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 June 30, 2001

Page 1 represents a portion of the second quarter 2001 Financial Review which is not required by Amendment No. 1 to the Form 10-Q report and is not "filed" as part of the Form 10-Q.

The Amendment No. 1 to Quarterly Report on Form 10-Q and cross reference index is on page 41.

CONSOLIDATED FINANCIAL HIGHLIGHTS
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 June 30, 2001 ("June 2001 Form 10-Q") primarily for the items described in "Restatements" in the Overview section of the Financial Review and in the "Notes to Consolidated Financial Statements" of this Amendment No. 1.

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

	Three months ended June 30		Si
Dollars in millions, except per share data	2001	2000	
FINANCIAL PERFORMANCE			
Revenue			
Net interest income (taxable-equivalent basis)	$569	$550	
Noninterest income	720	728	
Total revenue	1,289	1,278	
Income from continuing operations	295	299	
Discontinued operations		16	
Income before cumulative effect of accounting change	295	315	
Cumulative effect of accounting change			
Net income	$295	$315	
Per common share			
DILUTED EARNINGS			
Continuing operations	$1.00	$1.01	
Discontinued operations		.05	

Before cumulative effect of accounting change	1.00	1.06
Cumulative effect of accounting change		
Net income	$1.00	$1.06
Cash dividends declared	$.48	$.45
SELECTED RATIOS		
FROM CONTINUING OPERATIONS		
Return on		
Average common shareholders' equity	18.13%	20.77%
Average assets	1.67	1.74
Net interest margin	3.77	3.63
Noninterest income to total revenue	55.86	56.96
Efficiency (b)	57.65	57.29
FROM NET INCOME		
Return on		
Average common shareholders' equity	18.13%	21.91%
Average assets	1.67	1.68
Net interest margin	3.77	3.41
Noninterest income to total revenue	55.86	58.92
Efficiency (c)	57.65	55.70

(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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Dollars in millions, except per share data	June 30 2001	December 31 2000	June 2
BALANCE SHEET DATA			
Assets	$69,998	$69,844	$68,
Earning assets	58,307	59,373	59,
Loans, net of unearned income	44,167	50,601	50,
Securities	10,982	5,902	5,
Loans held for sale	1,870	1,655	2,
Deposits	45,799	47,664	46,
Borrowed funds	12,119	11,718	13,
Shareholders' equity	6,748	6,656	6,
Common shareholders' equity	6,532	6,344	5,
Book value per common share	22.60	21.88	20
Loans to deposits	96%	106%	
CAPITAL RATIOS			
Leverage	8.1%	8.0%	
Common shareholders' equity to total assets	9.33	9.08	8

ASSET QUALITY RATIOS			
Nonperforming assets to total loans, loans held for sale and foreclosed assets	1.03%	.71%	
Allowance for credit losses to total loans	1.53	1.33	1
Allowance for credit losses to nonaccrual loans	180.48	208.98	217
Net charge-offs to average loans (For the three months ended)	.40	.32	

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 certain 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 certain other factors that could cause actual results to differ materially from forward-looking statements or historical performance.

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 regional 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 global fund services internationally.

Financial services organizations today are challenged to demonstrate that they can generate high-quality earnings growth in an increasingly competitive and weakened economic environment, one with slower growth rates, asset quality concerns and weaker equity markets. 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 decreasing the contribution from lending-based traditional banking businesses. Earnings from asset management and processing businesses represented 26% of total business earnings for the first six months of 2001 and noninterest income was 56% 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 96% at June 30, 2001.

On January 31, 2001, PNC closed the sale of its residential mortgage banking business. The net loss on sale and income from operations included in the first six 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.

RESTATEMENTS

Subsequent to December 31, 2001, PNC announced two changes that affected results for the six months ended June 30, 2001.

During the second quarter of 2001, the Corporation entered into a transaction with a subsidiary of a third party financial institution (American International Group, Inc.) involving the sale of loan assets and the receipt of preferred interests in the subsidiary. At the time of the transaction, the loans were removed from PNC's balance sheet and the preferred interests in the entity were recorded as securities available for sale in conformity with accounting guidance received from PNC's independent auditors. In January 2002, the Federal Reserve Board staff advised PNC that under generally accepted accounting principles the subsidiary of the third party financial institution should be consolidated into the financial statements of PNC in preparing bank holding company reports. After considering all of the circumstances, PNC made the decision to restate its consolidated financial statements for the second and third quarters of 2001 to conform financial reporting with regulatory reporting requirements. Amounts appearing in this Amendment No. 1 reflect the consolidation of the entity.

Loans in this entity are included in the consolidated balance sheet as loans held for sale and are carried at the lower of cost or market value. Charges recorded at the dates the assets were sold into the entity were reflected as charge-offs on those loans in portfolio and as valuation adjustments in noninterest income on loans previously classified as held for sale.

The amounts contained in this Amendment No. 1 also 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 six months ended June 30, 2001 by $35 million or $.12 per diluted share.

See "Restatements" in the Notes to Consolidated Financial Statements for additional information.

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SUMMARY FINANCIAL RESULTS

Consolidated net income for the first six months of 2001 was $560 million or $1.89 per diluted share. Excluding the effect of adopting the new accounting standard for financial derivatives, net income was $565 million or $1.91 per diluted share compared with $623 million or $2.09 per diluted share for the first six months of 2000. These results include the negative impact of a $49 million or $.17 per diluted share net loss from venture capital activities. Excluding this loss and the effect of the accounting change, results for the first six months of 2001 were $614 million or $2.08 per diluted share.

Return on average common shareholders' equity was 17.36% and return on average assets was 1.55% for the first six months of 2001 compared with 21.81% and 1.67%, respectively, for the first six months of 2000.

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 six months of 2001 was $560 million or $1.89 per diluted share, compared with $601 million or $2.02 per diluted share for the first six months of 2000.

Taxable-equivalent net interest income of $1.128 billion for the first six months of 2001 increased 2% compared with the first six months of 2000. The net interest margin was 3.70% for the first six months of 2001 compared with 3.65% for the first six months of 2000. The increases were primarily due to the positive impact of transaction deposit growth and a lower rate environment that was partially offset by the impact of continued downsizing of the loan portfolio.

The provision for credit losses was $125 million for the first six months of 2001 compared with $66 million for the same period in 2000. The increase was primarily related to loans in the communications and energy, metals and mining portfolios that PNC is downsizing.

Noninterest income was $1.421 billion for the first six months of 2001 and included $69 million of equity management losses from venture capital activities. Excluding equity management gains and losses from both years, noninterest income increased 13% compared with the first six months of 2000 primarily due to growth in asset management and processing revenue.

Noninterest expense was $1.564 billion for the first six months of 2001 compared with $1.572 billion for the first six months of 2000 and the efficiency ratio remained flat at 58% during both periods. The decrease in expense was primarily due to aggressive expense management.

Total assets were $70.0 billion at June 30, 2001 compared with $69.8 billion at December 31, 2000. Average interest-earning assets were $60.7 billion for the first six months of 2001 compared with $60.3 billion for the first six months of 2000. A decline in loans and loans held for sale was offset by an increase in securities that are used for balance sheet and interest rate risk management activities.

Shareholders' equity totaled $6.7 billion at June 30, 2001 and the regulatory capital ratios were 8.1% for leverage, 9.0% for tier I risk-based and 12.8% for total risk-based capital. During the first six months of 2001, PNC repurchased 3.4 million shares of common stock.

Nonperforming assets were $474 million at June 30, 2001 compared with $372 million at December 31, 2000. The ratio of nonperforming assets to total loans, loans held for sale and foreclosed assets increased to 1.03% at June 30, 2001 compared with .71% at December 31, 2000.

The allowance for credit losses was $675 million and represented 1.53% of total loans and 180% of nonaccrual loans at June 30, 2001. The comparable amounts were $675 million, 1.33% and 209%, respectively, at December 31, 2000. The increase in the allowance as a percentage of total loans primarily resulted from the downsizing of the loan portfolio. Net charge-offs were $125 million or .53% of average loans for the first six months of 2001 compared with $65 million or .26% for the same period in 2000. The increase was primarily related to loans in institutional lending portfolios that PNC is downsizing.

FINANCIAL REVIEW
THE PNC FINANCIAL SERVICES GROUP, INC.

REVIEW OF BUSINESSES

PNC operates seven major businesses engaged in regional 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 enhanced and businesses change. Securities 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 designated for downsizing 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

Six months ended June 30 - dollars in millions	Earnings		Revenue (taxable-equivalent basis)		Return Assigned
	2001	2000	2001	2000	2001
PNC Bank					
Regional Community Banking	$339	$281	$1,100	$991	25%
Corporate Banking	65	120	383	420	11
Total PNC Bank	404	401	1,483	1,411	21

Secured Finance					
PNC Real Estate Finance	38	33	106	103	19
PNC Business Credit	30	26	71	57	38
Total Secured Finance	68	59	177	160	25
Total Banking	472	460	1,660	1,571	21
Asset Management and Processing					
PNC Advisors	83	86	389	398	30
BlackRock	52	40	269	221	26
PFPC	32	16	370	331	31
Total Asset Management and Processing	167	142	1,028	950	29
Total business results	639	602	2,688	2,521	23
Other	(79)	(1)	(139)	45	
Results from continuing operations	560	601	2,549	2,566	17
Discontinued operations	5	22			
Cumulative effect of accounting change	(5)				
Total Consolidated	$560	$623	$2,549	$2,566	17

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REGIONAL COMMUNITY BANKING

Six months ended June 30 - dollars in millions	2001	2000
INCOME STATEMENT		
Net interest income	$718	$703
Other noninterest income	339	292
Net securities gains (losses)	43	(4)
Total revenue	1,100	991
Provision for credit losses	20	22
Noninterest expense	551	534
Pretax earnings	529	435
Income taxes	190	154
Earnings	$339	$281
AVERAGE BALANCE SHEET		
Loans		
Consumer		
Home equity	$6,121	$5,311
Indirect	895	1,352
Other consumer	924	871
Total consumer	7,940	7,534
Commercial	3,624	3,711

Residential mortgage	9,603	11,599
Leasing	1,799	1,179
Other	136	172
Total loans	23,102	24,195
Securities available for sale	9,346	5,470
Loans held for sale	1,288	1,358
Assigned assets and other assets	6,585	7,159
Total assets	$40,321	$38,182
Deposits		
Noninterest-bearing demand	$4,488	$4,591
Interest-bearing demand	5,517	5,377
Money market	11,919	9,776
Savings	1,870	2,063
Certificates	12,741	13,524
Total deposits	36,535	35,331
Other liabilities	1,066	274
Assigned capital	2,720	2,577
Total funds	$40,321	$38,182
PERFORMANCE RATIOS		
Return on assigned capital	25%	22%
Noninterest income to total revenue	35	29
Efficiency	48	52

Regional 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.

Regional 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. Regional 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.

Regional 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.

Regional Community Banking contributed 53% of total business earnings for the first six months of 2001 compared with 47% for the first six months of 2000. Earnings increased $58 million or 21% to $339 million for the first six months of 2001 primarily due to business growth and net securities gains. Excluding net securities gains from the first six months of 2001 and net securities losses from the first six months of 2000, earnings increased 10% primarily driven by higher noninterest income, deposit growth and improved efficiency.

Total revenue increased 11% to $1.1 billion for the first six months of 2001. Excluding net securities gains and losses from both periods, revenue increased 6% in the period-to-period comparison primarily due to higher consumer transaction activity in 2001 and residential mortgage loan securitization gains.

The provision for credit losses for the first six months of 2001 decreased $2

million compared with the same period in 2000 primarily due to the impact of downsizing indirect lending.

Total loans decreased in the comparison as the reduction of residential mortgage loans due to securitizations and the continued downsizing of the indirect automobile lending portfolio were partially offset by higher home equity loans and leases that resulted from strategic acquisitions. The decrease in residential mortgage loans was offset by an increase in securities.

Total deposits grew 3% in the comparison driven by a $2.2 billion increase in transaction 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.

FINANCIAL REVIEW
THE PNC FINANCIAL SERVICES GROUP, INC.

CORPORATE BANKING

Six months ended June 30 - dollars in millions	2001	2000
INCOME STATEMENT		
Credit-related revenue	$204	$199
Noncredit revenue	179	221
Total revenue	383	420
Provision for credit losses	88	38
Noninterest expense	196	196
Pretax earnings	99	186
Income taxes	34	66
Earnings	$65	$120
AVERAGE BALANCE SHEET		
Loans		
Middle market	$5,943	$6,132
Large corporate	3,161	3,106
Energy, metals and mining	1,273	1,334
Communications	1,169	1,451
Leasing	2,216	1,734
Other	321	368
Total loans	14,083	14,125
Other assets	2,535	1,985
Total assets	$16,618	$16,110
Deposits	$4,862	$4,539
Assigned funds and other liabilities	19,510	10,363
Assigned capital	1,246	1,208
Total funds	$16,618	$16,110

PERFORMANCE RATIOS		
Return on assigned capital	11%	20%
Noncredit revenue to total revenue	47	53
Efficiency	51	46

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 on the middle market with an emphasis on higher-margin noncredit products and services, especially treasury management and capital markets. Approximately 35% 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 downsize the communications portfolio and certain portions of the energy, metals and mining and large corporate portfolios. The designated loans are included 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 10% of total business earnings for the first six months of 2001 compared with 20% for the first six months of 2000. Earnings declined to $65 million for the first six months of 2001 compared with $120 million for the first six months of 2000 primarily due to provision for credit losses in 2001 related to portfolios that PNC is downsizing.

Total revenue of $383 million for the first six months of 2001 decreased $37 million compared with the same period in 2000. Credit-related revenue increased 3% compared with the first six months of 2000 as an increase in net interest margin was partially offset by a decrease in average loans. The decrease in average loans in the period-to-period comparison was primarily due to reductions in the energy, metals and mining, communications and middle market portfolios, partially offset by 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 $42 million compared with the first six months of 2000 primarily due to the impact of weak equity market conditions that resulted in lower capital markets fees and valuation losses associated with equity investments.

The provision for credit losses was $88 million for the first six months of 2001 compared with $38 million for the first six months of 2000. The higher provision was primarily related to portfolios that are being downsized. 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 was $170 million for the first six months of 2001 compared with $169 million for the first six months of 2000. Increases in

fee revenue were offset by lower income earned on customers' deposit balances resulting from the lower interest rate environment in 2001 and the impact of downsizing institutional lending. Consolidated revenue from capital markets was $57 million for the first six months of 2001, an $11 million decrease compared with the first six months of 2000. The decrease was primarily due to weak equity market conditions as well as the impact of downsizing certain lending portfolios.

PNC REAL ESTATE FINANCE

Six months ended June 30 - dollars in millions	2001	2000
INCOME STATEMENT		
Net interest income	$57	$59
Noninterest income		
Commercial mortgage banking	32	30
Other	17	14
Total noninterest income	49	44
Total revenue	106	103
Provision for credit losses	(2)	
Noninterest expense	76	67
Pretax earnings	32	36
Income tax (benefit) expense	(6)	3
Earnings	$38	$33
AVERAGE BALANCE SHEET		
Loans		
Commercial - real estate related	$1,804	$2,041
Commercial real estate	2,326	2,428
Total loans	4,130	4,469
Commercial mortgages held for sale	188	151
Other assets	973	984
Total assets	$5,291	$5,604
Deposits	$362	$244
Assigned funds and other liabilities	4,533	4,977
Assigned capital	396	383
Total funds	$5,291	$5,604
PERFORMANCE RATIOS		
Return on assigned capital	19%	17%
Noninterest income to total revenue	46	43
Efficiency	58	51

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 lending as well as processing businesses. The processing businesses include Midland Loan Services, Inc., a leading third-party provider of loan servicing and technology to the commercial

real estate finance industry, and Columbia Housing Partners, LP, a national syndicator of affordable housing equity.

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 and increasing the value of its lending business by selling more fee-based products. During the first six months of 2001, 46% of total revenue was generated by fee-based activities compared with 43% for the first six months of 2000. Management also continues to evaluate opportunities to reduce credit exposure and improve the risk/return characteristics of the lending business.

PNC Real Estate Finance contributed 6% of total business earnings for the first six months of 2001 compared with 5% for the first six months of 2000. Earnings increased $5 million or 15% in the period-to-period comparison primarily due to growth in processing businesses. Average loans decreased 8% in the period-to-period comparison reflecting management's ongoing strategy to reduce balance sheet leverage.

Total revenue was $106 million for the first six months of 2001 compared with $103 million for the first six months of 2000. The increase of $3 million or 3% was primarily due to growth in commercial mortgage loan servicing fees, reflecting a larger servicing portfolio, partially offset by lower commercial mortgage-backed securitization gains. The commercial mortgage servicing portfolio grew 29% in the comparison to $62 billion at June 30, 2001.

COMMERCIAL MORTGAGE SERVICING PORTFOLIO

In billions	2001	2000
January 1	$54	$45
Acquisitions/additions	12	6
Repayments/transfers	(4)	(3)
June 30	$62	$48

PNC Real Estate Finance had net recoveries of $2 million during the first six months of 2001.

Noninterest expense was $76 million and the efficiency ratio was 58% for the first six months of 2001 compared with $67 million and 51%, respectively, in the same period last year. The increases were primarily due to non-cash (passive) losses on affordable housing investments that were more than offset by related income tax credits.

PNC BUSINESS CREDIT

Six months ended June 30 - dollars in millions	2001	2000
INCOME STATEMENT		
Net interest income	$51	$49

Noninterest income	20	8
Total revenue	71	57
Provision for credit losses	8	2
Noninterest expense	16	14
Pretax earnings	47	41
Income taxes	17	15
Earnings	$30	$26
AVERAGE BALANCE SHEET		
Loans	$2,305	$2,100
Other assets	125	73
Total assets	$2,430	$2,173
Deposits	$80	$56
Assigned funds and other liabilities	2,189	1,973
Assigned capital	161	144
Total funds	$2,430	$2,173
PERFORMANCE RATIOS		
Return on assigned capital	38%	36%
Noninterest income to total revenue	28	14
Efficiency	21	23

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 10% to $2.3 billion at June 30, 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 six months of 2001 compared with 4% for the first six months of 2000. Earnings increased $4 million or 15% in the period-to-period comparison to $30 million for the first six months of 2001 as higher revenue was partially offset by an increase in the provision for credit losses.

Revenue was $71 million for the first six months of 2001, a $14 million or 25% increase compared with the first six 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.

The provision for credit losses increased $6 million to $8 million for the first six months of 2001 as a result of declining credit conditions in a weaker economy. PNC Business Credit loans are secured loans to borrowers with a weaker financial condition. As a result, in a weaker economy, the provision for credit losses may be adversely affected. See Credit Risk in the Risk Management section of this Financial Review for additional information regarding credit risk.

Noninterest expense was $16 million and the efficiency ratio improved to 21% for the first six months of 2001 compared with $14 million and 23%, respectively, for the first six months of 2000. The efficiency ratio improved in the comparison primarily due to higher noninterest income and economies of scale resulting from a centralized back office.

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PNC ADVISORS

Six months ended June 30 - dollars in millions	2001	2000
INCOME STATEMENT		
Net interest income	$68	$68
Noninterest income		
Investment management and trust	210	205
Brokerage	70	90
Other	41	35
Total noninterest income	321	330
Total revenue	389	398
Provision for credit losses	1	3
Noninterest expense	256	258
Pretax earnings	132	137
Income taxes	49	51
Earnings	$83	$86
AVERAGE BALANCE SHEET		
Loans		
Commercial	$521	$643
Consumer	1,098	957
Residential mortgage	911	978
Other	405	548
Total loans	2,935	3,126
Other assets	485	451
Total assets	$3,420	$3,577
Deposits	$2,045	$2,086
Assigned funds and other liabilities	823	941
Assigned capital	552	550
Total funds	$3,420	$3,577
PERFORMANCE RATIOS		
Return on assigned capital	30%	31%
Noninterest income to total revenue	83	83
Efficiency	65	64

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 primary geographic region and leveraging its comprehensive distribution platform.

PNC Advisors contributed 13% of total business earnings for the first six months of 2001 compared with 14% for the first six months of 2000. Earnings were $83 million and $86 million for the first six months of 2001 and 2000, respectively.

Revenue decreased $9 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 $15 million. Management expects that revenues in this business will continue to be challenged at least until equity market conditions improve.

Noninterest expense decreased $2 million in the period-to-period comparison primarily due to lower production-based compensation and effective expense management initiatives.

ASSETS UNDER MANAGEMENT (a)

June 30 - in billions	2001	2000(b)
Personal investment management and trust	$49	$49
Institutional trust	14	15
Total	$63	$64

(a) Assets under management do not include brokerage assets administered.
(b) Restated to reflect the transfer of assets under management between PNC businesses.

Assets under management decreased $1 billion as approximately $4 billion of net new asset inflows during the past twelve months were more than offset by a decline in the value of the equity component of customers' portfolios. See Asset Management Performance in the Risk Factors section of this Financial Review for additional information regarding the potential impact of market conditions and asset management performance on PNC's revenue.

Brokerage assets administered by PNC Advisors were $28 billion at June 30, 2001 and 2000 and were also impacted by weak market conditions.

PNC Advisors will continue to focus on acquiring new customers and growing and expanding existing customer relationships while aggressively managing the revenue/expense relationship.

BLACKROCK

Six months ended June 30 - dollars in millions	2001	2000
INCOME STATEMENT		
Investment advisory and administrative fees	$252	$209
Other income	17	12

Total revenue	269	221
Operating expense	147	111
Fund administration and servicing costs - affiliates	32	38
Amortization	5	5
Total expense	184	154
Operating income	85	67
Nonoperating income	4	2
Pretax earnings	89	69
Income taxes	37	29
Earnings	$52	$40
PERIOD-END BALANCE SHEET		
Intangible assets	$187	$197
Other assets	384	237
Total assets	$571	$434
Other liabilities	$142	$113
Stockholders' equity	429	321
Total liabilities and stockholders' equity	$571	$434
PERFORMANCE DATA		
Return on equity	26%	27%
Operating margin (a)	36	36
Diluted earnings per share	$.80	$.62

(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 $213 billion of assets under management at June 30, 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 brand name.

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

BlackRock contributed 8% of total business earnings for the first six months of 2001 compared with 7% for the first six months of 2000.

Earnings increased 29% in the period-to-period comparison primarily due to a 20% increase in assets under management. New client mandates and additional funding from existing clients was $31 billion or 86% of the increase in assets under management.

Total revenue for the first six months of 2001 increased $48 million or 22% compared with the first six months of 2000 primarily due to new institutional 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

June 30 - in billions	2001	2000
Separate accounts		
Fixed income	$111	$84
Liquidity	7	7
Liquidity - securities lending	10	11
Equity	8	7
Alternative investment products	4	2
Total separate accounts	140	111
Mutual funds (a)		
Fixed income	12	14
Liquidity	49	36
Equity	12	16
Total mutual funds	73	66
Total assets under management	$213	$177

(a) Includes BlackRock Funds, BlackRock Provident Institutional Funds, BlackRock Closed End Funds, Short Term Investment Funds and BlackRock Global Series Funds.

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 may be obtained electronically at the SEC's home page at www.sec.gov.

PFPC

Six months ended June 30 - dollars in millions	2001	2000
INCOME STATEMENT		
Fund servicing revenue	$370	$331
Operating expense	264	256
Amortization	13	16
Operating income	93	59
Nonoperating income (a)	7	14
Debt financing	47	47
Pretax earnings	53	26
Income taxes	21	10
Earnings	$32	$16
AVERAGE BALANCE SHEET		

Intangible assets	$1,079	$1,110
Other assets	663	477
Total assets	$1,742	$1,587
Assigned funds and other liabilities	$1,534	$1,380
Assigned capital	208	207
Total funds	$1,742	$1,587
PERFORMANCE RATIOS		
Operating margin	25%	18%
Return on assigned capital	31	16

(a) Net of nonoperating expense

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 fund services to the investment management industry. PFPC also provides customized processing solutions 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 5% of total business earnings for the first six months of 2001 and 3% for the first six months of 2000. Earnings increased $16 million in the period-to-period comparison and performance ratios improved significantly. The increase in earnings was primarily due to strong growth in transfer agency and sub accounting revenue that resulted from an increase in shareholder accounts serviced. The first six months of 2001 also benefited from focused expense control efforts and the comparative impact of Investor Services Group integration costs incurred in the prior-year period.

Revenue of $370 million for the first six months of 2001 increased $39 million or 12% compared with the first six 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 matters that could impact fund servicing revenue.

Operating expense increased 3% in the period-to-period comparison primarily due to business expansion partially offset by the comparative impact of one-time integration costs in the prior-year period.

SERVICING STATISTICS

June 30	2001	2000
Accounting/administration		
Assets ($ in billions) (a)	$502	$449
Custody assets ($ in billions)	442	416
Shareholder accounts (in millions)	45	41

(a) Includes net assets serviced offshore of approximately $14 billion and $8 billion at June 30, 2001 and 2000, respectively.

FINANCIAL REVIEW
THE PNC FINANCIAL SERVICES GROUP, INC.

CONSOLIDATED INCOME STATEMENT REVIEW
NET INTEREST INCOME ANALYSIS

Taxable-equivalent basis Six months ended June 30 - dollars in millions	Average Balances			Interest Income/Expense		
	2001	2000	Change	2001	2000	Change
Interest-earning assets						
Loans held for sale	$1,864	$2,948	$(1,084)	$68	$116	$(48
Securities	9,893	6,068	3,825	300	193	107
Loans, net of unearned income						
Commercial	20,575	21,917	(1,342)	797	911	(114
Commercial real estate	2,576	2,690	(114)	103	118	(15
Consumer	9,090	9,228	(138)	382	389	(7
Residential mortgage	10,554	12,577	(2,023)	384	446	(62
Lease financing	4,024	3,004	1,020	145	109	36
Other	490	682	(192)	18	28	(10
Total loans, net of unearned income	47,309	50,098	(2,789)	1,829	2,001	(172
Other	1,592	1,194	398	63	41	22
Total interest-earning assets/ interest income	60,658	60,308	350	2,260	2,351	(91
Noninterest-earning assets	10,692	8,622	2,070			
Total assets	$71,350	$68,930	$2,420			
Interest-bearing liabilities						
Deposits						
Demand and money market	$20,707	$18,125	$2,582	296	297	(1
Savings	1,928	2,123	(195)	11	18	(7
Retail certificates of deposit	13,190	14,497	(1,307)	374	386	(12
Other time	551	639	(88)	18	20	(2
Deposits in foreign offices	1,248	1,486	(238)	32	45	(13
Total interest-bearing deposits	37,624	36,870	754	731	766	(35
Borrowed funds	14,201	14,877	(676)	401	475	(74
Total interest-bearing liabilities/ interest expense	51,825	51,747	78	1,132	1,241	(109
Noninterest-bearing liabilities, capital securities and shareholders' equity	19,525	17,183	2,342			
Total liabilities, capital securities and shareholders' equity	$71,350	$68,930	$2,420			
Interest rate spread						
Impact of noninterest-bearing sources						

Net interest income/margin	$1,128	$1,110	$18

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 $1.128 billion for the first six months of 2001 increased 2% compared with the first six months of 2000. The net interest margin widened 5 basis points to 3.70% for the first six months of 2001 compared with 3.65% for the first six months of 2000. The increases were primarily due to the positive impact of transaction deposit growth and a lower rate environment that was partially offset by the impact of continued downsizing of the loan portfolio. PNC expects modest growth in net interest income during the second half of 2001 compared with the first six months of 2001. See Interest Rate Risk in the Risk Management section of this Financial Review for additional information regarding interest rate risk.

Loans represented 78% of average earning assets for the first six months of 2001 compared with 83% for the first six months of 2000. The decrease was primarily due to the continued downsizing of certain institutional lending portfolios and the securitization of residential mortgage loans during the first six months of 2001. Average loans held for sale decreased $1.1 billion in the period-to-period comparison due to a reduction in commercial loans held for sale.

Securities represented 16% of average earning assets for the first six months of 2001 compared with 10% for the first six months of 2000. The increase was primarily due to the purchase of U.S. agencies, asset-backed and other debt 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% and 65% of total sources of funds for the first six months of 2001 and 2000, respectively, with the remainder primarily comprised of wholesale funding obtained at prevailing market rates.

Average demand and money market deposits increased $2.6 billion or 14% compared with the first six 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 six months of 2001 decreased $676 million compared with the first six months of 2000 as lower bank notes and senior debt 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 $125 million for the first six months of 2001 compared with $66 million for the first six months of 2000. The increase was primarily related to institutional lending portfolios that PNC is downsizing. See Credit Risk in the Risk Management section of this Financial Review for additional information regarding credit risk.

NONINTEREST INCOME

Noninterest income was $1.421 billion for the first six months of 2001 and included $69 million of equity management losses. Excluding equity management income and losses in both years, noninterest income increased 13% compared with the first six months of 2000 primarily due to growth in asset management and processing revenue.

Asset management fees of $437 million for the first six months of 2001 increased $55 million or 14% primarily driven by new institutional business and strong fixed-income performance at BlackRock. Consolidated assets under management were $260 billion at June 30, 2001, a 16% increase compared with June 30, 2000. Fund servicing fees were $363 million for the first six months of 2001, a $44 million or 14% increase compared with the first six months of 2000 primarily driven by existing client growth and new business.

Service charges on deposits increased 4% to $104 million for the first six months of 2001 primarily due to an increase in transaction deposit accounts. Brokerage fees were $109 million for the first six months of 2001 compared with $131 million for the first six months of 2000. The decrease was primarily due to a decline in equity markets activity. Consumer services revenue of $113 million for the first six months of 2001 increased $15 million or 15% compared with the first six months of 2000 primarily due to the expansion of PNC's ATM network and the increase in transaction deposit accounts.

Corporate services revenue was $152 million for the first six months of 2001 compared with $162 million for the first six months of 2000. Higher commercial mortgage servicing revenue was more than offset by valuation adjustments of other assets, lower commercial mortgage-backed securitization gains and lower capital markets revenue.

Equity management, which is comprised of venture capital activities, reflected a net loss of $69 million for the first six months of 2001 compared with $135 million of income for the first six months of 2000. The decrease primarily resulted from a decline in the estimated fair value of partnership and direct investments. Equity management investments totaling approximately $700 million were evenly split between direct and partnership investments. Net unrealized appreciation on equity management investments was $38 million at June 30, 2001. These valuations are subject to market conditions and may be volatile. PNC is currently evaluating strategies to mitigate the impact of the inherent volatility of this business.

Net securities gains were $46 million for the first six months of 2001 and were mostly offset by valuation adjustments and write-downs of other assets and e-commerce investments totaling $32 million that are reflected in corporate services and other noninterest income.

Other noninterest income was $166 million for the first six months of 2001 compared with $132 million for the first six months of 2000. The increase was primarily due to higher revenue from trading activities and residential mortgage loan securitizations.

NONINTEREST EXPENSE

Noninterest expense was $1.564 billion for the first six months of 2001 compared with $1.572 billion for the first six months of 2000 and the efficiency ratio remained flat at 58% during both periods. The decrease in expense was primarily due to aggressive expense management. Average full-time equivalent employees totaled approximately 24,700 and 23,900 for the first six months of 2001 and 2000, respectively. The increase was primarily in asset management and processing businesses.

FINANCIAL REVIEW
THE PNC FINANCIAL SERVICES GROUP, INC.

CONSOLIDATED BALANCE SHEET REVIEW

LOANS

Loans were $44.2 billion at June 30, 2001, a $6.4 billion decrease from year-end 2000 primarily due to residential mortgage loan securitizations and reductions in most commercial loan categories as a result of continuing efforts to reduce balance sheet leverage.

DETAILS OF LOANS

In millions	June 30 2001	December 31 2000 (a)
Commercial		
Manufacturing	$5,054	$5,581
Retail/wholesale	4,485	4,413
Service providers	2,584	2,944
Real estate related	1,831	1,783
Financial services	1,592	1,726
Communications	948	1,296
Health care	593	722
Other	2,465	2,742
Total commercial	19,552	21,207
Commercial real estate		
Mortgage	635	673
Real estate project	1,922	1,910
Total commercial real estate	2,557	2,583
Consumer		
Home equity	6,751	6,228
Automobile	953	1,166
Other	1,410	1,739
Total consumer	9,114	9,133
Residential mortgage	8,219	13,264
Lease financing	5,354	4,845
Other	444	568
Unearned income	(1,073)	(999)
Total, net of unearned income	$44,167	$50,601

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

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

During 1999, total outstandings and exposure designated for downsizing totaled $3.7 billion and $10.5 billion, respectively. At June 30, 2001, remaining outstandings associated with this initiative were $572 million, of which $472 million were classified as loans with the remainder included in loans held for sale. Total remaining exposure related to this initiative was $1.6 billion at June 30, 2001.

In addition, outstandings and exposure totaling approximately $2.5 billion and $7.0 billion, respectively, were designated for 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. At June 30, 2001, remaining outstandings and exposure associated with this initiative were $1.9 billion and $5.4 billion, respectively.

At June 30, 2001, approximately $257 million of loans held by a subsidiary of a third party financial institution were classified in the consolidated financial statements as loans held for sale. Unfunded commitments and letters of credit related to the loans totaled approximately $27 million at June 30, 2001.

NET UNFUNDED COMMITMENTS (a)

In millions	June 30 2001	December 31 2000
Commercial	$19,859	$24,253
Commercial real estate	1,233	1,039
Consumer	4,693	4,414
Lease financing	112	123
Other	130	173
Total	$26,027	$30,002

(a) Excludes unfunded commitments related to loans designated for downsizing in 1999 and 2001 and unfunded commitments related to loans held by a subsidiary of a third party financial institution.

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 June 30, 2001 and December 31, 2000.

Net outstanding letters of credit totaled $4.1 billion and $4.0 billion at June 30, 2001 and December 31, 2000, respectively, and consisted primarily of standby letters of credit that commit the Corporation to make payments on behalf of customers if specified future events occur. Unfunded commitments and letters of credit related to loans designated for downsizing in 2001 and 1999 totaled $4.5 billion at June 30, 2001 and $1.7 billion at December 31, 2000.

SECURITIES

Total securities at June 30, 2001 were $11.0 billion compared with $5.9 billion at December 31, 2000. Total securities represented 16% of total assets at June 30, 2001 compared with 8% at December 31, 2000. The increase was primarily due to residential mortgage loan securitizations and purchases of U.S. agencies, asset-backed and other debt securities during the first six months of 2001. The expected weighted-average life of securities available for sale was 4 years and 8 months at June 30, 2001 compared with 4 years and 5 months at December 31, 2000.

At June 30, 2001, the securities available for sale balance of $10.9 billion included a net unrealized loss of $92 million, which represented the difference between fair value and amortized cost. Securities available for sale at December 31, 2000 totaled $5.9 billion and included 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.

Securities designated as held to maturity are carried at amortized cost and are assets of a subsidiary of a third party financial institution, which is consolidated in PNC's financial statements. The expected weighted-average life of securities held to maturity was 23 years and 5 months at June 30, 2001. PNC had no securities held to maturity at December 31, 2000.

DETAILS OF SECURITIES

In millions	Amortized Cost	Fair Value
JUNE 30, 2001		
Securities Available For Sale		
Debt securities		
U.S. Treasury and government agencies	$ 1,467	$ 1,439
Mortgage-backed	7,643	7,601
Asset-backed	1,333	1,317
State and municipal	67	69
Other debt	73	73
Corporate stocks and other	401	393
Total securities available for sale	$10,984	$10,892
Securities Held To Maturity		
Debt securities		
U.S. Treasury and government agencies	$ 78	$ 76
Other debt	12	12
Total securities held to maturity	$ 90	$ 88
DECEMBER 31, 2000		
Securities Available For Sale		
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 $57.9 billion at June 30, 2001 and decreased $1.4 billion compared with December 31, 2000. Demand, savings and money market deposits increased due to ongoing strategic marketing efforts to retain customers and increase money market balances as funds shifted from certificates of deposit. 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

In millions	June 30 2001	December 31 2000
Deposits		
Demand, savings and money market	$31,834	$30,686

Retail certificates of deposit	12,057	14,175
Other time	516	567
Deposits in foreign offices	1,392	2,236
Total deposits	45,799	47,664
Borrowed funds		
Federal funds purchased	1,444	1,445
Repurchase agreements	569	607
Bank notes and senior debt	4,496	6,110
Federal Home Loan Bank borrowings	2,464	500
Subordinated debt	2,349	2,407
Other borrowed funds	797	649
Total borrowed funds	12,119	11,718
Total	$57,918	$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 June 30, 2001, the Corporation and each bank subsidiary were considered well capitalized based on regulatory capital ratio requirements.

RISK-BASED CAPITAL

Dollars in millions	June 30 2001	December 31 2000
Capital components		
Shareholders' equity		
Common	$6,532	$6,344
Preferred	216	312
Trust preferred capital securities	848	848
Goodwill and other	(2,140)	(2,214)
Net unrealized securities losses	58	77
Tier I risk-based capital	5,514	5,367
Minority Interest	11	
Subordinated debt	1,665	1,811
Eligible allowance for credit losses	675	667
Total risk-based capital	$7,865	$7,845
Assets		
Risk-weighted assets and off-balance-sheet instruments	$61,489	$62,430
Average tangible assets	68,500	66,809
Capital ratios		
Tier I risk-based	9.0%	8.6%
Total risk-based	12.8	12.6
Leverage	8.1	8.0

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.

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. During the first six months of 2001, PNC repurchased 3.4 million shares of its common stock. Management currently expects that share repurchases will increase in the second half of 2001 compared with the first half of 2001.

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.

FINANCIAL REVIEW
THE PNC FINANCIAL SERVICES GROUP, INC.

RISK FACTORS

The Corporation is subject to a number of risks 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. Changes in interest rates could also affect the value of assets under management. In a period of rapidly rising interest rates, certain assets under management would likely be negatively impacted by reduced asset values and increased redemptions. 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 policies also influence, to a significant extent, the cost of funding for the Corporation.

COMPETITION

PNC 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 expanded competition and 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 other things, the loss of customer deposits and decreases in transactions that generate fee income.

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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 value 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 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:

- anticipated cost savings or potential revenue enhancements that may not be fully realized or realized within the expected time frame;
- key employee, customer or revenue loss following an acquisition that may be greater than expected; and
- 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 other things, 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	June 30 2001	December 31 2000
Nonaccrual loans		
Commercial	$334	$312
Commercial real estate	20	3
Consumer	4	2
Residential mortgage	4	4
Lease financing	12	2
Total nonaccrual loans	374	323
Nonperforming loans held for sale (a)	85	33
Foreclosed and other assets		
Commercial real estate	2	3
Residential mortgage	3	8
Other	10	5
Total foreclosed and other assets	15	16
Total nonperforming assets	$474	$372
Nonaccrual loans to total loans	.85%	.64%
Nonperforming assets to total loans, loans held for sale and foreclosed assets	1.03	.71
Nonperforming assets to total assets	.68	.53

(a) Includes $7 million of a troubled debt restructured loan held for sale at June 30, 2001.

The above table excludes $24 million and $18 million of equity management assets carried at estimated fair value at June 30, 2001 and December 31, 2000, respectively. The amount of nonperforming loans that were current as to principal and interest was $108 million at June 30, 2001 and $67 million at December 31, 2000. Approximately 40% of nonperforming assets were from portfolios that were designated for downsizing at June 30, 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.

CHANGE IN NONPERFORMING ASSETS

In millions	2001	2000
January 1	$372	$325
Transferred from accrual	368	190
Returned to performing	(13)	(3)
Principal reductions	(97)	(73)
Sales	(23)	(11)
Charge-offs and other	(133)	(75)
June 30	$474	$353

ACCRUING LOANS PAST DUE 90 DAYS OR MORE

	Amount		Percent of Loans	
Dollars in millions	June 30 2001	December 31 2000	June 30 2001	December 31 2000
Commercial	$11	$46	.06%	.22%
Commercial real estate	1	6	.04	.23
Consumer	21	24	.23	.26
Residential mortgage	37	36	.45	.27
Lease financing	2	1	.05	.03
Total	$72	$113	.16	.22

Loans not included in nonaccrual or past due categories, but where information 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 $130 million at June 30, 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 six months of 2001 and the evaluation of the allowance for credit losses as of June 30, 2001 reflected changes in loan portfolio composition, the net impact of downsizing credit exposure and changes in asset quality. The unallocated portion of the allowance for credit losses represented 17% of the total allowance and .26% of total loans at June 30, 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	(148)	(88)
Recoveries	23	23
Net charge-offs	(125)	(65)
Provision for credit losses	125	66
June 30	$675	$675

The allowance as a percent of nonaccrual loans and total loans was 180% and 1.53%, respectively, at June 30, 2001. The comparable year-end 2000 percentages were 209% and 1.33%, respectively.

CHARGE-OFFS AND RECOVERIES

Six months ended June 30 Dollars in millions	Charge-offs	Recoveries	Net Charge-offs	Percent of Average Loans
2001				
Commercial	$119	$12	$107	1.05%
Consumer	20	9	11	.24
Residential mortgage	1		1	.02
Lease financing	8	2	6	.30

Total	$148	$23	$125	.53
2000				
Commercial	$59	$10	$49	.45%
Consumer	23	11	12	.26
Residential mortgage	3	1	2	.03
Lease financing	3	1	2	.13
Total	$88	$23	$65	.26

Net charge-offs were $125 million or .53% of average loans for the first six months of 2001 compared with $65 million or .26% for the same period in 2000. The increase was primarily related to loans in institutional lending portfolios that PNC is downsizing.

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 June 30, 2001, credit default swaps of $4.4 billion in notional value were used by the Corporation to hedge credit risk associated with commercial lending activities.

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 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 June 30, 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 .5%. If interest rates were to gradually decrease by 100 basis points over the next twelve months, the model indicated that net interest income would decrease by .3%.

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 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 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 June 30, 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 1.3% 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 .4% of assets.

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, 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, asset 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. At June 30, 2001, such assets totaled $13.6 billion, with $5.9 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, other real-estate related loans and mortgage-backed securities. At June 30, 2001, approximately $12.0 billion of residential mortgages and other real-estate related loans 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 June 30, 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 at June 30, 2001.

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 $313 million at June 30, 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 $600 thousand at June 30, 2001.

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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. 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 six months of 2001, in the notional value of financial derivatives used for risk management and designated as accounting hedges under Statement of Financial Accounting Standards ("SFAS") No. 133.

FINANCIAL DERIVATIVES ACTIVITY

Dollars in millions	December 31 2000	Adjustments (a)	January 1 2001	Additions	Maturities	Te
Interest rate risk management						

Interest rate swaps					
Receive fixed	$4,756	$180	$4,936	$4,700	$(1,368)
Pay fixed	1	248	249	243	
Basis swaps	2,230	(1,773)	457	190	
Interest rate caps	308	(243)	65	44	
Interest rate floors	3,238	(238)	3,000	55	
Futures contracts				116	
Total interest rate risk management	10,533	(1,826)	8,707	5,348	(1,368)
Commercial mortgage banking risk management					
Interest rate swaps	311		311	588	
Total rate of return swaps	75		75	75	(75)
Total commercial mortgage banking risk management	386		386	663	(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	$6,011	$(1,443)

(a) 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.

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 June 30, 2001.

FINANCIAL DERIVATIVES

June 30, 2001 - dollars in millions	Notional Value	Fair Value	We
Interest rate risk management			
Asset rate conversion			

Interest rate swaps (a)		
Receive fixed designated to loans	$6,835	$ 48
Pay fixed designated to loans	208	(3)
Basis swaps designated to loans	287	
Interest rate caps designated to loans (b)	35	
Interest rate floors designated to loans (c)	35	
Total asset rate conversion	7,400	45
Liability rate conversion		
Interest rate swaps (a)		
Receive fixed designated to borrowed funds	1,313	60
Total liability rate conversion	1,313	60
Total interest rate risk management	8,713	105
Commercial mortgage banking risk management		
Pay fixed interest rate swaps designated to securities (a)	154	
Pay fixed interest rate swaps designated to loans (a)	189	4
Pay total rate of return swaps designated to loans (a)	75	(1)
Total commercial mortgage banking risk management	418	3
Total financial derivatives	$9,131	$108

(a) The floating rate portion of interest rate contracts is based on money-market indices. As a percent of notional value, 78% were based on 1-month LIBOR, 20% on 3-month LIBOR and the remainder on other short-term indices.
(b) Interest rate caps with notional values of $25 million require the counterparty to pay the Corporation the excess, if any, of 3-month LIBOR over a weighted-average strike of 6.34%. At June 30, 2001, 3-month LIBOR was 3.84%.
(c) Interest rate floors with notional values of $28 million require the counterparty to pay the excess, if any, weighted-average strike of 4.30% over 3-month LIBOR. At June 30, 2001, 3-month LIBOR was 3.84%.
NM- Not meaningful

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	Estimated Fair Value	Weig
Interest rate risk management			
Asset rate conversion			

Interest rate swaps (a)		
Receive fixed designated to loans	$3,250	$27
Basis swaps designated to other earning assets	226	3
Interest rate caps designated to loans (b)	308	4
Interest rate floors designated to loans (c)	3,238	(1)
Total asset rate conversion	7,022	33
Liability rate conversion		
Interest rate swaps (a)		
Receive fixed designated to:		
Interest-bearing deposits	125	4
Borrowed funds	1,381	57
Pay fixed designated to borrowed funds	1	
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 (a)	135	(8)
Pay fixed interest rate swaps designated to loans (a)	176	3
Pay total rate of return swaps designated to loans (a)	75	(5)
Total commercial mortgage banking risk management	386	(10)