revenue	46	54
Efficiency	52	47

Corporate Banking provides credit, equipment leasing, treasury management and capital markets products and services to large and mid-sized corporations, institutions and government entities primarily within PNC's geographic region.

The strategic focus for Corporate Banking is to emphasize higher-margin noncredit products and services, especially treasury management and capital markets, and to extend credit to customers as a complement to sales of noncredit products and services. Approximately 40% of the loan portfolio represents syndicated loans. These credits are generally large commitments that are shared by a number of financial institutions to reduce exposure to any one client.

During the first quarter of 2001, the Corporation announced the decision to exit the communications lending sector and to reduce portions of the energy, metals and mining and large corporate lending sectors. The designated loans are reported in Corporate Banking business results in both periods presented. Management continues to evaluate opportunities to reduce lending exposure and improve the risk/return characteristics of this business.

Corporate Banking contributed 8% of total business earnings for the first three months of 2001 compared with 22% for the first three months of 2000. Earnings declined to \$24 million for the first three months of 2001 compared with \$64 million for the first three months of 2000 primarily due to \$41 million of

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provision for credit losses in 2001 related to charge-offs in the communications and energy, metals and mining portfolios that PNC has designated for exit or downsizing.

Total revenue of \$192 million for the first three months of 2001 decreased \$22 million compared with the same period in 2000. Average loans and credit-related revenue increased in the period-to-period comparison primarily driven by loans to large corporate customers that utilize higher-margin noncredit products and services and the expansion of equipment leasing. Middle market loans declined in the period-to-period comparison primarily due to strategies to improve the risk profile of this portfolio. Noncredit revenue includes noninterest income and the benefit of compensating balances received in lieu of fees. Noncredit revenue decreased \$27 million compared with the first three months of 2000 primarily due to lower capital markets fees and valuation losses associated with equity investments. The decreases were primarily due to weak equity market conditions.

The provision for credit losses was \$57 million for the first three months of 2001 compared with \$15 million for the first three months of 2000. The higher provision was primarily due to \$41 million of charge-offs in the communications and energy, metals and mining portfolios that PNC has designated for exit or downsizing. A sustained or further weakening of the economy, or other factors that adversely affect asset quality, could result in an increase in the number of delinquencies, bankruptcies or defaults, and a higher level of nonperforming assets, net charge-offs and provision for credit losses in future periods. See Credit Risk in the Risk Management section of this Financial Review for additional information regarding credit risk.

Treasury management and capital markets products offered through Corporate Banking are sold by several businesses across the Corporation and related profitability is included in the results of those businesses. Consolidated revenue from treasury management increased to \$88 million for the first three months of 2001 compared with \$85 million in the first three months of 2000. The increase was driven by a 7% increase in product revenue that was partially offset by lower income earned on customers' deposit balances resulting from the lower interest rate environment in 2001. Consolidated revenue from capital markets was \$23 million for the first three months of 2001, an \$11 million decrease compared with the first three months of 2000. The decrease was primarily due to weak equity market conditions as well as the impact of exiting certain lending sectors.

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### PNC REAL ESTATE FINANCE

Three months ended March 31

Dollars in millions

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INCOME STATEMENT

	2001	2000
Net interest income	\$29	\$27
Noninterest income		
Commercial mortgage banking	17	12
Other	7	7
-----		
Total noninterest income	24	19
-----		
Total revenue	53	46
Provision for credit losses		
Noninterest expense	36	35

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Pretax earnings	17	11
Income tax benefit	(3)	(2)
Earnings	\$20	\$13

AVERAGE BALANCE SHEET

Loans

Commercial - real estate related	\$1,852	\$2,019
Commercial real estate	2,325	2,438

Total loans	4,177	4,457
Commercial mortgages held for sale	236	99
Other assets	965	826

Total assets	\$5,378	\$5,382
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Deposits	\$338	\$226
Assigned funds and other liabilities	4,646	4,770
Assigned capital	394	386

Total funds	\$5,378	\$5,382
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PERFORMANCE RATIOS

Return on assigned capital	21%	14%
Noninterest income to total revenue	45	41
Efficiency	54	61

PNC Real Estate Finance provides credit, capital markets, treasury management, commercial mortgage loan servicing and other products and services to developers, owners and investors in commercial real estate. PNC's commercial real estate financial services platform includes Midland Loan Services, Inc. ("Midland"), one of the largest national servicers of commercial mortgage loans, and Columbia Housing Partners, LP, a national syndicator of affordable housing equity, among other businesses.

On October 27, 2000, Midland acquired Univest Financial Group LLC, a privately held provider of technology and data management services to the commercial real estate finance industry. The combined company created one of the nation's leading providers of Web-enabled loan servicing and asset administration solutions for commercial real estate portfolio lenders, financial institutions and commercial mortgage-backed securities.

Over the past three years, PNC Real Estate Finance has been strategically shifting to a more balanced and valuable revenue stream by focusing on real estate processing businesses, including commercial loan servicing. During the first three months of 2001, 45% of total revenue was generated by fee-based activities compared with 41% for the first three months of 2000. Also, management continues to evaluate opportunities to reduce lending exposure and improve the risk/return characteristics of this business.

PNC Real Estate Finance contributed 6% of total business earnings for the first three months of 2001 compared with 5% for the first three months of 2000. Earnings increased \$7 million or 54% in the period-to-period comparison primarily due to growth in commercial mortgage servicing fees and the affordable housing business. The efficiency ratio improved to 54% for the first three months of 2001 compared with 61% during the same period in 2000. Average loans decreased 6% reflecting management's ongoing strategy to reduce balance sheet leverage.

Total revenue was \$53 million for the first three months of 2001 compared with

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\$46 million for the first three months of 2000. The increase of \$7 million or 15% was primarily due to higher commercial mortgage servicing fees reflecting a larger servicing portfolio. The commercial mortgage servicing portfolio grew 26% in the comparison to \$58 billion at March 31, 2001 primarily due to purchased servicing associated with loan securitizations.

### COMMERCIAL MORTGAGE SERVICING PORTFOLIO

In billions	2001	2000
-----		
January 1	\$54	\$45
Acquisitions/additions	6	3
Repayments/transfers	(2)	(2)
-----		
March 31	\$58	\$46
=====		

There was no provision for credit losses in either period presented.

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### FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

#### PNC BUSINESS CREDIT

Three months ended March 31

Dollars in millions	2001	2000
-----		
INCOME STATEMENT		
Net interest income	\$24	\$24
Noninterest income	14	4
-----		
Total revenue	38	28
Provision for credit losses	5	
Noninterest expense	8	7
-----		
Pretax earnings	25	21
Income taxes	9	8
-----		
Earnings	\$16	\$13
-----		
AVERAGE BALANCE SHEET		
Loans	\$2,255	\$1,999
Other assets	122	85
-----		
Total assets	\$2,377	\$2,084
-----		
Deposits	\$77	\$44
Assigned funds and other liabilities	2,142	1,902
Assigned capital	158	138
-----		
Total funds	\$2,377	\$2,084
-----		
PERFORMANCE RATIOS		
Return on assigned capital	41%	38%
Noninterest income to total revenue	37	14

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Efficiency 18 21  
 =====

PNC Business Credit provides asset-based lending, capital markets and treasury management products and services to middle market customers nationally. PNC Business Credit's lending services include loans secured by accounts receivable, inventory, machinery and equipment, and other collateral, and its customers include manufacturing, wholesale, distribution, retailing and service industry companies.

PNC Business Credit's strategic focus is to build scale through expansion of existing offices as well as the addition of new marketing locations. The loan portfolio grew 13% to \$2.4 billion at March 31, 2001 primarily as a result of this expansion. PNC Business Credit currently operates 15 offices in 13 states with a centralized back office to provide consistency to the control environment as well as cost efficiencies.

PNC Business Credit contributed 5% of total business earnings for the first three months of both 2001 and 2000. Earnings increased \$3 million or 23% in the period-to-period comparison to \$16 million for the first three months of 2001 as higher revenue was partially offset by a \$5 million provision for credit losses.

Revenue was \$38 million for the first three months of 2001, a \$10 million or 36% increase compared with the first three months of 2000 primarily due to higher noninterest income. The increase in noninterest income primarily resulted from gains on equity interests received as compensation in conjunction with lending relationships.

Noninterest expense was \$8 million and the efficiency ratio improved to 18% for the first three months of 2001 compared with \$7 million and 21%, respectively, for the first three months of 2000. The efficiency ratio improved in the comparison primarily due to higher noninterest income and economies of scale. The return on assigned capital improved to 41% for the first three months of 2001 due to higher revenue and improved efficiency.

The provision for credit losses for the first three months of 2001 was \$5 million and increased primarily due to one credit. PNC Business Credit loans are secured loans to borrowers with a weaker financial condition. These loans are more susceptible to changes in economic conditions and losses may result from insufficient proceeds from sale of collateral supporting the loans. As a result, the provision for credit losses may be affected by the impact on borrowers of a weak economy and loan portfolio growth, among other factors. See Credit Risk in the Risk Management section of this Financial Review for additional information regarding credit risk.

### PNC ADVISORS

Three months ended March 31

Dollars in millions	2001	2000
<b>INCOME STATEMENT</b>		
Net interest income	\$32	\$35
Noninterest income		
Investment management and trust	111	100
Brokerage	36	50
Other	20	19

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Total noninterest income	167	169
Total revenue	199	204
Provision for credit losses		3
Noninterest expense	128	135
Pretax earnings	71	66
Income taxes	27	25
Earnings	\$44	\$41
AVERAGE BALANCE SHEET		
Loans		
Consumer	\$1,106	\$954
Residential mortgage	930	978
Commercial	564	658
Other	422	552
Total loans	3,022	3,142
Other assets	483	456
Total assets	\$3,505	\$3,598
Deposits	\$1,981	\$2,084
Assigned funds and other liabilities	968	967
Assigned capital	556	547
Total funds	\$3,505	\$3,598
PERFORMANCE RATIOS		
Return on assigned capital	32%	30%
Noninterest income to total revenue	84	83
Efficiency	63	65

PNC Advisors provides a full range of tailored investment products and services to affluent individuals and families including full-service brokerage through J.J.B. Hilliard, W.L. Lyons, Inc. ("Hilliard Lyons") and investment advisory services to the ultra-affluent through Hawthorn. PNC Advisors also serves as investment manager and trustee for employee benefit plans and charitable and endowment assets. PNC Advisors is focused on expanding Hilliard Lyons and Hawthorn, increasing market share in PNC's geographic region and leveraging its comprehensive distribution platform.

PNC Advisors contributed 14% of total business earnings for the first three months of both 2001 and 2000. Earnings of \$44 million for the first three months of 2001 increased \$3 million or 7% compared with the first three months of 2000.

Revenue decreased \$5 million in the period-to-period comparison due to lower levels of retail investor trading activity and weak equity markets, the impact of which was partially offset by investment management and trust revenue accrual adjustments of \$14 million. Management expects that revenue will continue to be lower than the prior year until market conditions improve.

Noninterest expense decreased 5% in the period-to-period comparison primarily due to lower production-based compensation and effective expense management initiatives that resulted in improved operating efficiency.

ASSETS UNDER MANAGEMENT (a)

March 31 - in billions	2001	2000
------------------------	------	------

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Personal investment management and trust	\$47	\$51
Institutional trust	14	15
Total	\$61	\$66

(a) Assets under management do not include brokerage assets administered.

Personal investment management and trust assets under management decreased by approximately \$5 billion primarily due to a decline in the value of the equity component of customers' portfolios that resulted from weak equity markets. See Asset Management Performance in the Risk Factors section of this Financial Review for additional information regarding asset management performance.

Brokerage assets administered by PNC Advisors were \$27 billion at March 31, 2001, compared with \$28 billion at March 31, 2000 and also declined due to weak equity market conditions.

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### FINANCIAL REVIEW THE PNC FINANCIAL SERVICES GROUP, INC.

#### BLACKROCK

Three months ended March 31

Dollars in millions 2001          2000

#### INCOME STATEMENT

Investment advisory and administrative fees	\$125	\$102
Other income	9	6

Total revenue	134	108
Operating expense	72	54
Fund administration and servicing costs - affiliates	17	20
Amortization	3	2

Total expense	92	76
Operating income	42	32
Nonoperating income	2	1

Pretax earnings	44	33
Income taxes	19	14

Earnings	\$25	\$19
----------	------	------

#### PERIOD-END BALANCE SHEET

Intangible assets	\$190	\$192
Other assets	310	196

Total assets	\$500	\$388
--------------	-------	-------

Other liabilities	\$98	\$88
Stockholders' equity	402	300

Total liabilities and stockholders' equity	\$500	\$388
--	-------	-------

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### PERFORMANCE DATA

Return on equity	26%	26%
Operating margin (a)	36	36
Diluted earnings per share	\$.39	\$.30

=====

(a) Excludes the impact of fund administration and servicing costs - affiliates.

BlackRock is one of the largest publicly traded investment management firms in the United States with \$202 billion of assets under management at March 31, 2001. BlackRock manages assets on behalf of institutions and individuals through a variety of fixed income, liquidity, equity and alternative investment separate accounts and mutual funds, including its flagship fund families, BlackRock Funds and BlackRock Provident Institutional Funds. In addition, BlackRock provides risk management and technology services to a growing number of institutional investors under the BlackRock Solutions name.

BlackRock continues to focus on its objective of delivering superior investment performance to its clients while pursuing strategies to build on its core strengths and to selectively expand the firm's expertise and breadth of distribution.

BlackRock contributed 8% of total business earnings for the first three months of 2001 compared with 7% for the first three months of 2000. Earnings increased 33% in the period-to-period comparison primarily due to a 17% increase in assets under management. New client mandates and additional funding from existing clients was \$26 billion or 87% of the increase in assets under management. Total revenue for the first three months of 2001 increased \$26 million or 24% compared with the first three months of 2000 primarily due to new business and strong fixed-income performance. The increase in operating expense in the period-to-period comparison supported revenue growth and business expansion.

### ASSETS UNDER MANAGEMENT

March 31 - in billions	2001	2000
-----		
Separate accounts		
Fixed income	\$107	\$78
Liquidity	6	8
Liquidity - securities lending	8	11
Equity	8	6
Alternative investment products	4	2
-----		
Total separate accounts	133	105
-----		
Mutual funds		
Fixed income	14	14
Liquidity	44	37
Equity	11	16
-----		
Total mutual funds	69	67
-----		
Total assets under management	\$202	\$172
-----		
Proprietary mutual funds		
BlackRock Funds	\$24	\$29
BlackRock Provident Institutional Funds	37	26
-----		
Total proprietary mutual funds	\$61	\$55
=====		

BlackRock, Inc. is approximately 70% owned by PNC and is listed on the New York Stock Exchange under the symbol BLK. Additional information about BlackRock is available in its filings with the Securities and Exchange Commission ("SEC") and



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may be obtained electronically at the SEC's home page at [www.sec.gov](http://www.sec.gov).

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PFPC

Three months ended March 31

Dollars in millions 2001 2000

-----  
INCOME STATEMENT

Fund servicing revenue	\$184	\$161
Operating expense	131	128
Amortization	6	7

Operating income	47	26
Nonoperating income	5	8
Debt financing	24	24

Pretax earnings	28	10
Income taxes	11	4

Earnings	\$17	\$6
----------	------	-----

-----  
AVERAGE BALANCE SHEET

Intangible assets	\$1,086	\$1,113
Other assets	649	490

Total assets	\$1,735	\$1,603
--------------	---------	---------

Assigned funds and other liabilities	\$1,527	\$1,397
Assigned capital	208	206

Total funds	\$1,735	\$1,603
-------------	---------	---------

-----  
PERFORMANCE RATIOS

Operating margin	26%	16%
Return on assigned capital	33	12

PFPC is the largest full-service mutual fund transfer agent and second largest provider of mutual fund accounting and administration services in the United States, providing a wide range of global fund services to the investment management industry. As an extension of its domestic services, PFPC also provides customized processing services to the international marketplace through its Dublin, Ireland and Luxembourg operations.

To meet the growing needs of the European marketplace, PFPC continues its pursuit of offshore expansion. PFPC is also focusing technological resources on targeted Web-based initiatives and exploring strategic alliances.

PFPC contributed 6% of total business earnings for the first three months of 2001 and 2% for the first three months of 2000. Earnings increased \$11 million, nearly tripling, in the period-to-period comparison and performance ratios improved significantly. The increase was primarily due to strong growth in transfer agency services that resulted from an increase in mutual fund shareholder accounts serviced.

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Revenue of \$184 million for the first three months of 2001 increased \$23 million or 14% compared with the first three months of 2000, primarily driven by existing client growth and new business. See Fund Servicing in the Risk Factors section of this Financial Review for additional information regarding fund servicing.

Operating expense increased a modest 2% in the period-to-period comparison, as the prior-year quarter included one-time costs related to the integration of Investor Services Group.

### SERVICING STATISTICS

March 31	2001	2000
-----		
Accounting/administration		
assets (\$ in billions) (a)	\$472	\$448
Custody assets (\$ in billions)	435	425
Shareholder accounts (in millions)	44	39
=====		

(a) Includes approximately \$11 billion and \$7 billion of international assets at March 31, 2001 and March 31, 2000, respectively.

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### FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

### CONSOLIDATED INCOME STATEMENT REVIEW

#### NET INTEREST INCOME ANALYSIS

Taxable-equivalent basis	Average Balances			Interest Income/Expens		
Three months ended March 31	-----			-----		
Dollars in millions	2001	2000	Change	2001	2000	Chang
-----						
Interest-earning assets						
Loans held for sale	\$2,005	\$3,319	\$(1,314)	\$37	\$64	\$(27)
Securities available for sale	8,061	6,128	1,933	122	95	27
Loans, net of unearned income						
Consumer	9,085	9,247	(162)	194	192	2
Residential mortgage	12,673	12,584	89	232	222	10
Commercial	20,882	21,791	(909)	422	447	(25)
Commercial real estate	2,580	2,698	(118)	55	59	(4)
Lease financing	3,897	2,958	939	71	54	17
Other	520	688	(168)	11	14	(3)
-----						
Total loans, net of unearned income	49,637	49,966	(329)	985	988	(3)
Other	1,831	1,113	718	33	19	14
-----						
Total interest-earning assets/ interest income	61,534	60,526	1,008	1,177	1,166	11
Noninterest-earning assets	10,251	7,818	2,433			
Investment in discontinued operations	207	412	(205)			
-----						

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Total assets	\$71,992	\$68,756	\$3,236			
=====						
Interest-bearing liabilities						
Deposits						
Demand and money market	\$20,468	\$17,700	\$2,768	162	138	2
Savings	1,919	2,138	(219)	6	9	(
Retail certificates of deposit	13,724	14,591	(867)	199	191	
Other time	565	637	(72)	10	10	
Deposits in foreign offices	1,402	1,489	(87)	20	21	(
-----						
Total interest-bearing deposits	38,078	36,555	1,523	397	369	2
Borrowed funds	14,375	15,333	(958)	221	237	(1
-----						
Total interest-bearing liabilities/ interest expense	52,453	51,888	565	618	606	1
-----						
Noninterest-bearing liabilities, capital securities and shareholders' equity	19,539	16,868	2,671			
-----						
Total liabilities, capital securities and shareholders' equity	\$71,992	\$68,756	\$3,236			
=====						
Interest rate spread						
Impact of noninterest-bearing sources						
Net interest income/margin				\$559	\$560	\$ (
=====						

NET INTEREST INCOME

Changes in net interest income and margin result from the interaction between the volume and composition of earning assets, related yields and associated funding costs. Accordingly, portfolio size, composition and yields earned and funding costs can have a significant impact on net interest income and margin.

Taxable-equivalent net interest income of \$559 million for the first three months of 2001 remained relatively unchanged compared with the first three months of 2000 as the impact of a higher level of interest-earning assets was offset by a narrower net interest margin. The net interest margin was 3.62% for the first three months of 2001 compared with 3.68% for the first three months of 2000. The narrowing of the net interest margin was primarily due to a higher proportion of securities available for sale in the mix of earning assets.

Loans represented 81% of average earning assets for the first three months of 2001 compared with 83% for the first three months of 2000. The decrease was primarily due to the ongoing downsizing of certain credit-related businesses and the securitization of residential mortgage loans during the first three months of 2001. Average loans held for sale decreased \$1.3 billion in the period-to-period comparison due to a reduction in commercial loans held for sale that were designated for exit in 1999. Securities available for sale represented 13% of average earning assets for the first three months of 2001 compared with 10% for the first three months of 2000. The increase was primarily due to the purchase of U.S. agencies and asset-backed securities and the securitization of residential mortgage loans as part of balance sheet and interest rate risk management activities.

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Funding cost is affected by the volume and composition of funding sources as well as related rates paid thereon. Average deposits comprised 64% of total sources of funds for the first three months of both 2001 and 2000, with the remainder primarily comprised of wholesale funding obtained at prevailing market rates.

Average demand and money market deposits increased \$2.8 billion or 16% compared with the first three months of 2000, primarily reflecting the impact of strategic marketing initiatives to grow more valuable transaction accounts, while all other interest-bearing deposit categories decreased in the period-to-period comparison. Average borrowed funds for the first three months of 2001 decreased \$1.0 billion compared with the first three months of 2000 as lower bank notes and Federal Home Loan Bank borrowings were partially offset by increases in federal funds purchased and repurchase agreements. The overall decrease in average borrowed funds was primarily due to deposit growth.

### PROVISION FOR CREDIT LOSSES

The provision for credit losses was \$80 million for the first three months of 2001 compared with \$31 million for the first three months of 2000. Net charge-offs were \$80 million or .65% of average loans for the first three months of 2001 compared with \$31 million or .25%, respectively, for the first three months of 2000. The increases were primarily due to \$41 million of provision for credit losses related to charge-offs in the communications and energy, metals and mining portfolios that PNC has designated for exit or downsizing. Excluding this amount, net charge-offs were \$39 million or .32% of average loans for the first three months of 2001. See Credit Risk in the Risk Management section of this Financial Review for additional information regarding credit risk.

### NONINTEREST INCOME

Noninterest income was \$701 million for the first three months of 2001 and included \$39 million of equity management losses. Excluding equity management gains and losses in both years, noninterest income increased 15% compared with the first three months of 2000 primarily due to growth in asset management and processing revenue.

Asset management fees of \$223 million for the first three months of 2001 increased \$37 million or 20% primarily driven by new business. Assets under management were \$248 billion at March 31, 2001, a 13% increase compared with March 31, 2000. Fund servicing fees were \$181 million for the first three months of 2001, a \$26 million or 17% increase compared with the first three months of 2000 primarily driven by existing client growth and new business.

Brokerage fees were \$54 million for the first three months of 2001 compared with \$71 million for the first three months of 2000. The decrease was primarily due to a decline in equity markets activity. Consumer services revenue of \$55 million for the first three months of 2001 increased \$8 million or 17% compared with the first three months of 2000 primarily due to an increase in retail transaction volume.

Corporate services revenue was \$76 million for the first three months of 2001 compared with \$82 million for the first three months of 2000. The decrease was primarily due to lower capital markets revenue and other asset write-downs.

Equity management, which includes venture capital investment gains and losses, reflected a net loss of \$39 million for the first three months of 2001 compared with \$87 million of income for the first three months of 2000. The decrease primarily resulted from a decline in the estimated fair value of partnership and direct investments. Equity management investments totaling \$678 million had net unrealized appreciation of \$74 million at March 31, 2001. These valuations are

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subject to market conditions and may be volatile.

Net securities gains were \$29 million for the first three months of 2001 and were mostly offset by write-downs of other assets and e-commerce investments totaling \$22 million that are reflected in corporate services and other income.

Other noninterest income was \$72 million for the first three months of 2001 compared with \$53 million for the first three months of 2000. The increase was primarily due to residential mortgage loan securitizations and student loan sales.

### NONINTEREST EXPENSE

Noninterest expense was \$775 million for the first three months of 2001 compared with \$792 million for the first three months of 2000. The efficiency ratio was 58% for the first three months of both 2001 and 2000. Average full-time equivalent employees totaled approximately 24,800 and 23,900 for the first three months of 2001 and 2000, respectively. The increase was primarily in asset management and processing businesses.

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### FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

### CONSOLIDATED BALANCE SHEET REVIEW

#### LOANS

Loans were \$45.6 billion at March 31, 2001, a \$5 billion decrease from year-end 2000 primarily due to residential mortgage loan securitizations. Most loan categories declined as a result of efforts to reduce balance sheet leverage.

#### DETAILS OF LOANS

In millions	March 31 2001	December 31 2000 (a)
<hr/>		
Consumer		
Home equity	\$6,592	\$6,228
Automobile	1,045	1,166
Other	1,412	1,739
<hr/>		
Total consumer	9,049	9,133
<hr/>		
Residential mortgage	8,806	13,264
Commercial		
Manufacturing	5,446	5,581
Retail/wholesale	4,478	4,413
Service providers	2,835	2,944
Real estate related	1,762	1,783
Communications	1,019	1,296
Health care	688	722
Financial services	1,692	1,726
Other	2,756	2,742
<hr/>		
Total commercial	20,676	21,207
<hr/>		
Commercial real estate		
Mortgage	655	673

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Real estate project	1,935	1,910
-----		
Total commercial real estate	2,590	2,583
-----		
Lease financing	5,080	4,845
Other	487	568
Unearned income	(1,062)	(999)
-----		
Total, net of unearned income	\$45,626	\$50,601
=====		

(a) Certain amounts have been reclassified to conform to the current year presentation.

During 1999, total outstandings and exposure designated for exit totaled \$3.7 billion and \$10.5 billion, respectively. At March 31, 2001, remaining outstandings associated with this initiative were \$800 million, of which \$648 million were classified as loans with the remainder included in loans held for sale. Total remaining exposure related to this initiative was \$2.5 billion at March 31, 2001.

In addition, outstandings and exposure totaling approximately \$2.5 billion and \$7.0 billion, respectively, were designated for exit or downsizing during the first quarter of 2001, primarily consisting of the communications portfolio and certain portions of the energy, metals and mining and large corporate portfolios in Corporate Banking.

Loan portfolio composition continued to be geographically diversified among numerous industries and types of businesses.

### NET UNFUNDED COMMITMENTS (a)

	March 31 2001	December 31 2000
-----		
In millions		
Consumer	\$4,580	\$4,414
Commercial	18,669	24,253
Commercial real estate	1,013	1,039
Lease financing	164	123
Other	182	173
-----		
Total	\$24,608	\$30,002
=====		

(a) Excludes unfunded commitments related to loans designated for exit in 1999 and 2001.

Commitments to extend credit represent arrangements to lend funds subject to specified contractual conditions. Commercial commitments are reported net of participations, assignments and syndications, primarily to financial institutions, totaling \$7.2 billion at both March 31, 2001 and December 31, 2000.

Net outstanding letters of credit totaled \$4.0 billion at both March 31, 2001 and December 31, 2000 and consisted primarily of standby letters of credit that commit the Corporation to make payments on behalf of customers if certain specified future events occur. Unfunded commitments and letters of credit related to loans designated for exit in 2001 and 1999 totaled \$6.2 billion at March 31, 2001 and \$1.7 billion at December 31, 2000.

### SECURITIES AVAILABLE FOR SALE

The fair value of securities available for sale at March 31, 2001 was \$12.0 billion compared with \$5.9 billion at December 31, 2000. Securities represented 17% of total assets at March 31, 2001 compared with 8% at December 31, 2000. The increase was primarily due to \$3.8 billion of residential mortgage loan

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securitizations and purchases of U.S. agencies and asset-backed securities during the first three months of 2001. The expected weighted-average life of securities available for sale was 3 years and 11 months at March 31, 2001 compared with 4 years and 5 months at December 31, 2000.

At March 31, 2001, the securities available for sale balance included a net unrealized loss of \$6 million, which represented the difference between fair value and amortized cost. The comparable amount at December 31, 2000 was a net unrealized loss of \$54 million. Net unrealized gains and losses in the securities available for sale portfolio are included in accumulated other comprehensive income or loss, net of tax or, for the portion attributable to changes in a hedged risk as part of a fair value hedge strategy, in net income.

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### DETAILS OF SECURITIES AVAILABLE FOR SALE

In millions	Amortized Cost	Fair Value
-----		
MARCH 31, 2001		
Debt securities		
U.S. Treasury and government agencies	\$1,519	\$1,522
Mortgage-backed	8,707	8,705
Asset-backed	1,358	1,361
State and municipal	80	83
Other debt	70	71
Corporate stocks and other	248	234
-----		
Total securities available for sale	\$11,982	\$11,976
=====		
DECEMBER 31, 2000		
Debt securities		
U.S. Treasury and government agencies	\$313	\$313
Mortgage-backed	4,037	4,002
Asset-backed	902	893
State and municipal	94	96
Other debt	73	73
Corporate stocks and other	537	525
-----		
Total securities available for sale	\$5,956	\$5,902
=====		

### FUNDING SOURCES

Total funding sources were \$59.5 billion at March 31, 2001 and were essentially flat compared with December 31, 2000 as a decrease in deposits was offset by an increase in borrowed funds. Retail certificates of deposit decreased due to the lower rate environment in 2001, however, money market deposits increased due to ongoing strategic marketing efforts to retain customers and increase these balances. The change in the composition of borrowed funds reflected the impact of closing the sale of the residential mortgage banking business as well as a shift within categories to manage overall funding costs.

### DETAILS OF FUNDING SOURCES

March 31    December 31

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In millions	2001	2000
-----		
Deposits		
Demand, savings and money market	\$31,294	\$30,686
Retail certificates of deposit	13,278	14,175
Other time	563	567
Deposits in foreign offices	2,054	2,236
-----		
Total deposits	47,189	47,664
-----		
Borrowed funds		
Federal funds purchased	785	1,445
Repurchase agreements	830	607
Bank notes and senior debt	5,362	6,110
Federal Home Loan Bank borrowings	2,623	500
Subordinated debt	2,379	2,407
Other borrowed funds	300	649
-----		
Total borrowed funds	12,279	11,718
-----		
Total	\$59,468	\$59,382
=====		

CAPITAL

The access to and cost of funding new business initiatives including acquisitions, the ability to engage in expanded business activities, the ability to pay dividends, deposit insurance costs, and the level and nature of regulatory oversight depend, in large part, on a financial institution's capital strength. At March 31, 2001, the Corporation and each bank subsidiary were considered well capitalized based on regulatory capital ratio requirements.

RISK-BASED CAPITAL

Dollars in millions	March 31 2001	December 31 2000
-----		
Capital components		
Shareholders' equity		
Common	\$6,470	6,344
Preferred	311	312
Trust preferred capital securities	848	848
Goodwill and other	(2,189)	(2,214)
Net unrealized securities losses	2	77
-----		
Tier I risk-based capital	5,442	5,367
Subordinated debt	1,786	1,811
Eligible allowance for credit losses	675	667
-----		
Total risk-based capital	\$7,903	\$7,845
=====		
Assets		
Risk-weighted assets and off-balance-sheet instruments	\$62,563	\$62,430
Average tangible assets	69,750	66,809
=====		
Capital ratios		
Tier I risk-based	8.7%	8.6%
Total risk-based	12.6	12.6
Leverage	7.8	8.0
=====		



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The capital position is managed through balance sheet size and composition, issuance of debt and equity instruments, treasury stock activities, dividend policies and retention of earnings.

During the first three months of 2001, PNC repurchased 2.3 million shares of its common stock. On February 15, 2001, the Board of Directors authorized the Corporation to purchase up to 15 million shares of its common stock through February 28, 2002. This new program replaces the prior program that was rescinded.

On March 6, 2001, the Corporation commenced a cash tender offer for its nonconvertible Series F preferred stock at a price of \$50.35 per share plus accrued and unpaid dividends. Approximately 1.9 million shares of a total of 6 million shares outstanding were tendered through this offer and were purchased by the Corporation on April 5, 2001.

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### FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

### RISK FACTORS

The Corporation is subject to a number of risk factors including, among others, those described below and in the Risk Management and Forward-Looking Statements sections of this Financial Review. These factors and others could impact the Corporation's business, financial condition and results of operations.

### BUSINESS AND ECONOMIC CONDITIONS

The Corporation's business and results of operations are sensitive to general business and economic conditions in the United States. These conditions include the level and movement of interest rates, inflation, monetary supply, fluctuations in both debt and equity capital markets, and the strength of the U.S. economy, in general, and the regional economies in which the Corporation conducts business. An economic downturn or higher interest rates could decrease the demand for loans and other products and services offered by the Corporation, increase usage of unfunded commitments or increase the number of customers and counterparties who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to the Corporation. An increase in the number of delinquencies, bankruptcies or defaults could result in a higher provision for credit losses and a higher level of net charge-offs. Changes in interest rates could affect the value of certain on-balance-sheet and off-balance-sheet financial instruments of the Corporation. Higher interest rates would also increase the Corporation's cost to borrow funds and may increase the rate paid on deposits. Also, changes in equity markets could affect the value of equity investments and the net asset value of assets under management and administration. A decline in the equity markets could negatively affect noninterest revenues.

### MONETARY AND OTHER POLICIES

The financial services industry is subject to various monetary and other policies and regulations of the United States government and its agencies, which include the Federal Reserve Board, the Office of the Comptroller of Currency and the Federal Deposit Insurance Corporation as well as state regulators. The Corporation is particularly affected by the policies of the Federal Reserve Board, which regulates the supply of money and credit in the United States. The Federal Reserve Board's policies influence the rates of interest that PNC charges on loans and pays on interest-bearing deposits and can also affect the value of on-balance-sheet and off-balance-sheet financial instruments. Those

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policies also influence, to a significant extent, the cost of funding for the Corporation.

### COMPETITION

The Corporation operates in a highly competitive environment, both in terms of the products and services offered and the geographic markets in which PNC conducts business. This environment could become even more competitive in the future. The Corporation competes with local, regional and national banks, thrifts, credit unions and non-bank financial institutions, such as investment banking firms, investment advisory firms, brokerage firms, investment companies, venture capital firms, mutual fund complexes and insurance companies, as well as other entities that offer financial services, and through alternative delivery channels such as the World Wide Web. Technological advances and new legislation, among other changes, have lowered barriers to entry and have made it possible for non-bank institutions to offer products and services that traditionally have been provided by banks. Many of the Corporation's competitors benefit from fewer regulatory constraints and lower cost structures, allowing for more competitive pricing of products and services.

The Gramm-Leach-Bliley Act ("the Act"), which was enacted on November 12, 1999, permits affiliations among banks, securities firms and insurance companies. The Act significantly changes the competitive environment in which the Corporation conducts business. This environment could result in a loss of customers and related revenue.

### DISINTERMEDIATION

Disintermediation is the process of eliminating the role of the intermediary in completing a transaction. For the financial services industry, this means eliminating or significantly reducing the role of banks and other depository institutions in completing transactions that have traditionally involved banks. Disintermediation could result in, among others, the loss of customer deposits and decreases in transactions that generate fee income.

### ASSET MANAGEMENT PERFORMANCE

Asset management revenue is primarily based on a percentage of the value of assets under management and performance fees expressed as a percentage of the returns realized on assets under management. A decline in the prices of debt and equity instruments, among other things, could cause asset management revenue to decline.

Investment performance is an important factor for the level of assets under management. Poor investment performance could impair revenue and growth as existing clients might withdraw funds in favor of better performing products. Also, performance fees could be lower or nonexistent. Additionally, the ability to attract funds from existing and new clients might diminish.

### FUND SERVICING

Fund servicing fees are primarily based on the market value of the assets and the number of shareholder accounts administered by the Corporation for its clients. A rise in interest rates or a decline in the debt and equity markets could influence an investor's decision to invest or maintain an investment in a mutual fund. As a result, fluctuations may occur in the level or value of assets that the Corporation has under administration. A significant investor migration from mutual fund investments could have a negative impact on the Corporation's revenues by reducing the assets and the number of shareholder accounts it administers. There has been and continues to be merger, acquisition and consolidation activity in the financial services industry. Mergers or

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consolidations of financial institutions in the future could reduce the number of existing or potential fund servicing clients.

### ACQUISITIONS

The Corporation expands its business from time to time by acquiring other financial services companies. Factors pertaining to acquisitions that could adversely affect the Corporation's business and earnings include, among others:

- o anticipated cost savings or potential revenue enhancements that may not be fully realized or realized within the expected time frame;
- o customer loss or revenue loss following an acquisition that may be greater than expected; and
- o costs or difficulties related to the integration of businesses that may be greater than expected.

### RISK MANAGEMENT

In the normal course of business, the Corporation assumes various types of risk, which include, among others, credit risk, interest rate risk, liquidity risk, and risk associated with trading activities and financial derivatives. PNC has risk management processes designed to provide for risk identification, measurement and monitoring.

### CREDIT RISK

Credit risk represents the possibility that a borrower, counterparty or insurer may not perform in accordance with contractual terms. Credit risk is inherent in the financial services business and results from extending credit to customers, purchasing securities and entering into off-balance-sheet financial derivative transactions. The Corporation seeks to manage credit risk through, among other things, diversification, limiting exposure to any single industry or customer, requiring collateral, selling participations to third parties, and purchasing credit-related derivatives.

### NONPERFORMING ASSETS BY TYPE

Dollars in millions	March 31 2001	December 31 2000
-----		
Nonaccrual loans		
Commercial	\$296	\$312
Commercial real estate	21	3
Residential mortgage	4	4
Consumer	3	2
Lease financing	6	2
-----		
Total nonaccrual loans	330	323
Troubled debt restructured loan	6	
-----		
Total nonperforming loans	336	323
Foreclosed and other assets		
Commercial real estate	2	3
Residential mortgage	7	8
Other	41	38
-----		
Total foreclosed and other assets	50	49
-----		
Total nonperforming assets	\$386	\$372
=====		
Nonperforming loans to total loans	.74%	.64%

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Nonperforming assets to total loans,		
loans held for sale and foreclosed		
assets	.81	.71
Nonperforming assets to total assets	.54	.53

The above table excludes \$24 million and \$18 million of equity management assets carried at estimated fair value at March 31, 2001 and December 31, 2000, respectively. The amount of nonperforming loans that were current as to principal and interest was \$65 million at March 31, 2001 and \$67 million at December 31, 2000. Approximately one-third of nonperforming assets were from portfolios or loans that were designated for exit or downsizing at March 31, 2001.

A sustained or further weakening of the economy, or other factors that adversely affect asset quality, could result in an increase in the number of delinquencies, bankruptcies or defaults, and a higher level of nonperforming assets, net charge-offs and provision for credit losses in future periods. See the Forward-Looking Statements section of this Financial Review for additional factors that could cause actual results to differ materially from forward-looking statements or historical performance.

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### FINANCIAL REVIEW THE PNC FINANCIAL SERVICES GROUP, INC.

#### CHANGE IN NONPERFORMING ASSETS

In millions	2001	2000
January 1	\$372	\$325
Transferred from accrual	171	114
Returned to performing	(13)	(2)
Principal reductions	(38)	(45)
Sales	(17)	(5)
Charge-offs and other	(89)	(43)
March 31	\$386	\$344

#### ACCRUING LOANS PAST DUE 90 DAYS OR MORE

Dollars in millions	Amount		Percent of Loans	
	March 31 2001	December 31 2000	March 31 2001	December 31 2000
Commercial	\$14	\$46	.07%	.22%
Commercial real estate	5	6	.19	.23
Residential mortgage	39	36	.44	.27
Consumer	21	24	.23	.26
Lease financing	1	1	.02	.03
Total	\$80	\$113	.18	.22

Loans not included in nonaccrual or past due categories, but where information

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about possible credit problems causes management to be uncertain about the borrower's ability to comply with existing repayment terms over the next six months totaled \$261 million at March 31, 2001.

### ALLOWANCE FOR CREDIT LOSSES

In determining the adequacy of the allowance for credit losses, the Corporation makes specific allocations to impaired loans and to pools of watchlist and nonwatchlist loans for various credit risk factors. Allocations to loan pools are developed by business segment and risk rating and are based on historical loss trends and management's judgment concerning those trends and other relevant factors. Those factors may include, among other things, actual versus estimated losses, regional and national economic conditions, business segment and portfolio concentrations, industry competition and consolidation, and the impact of government regulations. Consumer and residential mortgage loan allocations are made at a total portfolio level based on historical loss experience adjusted for portfolio activity and economic conditions.

While PNC's pool reserve methodologies strive to reflect all risk factors, there continues to be a certain element of risk associated with, but not limited to, potential estimation or judgmental errors. Unallocated reserves are designed to provide coverage for such risks. While allocations are made to specific loans and pools of loans, the total reserve is available for all credit losses.

Senior management's Reserve Adequacy Committee provides oversight for the allowance evaluation process, including quarterly evaluations and methodology and estimation changes. The results of the evaluations are reported to the Credit Committee of the Board of Directors.

The provision for credit losses for the first three months of 2001 and the evaluation of the allowance for credit losses as of March 31, 2001 reflected changes in loan portfolio composition and changes in asset quality. The unallocated portion of the allowance for credit losses represented 20% of the total allowance and .30% of total loans at March 31, 2001 compared with 20% and .26%, respectively, at December 31, 2000.

### ROLLFORWARD OF ALLOWANCE FOR CREDIT LOSSES

In millions	2001	2000
-----		
January 1	\$675	\$674
Charge-offs	(91)	(45)
Recoveries	11	14
-----		
Net charge-offs	(80)	(31)
Provision for credit losses	80	31
-----		
March 31	\$675	\$674
=====		

The allowance as a percent of nonaccrual loans and total loans was 201% and 1.48%, respectively, at March 31, 2001. The comparable year-end 2000 percentages were 209% and 1.33%, respectively.

### CHARGE-OFFS AND RECOVERIES

Three months ended March 31				Percent of
Dollars in millions	Charge-offs	Recoveries	Net Charge-offs	Average Loans
-----				
2001				
Commercial	\$78	\$6	\$72	1.40%
Commercial real estate				

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Residential mortgage				
Consumer	10	5	5	.22
Lease financing	3		3	.31
-----				
Total	\$91	\$11	\$80	.65
-----				
2000				
Commercial	\$29	\$7	\$22	.41%
Commercial real estate				
Residential mortgage	2		2	.06
Consumer	12	6	6	.26
Lease financing	2	1	1	.14
-----				
Total	\$45	\$14	\$31	.25
=====				

### CREDIT-RELATED INSTRUMENTS

Credit default swaps provide, for a fee, an assumption of a portion of the credit risk associated with the underlying financial instruments. The Corporation primarily uses such contracts to mitigate credit risk and lower the required regulatory capital associated with commercial lending activities. At March 31, 2001, credit default swaps of \$4.6 billion in notional value were used by the Corporation to hedge credit risk associated with commercial lending activities.

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### INTEREST RATE RISK

Interest rate risk arises primarily through the Corporation's traditional business activities of extending loans and accepting deposits. Many factors, including economic and financial conditions, movements in interest rates and consumer preferences affect the spread between interest earned on assets and interest paid on liabilities. In managing interest rate risk, the Corporation seeks to minimize its reliance on a particular interest rate scenario as a source of earnings while maximizing net interest income and net interest margin. To further these objectives, the Corporation uses securities purchases and sales, short-term and long-term funding, financial derivatives and other capital markets instruments.

Interest rate risk is centrally managed by Asset and Liability Management. The Corporation actively measures and monitors components of interest rate risk including term structure or repricing risk, yield curve or nonparallel rate shift risk, basis risk and options risk. The Corporation measures and manages both the short-term and long-term effects of changing interest rates. An income simulation model is designed to measure the sensitivity of net interest income to changing interest rates over the next twenty-four month period. An economic value of equity model is designed to measure the sensitivity of the value of existing on-balance-sheet and off-balance-sheet positions to changing interest rates.

The income simulation model is the primary tool used to measure the direction and magnitude of changes in net interest income resulting from changes in interest rates. Forecasting net interest income and its sensitivity to changes in interest rates requires that the Corporation make assumptions about the volume and characteristics of new business and the behavior of existing positions. These business assumptions are based on the Corporation's experience, business plans and published industry experience. Key assumptions employed in the model include prepayment speeds on mortgage-related assets and consumer

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loans, loan volumes and pricing, deposit volumes and pricing, the expected life and repricing characteristics of nonmaturity loans and deposits, and management's financial and capital plans.

Because these assumptions are inherently uncertain, the model cannot precisely estimate net interest income or precisely predict the effect of higher or lower interest rates on net interest income. Actual results will differ from simulated results due to the timing, magnitude and frequency of interest rate changes, the difference between actual experience and the assumed volume and characteristics of new business and behavior of existing positions, and changes in market conditions and management strategies, among other factors.

The Corporation's interest rate risk management policies provide that net interest income should not decrease by more than 3% if interest rates gradually increase or decrease from current rates by 100 basis points over a twelve-month period. At March 31, 2001, if interest rates were to gradually increase by 100 basis points over the next twelve months, the model indicated that net interest income would decrease by .7%. If interest rates were to gradually decrease by 100 basis points over the next twelve months, the model indicated that net interest income would increase by .1%.

The Corporation models additional interest rate scenarios covering a wider range of rate movements to identify yield curve, term structure and basis risk exposures. These scenarios are developed based on historical rate relationships or management's expectations regarding the future direction and level of interest rates. Depending on market conditions and other factors, these scenarios may be modeled more or less frequently. Such analyses are used to identify inherent risk and develop strategies.

An economic value of equity model is used by the Corporation to value all current on-balance-sheet and off-balance-sheet positions under a range of instantaneous interest rate changes. The resulting change in the value of equity is a measure of overall long-term interest rate risk inherent in the Corporation's existing on-balance-sheet and off-balance-sheet positions. The Corporation uses the economic value of equity model to complement the net interest income simulation modeling process.

The Corporation's interest rate risk management policies provide that the change in economic value of equity should not decline by more than 1.5% of the book value of assets for a 200 basis point instantaneous increase or decrease in interest rates. Based on the results of the economic value of equity model at March 31, 2001, if interest rates were to instantaneously increase by 200 basis points, the model indicated that the economic value of existing on-balance-sheet and off-balance-sheet positions would decline by 1.1% of assets. If interest rates were to instantaneously decrease by 200 basis points, the model indicated that the economic value of existing on-balance-sheet and off-balance-sheet positions would increase by .1% of assets.

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FINANCIAL REVIEW  
THE PNC FINANCIAL SERVICES GROUP, INC.

### LIQUIDITY RISK

Liquidity represents the Corporation's ability to obtain cost-effective funding to meet the needs of customers as well as the Corporation's financial obligations. Liquidity is centrally managed by Asset and Liability Management,

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with oversight provided by the Corporate Asset and Liability Committee and the Finance Committee of the Board of Directors.

Access to capital markets funding sources is a key factor affecting liquidity management. Access to such markets is in part based on the Corporation's credit ratings, which are influenced by a number of factors including capital ratios, credit quality and earnings. Additional factors that impact liquidity include the maturity structure of existing assets, liabilities, and off-balance-sheet positions, the level of liquid securities and loans available for sale, and the Corporation's ability to securitize and sell various types of loans.

Liquidity can also be provided through the sale of liquid assets, which consist of short-term investments, loans held for sale and securities available for sale. At March 31, 2001, such assets totaled \$14.6 billion, with \$4.6 billion pledged as collateral for borrowings, trust and other commitments. Liquidity can also be obtained through secured advances from the Federal Home Loan Bank, of which PNC Bank, N.A., PNC's largest bank subsidiary, is a member. These borrowings are generally secured by residential mortgages and mortgage-backed securities. At March 31, 2001, approximately \$7.7 billion of residential mortgages were available as collateral for borrowings from the Federal Home Loan Bank. Funding can also be obtained through alternative forms of borrowing, including federal funds purchased, repurchase agreements and short-term and long-term debt issuances.

Liquidity for the parent company and subsidiaries is also generated through the issuance of securities in public or private markets and lines of credit. At March 31, 2001, the Corporation had unused capacity under effective shelf registration statements of approximately \$1.4 billion of debt and equity securities and \$400 million of trust preferred capital securities. In addition, the Corporation had an unused line of credit of \$485 million.

The principal source of parent company revenue and cash flow is dividends from subsidiary banks. PNC Bancorp, Inc. is a wholly-owned subsidiary of the parent company and is the holding company for all bank subsidiaries. There are legal limitations on the ability of bank subsidiaries to pay dividends and make other distributions to PNC Bancorp, Inc. and in turn to the parent company. Without regulatory approval, the amount available for dividend payments to PNC Bancorp, Inc. by all bank subsidiaries was \$302 million at March 31, 2001. Dividends may also be impacted by capital needs, regulatory requirements, corporate policies, contractual restrictions and other factors.

Management believes the Corporation has sufficient liquidity to meet current obligations to borrowers, depositors, debt holders and others. The impact of replacing maturing liabilities is reflected in the income simulation model in the overall asset and liability management process.

### TRADING ACTIVITIES

Most of PNC's trading activities are designed to provide capital markets services to customers and not to position the Corporation's portfolio for gains from market movements. PNC participates in derivatives and foreign exchange trading as well as "market making" in equity securities as an accommodation to customers. PNC also engages in trading activities as part of risk management strategies.

Risk associated with trading, capital markets and foreign exchange activities is managed using a value-at-risk approach that combines interest rate risk, foreign exchange rate risk, spread risk and volatility risk. Using this approach, exposure is measured as the potential loss due to a two standard deviation, one-day move in interest rates. The combined period-end value-at-risk of all trading operations using this measurement was estimated as less than \$500 thousand at March 31, 2001.



## FINANCIAL DERIVATIVES

The Corporation uses a variety of financial derivatives as part of the overall asset and liability risk management process to manage interest rate, market and credit risk inherent in the Corporation's business activities. Substantially all such instruments are used to manage risk related to changes in interest rates. Interest rate and total rate of return swaps, purchased interest rate caps and floors and interest rate futures contracts are the primary instruments used by the Corporation for interest rate risk management.

Interest rate swaps are agreements with a counterparty to exchange periodic fixed and floating interest rate payments calculated on a notional amount. The floating rate is based on a money market index, primarily short-term LIBOR. Total rate of return swaps are agreements with a counterparty to exchange an interest rate payment for the total rate of return on a specified reference index calculated on a notional amount. Purchased interest rate caps and floors are agreements where, for a fee, the counterparty agrees to pay the Corporation the amount, if any, by which a specified market interest rate exceeds or is less than a defined rate applied to a notional amount, respectively. Interest rate futures contracts are exchange-traded agreements to make or take delivery of a financial instrument at an agreed upon price and are settled in cash daily.

Financial derivatives involve, to varying degrees, interest rate, market and credit risk. For interest rate and total rate of return swaps, caps and floors and futures contracts, only periodic cash payments and, with respect to caps and floors, premiums, are exchanged. Therefore, cash requirements and exposure to credit risk are significantly less than the notional value.

Not all elements of interest rate, market and credit risk are addressed through the use of financial or other derivatives, and such instruments may be ineffective for their intended purposes due to unanticipated market characteristics among other reasons.

The following table sets forth changes, during the first three months of 2001, in the notional value of financial derivatives used for risk management and designated as accounting hedges under SFAS No. 133.

## FINANCIAL DERIVATIVES ACTIVITY

Dollars in millions	December 31 2000	Adjust- ments(1)	January 1 2001	Addi- tions	Maturi- ties	Te nat
-----						
Interest rate risk management						
Interest rate swaps						
Receive fixed	\$4,756	\$180	\$4,936	\$2,700	\$(500)	
Pay fixed	1	248	249	20		
Basis swaps	2,230	(1,773)	457			
Interest rate caps	308	(243)	65	11		
Interest rate floors	3,238	(238)	3,000	22		(3
Futures contracts				116		
-----						
Total interest rate risk						

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management	10,533	(1,826)	8,707	2,869	(500)	(3)
-----						
Commercial mortgage banking risk management						
Interest rate swaps	311		311	354		
Total rate of return swaps	75		75	75	(75)	
-----						
Total commercial mortgage banking risk management	386		386	429	(75)	
Student lending activities -						
Forward contracts	347	(347)				
Credit-related activities -						
Credit default swaps	4,391	(4,391)				
-----						
Total	\$15,657	\$(6,564)	\$9,093	\$3,298	\$(575)	\$(3)
=====						

(1) Primarily consists of derivatives that are not designated as accounting hedges under SFAS No. 133 and instruments no longer considered financial derivatives under SFAS No. 133.

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FINANCIAL REVIEW  
THE PNC FINANCIAL SERVICES GROUP, INC.

The following table sets forth the notional value and the fair value of financial derivatives used for risk management and designated as accounting hedges under SFAS No. 133. Weighted-average interest rates presented are based on the implied forward yield curve at March 31, 2001.

FINANCIAL DERIVATIVES

March 31, 2001 - dollars in millions	Notional Value	Fair Value
-----		
Interest rate risk management		
Asset rate conversion		
Interest rate swaps (1)		
Receive fixed designated to loans	\$5,687	\$61
Pay fixed designated to loans	167	(6)
Basis swaps designated to loans	207	
Interest rate caps designated to loans (2)	36	
Interest rate floors designated to loans (3)	22	
Futures contracts designated to loans	116	
-----		
Total asset rate conversion	6,235	55
-----		
Liability rate conversion		
Interest rate swaps (1)		

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Receive fixed designated to borrowed funds	1,381	94
-----		
Total liability rate conversion	1,381	94
-----		
Total interest rate risk management	7,616	149
-----		
Commercial mortgage banking risk management		
Pay fixed interest rate swaps designated to securities (1)	42	(4)
Pay fixed interest rate swaps designated to loans (1)	162	
Pay total rate of return swaps designated to loans (1)	75	(1)
-----		
Total commercial mortgage banking risk management	279	(5)
-----		
Total financial derivatives	\$7,895	\$144
=====		

- (1) The floating rate portion of interest rate contracts is based on money-market indices. As a percent of notional value, 75% were based on 1-month LIBOR, 23% on 3-month LIBOR and the remainder on other short-term indices.
- (2) Interest rate caps with notional values of \$26 million require the counterparty to pay the Corporation the excess, if any, of 3-month LIBOR over a weighted-average strike of 6.61%. At March 31, 2001, 3-month LIBOR was 4.88%.
- (3) Interest rate floors with notional values of \$20 million require the counterparty to pay the excess, if any, weighted-average strike of 4.75% over 3-month LIBOR. At March 31, 2001, 3-month LIBOR was 4.88%.

The following table sets forth the notional value and the estimated fair value of financial derivatives used for risk management. Weighted-average interest rates presented are based on the implied forward yield curve at December 31, 2000.

FINANCIAL DERIVATIVES

December 31, 2000 - dollars in millions	Notional Value	Fair Value
-----		
Interest rate risk management		
Asset rate conversion		
Interest rate swaps (1)		
Receive fixed designated to loans	\$3,250	\$27
Basis swaps designated to other earning assets	226	3
Interest rate caps designated to loans (2)	308	4
Interest rate floors designated to loans (3)	3,238	(1)
-----		
Total asset rate conversion	7,022	33
-----		
Liability rate conversion		
Interest rate swaps (1)		
Receive fixed designated to:		
Interest-bearing deposits	125	4
Borrowed funds	1,381	57
Pay fixed designated to borrowed funds	1	

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Basis swaps designated to borrowed funds	2,004	10
-----		
Total liability rate conversion	3,511	71
-----		
Total interest rate risk management	10,533	104
-----		
Commercial mortgage banking risk management		
Pay fixed interest rate swaps designated to securities (1)	135	(8)
Pay fixed interest rate swaps designated to loans (1)	176	3
Pay total rate of return swaps designated to loans (1)	75	(5)
-----		
Total commercial mortgage banking risk management	386	(10)
-----		
Student lending activities - Forward contracts (4)	347	
Credit-related activities - Credit default swaps (4)	4,391	(2)
-----		
Total financial derivatives	\$15,657	\$92
=====		

- (1) The floating rate portion of interest rate contracts is based on money-market indices. As a percent of notional value, 62% were based on 1-month LIBOR, 36% on 3-month LIBOR and the remainder on other short-term indices.
- (2) Interest rate caps with notional values of \$61 million, \$95 million and \$150 million require the counterparty to pay the Corporation the excess, if any, of 3-month LIBOR over a weighted-average strike of 6.00%, 1-month LIBOR over a weighted-average strike of 5.68% and Prime over a weighted-average strike of 8.76%, respectively. At December 31, 2000, 3-month LIBOR was 6.40%, 1-month LIBOR was 6.56% and Prime was 9.50%.
- (3) Interest rate floors with notional values of \$3.0 billion, require the counterparty to pay the excess, if any, of the weighted-average strike of 4.63% over 3-month LIBOR. At December 31, 2000, 3-month LIBOR was 6.40%.
- (4) Due to the structure of these contracts, they are no longer considered financial derivatives under SFAS No. 133.

NM- Not meaningful

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OTHER DERIVATIVES

To accommodate customer needs, PNC enters into customer-related financial derivative transactions primarily consisting of interest rate swaps, caps, floors and foreign exchange contracts. Risk exposure from customer positions is managed through transactions with other dealers.

Additionally, the Corporation enters into other derivative transactions for risk management purposes that are not designated as accounting hedges.

OTHER DERIVATIVES

At March 31, 2001

-----  
Positive Negative

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In millions	Notional Value	Fair Value	Fair Value
<hr/>			
Customer-related			
Interest rate			
Swaps	\$14,118	\$193	\$(203)
Caps/floors			
Sold	4,787		(19)
Purchased	3,669	18	
Foreign exchange	4,402	96	(74)
Other	2,794	35	(35)
<hr/>			
Total customer-related	29,770	342	(331)
Other	4,171	28	(3)
<hr/>			
Total other derivatives	\$33,941	\$370	\$(334)
<hr/>			

(a) Represents average for three months ended March 31, 2001.

### FORWARD-LOOKING STATEMENTS

This report and other documents filed by the Corporation with the SEC include forward-looking statements within the meaning of the Private Securities Litigation Reform Act with respect to future financial or business performance, conditions, strategies, expectations and goals. In addition, the Corporation may also include forward-looking statements in other written or oral statements. Forward-looking statements are typically identified by words or phrases such as "believe," "expect," "anticipate," "intend," "estimate," "position," "target," "mission," "assume," "achievable," "potential," "strategy," "goal," "objective," "plan," "aspiration," "outlook," "outcome," "continue," "remain," "maintain," "strive," "trend" and variations of such words and similar expressions, or future or conditional verbs such as "will," "would," "should," "could," "may" or similar expressions.

The Corporation cautions that forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance. Forward-looking statements speak only as of the date they are made, and the Corporation assumes no duty to update forward-looking statements.

In addition to the factors mentioned elsewhere in this report, the following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance: adjustments to recorded results of sale of residential mortgage banking business after disputes over certain closing date adjustments have been resolved; decisions the Corporation makes with respect to the redeployment of available capital; changes in asset quality and credit risk; economic conditions; changes in financial and capital markets; the inability to sustain revenue and earnings growth; changes in interest rates; inflation; changes in values of assets under management and assets serviced; relative investment performance of assets under management; customer acceptance of PNC products and services; customer borrowing, repayment, investment, and deposit practices; customer disintermediation; valuation of debt and equity investments; the inability to successfully manage risks inherent in the Corporation's business; the introduction, withdrawal, success and timing of business initiatives and strategies; the extent and cost of any share repurchases; decisions the Corporation makes with respect to further reduction of balance sheet leverage and potential investments in PNC

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businesses; competitive conditions; the inability to realize cost savings or revenue enhancements, implement integration plans and other consequences associated with mergers, acquisitions, restructurings and divestitures; unfavorable resolution of legal proceedings; and the impact, extent and timing of technological changes, capital management activities, and actions of the Federal Reserve Board and legislative and regulatory actions and reforms. Further, an increase in the number of customer or counterparty delinquencies, bankruptcies, or defaults could result in, among other things, a higher loan loss provision and reduced profitability.

Some of the above factors are described in more detail in the Risk Factors section of this Financial Review and factors relating to credit risk, interest rate risk, liquidity risk, trading activities, and financial and other derivatives are discussed in the Risk Management section of this Financial Review. Other factors are described elsewhere in this report.

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### CONSOLIDATED STATEMENT OF INCOME THE PNC FINANCIAL SERVICES GROUP, INC.

Three months ended March 31 - in millions, except per share data	2001	2000
<hr/>		
INTEREST INCOME		
Loans and fees on loans	\$981	\$
Securities available for sale	122	
Loans held for sale	37	
Other	32	
<hr/>		
Total interest income	1,172	1,172
<hr/>		
INTEREST EXPENSE		
Deposits	397	
Borrowed funds	221	
<hr/>		
Total interest expense	618	
<hr/>		
Net interest income	554	
Provision for credit losses	80	
<hr/>		
Net interest income less provision for credit losses	474	
<hr/>		
NONINTEREST INCOME		
Asset management	223	
Fund servicing	181	
Service charges on deposits	50	
Brokerage	54	
Consumer services	55	
Corporate services	76	
Equity management	(39)	
Net securities gains (losses)	29	
Other	72	
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Total noninterest income	701	
-----		
NONINTEREST EXPENSE		
Staff expense	421	
Net occupancy	53	
Equipment	57	
Amortization	26	
Marketing	9	
Distributions on capital securities	17	
Other	192	
-----		
Total noninterest expense	775	
-----		
Income from continuing operations before income taxes	400	
Income taxes	135	
-----		
Income from continuing operations	265	
-----		
Income from discontinued operations (less applicable income taxes of \$0 and \$5)	5	
-----		
Net income before cumulative effect of accounting change	270	
Cumulative effect of accounting change (less applicable income taxes of \$2)	(5)	
-----		
Net income	\$265	\$
-----		
EARNINGS PER COMMON SHARE		
Continuing operations		
Basic	\$.90	\$1
Diluted	.89	1
Net income		
Basic	\$ .90	\$1
Diluted	.89	1
CASH DIVIDENDS DECLARED PER COMMON SHARE		
	\$.48	\$
AVERAGE COMMON SHARES OUTSTANDING		
Basic	289.2	29
Diluted	292.8	29
=====		

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET  
THE PNC FINANCIAL SERVICES GROUP, INC.

In millions, except par value

March 31  
2001

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ASSETS	
Cash and due from banks	\$2,998
Short-term investments	853
Loans held for sale	1,765
Securities available for sale	11,976
Loans, net of unearned income of \$1,062 and \$999	45,626
Allowance for credit losses	(675)
-----	
Net loans	44,951
Goodwill and other amortizable assets	2,437
Investment in discontinued operations	
Other	5,986
-----	
Total assets	\$70,966
=====	
LIABILITIES	
Deposits	
Noninterest-bearing	\$8,431
Interest-bearing	38,758
-----	
Total deposits	47,189
Borrowed funds	
Federal funds purchased	785
Repurchase agreements	830
Bank notes and senior debt	5,362
Federal Home Loan Bank borrowings	2,623
Subordinated debt	2,379
Other borrowed funds	300
-----	
Total borrowed funds	12,279
Other	3,869
-----	
Total liabilities	63,337
-----	
Mandatorily redeemable capital securities of subsidiary trusts	848
SHAREHOLDERS' EQUITY	
Preferred stock	7
Common stock - \$5 par value	
Authorized 450 shares	
Issued 353 shares	1,764
Capital surplus	1,323
Retained earnings	6,857
Deferred benefit expense	(26)
Accumulated other comprehensive income (loss) from continuing operations	7
Accumulated other comprehensive loss from discontinued operations	
Common stock held in treasury at cost: 64 and 63 shares	(3,151)
-----	
Total shareholders' equity	6,781
-----	
Total liabilities, capital securities and shareholders' equity	\$70,966
=====	

See accompanying Notes to Consolidated Financial Statements.



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CONSOLIDATED STATEMENT OF CASH FLOWS  
THE PNC FINANCIAL SERVICES GROUP, INC.

Three months ended March 31 - in millions	2001
<hr/>	
OPERATING ACTIVITIES	
Net income	\$265
Discontinued operations	(5)
Cumulative effect of accounting change	5
<hr/>	
Income from continuing operations	265
Adjustments to reconcile income from continuing operations to net cash provided by operating activities	
Provision for credit losses	80
Depreciation, amortization and accretion	100
Deferred income taxes	114
Net securities (gains) losses	(28)
Valuation adjustments	8
Change in	
Loans held for sale	(124)
Other	(266)
<hr/>	
Net cash provided by operating activities	149
<hr/>	
INVESTING ACTIVITIES	
Net change in loans	(64)
Repayment of securities available for sale	265
Sales	
Securities available for sale	4,958
Loans	1,161
Foreclosed assets	5
Purchases	
Securities available for sale	(7,357)
Loans	(110)
Net cash received in sale of business	503
Other	71
<hr/>	
Net cash used by investing activities	(568)
<hr/>	
FINANCING ACTIVITIES	
Net change in	
Noninterest-bearing deposits	(59)
Interest-bearing deposits	(416)
Federal funds purchased	(660)
Sales/issuances	
Repurchase agreements	65,210
Bank notes and senior debt	
Federal Home Loan Bank borrowings	2,623
Subordinated debt	1
Other borrowed funds	9,410
Common stock	80
Repayments/maturities	
Repurchase agreements	(64,987)
Bank notes and senior debt	(750)
Federal Home Loan Bank borrowings	(500)
Subordinated debt	(100)

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Other borrowed funds	(9,762)
Acquisition of treasury stock	(191)
Cash dividends paid	(144)
<hr style="border-top: 1px dashed black;"/>	
Net cash used by financing activities	(245)
<hr style="border-top: 1px dashed black;"/>	
DECREASE IN CASH AND DUE FROM BANKS	(664)
Cash and due from banks at beginning of year	3,662
<hr style="border-top: 1px dashed black;"/>	
Cash and due from banks at end of period	\$2,998
<hr style="border-top: 3px double black;"/>	
CASH PAID FOR	
Interest	\$577
Income taxes	29
NON-CASH ITEMS	
Transfer of residential mortgage loans to securities available for sale	3,775
Transfer from loans held for sale to loans	6
Transfer from loans to other assets	3
<hr style="border-top: 3px double black;"/>	

See accompanying Notes to Consolidated Financial Statements.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS THE PNC FINANCIAL SERVICES GROUP, INC.

#### BUSINESS

The PNC Financial Services Group, Inc. ("Corporation" or "PNC") is one of the largest diversified financial services companies in the United States, operating businesses engaged in community banking, corporate banking, real estate finance, asset-based lending, wealth management, asset management and global fund services. The Corporation provides certain products and services nationally and others in PNC's primary geographic markets in Pennsylvania, New Jersey, Delaware, Ohio and Kentucky. The Corporation also provides certain asset management and processing products and services internationally. PNC is subject to intense competition from other financial services companies and is subject to regulation by various domestic and international authorities.

#### ACCOUNTING POLICIES

##### BASIS OF FINANCIAL STATEMENT PRESENTATION

The unaudited consolidated interim financial statements include the accounts of PNC and its subsidiaries, most of which are wholly owned. Such statements have been prepared in accordance with accounting principles generally accepted in the United States. All significant intercompany accounts and transactions have been eliminated.

In the opinion of management, the financial statements reflect all adjustments of a normal recurring nature necessary for a fair statement of results for the interim periods presented.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the amounts reported. Actual results will differ from such estimates and the differences may be material to the consolidated financial statements.

The consolidated financial statements and notes to consolidated financial statements reflect the residential mortgage banking business, which was sold on

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January 31, 2001, as discontinued operations, unless otherwise noted.

The notes included herein should be read in conjunction with the audited consolidated financial statements included in The PNC Financial Services Group, Inc.'s 2000 Annual Report.

### FINANCIAL DERIVATIVES

The Corporation uses a variety of financial derivatives as part of the overall asset and liability risk management process to manage interest rate, market and credit risk inherent in the Corporation's business activities. Substantially all such instruments are used to manage risk related to changes in interest rates. Interest rate and total rate of return swaps, purchased interest rate caps and floors and futures contracts are the primary instruments used by the Corporation for interest rate risk management.

Interest rate swaps are agreements with a counterparty to exchange periodic fixed and floating interest payments calculated on a notional amount. The floating rate is based on a money market index, primarily short-term LIBOR. Total rate of return swaps are agreements with a counterparty to exchange an interest rate payment for the total rate of return on a specified reference index calculated on a notional amount. Purchased interest rate caps and floors are agreements where, for a fee, the counterparty agrees to pay the Corporation the amount, if any, by which a specified market interest rate exceeds or is less than a defined rate applied to a notional amount, respectively. Interest rate futures contracts are exchange-traded agreements to make or take delivery of a financial instrument at an agreed upon price and are settled in cash daily.

Financial derivatives involve, to varying degrees, interest rate, market and credit risk. The Corporation manages these risks as part of its asset and liability management process and through credit policies and procedures. The Corporation seeks to minimize the credit risk by entering into transactions with only a select number of high-quality institutions, establishing credit limits, requiring bilateral-netting agreements, and, in certain instances, segregated collateral.

### FAIR VALUE HEDGING STRATEGIES

The Corporation enters into interest rate and total rate of return swaps, caps, floors and interest rate futures derivative contracts to hedge designated commercial mortgage loans held for sale, securities available for sale, commercial loans, bank notes and subordinated debt for changes in fair value primarily due to changes in interest rates.

### CASH FLOW HEDGING STRATEGY

The Corporation enters into interest rate swap contracts to modify the interest rate characteristics of designated commercial loans from variable to fixed in order to reduce the impact of interest rate changes on future interest income. The fair value of the derivative is reported in other assets or other liabilities and offset in accumulated other comprehensive income for the effective portion of the derivative. Ineffectiveness of the strategy, as defined under Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and No. 138, if any, is reported in net interest income. Amounts reclassified into earnings, when the hedged transaction affects earnings, are included in net interest income.

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### CUSTOMER AND OTHER DERIVATIVES

To accommodate customer needs, PNC also enters into financial derivative transactions primarily consisting of interest rate swaps, caps, floors and foreign exchange contracts. Interest rate and foreign exchange risk exposures from customer positions are managed through transactions with other dealers. These positions are recorded at estimated fair value and changes in value are included in noninterest income.

Effective January 1, 2001, the Corporation implemented SFAS No. 133. The statement requires the Corporation to recognize all derivative instruments as either assets or liabilities on the balance sheet at fair value. Financial derivatives are reported at fair value in other assets or other liabilities. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Corporation must designate the hedging instrument, based on the exposure being hedged, as either a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation.

For derivatives that are designated as fair value hedges (i.e., hedging the exposure to changes in the fair value of an asset or a liability attributable to a particular risk), the gain or loss on derivatives as well as the loss or gain on the hedged items are recognized in current earnings. For derivatives designated as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows), the effective portions of the gain or loss on derivatives are reported as a component of accumulated other comprehensive income in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivatives in excess of the hedged future cash flows, if any, is recognized in current earnings. For derivatives not designated as hedges, the gain or loss is recognized in current earnings.

### FINANCIAL DERIVATIVES - PRE-SFAS NO. 133

Prior to January 1, 2001, interest rate swaps, caps and floors that modified the interest rate characteristics (such as from fixed to variable, variable to fixed, or one variable index to another) of designated interest-bearing assets or liabilities were accounted for under the accrual method. The net amount payable or receivable from the derivative contract was accrued as an adjustment to interest income or interest expense of the designated instrument. Premiums on contracts were deferred and amortized over the life of the agreement as an adjustment to interest income or interest expense of the designated instruments. Unamortized premiums were included in other assets.

Changes in the fair value of financial derivatives accounted for under the accrual method were not reflected in results of operations. Realized gains and losses, except losses on terminated interest rate caps and floors, were deferred as an adjustment to the carrying amount of the designated instruments and amortized over the shorter of the remaining original life of the agreements or the designated instruments. Losses on terminated interest rate caps and floors were recognized immediately in results of operations. If the designated instruments were disposed, the fair value of the associated derivative contracts and any unamortized deferred gains or losses were included in the determination of gain or loss on the disposition of such instruments. Contracts not qualifying for accrual accounting were marked to market with gains or losses included in noninterest income.

Credit default swaps were entered into to mitigate credit risk and lower the required regulatory capital associated with commercial lending activities. If the credit default swaps qualified for hedge accounting treatment, the premium paid to enter into the credit default swaps were recorded in other assets and deferred and amortized to noninterest expense over the life of the agreement.

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Changes in the fair value of credit default swaps qualifying for hedge accounting treatment were not reflected in the Corporation's financial position and had no impact on results of operations.

If the credit default swap did not qualify for hedge accounting treatment or if the Corporation was the seller of credit protection, the credit default swap was marked to market with gains or losses included in noninterest income.

Due to the particular structure of the Corporation's credit default swaps discussed in the preceding paragraphs, these instruments are not considered financial derivatives under the provisions of SFAS No. 133. Commencing January 1, 2001, the premiums paid to enter credit default swaps not considered to be derivatives are recorded in other assets and amortized to noninterest expense over the life of the agreement.

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### RESTATEMENTS

The amounts contained in this Amendment No. 1 include the restatement of the results for the first quarter of 2001 to reflect the correction of an error related to the accounting for the sale of the residential mortgage banking business. This restatement reduced income from discontinued operations and net income for the three months ended March 31, 2001 by \$35 million, or \$.12 per diluted share. The consolidated balance sheet was not affected by this restatement as the impact of the error had been reflected in retained earnings at March 31, 2001.

### DISCONTINUED OPERATIONS

On January 31, 2001, PNC closed the sale of its residential mortgage banking business. Certain closing date adjustments are currently in dispute between PNC and the buyer, Washington Mutual Bank, FA. The ultimate financial impact of the sale will not be determined until the disputed matters are finally resolved.

The income and net assets of the residential mortgage banking business, which are presented on one line in the income statement and balance sheet, respectively, are as follows:

### INCOME FROM DISCONTINUED OPERATIONS

Three months ended March 31 - in millions	2001	2000
Total income from operations, after tax	\$ 15	\$6
Net loss on disposal, after tax (a)	(10)	
Total income from discontinued operations	\$ 5	\$6

(a) Includes recognition of \$35 million of previously unrealized securities losses in accumulated other comprehensive income.

### INVESTMENT IN DISCONTINUED OPERATIONS

December 31 - in millions	2000
Loans held for sale	\$3,003
Securities available for sale	3,016
Loans, net of unearned income	739
Goodwill and other amortizable assets	1,925
All other assets	1,168

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Total assets	9,851
Deposits	1,150
Borrowed funds	7,601
Other liabilities	744
Total liabilities	9,495
Net assets	\$356

RECENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (a replacement of SFAS No. 125) was issued in September 2000 and replaces SFAS No. 125. Although SFAS No. 140 has changed many of the rules regarding securitizations, it continues to require an entity to recognize the financial and servicing assets it controls and the liabilities it has incurred and to derecognize financial assets when control has been surrendered in accordance with the criteria provided in the standard. As required, the Corporation will apply the new rules prospectively to transactions beginning in the second quarter of 2001. Based on current circumstances, management believes that the application of the new rules will not have a material impact on the Corporation's financial condition or results of operations. SFAS No. 140 requires certain disclosures pertaining to securitization transactions effective for fiscal years ending after December 15, 2000.

CASH FLOWS

During the first three months of 2001, divestiture activity that affected cash flows consisted of \$383 million of divested net assets and cash receipts of \$503 million. The Corporation did not have any acquisition or divestiture activity that affected cash flows during the first three months of 2000.

TRADING ACTIVITIES

Most of PNC's trading activities are designed to provide capital markets services to customers and not to position the Corporation's portfolio for gains from market movements. PNC participates in derivatives and foreign exchange trading as well as "market making" in equity securities as an accommodation to customers. PNC also engages in trading activities as part of risk management strategies.

Net trading income for the first three months of 2001 totaled \$38 million compared with net trading income of \$20 million for the prior-year period and was included in noninterest income as follows:

Three months ended March 31 - in millions	2001	2000
Corporate services	\$1	
Other income		
Securities trading	20	\$12
Derivatives trading	12	3
Foreign exchange	5	5
Net trading income	\$38	\$20

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THE PNC FINANCIAL SERVICES GROUP, INC.

### SECURITIES AVAILABLE FOR SALE

In millions	Amortized Cost	Unrealized	
		Gains	Loss
<b>MARCH 31, 2001</b>			
Debt securities			
U.S. Treasury and government agencies	\$1,519	\$5	\$
Mortgage-backed	8,707	16	(
Asset-backed	1,358	7	(
State and municipal	80	3	(
Other debt	70	1	(
Total debt securities	11,734	32	(
Corporate stocks and other	248	52	(
Total securities available for sale	\$11,982	\$84	\$ (
<b>DECEMBER 31, 2000</b>			
Debt securities			
U.S. Treasury and government agencies	\$313	\$1	\$
Mortgage-backed	4,037	13	(
Asset-backed	902	1	(
State and municipal	94	2	(
Other debt	73	1	(
Total debt securities	5,419	18	(
Corporate stocks and other	537	2	(
Total securities available for sale	\$5,956	\$20	\$ (

The fair value of securities available for sale at March 31, 2001 was \$12.0 billion compared with \$5.9 billion at December 31, 2000. Securities represented 17% of total assets at March 31, 2001 compared with 8% at December 31, 2000. The increase was primarily due to \$3.8 billion of residential mortgage loan securitizations and purchases of securities during the first three months of 2001. The expected weighted-average life of securities available for sale was 3 years and 11 months at March 31, 2001 compared with 4 years and 5 months at December 31, 2000.

At March 31, 2001, the securities available for sale balance included a net unrealized loss of \$6 million, which represented the difference between fair value and amortized cost. The comparable amount at December 31, 2000 was a net unrealized loss of \$54 million. Net unrealized gains and losses in the securities available for sale portfolio are included in accumulated other comprehensive income or loss, net of tax or, for the portion attributable to changes in a hedged risk as part of a fair value hedge strategy, in net income.

Net securities gains associated with the disposition of securities available for sale were \$29 million for the first three months of 2001 and net losses of \$3

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million for the first three months of 2000. Net securities losses of \$1 million for the first three months of 2001, related to commercial mortgage banking activities, were included in corporate services revenue.

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### NONPERFORMING ASSETS

Nonperforming assets were as follows:

In millions	March 31 2001	December 31 2000
Nonaccrual loans	\$330	\$323
Troubled debt restructured loan	6	
Foreclosed and other assets	50	49
<b>Total nonperforming assets</b>	<b>\$386</b>	<b>\$372</b>

The above table excludes \$24 million and \$18 million of equity management assets carried at estimated fair value at March 31, 2001 and December 31, 2000, respectively.

### ALLOWANCE FOR CREDIT LOSSES

Changes in the allowance for credit losses were as follows:

In millions	2001	2000
Allowance at January 1	\$675	\$674
Charge-offs		
Consumer	(10)	(12)
Residential mortgage		(2)
Commercial	(78)	(29)
Lease financing	(3)	(2)
<b>Total charge-offs</b>	<b>(91)</b>	<b>(45)</b>
Recoveries		
Consumer	5	6
Commercial	6	7
Lease financing		1
<b>Total recoveries</b>	<b>11</b>	<b>14</b>
Net charge-offs		
Consumer	(5)	(6)
Residential mortgage		(2)
Commercial	(72)	(22)
Lease financing	(3)	(1)
<b>Total net charge-offs</b>	<b>(80)</b>	<b>(31)</b>
Provision for credit losses	80	31
<b>Allowance at March 31</b>	<b>\$675</b>	<b>\$674</b>

### FINANCIAL DERIVATIVES

Effective January 1, 2001, the Corporation implemented SFAS No. 133. As a result of the adoption of this statement, the Corporation recognized, in the first quarter of 2001, an after-tax loss from the cumulative effect of a change in



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accounting principle of \$5 million reported in the consolidated income statement and an after-tax accumulated other comprehensive loss of \$4 million. The impact of the adoption of this standard related to the residential mortgage banking business that was sold was reflected in the results of discontinued operations.

During the first quarter of 2001, the Corporation recognized a net loss of \$1 million related to the ineffective portion of its fair value hedging instruments. This net loss was reported as an adjustment to net interest income.

Cash flow hedge ineffectiveness was not significant to the results of operations of the Corporation during the first three months of 2001.

At March 31, 2001, the Corporation expects to reclassify \$28 million of net gains on derivative instruments from accumulated other comprehensive income to earnings during the next twelve months due to the receipts of variable interest associated with floating rate commercial loans.

At March 31, 2001 and December 31, 2000, the Corporation's exposure to credit losses with respect to financial derivatives was not material.

### LEGAL PROCEEDINGS

The Corporation and persons to whom the Corporation may have indemnification obligations, in the normal course of business, are subject to various pending and threatened legal proceedings in which claims for monetary damages and other relief are asserted. Management, after consultation with legal counsel, does not at the present time anticipate the ultimate aggregate liability, if any, arising out of such legal proceedings will have a material adverse effect on the Corporation's financial condition. At the present time, management is not in a position to determine whether any such pending or threatened legal proceedings will have a material adverse effect on the Corporation's results of operations in any future reporting period.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS THE PNC FINANCIAL SERVICES GROUP, INC.

#### COMPREHENSIVE INCOME

Comprehensive income from continuing operations was \$315 million for the first quarter of 2001, compared with \$294 million for the first quarter of 2000.

The Corporation's other comprehensive income consists of unrealized gains or losses on securities available for sale and cash flow hedge, foreign currency translation and minimum pension liability adjustments. The income effects allocated to each component of other comprehensive income are as follows:

Three months ended March 31, 2001 In millions	Pretax Amount	Tax Benefit (Expense)	After-tax Amount
Unrealized securities gains	\$53	\$(19)	\$34
Less: Reclassification adjustment for gains realized in net income	6	(2)	4
Net unrealized securities gains	47	(17)	30
SFAS No. 133 transition adjustment	(6)	2	(4)
Unrealized gains on cash flow hedge derivatives	31	(11)	20

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Less: Reclassification adjustment for losses realized in net income	(7)	2	(5)
-----			
Net unrealized gains on cash flow hedge derivatives	32	(11)	21
Foreign currency translation adjustment	(2)	1	(1)
-----			
Other comprehensive income from continuing operations	\$77	\$(27)	\$50
=====			

Year ended December 31, 2000 In millions	Pretax Amount	Tax Benefit (Expense)	After-tax Amount
-----			
Unrealized securities gains	\$127	\$(41)	\$86
Less: Reclassification adjustment for losses realized in net income	(3)	1	(2)
-----			
Net unrealized securities gains	130	(42)	88
Minimum pension liability adjustment	2	(1)	1
-----			
Other comprehensive income from continuing operations	\$132	\$(43)	\$89
=====			

The accumulated balances related to each component of other comprehensive income (loss) are as follows:

In millions	March 31 2001	December 31 2000
-----		
Net unrealized securities losses	\$(2)	\$(32)
Net unrealized gains on cash flow hedge derivatives	21	
Minimum pension liability adjustment	(11)	(11)
Foreign currency translation adjustment	(1)	
-----		
Accumulated other comprehensive income (loss) from continuing operations	\$7	\$(43)
=====		

SHAREHOLDERS' EQUITY

On March 6, 2001, the Corporation commenced a cash tender offer for its nonconvertible Series F preferred stock at a price of \$50.35 per share plus accrued and unpaid dividends. Approximately 1.9 million shares of the 6 million shares outstanding were tendered through this offer and were purchased by the Corporation on April 5, 2001.

EARNINGS PER SHARE

The following table sets forth basic and diluted earnings per share calculations.

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Three months ended March 31 - in millions, except share and per share data

-----  
CALCULATION OF BASIC EARNINGS PER COMMON SHARE

Income from continuing operations  
Less: Preferred dividends declared

-----  
Income from continuing operations applicable to basic earnings per common share  
Income from discontinued operations applicable to basic earnings per common share  
Cumulative effect of accounting change applicable to basic earnings per common share

-----  
Net income applicable to basic earnings per common share

Basic weighted-average common shares outstanding (in thousands) 2

Basic earnings per common share from continuing operations  
Basic earnings per common share from discontinued operations  
Basic earnings per common share from cumulative effect of accounting change

-----  
Basic earnings per common share  
=====

CALCULATION OF DILUTED EARNINGS PER COMMON SHARE

Income from continuing operations  
Less: Dividends declared on nonconvertible preferred stock Series F

-----  
Income from continuing operations applicable to diluted earnings per common share  
Income from discontinued operations applicable to diluted earnings per common share  
Cumulative effect of accounting change applicable to diluted earnings per common share

-----  
Net income applicable to diluted earnings per common share

Basic weighted-average common shares outstanding (in thousands) 2

Weighted-average common shares to be issued using average market price and assuming:

Conversion of preferred stock Series A and B  
Conversion of preferred stock Series C and D  
Conversion of debentures  
Exercise of stock options  
Incentive share awards

-----  
Diluted weighted-average common shares outstanding (in thousands) 2

Diluted earnings per common share from continuing operations  
Diluted earnings per common share from discontinued operations  
Diluted earnings per common share from cumulative effect of accounting change

-----  
Diluted earnings per common share  
=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
THE PNC FINANCIAL SERVICES GROUP, INC.

SEGMENT REPORTING

PNC operates seven major businesses engaged in community banking, corporate

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banking, real estate finance, asset-based lending, wealth management, asset management and global fund services.

Business results are presented based on PNC's management accounting practices and the Corporation's management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to generally accepted accounting principles; therefore, PNC's business results are not necessarily comparable with similar information for any other financial services institution. Financial results are presented, to the extent practicable, as if each business operated on a stand-alone basis.

The management accounting process uses various balance sheet and income statement assignments and transfers to measure performance of the businesses. Methodologies change from time to time as management accounting practices are enhanced and businesses change. Securities available for sale or borrowings and related net interest income are assigned based on the net asset or liability position of each business. Capital is assigned based on management's assessment of inherent risks and equity levels at independent companies providing similar products and services. The allowance for credit losses is allocated based on management's assessment of risk inherent in the loan portfolios. Support areas not directly aligned with the businesses are allocated primarily based on the utilization of services.

Total business financial results differ from consolidated results from continuing operations primarily due to differences between management accounting practices and generally accepted accounting principles, businesses and loan portfolios that have been divested or designated for exit during 2000 or earlier, equity management activities, minority interests, residual asset and liability management activities, eliminations and unassigned items, the impact of which is reflected in the "Other" category.

### BUSINESS SEGMENT PRODUCTS AND SERVICES

Community Banking provides deposit, branch-based brokerage, electronic banking and credit products and services to retail customers as well as deposit, credit, treasury management and capital markets products and services to small businesses primarily within PNC's geographic region.

Corporate Banking provides credit, equipment leasing, treasury management and capital markets products and services to large and mid-sized corporations, institutions and government entities primarily within PNC's geographic region.

PNC Real Estate Finance provides credit, capital markets, treasury management, commercial mortgage loan servicing and other products and services to developers, owners and investors in commercial real estate.

PNC Business Credit provides asset-based lending, capital markets and treasury management products and services to middle market customers nationally. PNC Business Credit's lending services include loans secured by accounts receivable, inventory, machinery and equipment, and other collateral, and its customers include manufacturing, wholesale, distribution, retailing and service industry companies.

PNC Advisors provides a full range of tailored investment products and services to affluent individuals and families including full-service brokerage through J.J.B. Hilliard, W.L. Lyons, Inc. and investment advisory services to the ultra-affluent through Hawthorn. PNC Advisors also serves as investment manager and trustee for employee benefit plans and charitable and endowment assets.

BlackRock is one of the largest publicly traded investment management firms in the United States with \$202 billion of assets under management at March 31, 2001. BlackRock manages assets on behalf of institutions and individuals through a variety of fixed income, liquidity, equity and alternative investment separate

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accounts and mutual funds, including its flagship fund families, BlackRock Funds and BlackRock Provident Institutional Funds. In addition, BlackRock provides risk management and technology services to a growing number of institutional investors under the BlackRock Solutions name.

PFPC is the largest full-service mutual fund transfer agent and second largest provider of mutual fund accounting and administration services in the United States, providing a wide range of global fund services to the investment management industry. As an extension of its domestic services, PFPC also provides customized processing services to the international marketplace through its Dublin, Ireland and Luxembourg operations.

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### RESULTS OF BUSINESSES

Three months ended March 31 In millions	Community Banking	Corporate Banking	PNC Real Estate Finance	PNC Business Credit	PNC Advisors	BlackR
2001						
INCOME STATEMENT						
Net interest income (a)	\$354	\$140	\$29	\$24	\$32	
Noninterest income	188	52	24	14	167	
Total revenue	542	192	53	38	199	
Provision for credit losses	10	57		5		
Depreciation and amortization	21	3	5	1	4	
Other noninterest expense	258	98	31	7	124	
Pretax earnings	253	34	17	25	71	
Income taxes	91	10	(3)	9	27	
Earnings	\$162	\$24	\$20	\$16	\$44	
Inter-segment revenue	\$1	\$1			\$19	
AVERAGE ASSETS	\$40,617	\$16,939	\$5,378	\$2,377	\$3,505	\$
2000						
INCOME STATEMENT						
Net interest income (a)	\$344	\$134	\$27	\$24	\$35	
Noninterest income	133	80	19	4	169	
Total revenue	477	214	46	28	204	
Provision for credit losses	12	15			3	
Depreciation and amortization	21	3	5	1	4	
Other noninterest expense	243	98	30	6	131	
Pretax earnings	201	98	11	21	66	
Income taxes	72	34	(2)	8	25	
Earnings	\$129	\$64	\$13	\$13	\$41	
Inter-segment revenue	\$1	\$1			\$22	

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AVERAGE ASSETS \$37,866 \$15,950 \$5,382 \$2,084 \$3,598 \$

(a) Taxable-equivalent basis

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STATISTICAL INFORMATION  
THE PNC FINANCIAL SERVICES GROUP, INC.

CONSOLIDATED AVERAGE BALANCE SHEET AND NET INTEREST ANALYSIS

Dollars in millions Taxable-equivalent basis	First Quarter 2001		
	Average Balances	Interest	Average Yields/ Rates
<b>ASSETS</b>			
Interest-earning assets			
Loans held for sale	\$2,005	\$37	7.31%
Securities available for sale			
U.S. Treasury and government agencies and corporations	3,933	57	5.84
Other debt	4,001	63	6.32
Other	127	2	5.63
Total securities available for sale	8,061	122	6.08
Loans, net of unearned income			
Consumer	9,085	194	8.70
Residential mortgage	12,673	232	7.32
Commercial	20,882	422	8.09
Commercial real estate	2,580	55	8.44
Lease financing	3,897	71	7.32
Other	520	11	7.98
Total loans, net of unearned income	49,637	985	7.96
Other	1,831	33	7.20
Total interest-earning assets/interest income	61,534	1,177	7.67
Noninterest-earning assets			
Investment in discontinued operations	207		
Allowance for credit losses	(683)		
Cash and due from banks	2,977		
Other assets	7,957		
Total assets	\$71,992		
<b>LIABILITIES, CAPITAL SECURITIES AND SHAREHOLDERS' EQUITY</b>			
Interest-bearing liabilities			
Interest-bearing deposits			
Demand and money market	\$20,468	162	3.20
Savings	1,919	6	1.31
Retail certificates of deposit	13,724	199	5.90
Other time	565	10	6.67
Deposits in foreign offices	1,402	20	5.75

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Total interest-bearing deposits	38,078	397	4.22
Borrowed funds			
Federal funds purchased	2,948	44	5.89
Repurchase agreements	1,145	14	4.83
Bank notes and senior debt	5,896	91	6.19
Federal Home Loan Bank borrowings	1,576	21	5.46
Subordinated debt	2,408	44	7.09
Other borrowed funds	402	7	7.30
-----			
Total borrowed funds	14,375	221	6.15
-----			
Total interest-bearing liabilities/interest expense	52,453	618	4.75
Noninterest-bearing liabilities and shareholders' equity			
Demand and other noninterest-bearing deposits	8,190		
Accrued expenses and other liabilities	3,830		
Mandatorily redeemable capital securities of subsidiary trusts	848		
Shareholders' equity	6,671		
-----			
Total liabilities, capital securities and shareholders' equity	\$71,992		
-----			
Interest rate spread			2.92
Impact of noninterest-bearing sources			.70
-----			
Net interest income/margin		\$559	3.62%
-----			

Nonaccrual loans are included in loans, net of unearned income. The impact of financial derivatives used in interest rate risk management is included in the interest income/expense and average yields/rates of the related assets and liabilities. Average balances of securities available for sale are based on amortized historical cost (excluding SFAS No. 115 adjustments to fair value).

Loan fees for the three months ended March 31, 2001, December 31, 2000, September 30, 2000, June 30, 2000 and March 31, 2000 were \$29 million, \$26 million, \$29 million, \$31 million and \$29 million, respectively.

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Third Quarter 2000			Second Quarter 2000			
Average Balances	Interest	Average Yields/Rates	Average Balances	Interest	Average Yields/Rates	Average Balances
\$2,151	\$47	8.77%	\$2,577	\$52	8.11%	\$3,000

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1,662	25	5.97	1,648	25	6.11	1
3,934	65	6.65	3,742	62	6.58	3
583	9	6.08	619	11	7.02	
<hr/>						
6,179	99	6.41	6,009	98	6.50	6
9,174	201	8.72	9,209	198	8.63	9
12,405	222	7.16	12,571	223	7.09	12
21,800	472	8.47	22,042	464	8.33	21
2,688	61	8.85	2,682	59	8.74	2
3,238	58	7.24	3,049	55	7.19	2
646	14	8.64	676	14	8.50	
<hr/>						
49,951	1,028	8.13	50,229	1,013	8.03	49
1,445	30	8.05	1,276	22	7.01	1
<hr/>						
59,726	1,204	7.98	60,091	1,185	7.86	60
515			448			
(680)			(689)			
2,848			2,837			2
6,689			6,418			6
<hr/>						
\$69,098			\$69,105			\$68
<hr/>						
\$18,914	175	3.68	\$18,549	159	3.46	\$17
2,020	9	1.81	2,107	9	1.75	2
14,776	217	5.85	14,403	195	5.45	14
619	10	6.55	641	10	6.44	
1,342	23	6.50	1,483	24	6.25	1
<hr/>						
37,671	434	4.58	37,183	397	4.30	36
1,904	32	6.51	2,162	34	6.28	2
846	14	5.84	769	11	5.56	
6,290	108	6.75	6,762	110	6.40	6
1,105	20	7.16	1,514	24	6.35	2
2,419	45	7.44	2,420	45	7.45	2
954	17	7.18	795	14	6.89	
<hr/>						
13,518	236	6.85	14,422	238	6.54	15
<hr/>						
51,189	670	5.18	51,605	635	4.92	51
8,239			8,357			7
2,637			2,290			2
848			848			
6,185			6,005			5
<hr/>						
\$69,098			\$69,105			\$68
<hr/>						
		2.80			2.94	
		.74			.69	
<hr/>						
	\$534	3.54%		\$550	3.63%	
<hr/>						



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QUARTERLY REPORT ON FORM 10-Q/A  
AMENDMENT NO. 1  
THE PNC FINANCIAL SERVICES GROUP, INC.

Securities and Exchange Commission  
Washington, D.C. 20549

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2001.

Commission File Number 1-9718

THE PNC FINANCIAL SERVICES GROUP, INC.  
Incorporated in the Commonwealth of Pennsylvania  
IRS Employer Identification No. 25-1435979  
Address: One PNC Plaza  
249 Fifth Avenue  
Pittsburgh, Pennsylvania 15222-2707  
Telephone: (412) 762-2000

By filing this amendment ("Amendment No. 1"), the undersigned registrant hereby amends its Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 ("March 2001 Form 10-Q") primarily to reflect the correction of an error related to the accounting for the January 2001 sale of the registrant's residential mortgage banking business.

By this Amendment No. 1, the undersigned registrant is amending and restating its entire March 2001 Form 10-Q.

As of April 27, 2001 The PNC Financial Services Group, Inc. had 288,884,641 shares of common stock (\$5 par value) outstanding.

The PNC Financial Services Group, Inc. (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

The following sections of the Financial Review set forth in the cross-reference index are incorporated in the Quarterly Report on Form 10-Q/A, Amendment No. 1.

	Cross-reference	Page(s)
PART I	FINANCIAL INFORMATION	
Item 1	Financial Statements	
	Consolidated Statement of Income for the three months ended March 31, 2001 and 2000	25
	Consolidated Balance Sheet as of March 31, 2001 and December 31, 2000	26
	Consolidated Statement of Cash Flows for the three months ended March 31, 2001 and 2000	27
	Notes to Consolidated Financial Statements	28 - 36
	Consolidated Average Balance Sheet and Net Interest Analysis	37 - 38
Item 2	Management's Discussion and Analysis of	

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	Financial Condition and Results of Operations	3 - 24
Item 3	Quantitative and Qualitative Disclosures About Market Risk	17 - 24

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### PART II OTHER FINANCIAL INFORMATION

#### ITEM 4. SUBMISSION OF MATTERS FOR A VOTE OF SECURITY HOLDERS

An annual meeting of shareholders of The PNC Financial Services Group, Inc. was held on April 24, 2001 for the purpose of considering and acting upon the following:

Fifteen directors were elected and the votes cast for or against/withheld were as follows:

Nominee	Aggregate Votes	
	For	Against/Withheld
Paul W. Chellgren	253,982,913	1,972,035
Robert N. Clay	253,990,205	1,964,743
George A. Davidson, Jr.	254,021,522	1,933,426
David F. Girard-diCarlo	250,855,373	5,099,575
Walter E. Gregg, Jr.	254,005,421	1,949,527
William R. Johnson	242,111,951	13,842,997
Bruce C. Lindsay	253,990,964	1,963,984
W. Craig McClelland	253,887,437	2,067,511
Thomas H. O'Brien	253,731,377	2,223,571
Jane G. Pepper	253,701,679	2,253,269
James E. Rohr	253,973,181	1,981,767
Lorene K. Steffes	253,694,535	2,260,413
Thomas J. Usher	253,941,317	2,013,631
Milton A. Washington	253,906,913	2,048,035
Helge H. Wehmeier	254,022,187	1,932,761

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Three matters were approved and the votes cast for or against and the abstentions were as follows:

Matter	Aggregate Votes		
	For	Against	Abstain
An amendment of the Corporation's Articles of Incorporation to increase the number of authorized shares of \$5.00 par value common stock from 450,000,000 shares to 800,000,000	229,323,991	24,469,392	2,160,500
Reapproval of certain elements of and approval of amendments to the Corporation's 1997 Long-Term Incentive Award Plan	204,683,322	48,076,241	3,194,320
Reapproval of certain elements of and approval of			

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amendments to the  
 Corporation's 1996  
 Executive Incentive Award Plan                      230,135,398    22,483,580    3,334,905

=====  
 There were no broker non-votes.

With respect to the preceding matters, holders of the Corporation's common and voting preferred stock voted together as a single class. The following table sets forth, as of the February 28, 2001 record date, the number of shares of each class or series of stock that were issued and outstanding and entitled to vote, the voting power per share and the aggregate voting power of each class or series:

Title of Class or Series	Voting Rights Per Share	Number of Shares Entitled to Vote	Aggregate Voting Power
Common Stock	1	289,606,244	289,606,244
\$1.80 Cumulative Convertible Preferred Stock - Series A	8	10,814	86,512
\$1.80 Cumulative Convertible Preferred Stock - Series B	8	3,024	24,192
\$1.60 Cumulative Convertible Preferred Stock - Series C	4/2.4	222,748	371,247*
\$1.80 Cumulative Convertible Preferred Stock - Series D	4/2.4	314,477	524,128*
Total possible votes			290,612,323*

=====  
 \* Represents greatest number of votes possible. Actual aggregate voting power was less since each holder of such preferred stock was entitled to a number of votes equal to the number of full shares of common stock into which such holder's preferred stock was convertible.

Holders of the Corporation's issued and outstanding shares of Fixed/Adjustable Rate Noncumulative Preferred Stock-Series F were not entitled to vote with respect to the matters presented at the meeting.

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

The following exhibit index lists Exhibits filed with this Quarterly Report on Form 10-Q/A, Amendment No. 1:

- \*3.1        Articles of Incorporation of the Corporation, as amended and restated as of April 24, 2001
- \*12.1      Computation of Ratio of Earnings to Fixed Charges
- \*12.2      Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends

=====  
 \* Previously filed with the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference.

Copies of these Exhibits may be obtained electronically at the Securities and Exchange Commission's home page at [www.sec.gov](http://www.sec.gov). Copies may also be obtained without charge by writing to Thomas F. Garbe, Director of Financial Accounting, at corporate headquarters, by calling (412) 762-1553 or via e-mail at [financial.reporting@pnc.com](mailto:financial.reporting@pnc.com).

The Corporation did not file any Reports on Form 8-K during the quarter ended

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March 31, 2001.

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 to be signed on March 29, 2002, on its behalf by the undersigned thereunto duly authorized.

THE PNC FINANCIAL SERVICES GROUP, INC.

By: /s/ Robert L. Haunschild  
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Robert L. Haunschild  
Chief Financial Officer

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### CORPORATE INFORMATION

THE PNC FINANCIAL SERVICES GROUP, INC.

### CORPORATE HEADQUARTERS

The PNC Financial Services Group, Inc.  
One PNC Plaza  
249 Fifth Avenue  
Pittsburgh, Pennsylvania 15222-2707  
(412) 762-2000

### STOCK LISTING

The PNC Financial Services Group, Inc. common stock is listed on the New York Stock Exchange under the symbol PNC.

### INTERNET INFORMATION

The PNC Financial Services Group, Inc.'s financial reports and information about its products and services are available on the Internet at [www.pnc.com](http://www.pnc.com).

### FINANCIAL INFORMATION

The Annual Report on Form 10-K is filed with the Securities and Exchange Commission ("SEC"). Copies of this document and other filings, including Exhibits thereto, may be obtained electronically at the SEC's home page at [www.sec.gov](http://www.sec.gov). Copies may also be obtained without charge by writing to Thomas F. Garbe, Director of Financial Accounting, at corporate headquarters, by calling (412) 762-1553 or via e-mail at [financial.reporting@pnc.com](mailto:financial.reporting@pnc.com).

### INQUIRIES

For financial services call 1-888-PNC-2265. Individual shareholders should contact Shareholder Relations at (800) 982-7652.

Analysts and institutional investors should contact William H. Callihan, Vice President, Investor Relations, at (412) 762-8257 or via e-mail at [investor.relations@pnc.com](mailto:investor.relations@pnc.com).

News media representatives and others seeking general information should contact R. Jeep Bryant, Director of Corporate Communications, at (412) 762-8221 or via e-mail at [corporate.communications@pnc.com](mailto:corporate.communications@pnc.com).

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### COMMON STOCK PRICES/DIVIDENDS DECLARED

The table below sets forth by quarter the range of high and low sale and quarter-end closing prices for The PNC Financial Services Group, Inc. common stock and the cash dividends declared per common share.

	High	Low	Close	Cash Dividends Declared
-----				
2001 QUARTER				
-----				
First	\$75.813	\$56.000	\$67.750	\$.48
=====				
2000 QUARTER				
-----				
First	\$48.500	\$36.000	\$45.063	\$.45
Second	57.500	41.000	46.875	.45
Third	66.375	47.625	65.000	.45
Fourth	75.000	56.375	73.063	.48
-----				
Total				\$1.83
=====				

### DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

The PNC Financial Services Group, Inc. Dividend Reinvestment and Stock Purchase Plan enables holders of common and preferred stock to purchase additional shares of common stock conveniently and without paying brokerage commissions or service charges. A prospectus and enrollment card may be obtained by writing to Shareholder Relations at corporate headquarters.

### REGISTRAR AND TRANSFER AGENT

The Chase Manhattan Bank  
 85 Challenger Road  
 Ridgefield Park, New Jersey 07660  
 (800) 982-7652