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

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

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

(a) Excludes amortization and distributions on capital securities.

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

Dollars in millions, except per share data	March 31 2001	December 20
BALANCE SHEET DATA		
Assets	$70,966	$69,8
Earning assets	60,548	59,3
Loans, net of unearned income	45,626	50,6
Securities available for sale	11,976	5,9
Loans held for sale	1,765	1,6
Investment in discontinued operations		3
Deposits	47,189	47,6
Borrowed funds	12,279	11,7
Shareholders' equity	6,781	6,6
Common shareholders' equity	6,470	6,3
Book value per common share	22.39	21.
Loans to deposits	97%	1
CAPITAL RATIOS		
Leverage	7.8%	8
Common shareholders' equity to total assets	9.12	9.
ASSET QUALITY RATIOS		

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	.

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%.

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.

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.

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 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

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

COMMUNITY BANKING

Three months ended March 31 Dollars in millions	2001	2000
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
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
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
PERFORMANCE RATIOS		
Return on assigned capital	24%	20%
Noninterest income to total revenue	35	28

Efficiency	50	53

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.

CORPORATE BANKING

Three months ended March 31 Dollars in millions	2001	2000

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
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
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
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 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.

PNC REAL ESTATE FINANCE

Three months ended March 31 Dollars in millions	2001	2000
INCOME STATEMENT		
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

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

$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.

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

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
INCOME STATEMENT		
Net interest income	$32	$35
Noninterest income		
Investment management and trust	111	100
Brokerage	36	50
Other	20	19

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

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.

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

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

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.

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.

FINANCIAL REVIEW
THE PNC FINANCIAL SERVICES GROUP, INC.

CONSOLIDATED INCOME STATEMENT REVIEW
NET INTEREST INCOME ANALYSIS

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

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.

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 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.

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)
Consumer		
Home equity	$6,592	$6,228
Automobile	1,045	1,166
Other	1,412	1,739
Total consumer	9,049	9,133
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
Total commercial	20,676	21,207
Commercial real estate		
Mortgage	655	673

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)

In millions	March 31 2001	December 31 2000
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 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.

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

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

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.

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 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 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;

- customer loss 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 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%

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.

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

	Amount		Percent of Loans	
Dollars in millions	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 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 Dollars in millions	Charge-offs	Recoveries	Net Charge-offs	Percent of Average Loans
2001				
Commercial	$78	$6	$72	1.40%
Commercial real estate				

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.

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 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.

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, 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

	December 31	Adjust-	January 1	Addi-	Maturi-	Te
Dollars in millions	2000	ments(1)	2001	tions	ties	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						

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.

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

			W
	Notional		-
March 31, 2001 - dollars in millions	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)			

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

			W
	Notional		-
December 31, 2000 - dollars in millions	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		

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

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

In millions	Notional Value	Fair Value	Fair Value
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)
Total customer-related	29,770	342	(331)
Other	4,171	28	(3)