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PNC FINANCIAL SERVICES GROUP INC

Form 10-Q/A

March 29, 2002

THE PNC FINANCIAL SERVICES GROUP, INC.

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

| Dollars in millions, except per share data           | Three months ended June 30 |        | Si |
|--|----------------------------|--------|----|
|  | 2001                       | 2000   |    |
| <b>FINANCIAL PERFORMANCE</b>                         |                            |        |    |
| 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    |    |

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|   |        |        |
|---|--------|--------|
| 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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|   | June 30<br>2001 | December 31<br>2000 | June<br>2001 |
|---|-----------------|---------------------|--------------|
| Dollars in millions, except per share data  |                 |                     |              |
|   |                 |                     |              |
| BALANCE SHEET DATA                          |                 |                     |              |
| Assets                                      | \$69,998        | \$69,844            | \$68,844     |
| Earning assets                              | 58,307          | 59,373              | 59,373       |
| Loans, net of unearned income               | 44,167          | 50,601              | 50,601       |
| Securities                                  | 10,982          | 5,902               | 5,902        |
| Loans held for sale                         | 1,870           | 1,655               | 2,119        |
| Deposits                                    | 45,799          | 47,664              | 46,664       |
| Borrowed funds                              | 12,119          | 11,718              | 13,718       |
| Shareholders' equity                        | 6,748           | 6,656               | 6,656        |
| Common shareholders' equity                 | 6,532           | 6,344               | 5,344        |
| Book value per common share                 | 22.60           | 21.88               | 20.88        |
| Loans to deposits                           | 96%             | 106%                |              |
| CAPITAL RATIOS                              |                 |                     |              |
| Leverage                                    | 8.1%            | 8.0%                |              |
| Common shareholders' equity to total assets | 9.33            | 9.08                | 8.88         |

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### 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    |     |

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### FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

This Financial Review should be read in conjunction with The PNC Financial Services Group, Inc. ("Corporation" or "PNC") unaudited Consolidated Financial Statements and Statistical Information included herein and the Financial Review and audited Consolidated Financial Statements included in the Corporation's 2000 Annual Report. For information regarding 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

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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.

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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.

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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 -<br>dollars in millions | Earnings |       | Revenue<br>(taxable-equivalent basis) |       | Return<br>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                 |
| -----   |          |       |                                       |       |                    |

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|  |       |       |         |         |    |
|--|-------|-------|---------|---------|----|
| 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   |

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|   |          |          |
|---|----------|----------|
| Residential mortgage                        | 9,603    | 11,599   |
| Leasing                                     | 1,799    | 1,179    |
| Other                                       | 136      | 172      |
| <hr style="border-top: 1px dashed black;"/> |          |          |
| 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    |
| <hr style="border-top: 1px dashed black;"/> |          |          |
| Total assets                                | \$40,321 | \$38,182 |
| <hr style="border-top: 1px dashed black;"/> |          |          |
| 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   |
| <hr style="border-top: 1px dashed black;"/> |          |          |
| Total deposits                              | 36,535   | 35,331   |
| Other liabilities                           | 1,066    | 274      |
| Assigned capital                            | 2,720    | 2,577    |
| Total funds                                 | \$40,321 | \$38,182 |
| <hr style="border-top: 1px dashed black;"/> |          |          |
| PERFORMANCE RATIOS                          |          |          |
| Return on assigned capital                  | 25%      | 22%      |
| Noninterest income to total revenue         | 35       | 29       |
| Efficiency                                  | 48       | 52       |
| <hr style="border-top: 1px dashed black;"/> |          |          |

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



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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.

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### FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

#### CORPORATE BANKING

Six months ended June 30 -  
dollars in millions

|                             | 2001  | 2000  |
|-----------------------------|-------|-------|
| <hr/>                       |       |       |
| INCOME STATEMENT            |       |       |
| Credit-related revenue      | \$204 | \$199 |
| Noncredit revenue           | 179   | 221   |
| <hr/>                       |       |       |
| Total revenue               | 383   | 420   |
| Provision for credit losses | 88    | 38    |
| Noninterest expense         | 196   | 196   |
| <hr/>                       |       |       |
| Pretax earnings             | 99    | 186   |
| Income taxes                | 34    | 66    |
| <hr/>                       |       |       |
| 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      |
| <hr/>                                |          |          |
| Total loans                          | 14,083   | 14,125   |
| Other assets                         | 2,535    | 1,985    |
| <hr/>                                |          |          |
| Total assets                         | \$16,618 | \$16,110 |
| <hr/>                                |          |          |
| Deposits                             | \$4,862  | \$4,539  |
| Assigned funds and other liabilities | 19,510   | 10,363   |
| Assigned capital                     | 1,246    | 1,208    |
| <hr/>                                |          |          |
| Total funds                          | \$16,618 | \$16,110 |

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PERFORMANCE RATIOS

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

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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

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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.

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### PNC REAL ESTATE FINANCE

Six months ended June 30 -  
dollars in millions

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

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

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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.

### FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

### PNC BUSINESS CREDIT

Six months ended June 30 -  
dollars in millions

|                     | 2001 | 2000 |
|---------------------|------|------|
| INCOME STATEMENT    |      |      |
| Net interest income | \$51 | \$49 |

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|                                      |         |         |
|--------------------------------------|---------|---------|
| 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.

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

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

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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.

### FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

#### BLACKROCK

Six months ended June 30 -  
dollars in millions

|   | 2001  | 2000  |
|---|-------|-------|
| -----                                       |       |       |
| INCOME STATEMENT                            |       |       |
| Investment advisory and administrative fees | \$252 | \$209 |
| Other income                                | 17    | 12    |

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|   |       |       |
|---|-------|-------|
| Total revenue   | 269   | 221   |
| Operating expense                                       | 147   | 111   |
| Fund administration<br>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'<br>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.



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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](http://www.sec.gov).

PFPC

| Six months ended June 30 -<br>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

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|                                      |         |         |
|--------------------------------------|---------|---------|
| 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.

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FINANCIAL REVIEW  
THE PNC FINANCIAL SERVICES GROUP, INC.

CONSOLIDATED INCOME STATEMENT REVIEW  
NET INTEREST INCOME ANALYSIS

| Taxable-equivalent basis<br>Six months ended June 30 -<br>dollars in millions      | Average Balances |          |            | Interest Income/Expense |       |         |
|--|------------------|----------|------------|-------------------------|-------|---------|
|  | 2001             | 2000     | Change     | 2001                    | 2000  | Change  |
| <b>Interest-earning assets</b>   |                  |          |            |                         |       |         |
| 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)    |
| <hr style="border-top: 1px dashed black;"/>  |                  |          |            |                         |       |         |
| 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      |
| <hr style="border-top: 1px dashed black;"/>  |                  |          |            |                         |       |         |
| Total interest-earning assets/<br>interest income                                  | 60,658           | 60,308   | 350        | 2,260                   | 2,351 | (91)    |
| Noninterest-earning assets   | 10,692           | 8,622    | 2,070      |                         |       |         |
| <hr style="border-top: 1px dashed black;"/>  |                  |          |            |                         |       |         |
| Total assets   | \$71,350         | \$68,930 | \$2,420    |                         |       |         |
| <hr style="border-top: 3px double black;"/>  |                  |          |            |                         |       |         |
| <b>Interest-bearing liabilities</b>  |                  |          |            |                         |       |         |
| 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)    |
| <hr style="border-top: 1px dashed black;"/>  |                  |          |            |                         |       |         |
| Total interest-bearing deposits  | 37,624           | 36,870   | 754        | 731                     | 766   | (35)    |
| Borrowed funds   | 14,201           | 14,877   | (676)      | 401                     | 475   | (74)    |
| <hr style="border-top: 1px dashed black;"/>  |                  |          |            |                         |       |         |
| Total interest-bearing liabilities/<br>interest expense                            | 51,825           | 51,747   | 78         | 1,132                   | 1,241 | (109)   |
| <hr style="border-top: 1px dashed black;"/>  |                  |          |            |                         |       |         |
| Noninterest-bearing liabilities,<br>capital securities and shareholders'<br>equity | 19,525           | 17,183   | 2,342      |                         |       |         |
| <hr style="border-top: 1px dashed black;"/>  |                  |          |            |                         |       |         |
| Total liabilities, capital<br>securities and shareholders'<br>equity               | \$71,350         | \$68,930 | \$2,420    |                         |       |         |
| <hr style="border-top: 3px double black;"/>  |                  |          |            |                         |       |         |
| Interest rate spread   |                  |          |            |                         |       |         |
| Impact of noninterest-bearing sources  |                  |          |            |                         |       |         |

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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.

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### 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<br>2001 | December 31<br>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.

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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<br>2001 | December 31<br>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.

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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<br>Cost | Fair<br>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<br>2001 | December 31<br>2000 |
|----------------------------------|-----------------|---------------------|
| -----                            |                 |                     |
| Deposits                         |                 |                     |
| Demand, savings and money market | \$31,834        | \$30,686            |



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|                                   |          |          |
|-----------------------------------|----------|----------|
| 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<br>2001 | December 31<br>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<br>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

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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

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of existing or potential fund servicing clients.

### ACQUISITIONS

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

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

### RISK MANAGEMENT

In the normal course of business, the Corporation assumes various types of risk, which include, among 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<br>2001 | December 31<br>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                 |
| =====                                     |                 |                     |

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(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.

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

#### CHANGE IN NONPERFORMING ASSETS

| In millions              | 2001  | 2000  |
|--------------------------|-------|-------|
| January 1                | \$372 | \$325 |
| Transferred from accrual | 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

| Dollars in millions    | Amount          |                     | Percent of Loans |                     |
|------------------------|-----------------|---------------------|------------------|---------------------|
|                        | June 30<br>2001 | December 31<br>2000 | June 30<br>2001  | December 31<br>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

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

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| 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.

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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.



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### FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

#### LIQUIDITY RISK

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

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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<br>2000 | Adjustments (a) | January 1<br>2001 | Additions | Maturities | Te |
|-------------------------------|---------------------|-----------------|-------------------|-----------|------------|----|
| Interest rate risk management |                     |                 |                   |           |            |    |

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|   |          |           |         |         |           |
|---|----------|-----------|---------|---------|-----------|
| 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.

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FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

The following table sets forth the notional value and the fair value of financial derivatives used for risk management and designated as accounting hedges under SFAS No. 133. Weighted-average interest rates presented are based on the implied forward yield curve at June 30, 2001.

FINANCIAL DERIVATIVES

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

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|  |         |       |
|--|---------|-------|
| 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 | Weighted Average Interest Rate |
|---|----------------|----------------------|--------------------------------|
|   |                |                      | -----                          |
| Interest rate risk management           |                |                      |                                |
| Asset rate conversion                   |                |                      |                                |

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|  |          |      |
|--|----------|------|
| 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) |
| -----  |          |      |
| Student lending activities - Forward contracts (d)         | 347      |      |
| Credit-related activities - Credit default swaps (d)       | 4,391    | (2)  |
| -----  |          |      |
| Total financial derivatives                                | \$15,657 | \$92 |
| =====  |          |      |

- (a) 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.
- (b) 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%.
- (c) 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%.
- (d) 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.

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### OTHER DERIVATIVES

|                         | At June 30, 2001  |                           |                           |                       |
|-------------------------|-------------------|---------------------------|---------------------------|-----------------------|
| In millions             | Notional<br>Value | Positive<br>Fair<br>Value | Negative<br>Fair<br>Value | Net Asse<br>(Liabilit |
| Customer-related        |                   |                           |                           |                       |
| Interest rate           |                   |                           |                           |                       |
| Swaps                   | \$15,551          | \$182                     | \$(196)                   | \$(1                  |
| Caps/floors             |                   |                           |                           |                       |
| Sold                    | 4,361             |                           | (20)                      | (2                    |
| Purchased               | 3,349             | 18                        |                           | 1                     |
| Foreign exchange        | 4,306             | 62                        | (53)                      |                       |
| Other                   | 3,659             | 51                        | (48)                      |                       |
| Total customer-related  | 31,226            | 313                       | (317)                     | (                     |
| Other                   | 4,615             | 23                        | (5)                       | 1                     |
| Total other derivatives | \$35,841          | \$336                     | \$(322)                   | \$1                   |

(a) Represents average for six months ended June 30, 2001.

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### FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

SECOND QUARTER 2001 VS.  
SECOND QUARTER 2000

Earnings for the second quarter of 2001 were \$295 million or \$1.00 per diluted share compared with earnings of \$299 million or \$1.01 per diluted share for the second quarter of 2000. Excluding a \$22 million or \$0.08 per diluted share net loss from venture capital activities, second quarter 2001 earnings per diluted share increased 7% to \$1.08 per diluted share. Return on average common shareholders' equity was 18.13% and return on average assets was 1.67% for the second quarter of 2001 compared with 20.77% and 1.74%, respectively, for the second quarter of 2000.

Taxable-equivalent net interest income of \$569 million for the second quarter of 2001 increased \$19 million or 3% compared with the second quarter of 2000 and the net interest margin widened 13 basis points to 3.76% for the second quarter of 2001. 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 \$45 million for the second quarter of 2001 compared with \$35 million for the second quarter of 2000. The increase was primarily related to institutional lending portfolios that PNC is downsizing.

Noninterest income was \$720 million for the second quarter of 2001 and included \$30 million of venture capital losses. Excluding venture capital gains and losses in both years, noninterest income increased 10% compared with the second quarter of 2000 primarily due to growth in asset management and processing revenue.

Asset management fees of \$214 million for the second quarter of 2001 increased

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\$18 million or 9% compared with the second quarter of 2000. The increase was primarily driven by new institutional business and strong fixed-income performance at BlackRock, partially offset by the impact of weak equity markets on investment management and trust revenue in PNC Advisors. Fund servicing fees of \$182 million for the second quarter of 2001 increased \$18 million or 11% compared with the second quarter of 2000 primarily due to existing and new client growth.

Service charges on deposits were \$54 million for the second quarter of 2001, up 8% compared with the same period last year primarily due to an increase in transaction deposit accounts. Brokerage fees were \$55 million for the second quarter of 2001 compared with \$60 million for the second quarter of 2000. The decrease was primarily due to a decline in equity markets activity. Consumer services revenue of \$58 million for the second quarter of 2001 increased \$7 million or 14% compared with the prior-year quarter primarily due to the expansion of PNC's ATM network and the increase in transaction deposit accounts.

Corporate services revenue was \$76 million for the second quarter of 2001 compared with \$80 million for the second quarter of 2000. Higher commercial mortgage servicing and treasury management revenue was more than offset by valuation adjustments of other assets and lower commercial mortgage-backed securitization gains.

Equity management reflected net losses of \$30 million for the second quarter of 2001 compared with \$48 million of net gains for the second quarter of 2000. The decrease primarily resulted from a decline in the estimated fair value of partnership and direct investments.

Net securities gains were \$17 million for the second quarter of 2001. The gains were mostly offset by \$10 million of valuation adjustments that are reflected in corporate services revenue. Other noninterest income was \$94 million for the second quarter of 2001 compared with \$79 million for the second quarter of 2000. The increase was primarily due to higher revenue from trading activities and residential mortgage loan securitization gains.

Noninterest expense was \$789 million and the efficiency ratio was 58% in the second quarter of 2001 compared with \$780 million and 57%, respectively, during the second quarter of 2000. The increases were primarily related to the expansion of asset management and processing businesses.

Total assets were \$70.0 billion at June 30, 2001 compared with \$75.7 billion at June 30, 2000 prior to the sale of PNC's residential mortgage banking business. On the same basis, average interest-earning assets were \$60.0 billion for the second quarter of 2001 compared with \$64.8 billion for the second quarter of 2000. The decrease was primarily due to an \$8.7 billion reduction in loans and loans held for sale that resulted from the sale of the residential mortgage banking business and other balance sheet downsizing initiatives, partially offset by a \$3.7 billion increase in securities that primarily resulted from the securitization of certain residential mortgage loans.

Average deposits from continuing operations were \$45.4 billion and represented 64% of total sources of funds for the second quarter of 2001 compared with \$45.5 billion and 66%, respectively, in the second quarter of 2000. While total deposits remained essentially unchanged, an increase in transaction deposits of \$2.3 billion or 8% was mostly offset by a \$2.2 billion decrease in higher-cost retail certificates and wholesale deposits.

Average borrowed funds declined to \$14.0 billion for the second quarter of 2001 compared with \$19.4 billion for the second quarter of 2000 prior to the sale of PNC's residential mortgage banking business.

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Nonperforming assets were \$474 million at June 30, 2001 compared with \$353 million at June 30, 2000. The ratio of nonperforming assets to total loans, loans held for sale and foreclosed assets was 1.03% at June 30, 2001 compared with .67% at June 30, 2000.

The allowance for credit losses was \$675 million and represented 1.53% of period-end loans and 180% of nonaccrual loans at June 30, 2001. The comparable ratios were 1.34% and 217%, respectively, at June 30, 2000. Net charge-offs were \$45 million or .40% of average loans in the second quarter of 2001. The comparable amounts were \$34 million or .27%, respectively, in the second quarter of 2000.

### FORWARD-LOOKING STATEMENTS

This report and other statements made by the Corporation may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act with respect to the outlook or expectations for earnings, revenues, asset quality, share repurchases, and other future financial or business performance, strategies and expectations. Forward-looking statements are typically identified by words or phrases such as "believe," "expect," "anticipate," "intend," "outlook," "forecast," "estimate," "position," "target," "mission," "assume," "achievable," "potential," "strategy," "goal," "objective," "plan," "aspiration," "outcome," "continue," "remain," "maintain," "seek," "strive," "trend" and variations of such words and similar expressions, or future or conditional verbs such as "will," "would," "should," "could," "might," "can," "may" or similar expressions.

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

In addition to factors mentioned elsewhere in this report or previously disclosed in the Corporation's SEC reports (accessible on the SEC's website at [www.sec.gov](http://www.sec.gov)), the following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance:

- (1) adjustments to recorded results of the sale of the residential mortgage banking business after disputes over certain closing date adjustments have been resolved;
- (2) changes in economic or industry conditions, the interest rate environment or financial and capital markets, which could result in: a deterioration in credit quality and increased credit losses; an adverse effect on the allowance for loan losses; a reduction in demand for credit or fee-based products and services, net interest income, value of assets under management and assets serviced, value of debt and equity investments, or value of on-balance sheet and off-balance-sheet assets; or changes in the availability and terms of funding necessary to meet PNC's liquidity needs;
- (3) relative investment performance of assets under management;
- (4) the introduction, withdrawal, success and timing of business initiatives and strategies, decisions regarding further reductions in balance sheet leverage, and PNC's inability to realize cost savings or revenue enhancements, implement integration plans and other consequences of mergers, acquisitions, restructurings and divestitures;



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- (5) customer borrowing, repayment, investment and deposit practices and their acceptance of PNC's products and services;
- (6) the impact of increased competition;
- (7) the means PNC chooses to redeploy available capital, including the extent and timing of any share repurchases and investments in PNC businesses;
- (8) the inability to manage risks inherent in PNC's business;
- (9) the unfavorable resolution of legal proceedings;
- (10) the denial of insurance coverage for claims made by PNC;
- (11) an increase in the number of customer or counterparty delinquencies, bankruptcies or defaults that could result in, among other things, increased credit and asset quality risk, a higher loan loss provision and reduced profitability;
- (12) the impact, extent and timing of technological changes; and
- (13) actions of the Federal Reserve Board and legislative and regulatory actions and reforms.

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

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

|  | Three months ended June 30 |         |
|--|----------------------------|---------|
| In millions, except per share data                   | 2001                       | 2000    |
| <b>INTEREST INCOME</b>                               |                            |         |
| Loans and fees on loans                              | \$839                      | \$1,009 |
| Securities   | 177                        | 97      |
| Loans held for sale                                  | 31                         | 52      |
| Other  | 32                         | 22      |
| Total interest income                                | 1,079                      | 1,180   |
| <b>INTEREST EXPENSE</b>                              |                            |         |
| Deposits   | 334                        | 397     |
| Borrowed funds                                       | 180                        | 238     |
| Total interest expense                               | 514                        | 635     |
| Net interest income                                  | 565                        | 545     |
| Provision for credit losses                          | 45                         | 35      |
| Net interest income less provision for credit losses | 520                        | 510     |

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|  |        |        |
|--|--------|--------|
| NONINTEREST INCOME   |        |        |
| Asset management   | 214    | 196    |
| Fund servicing   | 182    | 164    |
| Service charges on deposits  | 54     | 50     |
| Brokerage  | 55     | 60     |
| Consumer services  | 58     | 51     |
| Corporate services   | 76     | 80     |
| Equity management  | (30)   | 48     |
| Net securities gains (losses)  | 17     |        |
| Other  | 94     | 79     |
| -----  |        |        |
| Total noninterest income   | 720    | 728    |
| -----  |        |        |
| NONINTEREST EXPENSE  |        |        |
| Staff expense  | 418    | 396    |
| Net occupancy  | 54     | 48     |
| Equipment  | 60     | 55     |
| Amortization   | 27     | 28     |
| Marketing  | 16     | 19     |
| Distributions on capital securities  | 16     | 17     |
| Other  | 198    | 217    |
| -----  |        |        |
| Total noninterest expense  | 789    | 780    |
| -----  |        |        |
| Income from continuing operations before income taxes                                    | 451    | 458    |
| Income taxes   | 156    | 159    |
| -----  |        |        |
| Income from continuing operations  | 295    | 299    |
| -----  |        |        |
| Income from discontinued operations (less applicable income taxes of \$10, \$0 and \$15) |        | 16     |
| -----  |        |        |
| Net income before cumulative effect of accounting change                                 | 295    | 315    |
| Cumulative effect of accounting change (less applicable income taxes of \$2)             |        |        |
| -----  |        |        |
| Net income   | \$295  | \$315  |
| -----  |        |        |
| EARNINGS PER COMMON SHARE  |        |        |
| Continuing operations  |        |        |
| Basic  | \$1.01 | \$1.01 |
| Diluted  | 1.00   | 1.01   |
| Net income   |        |        |
| Basic  | \$1.01 | \$1.07 |
| Diluted  | 1.00   | 1.06   |
| CASH DIVIDENDS DECLARED PER COMMON SHARE   |        |        |
|  | \$ .48 | \$ .45 |
| AVERAGE COMMON SHARES OUTSTANDING  |        |        |
| Basic  | 288    | 290    |
| Diluted  | 291    | 292    |
| =====  |        |        |

See accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEET  
THE PNC FINANCIAL SERVICES GROUP, INC.

| In millions, except par value                                     | June 30<br>2001 | De |
|---|-----------------|----|
| -----   |                 |    |
| ASSETS  |                 |    |
| Cash and due from banks   | \$3,659         |    |
| Short-term investments  | 793             |    |
| Loans held for sale   | 1,870           |    |
| Securities  | 10,982          |    |
| Loans, net of unearned income of \$1,073 and \$999                | 44,167          |    |
| Allowance for credit losses                                       | (675)           |    |
| -----   |                 |    |
| Net loans   | 43,492          |    |
| Goodwill and other amortizable assets                             | 2,405           |    |
| Investment in discontinued operations                             |                 |    |
| Other   | 6,797           |    |
| -----   |                 |    |
| Total assets  | \$69,998        |    |
| =====   |                 |    |
| LIABILITIES   |                 |    |
| Deposits  |                 |    |
| Noninterest-bearing   | \$8,982         |    |
| Interest-bearing  | 36,817          |    |
| -----   |                 |    |
| Total deposits  | 45,799          |    |
| Borrowed funds  |                 |    |
| Federal funds purchased   | 1,444           |    |
| Repurchase agreements   | 569             |    |
| Bank notes and senior debt  | 4,496           |    |
| Federal Home Loan Bank borrowings                                 | 2,464           |    |
| Subordinated debt   | 2,349           |    |
| Other borrowed funds  | 797             |    |
| -----   |                 |    |
| Total borrowed funds  | 12,119          |    |
| Other   | 4,484           |    |
| -----   |                 |    |
| Total liabilities   | 62,402          |    |
| -----   |                 |    |
| Mandatorily redeemable capital securities of subsidiary trusts    | 848             |    |
| SHAREHOLDERS' EQUITY  |                 |    |
| Preferred stock   | 5               |    |
| Common stock - \$5 par value                                      |                 |    |
| Authorized 800 and 450 shares                                     |                 |    |
| Issued 353 shares   | 1,764           |    |
| Capital surplus   | 1,257           |    |
| Retained earnings   | 7,010           |    |
| Deferred benefit expense  | (25)            |    |
| Accumulated other comprehensive loss from continuing operations   | (60)            |    |
| Accumulated other comprehensive loss from discontinued operations |                 |    |
| Common stock held in treasury at cost: 64 and 63 shares           | (3,203)         |    |

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|  |          |
|--|----------|
| Total shareholders' equity                                     | 6,748    |
| Total liabilities, capital securities and shareholders' equity | \$69,998 |

See accompanying Notes to Consolidated Financial Statements.

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

Six months ended June 30 - in millions

OPERATING ACTIVITIES

Net income

Discontinued operations

Cumulative effect of accounting change

Income from continuing operations

Adjustments to reconcile income from continuing operations

to net cash provided by operating activities

Provision for credit losses

Depreciation, amortization and accretion

Deferred income taxes

Net securities (gains) losses

Valuation adjustments

Change in

Loans held for sale

Other

Net cash provided by operating activities

INVESTING ACTIVITIES

Net change in loans

Repayment of securities

Sales

Securities

Loans

Foreclosed assets

Purchases

Securities

Loans

Net cash received (paid) for acquisitions/divestitures

Other

Net cash provided (used) by investing activities

FINANCING ACTIVITIES

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Net change in  
  Noninterest-bearing deposits  
  Interest-bearing deposits  
  Federal funds purchased  
Sales/issuances  
  Repurchase agreements  
  Bank notes and senior debt  
  Federal Home Loan Bank borrowings  
  Subordinated debt  
  Other borrowed funds  
  Common stock  
Repayments/maturities  
  Repurchase agreements  
  Bank notes and senior debt  
  Federal Home Loan Bank borrowings  
  Subordinated debt  
  Other borrowed funds  
Acquisition of treasury stock  
Series F preferred stock tender offer  
Cash dividends paid  
-----  
  Net cash used by financing activities  
-----  
(DECREASE) INCREASE IN CASH AND DUE FROM BANKS  
  Cash and due from banks at beginning of year  
-----  
  Cash and due from banks at end of period  
=====

CASH PAID FOR  
  Interest  
  Income taxes  
NON-CASH ITEMS  
  Transfer of residential mortgage loans to securities  
  Transfer from loans to loans held for sale  
  Transfer from loans to other assets  
=====

See accompanying Notes to Consolidated Financial Statements.

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

BUSINESS The PNC Financial Services Group, Inc. ("Corporation" or "PNC") is one of the largest diversified financial services companies in the United States, operating businesses engaged in 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. PNC is subject to intense competition from other financial services companies and is subject to regulation by various domestic and international authorities.

ACCOUNTING POLICIES

BASIS OF FINANCIAL STATEMENT PRESENTATION

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

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

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

The consolidated financial statements and notes to consolidated financial statements reflect the residential mortgage banking business, which was sold on January 31, 2001, in discontinued operations, unless otherwise noted.

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

### FINANCIAL DERIVATIVES

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

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

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

### CASH FLOW HEDGING STRATEGY

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

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earnings, when the hedged transaction affects earnings, are included in net interest income.

### FAIR VALUE HEDGING STRATEGIES

The Corporation enters into interest rate and total rate of return swaps, caps, floors and interest rate futures derivative contracts to hedge designated commercial mortgage loans held for sale, securities, commercial loans, bank notes and subordinated debt for changes in fair value primarily due to changes in interest rates. Adjustments related to the ineffective portion of fair value hedging instruments are recorded in either net interest income or noninterest income depending on the hedged item.

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

#### CUSTOMER AND OTHER DERIVATIVES

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

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

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

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

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

Changes in the fair value of financial derivatives accounted for under the

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

Credit default swaps were entered into to mitigate credit risk and lower the required regulatory capital associated with commercial lending activities. If the credit default swaps qualified for hedge accounting treatment, the premium paid to enter into the credit default swaps were recorded in other assets and deferred and amortized to noninterest expense over the life of the agreement. Changes in the fair value of credit default swaps qualifying for hedge accounting treatment were not reflected in the Corporation's financial position and had no impact on results of operations.

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

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

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### RESTATEMENTS

In connection with the repositioning of its institutional lending businesses, PNC completed a transaction in June 2001 in which loans were sold to a subsidiary of a third party financial institution with PNC receiving preferred interests in the subsidiary. The transaction involved the sale of loan assets of \$257 million of which \$84 million were classified as nonperforming assets at the date of sale. Loan assets sold included loans previously held for sale and other loans that were reclassified from loans to loans held for sale and marked to the lower of cost or market prior to the sale. This resulted in charge-offs at the date transferred of \$15 million on loans and valuation adjustments of \$1 million for those loans that previously had been classified as held for sale. Including previous charge-offs and valuation adjustments, loans transferred had been charged down by approximately \$72 million prior to sale. In addition to the loan assets, PNC also transferred cash amounting to \$108 million. In return, PNC received one hundred percent of the Class A convertible preferred shares in the subsidiary. The Class A convertible preferred shares owned by PNC have no voting rights. PNC, as holder of the Class A convertible preferred shares, may convert such preferred shares to Class A common shares and cause the liquidation of the subsidiary. A noncumulative annual dividend may be paid on the preferred stock.

The third party financial institution formed the entity, contributed three percent equity in the form of cash and received one hundred percent of the Class B preferred shares and one hundred percent of the Class B common shares



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of the entity. The proceeds received by the entity from the issuance of the Class A preferred and all of the Class B shares were used to fund certain operating expenses, future commitments under the loan agreements, investment in a managed asset account and to purchase U.S. Treasury zero coupon securities. The third party financial institution is the managing member of the entity and holds one hundred percent of the voting power. All management and operating decisions regarding the assets are at the discretion of the managing member. The managing member is paid an annual fee for its services. PNC is the servicer of the loans and is paid a servicing fee.

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 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. The effects of this restatement on the consolidated financial statements for the second quarter of 2001 are included in this Amendment No. 1.

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. The consolidated balance sheet was not affected by this restatement as the impact of the error had been reflected in retained earnings at June 30, 2001.

### DISCONTINUED OPERATIONS

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

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

### INCOME FROM DISCONTINUED OPERATIONS

| Six months ended June 30 - in millions    | 2001 | 2000 |
|---|------|------|
| Total income from operations after tax    | \$15 | \$22 |
| Net loss on disposal, after tax (a)       | (10) |      |
| Total income from discontinued operations | \$ 5 | \$22 |
| =====                                     |      |      |

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

### INVESTMENT IN DISCONTINUED OPERATIONS

| December 31 - in millions     | 2000    |
|-------------------------------|---------|
| Loans held for sale           | \$3,003 |
| Securities available for sale | 3,016   |

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|                                       |       |
|---------------------------------------|-------|
| Loans, net of unearned income         | 739   |
| Goodwill and other amortizable assets | 1,925 |
| All other assets                      | 1,168 |
| -----                                 |       |
| Total assets                          | 9,851 |
| -----                                 |       |
| Deposits                              | 1,150 |
| Borrowed funds                        | 7,601 |
| Other liabilities                     | 744   |
| -----                                 |       |
| Total liabilities                     | 9,495 |
| -----                                 |       |
| Net assets                            | \$356 |
| =====                                 |       |

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

#### RECENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (a replacement of Financial Accounting Standards Board ("FASB") Statement No. 125) was issued in September 2000. Although SFAS No. 140 has changed many of the rules regarding securitizations, it continues to require an entity to recognize the financial and servicing assets it controls and the liabilities it has incurred and to derecognize financial assets when control has been surrendered in accordance with the criteria provided in the standard. As required, the Corporation began application of the new rules prospectively to transactions beginning in the second quarter of 2001. SFAS No. 140 also requires certain disclosures pertaining to securitization transactions effective for fiscal years ended after December 15, 2000. PNC included these required disclosures in its December 31, 2000 consolidated financial statements.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations." SFAS No. 141 requires the purchase method of accounting be used for all business combinations initiated or completed after June 30, 2001 and eliminates the pooling-of-interests method of accounting. The statement also addresses disclosure requirements for business combinations and initial recognition and measurement criteria for goodwill and other intangible assets as a result of purchase business combinations.

Also in July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," which changes the accounting from amortizing goodwill to an impairment-only approach. The amortization of goodwill, including goodwill recognized relating to past business combinations, will cease upon adoption of the new standard. Impairment testing for goodwill at a reporting unit level will be required on at least an annual basis. The new standard also addresses other accounting matters, disclosure requirements and financial statement presentation issues relating to goodwill and other intangible assets. The Corporation will adopt SFAS No. 142 effective January 1, 2002. Assuming no impairment adjustments are necessary, no future business combinations and no other changes to goodwill, the Corporation expects net income to increase by approximately \$94 million in 2002 resulting from the cessation of goodwill amortization.

#### CASH FLOWS

During the first six months of 2001, divestiture activity that affected cash

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flows consisted of \$383 million of divested net assets and cash receipts of \$503 million. During the first six months of 2000, acquisition activity that affected cash flows consisted of \$22 million of acquired assets, \$2 million of acquired liabilities and cash payments of \$3 million.

### TRADING ACTIVITIES

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

Net trading income for the first six months of 2001 totaled \$78 million compared with \$37 million for the prior-year period and was included in noninterest income as follows:

| Six months ended June 30 - in millions | 2001 | 2000   |
|--|------|--------|
| Corporate services                     | \$1  |        |
| Equity management                      |      | \$ (4) |
| Other noninterest income               |      |        |
| Market making                          | 25   | 21     |
| Derivatives trading                    | 39   | 7      |
| Foreign exchange                       | 12   | 11     |
| Other                                  | 1    | 2      |
| Net trading income                     | \$78 | \$37   |

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### SECURITIES

| In millions                           | Amortized<br>Cost | Unrealized |       |
|---------------------------------------|-------------------|------------|-------|
|                                       |                   | Gains      | Loss  |
| JUNE 30, 2001                         |                   |            |       |
| SECURITIES AVAILABLE FOR SALE         |                   |            |       |
| Debt securities                       |                   |            |       |
| U.S. Treasury and government agencies | \$1,467           | \$1        | \$ (  |
| Mortgage-backed                       | 7,643             | 12         | (     |
| Asset-backed                          | 1,333             |            | (     |
| State and municipal                   | 67                | 2          |       |
| Other debt                            | 73                |            |       |
| Total debt securities                 | 10,583            | 15         | (     |
| Corporate stocks and other            | 401               | 53         | (     |
| Total securities available for sale   | \$10,984          | \$68       | \$ (1 |
| SECURITIES HELD TO MATURITY           |                   |            |       |
| Debt securities                       |                   |            |       |

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|                                       |         |      |      |
|---------------------------------------|---------|------|------|
| U.S. Treasury and government agencies | \$78    |      | \$   |
| Other debt                            | 12      |      |      |
| -----                                 |         |      |      |
| Total debt securities                 | 90      |      |      |
| -----                                 |         |      |      |
| Total securities held to maturity     | \$90    |      | \$   |
| =====                                 |         |      |      |
| DECEMBER 31, 2000                     |         |      |      |
| Debt securities                       |         |      |      |
| U.S. Treasury and government agencies | \$313   | \$1  | \$   |
| Mortgage-backed                       | 4,037   | 13   | (    |
| Asset-backed                          | 902     | 1    | (    |
| State and municipal                   | 94      | 2    |      |
| Other debt                            | 73      | 1    |      |
| -----                                 |         |      |      |
| Total debt securities                 | 5,419   | 18   | (    |
| Corporate stocks and other            | 537     | 2    | (    |
| -----                                 |         |      |      |
| Total securities available for sale   | \$5,956 | \$20 | \$ ( |
| =====                                 |         |      |      |

Total securities at June 30, 2001 was \$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.

Net securities gains associated with the disposition of securities available for sale were \$46 million for the first six months of 2001 compared with net losses of \$3 million for the first six months of 2000. Net securities losses of \$1 million for the first six months of 2001, and net securities gains of \$2 million for the first six months of 2000, related to commercial mortgage banking activities, were included in corporate services revenue.

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.

NONPERFORMING ASSETS

Nonperforming assets were as follows:

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| In millions                           | June 30<br>2001 | December 31<br>2000 |
|---------------------------------------|-----------------|---------------------|
| Nonaccrual loans                      | \$374           | \$323               |
| Nonperforming loans held for sale (a) | 85              | 33                  |
| Foreclosed and other assets           | 15              | 16                  |
| <b>Total nonperforming assets</b>     | <b>\$474</b>    | <b>\$372</b>        |

(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.

ALLOWANCE FOR CREDIT LOSSES

Changes in the allowance for credit losses were as follows:

| In millions                  | 2001         | 2000         |
|------------------------------|--------------|--------------|
| Allowance at January 1       | \$675        | \$674        |
| Charge-offs                  |              |              |
| Commercial                   | (119)        | (59)         |
| Consumer                     | (20)         | (23)         |
| Residential mortgage         | (1)          | (3)          |
| Lease financing              | (8)          | (3)          |
| <b>Total charge-offs</b>     | <b>(148)</b> | <b>(88)</b>  |
| Recoveries                   |              |              |
| Commercial                   | 12           | 10           |
| Consumer                     | 9            | 11           |
| Residential mortgage         |              | 1            |
| Lease financing              | 2            | 1            |
| <b>Total recoveries</b>      | <b>23</b>    | <b>23</b>    |
| <b>Net charge-offs</b>       | <b>(125)</b> | <b>(65)</b>  |
| Commercial                   | (107)        | (49)         |
| Consumer                     | (11)         | (12)         |
| Residential mortgage         | (1)          | (2)          |
| Lease financing              | (6)          | (2)          |
| <b>Total net charge-offs</b> | <b>(125)</b> | <b>(65)</b>  |
| Provision for credit losses  | 125          | 66           |
| <b>Allowance at June 30</b>  | <b>\$675</b> | <b>\$675</b> |

FINANCIAL DERIVATIVES

Effective January 1, 2001, the Corporation implemented SFAS No. 133. As a result of the adoption of this statement, the Corporation recognized, in the first quarter of 2001, an after-tax loss from the cumulative effect of a change in accounting principle of \$5 million reported in the consolidated income statement and an after-tax accumulated other comprehensive loss of \$4 million. The impact of the adoption of this standard related to the residential mortgage banking business that was sold is reflected in the results of discontinued operations.

Earnings adjustments resulting from cash flow and fair value hedge

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ineffectiveness were not significant to the results of operations of the Corporation during the first six months of 2001.

During the next twelve months, the Corporation expects to reclassify to earnings \$50 million of pretax net gains on cash flow hedge derivatives currently reported in accumulated other comprehensive income. These net gains may result from anticipated net cash flows on receive fixed interest rate swaps and would offset reductions in net interest income recognized on the related floating rate commercial loans.

At June 30, 2001 and December 31, 2000, the Corporation's exposure to credit losses with respect to financial derivatives was not material.

### LEGAL PROCEEDINGS

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

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

#### COMPREHENSIVE INCOME

Comprehensive income from continuing operations was \$228 million for the second quarter of 2001 and \$543 million for the first six months of 2001, compared with \$301 million and \$595 million, respectively, in 2000.

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

| Six months ended June 30, 2001<br>In millions                             | Pretax<br>Amount | Tax Benefit<br>(Expense) | After-tax<br>Amount |
|---|------------------|--------------------------|---------------------|
| Unrealized securities losses  | \$(43)           | \$15                     | \$(28)              |
| Less: Reclassification<br>adjustment for losses<br>realized in net income | (5)              | 2                        | (3)                 |
| Net unrealized securities<br>losses                                       | (38)             | 13                       | (25)                |
| SFAS No. 133 transition<br>adjustment                                     | (6)              | 2                        | (4)                 |
| Unrealized gains on cash flow   |                  |                          |                     |

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|   |         |     |         |
|---|---------|-----|---------|
| hedge derivatives   | 9       | (3) | 6       |
| Less: Reclassification<br>adjustment for losses<br>realized in net income | (11)    | 4   | (7)     |
| -----   |         |     |         |
| Net unrealized gains on<br>cash flow hedge<br>derivatives                 | 14      | (5) | 9       |
| Foreign currency translation<br>adjustment                                | (2)     | 1   | (1)     |
| -----   |         |     |         |
| Other comprehensive loss<br>from continuing operations                    | \$ (26) | \$9 | \$ (17) |
| =====   |         |     |         |

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

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

| In millions  | June 30<br>2001 | December 31<br>2000 |
|--|-----------------|---------------------|
| -----  |                 |                     |
| Net unrealized securities losses                                   | \$ (57)         | \$ (32)             |
| Net unrealized gains on cash flow hedge<br>derivatives             | 9               |                     |
| Minimum pension liability adjustment                               | (11)            | (11)                |
| Foreign currency translation adjustment                            | (1)             |                     |
| -----  |                 |                     |
| Accumulated other comprehensive loss<br>from continuing operations | \$ (60)         | \$ (43)             |
| =====  |                 |                     |

EARNINGS PER SHARE

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

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|  | Three m |
|--|---------|
| In millions, except share and per share data   | 2001    |
| <hr/>  |         |
| CALCULATION OF BASIC EARNINGS PER COMMON SHARE   |         |
| Income from continuing operations  | \$295   |
| Less: Preferred dividends declared   | 5       |
| <hr/>  |         |
| Income from continuing operations applicable to basic earnings per common share        | 290     |
| Income from discontinued operations applicable to basic earnings per common share      |         |
| Cumulative effect of accounting change applicable to basic earnings per common share   |         |
| <hr/>  |         |
| Net income applicable to basic earnings per common share                               | \$290   |
| Basic weighted-average common shares outstanding (in thousands)                        | 288,269 |
| Basic earnings per common share from continuing operations                             | \$1.01  |
| Basic earnings per common share from discontinued operations                           |         |
| Basic earnings per common share from cumulative effect of accounting change            |         |
| <hr/>  |         |
| Basic earnings per common share  | \$1.01  |
| <hr/>  |         |
| CALCULATION OF DILUTED EARNINGS PER COMMON SHARE                                       |         |
| Income from continuing operations  | \$295   |
| Less: Dividends declared on nonconvertible preferred stock Series F                    | 5       |
| <hr/>  |         |
| Income from continuing operations applicable to diluted earnings per common share      | 290     |
| Income from discontinued operations applicable to diluted earnings per common share    |         |
| Cumulative effect of accounting change applicable to diluted earnings per common share |         |
| <hr/>  |         |
| Net income applicable to diluted earnings per common share                             | \$290   |
| Basic weighted-average common shares outstanding (in thousands)                        | 288,269 |
| Weighted-average common shares to be issued using average market price and assuming:   |         |
| Conversion of preferred stock Series A and B   | 107     |
| Conversion of preferred stock Series C and D   | 884     |
| Conversion of debentures   | 17      |
| Exercise of stock options  | 1,830   |
| Incentive share awards   | 309     |
| <hr/>  |         |
| Diluted weighted-average common shares outstanding (in thousands)                      | 291,416 |
| Diluted earnings per common share from continuing operations                           | \$1.00  |
| Diluted earnings per common share from discontinued operations                         |         |
| Diluted earnings per common share from cumulative effect of accounting change          |         |
| <hr/>  |         |
| Diluted earnings per common share  | \$1.00  |
| <hr/>  |         |



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### SEGMENT REPORTING

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.

### BUSINESS SEGMENT PRODUCTS AND SERVICES

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.

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

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

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

PNC Advisors provides a full range of tailored investment products and services

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

BlackRock is one of the largest publicly traded investment management firms in the United States with \$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.

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.

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### RESULTS OF BUSINESSES

| Three months ended June 30<br>In millions | Regional<br>Community<br>Banking | Corporate<br>Banking | PNC<br>Real<br>Estate<br>Finance | PNC<br>Business<br>Credit | PNC<br>Advisors | BlackRock |
|---|----------------------------------|----------------------|----------------------------------|---------------------------|-----------------|-----------|
| 2001                                      |                                  |                      |                                  |                           |                 |           |
| INCOME STATEMENT                          |                                  |                      |                                  |                           |                 |           |
| Net interest income (a)                   | \$364                            | \$128                | \$28                             | \$27                      | \$36            | \$2       |
| Noninterest income                        | 194                              | 63                   | 25                               | 6                         | 154             | 135       |
| Total revenue                             | 558                              | 191                  | 53                               | 33                        | 190             | 137       |
| Provision for credit losses               | 10                               | 31                   | (2)                              | 3                         | 1               | 6         |
| Depreciation and amortization             | 21                               | 4                    | 6                                | 8                         | 4               | 6         |
| Other noninterest expense                 | 251                              | 91                   | 34                               | 8                         | 124             | 86        |
| Pretax earnings                           | 276                              | 65                   | 15                               | 22                        | 61              | 45        |
| Income taxes                              | 99                               | 24                   | (3)                              | 8                         | 22              | 19        |
| Earnings                                  | \$177                            | \$41                 | \$18                             | \$14                      | \$39            | \$26      |
| Inter-segment revenue                     | \$1                              | \$1                  |                                  |                           | \$16            | \$5       |
| AVERAGE ASSETS                            | \$40,028                         | \$16,301             | \$5,205                          | \$2,482                   | \$3,336         | \$571     |
| 2000                                      |                                  |                      |                                  |                           |                 |           |
| INCOME STATEMENT                          |                                  |                      |                                  |                           |                 |           |
| Net interest income (a)                   | \$359                            | \$138                | \$32                             | \$25                      | \$33            | \$1       |
| Noninterest income                        | 155                              | 68                   | 25                               | 4                         | 161             | 113       |
| Total revenue                             | 514                              | 206                  | 57                               | 29                        | 194             | 114       |
| Provision for credit losses               | 10                               | 23                   | 5                                | 2                         | 3               | 5         |
| Depreciation and amortization             | 21                               | 4                    | 27                               | 7                         | 120             | 73        |
| Other noninterest expense                 | 249                              | 91                   | 27                               | 7                         | 120             | 73        |

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|                       |          |          |         |         |         |       |
|-----------------------|----------|----------|---------|---------|---------|-------|
| Pretax earnings       | 234      | 88       | 25      | 20      | 71      | 36    |
| Income taxes          | 82       | 32       | 5       | 7       | 26      | 15    |
| Earnings              | \$152    | \$56     | \$20    | \$13    | \$45    | \$21  |
| Inter-segment revenue | \$1      | \$1      |         |         | \$21    | \$3   |
| AVERAGE ASSETS        | \$38,498 | \$16,270 | \$5,826 | \$2,262 | \$3,556 | \$434 |

Six months ended June 30

In millions

2001

INCOME STATEMENT

|                               |          |          |         |         |         |       |
|-------------------------------|----------|----------|---------|---------|---------|-------|
| Net interest income (a)       | \$718    | \$268    | \$57    | \$51    | \$68    | \$4   |
| Noninterest income            | 382      | 115      | 49      | 20      | 321     | 269   |
| Total revenue                 | 1,100    | 383      | 106     | 71      | 389     | 273   |
| Provision for credit losses   | 20       | 88       | (2)     | 8       | 1       |       |
| Depreciation and amortization | 42       | 7        | 11      | 1       | 8       | 12    |
| Other noninterest expense     | 509      | 189      | 65      | 15      | 248     | 172   |
| Pretax earnings               | 529      | 99       | 32      | 47      | 132     | 89    |
| Income taxes                  | 190      | 34       | (6)     | 17      | 49      | 37    |
| Earnings                      | \$339    | \$65     | \$38    | \$30    | \$83    | \$52  |
| Inter-segment revenue         | \$2      | \$2      |         |         | \$35    | \$48  |
| AVERAGE ASSETS                | \$40,321 | \$16,618 | \$5,291 | \$2,430 | \$3,420 | \$571 |

2000

INCOME STATEMENT

|                               |          |          |         |         |         |       |
|-------------------------------|----------|----------|---------|---------|---------|-------|
| Net interest income (a)       | \$703    | \$272    | \$59    | \$49    | \$68    | \$2   |
| Noninterest income            | 288      | 148      | 44      | 8       | 330     | 221   |
| Total revenue                 | 991      | 420      | 103     | 57      | 398     | 223   |
| Provision for credit losses   | 22       | 38       |         | 2       | 3       |       |
| Depreciation and amortization | 42       | 7        | 10      | 1       | 7       | 10    |
| Other noninterest expense     | 492      | 189      | 57      | 13      | 251     | 144   |
| Pretax earnings               | 435      | 186      | 36      | 41      | 137     | 69    |
| Income taxes                  | 154      | 66       | 3       | 15      | 51      | 29    |
| Earnings                      | \$281    | \$120    | \$33    | \$26    | \$86    | \$40  |
| Inter-segment revenue         | \$2      | \$2      |         |         | \$43    | \$6   |
| AVERAGE ASSETS                | \$38,182 | \$16,110 | \$5,604 | \$2,173 | \$3,577 | \$434 |

(a) Taxable-equivalent basis

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## CONSOLIDATED AVERAGE BALANCE SHEET AND NET INTEREST ANALYSIS

|   | Six months en       |          |                             |
|---|---------------------|----------|-----------------------------|
| Dollars in millions<br>Taxable-equivalent basis                 | 2001                |          |                             |
|   | Average<br>Balances | Interest | Average<br>Yields/<br>Rates |
| <b>ASSETS</b>   |                     |          |                             |
| Interest-earning assets   |                     |          |                             |
| Loans held for sale   | \$1,864             | \$68     | 7.19%                       |
| Securities  |                     |          |                             |
| U.S. Treasury and government agencies and corporations          | 3,813               | 111      | 5.82                        |
| Other debt  | 5,966               | 185      | 6.22                        |
| Other   | 114                 | 4        | 6.39                        |
| <hr style="border-top: 1px dashed black;"/>                     |                     |          |                             |
| Total securities  | 9,893               | 300      | 6.07                        |
| Loans, net of unearned income                                   |                     |          |                             |
| Commercial  | 20,575              | 797      | 7.70                        |
| Commercial real estate  | 2,576               | 103      | 7.92                        |
| Consumer  | 9,090               | 382      | 8.49                        |
| Residential mortgage  | 10,554              | 384      | 7.27                        |
| Lease financing   | 4,024               | 145      | 7.19                        |
| Other   | 490                 | 18       | 7.36                        |
| <hr style="border-top: 1px dashed black;"/>                     |                     |          |                             |
| Total loans, net of unearned income                             | 47,309              | 1,829    | 7.72                        |
| Other   | 1,592               | 63       | 8.03                        |
| <hr style="border-top: 1px dashed black;"/>                     |                     |          |                             |
| Total interest-earning assets/interest income                   | 60,658              | 2,260    | 7.44                        |
| Noninterest-earning assets                                      |                     |          |                             |
| Investment in discontinued operations                           | 103                 |          |                             |
| Allowance for credit losses                                     | (683)               |          |                             |
| Cash and due from banks   | 2,942               |          |                             |
| Other assets  | 8,330               |          |                             |
| <hr style="border-top: 1px dashed black;"/>                     |                     |          |                             |
| Total assets  | \$71,350            |          |                             |
| <hr style="border-top: 1px dashed black;"/>                     |                     |          |                             |
| <b>LIABILITIES, CAPITAL SECURITIES AND SHAREHOLDERS' EQUITY</b> |                     |          |                             |
| Interest-bearing liabilities                                    |                     |          |                             |
| Interest-bearing deposits                                       |                     |          |                             |
| Demand and money market   | \$20,707            | 296      | 2.88                        |
| Savings   | 1,928               | 11       | 1.12                        |
| Retail certificates of deposit                                  | 13,190              | 374      | 5.73                        |
| Other time  | 551                 | 18       | 6.58                        |
| Deposits in foreign offices                                     | 1,248               | 32       | 5.05                        |
| <hr style="border-top: 1px dashed black;"/>                     |                     |          |                             |
| Total interest-bearing deposits                                 | 37,624              | 731      | 3.92                        |
| Borrowed funds  |                     |          |                             |
| Federal funds purchased   | 2,775               | 72       | 5.14                        |
| Repurchase agreements   | 1,116               | 23       | 4.04                        |
| Bank notes and senior debt                                      | 5,540               | 158      | 5.67                        |
| Federal Home Loan Bank borrowings                               | 2,001               | 52       | 5.20                        |
| Subordinated debt   | 2,386               | 86       | 7.22                        |
| Other borrowed funds  | 383                 | 10       | 5.29                        |
| <hr style="border-top: 1px dashed black;"/>                     |                     |          |                             |
| Total borrowed funds  | 14,201              | 401      | 5.63                        |
| <hr style="border-top: 1px dashed black;"/>                     |                     |          |                             |

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|  |          |         |       |
|--|----------|---------|-------|
| Total interest-bearing liabilities/interest expense            | 51,825   | 1,132   | 4.38  |
| Noninterest-bearing liabilities and shareholders' equity       |          |         |       |
| Demand and other noninterest-bearing deposits                  | 8,210    |         |       |
| Accrued expenses and other liabilities                         | 3,803    |         |       |
| Mandatorily redeemable capital securities of subsidiary trusts | 848      |         |       |
| Shareholders' equity   | 6,664    |         |       |
| -----  |          |         |       |
| Total liabilities, capital securities and shareholders' equity | \$71,350 |         |       |
| -----  |          |         |       |
| Interest rate spread   |          |         | 3.06  |
| Impact of noninterest-bearing sources                          |          |         | .64   |
| -----  |          |         |       |
| Net interest income/margin                                     |          | \$1,128 | 3.70% |
| -----  |          |         |       |

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

Loan fees for the six months ended June 30, 2001 and June 30, 2000, were \$59 million and \$60 million, respectively. For each of the three months ended June 30, 2001, March 31, 2001 and June 30, 2000 loan fees were \$30 million, \$29 million and \$31 million, respectively.

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| Second Quarter 2001 |          |                      | First Quarter 2001 |          |                      |                  |
|---------------------|----------|----------------------|--------------------|----------|----------------------|------------------|
| Average Balances    | Interest | Average Yields/Rates | Average Balances   | Interest | Average Yields/Rates | Average Balances |
| \$1,723             | \$31     | 7.05%                | \$2,005            | \$37     | 7.31%                | \$2,577          |
| 3,696               | 54       | 5.79                 | 3,933              | 57       | 5.84                 | 1,648            |
| 7,910               | 122      | 6.18                 | 4,001              | 63       | 6.32                 | 3,742            |
| 101                 | 2        | 7.33                 | 127                | 2        | 5.63                 | 619              |
| -----               |          |                      | -----              |          |                      |                  |
| 11,707              | 178      | 6.07                 | 8,061              | 122      | 6.08                 | 6,009            |

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|          |       |       |          |       |       |          |
|----------|-------|-------|----------|-------|-------|----------|
| 20,271   | 375   | 7.31  | 20,882   | 422   | 8.09  | 22,042   |
| 2,572    | 48    | 7.40  | 2,580    | 55    | 8.44  | 2,682    |
| 9,096    | 188   | 8.29  | 9,085    | 194   | 8.70  | 9,209    |
| 8,459    | 152   | 7.18  | 12,673   | 232   | 7.32  | 12,571   |
| 4,149    | 74    | 7.08  | 3,897    | 71    | 7.32  | 3,049    |
| 459      | 7     | 6.66  | 520      | 11    | 7.98  | 676      |
| <hr/>    |       |       |          |       |       |          |
| 45,006   | 844   | 7.46  | 49,637   | 985   | 7.96  | 50,229   |
| 1,562    | 30    | 7.94  | 1,831    | 33    | 7.20  | 1,276    |
| <hr/>    |       |       |          |       |       |          |
| 59,998   | 1,083 | 7.19  | 61,534   | 1,177 | 7.67  | 60,091   |
| <hr/>    |       |       |          |       |       |          |
| (684)    |       |       | 207      |       |       | 448      |
| 2,907    |       |       | (683)    |       |       | (689)    |
| 8,494    |       |       | 2,977    |       |       | 2,837    |
|          |       |       | 7,957    |       |       | 6,418    |
| <hr/>    |       |       |          |       |       |          |
| \$70,715 |       |       | \$71,992 |       |       | \$69,105 |
| <hr/>    |       |       |          |       |       |          |
| \$20,944 | 134   | 2.57  | \$20,468 | 162   | 3.20  | \$18,549 |
| 1,936    | 5     | .94   | 1,919    | 6     | 1.31  | 2,107    |
| 12,662   | 175   | 5.54  | 13,724   | 199   | 5.90  | 14,403   |
| 537      | 8     | 6.48  | 565      | 10    | 6.67  | 641      |
| 1,096    | 12    | 4.17  | 1,402    | 20    | 5.75  | 1,483    |
| <hr/>    |       |       |          |       |       |          |
| 37,175   | 334   | 3.60  | 38,078   | 397   | 4.22  | 37,183   |
| <hr/>    |       |       |          |       |       |          |
| 2,604    | 28    | 4.31  | 2,948    | 44    | 5.89  | 2,162    |
| 958      | 9     | 3.64  | 1,145    | 14    | 4.83  | 769      |
| 5,189    | 67    | 5.09  | 5,896    | 91    | 6.19  | 6,762    |
| 2,550    | 31    | 4.78  | 1,576    | 21    | 5.46  | 1,514    |
| 2,364    | 42    | 7.15  | 2,408    | 44    | 7.09  | 2,420    |
| 365      | 3     | 3.32  | 402      | 7     | 7.30  | 795      |
| <hr/>    |       |       |          |       |       |          |
| 14,030   | 180   | 5.09  | 14,375   | 221   | 6.15  | 14,422   |
| <hr/>    |       |       |          |       |       |          |
| 51,205   | 514   | 4.01  | 52,453   | 618   | 4.75  | 51,605   |
| <hr/>    |       |       |          |       |       |          |
| 8,228    |       |       | 8,190    |       |       | 8,357    |
| 3,777    |       |       | 3,830    |       |       | 2,290    |
| <hr/>    |       |       |          |       |       |          |
| 848      |       |       | 848      |       |       | 848      |
| 6,657    |       |       | 6,671    |       |       | 6,005    |
| <hr/>    |       |       |          |       |       |          |
| \$70,715 |       |       | \$71,992 |       |       | \$69,105 |
| <hr/>    |       |       |          |       |       |          |
|          |       | 3.18  |          |       | 2.92  |          |
|          |       | .59   |          |       | .70   |          |
| <hr/>    |       |       |          |       |       |          |
|          | \$569 | 3.77% |          | \$559 | 3.62% |          |
| <hr/>    |       |       |          |       |       |          |

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QUARTERLY REPORT ON FORM 10-Q  
THE PNC FINANCIAL SERVICES GROUP, INC.

Securities and Exchange Commission  
Washington, D.C. 20549

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2001.

Commission File Number 1-9718

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

By filing this amendment ("Amendment No. 1"), the undersigned registrant hereby amends its Quarterly Report on Form 10-Q for the quarter ended 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 undersigned registrant is amending and restating its entire June 2001 Form 10-Q.

As of July 31, 2001 The PNC Financial Services Group, Inc. had 287,972,782 shares of common stock (\$5 par value) outstanding.

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

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

|                              | Cross-reference   | Page(s) |
|------------------------------|---|---------|
| -----                        |   |         |
| PART I FINANCIAL INFORMATION |   |         |
| Item 1                       | Financial Statements  |         |
|                              | Consolidated Statement of Income for the three months and six months ended June 30, 2001 and 2000 | 27      |
|                              | Consolidated Balance Sheet as of June 30, 2001 and December 31, 2000                              | 28      |
|                              | Consolidated Statement of Cash Flows for the six months ended June 30, 2001 and 2000              | 29      |
|                              | Notes to Consolidated Financial Statements  | 30 - 39 |
|                              | Consolidated Average Balance Sheet and Net Interest Analysis                                      | 40 - 41 |
| Item 2                       | Management's Discussion and Analysis of Financial Condition and Results of Operations             | 3 - 26  |

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Item 3 Quantitative and Qualitative Disclosures About Market Risk 17 - 24

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PART II OTHER FINANCIAL INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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

- \*10.5 The Corporation's 1997 Long-Term Incentive Award Plan, as amended
  - \*10.6 The Corporation's 1996 Executive Incentive Award Plan, as amended
  - \*12.1 Computation of Ratio of Earnings to Fixed Charges
  - \*12.2 Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends
- 

\* Previously filed with the Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, and incorporated herein by reference.

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

Since June 30, 2001, the Corporation filed a Current Report on Form 8-K dated as of July 25, 2001, reporting the public offering of \$450,000,000 of Floating Rate Senior Notes due 2003, and \$700,000,000 of 5.75% Senior Notes due 2006, filed pursuant to Item 5.

SIGNATURES

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

THE PNC FINANCIAL SERVICES GROUP, INC.  
By: /s/ Robert L. Haunschild

-----  
Robert L. Haunschild  
Chief Financial Officer

CORPORATE INFORMATION  
THE PNC FINANCIAL SERVICES GROUP, INC.

CORPORATE HEADQUARTERS

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

STOCK LISTING



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

### INTERNET INFORMATION

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

### FINANCIAL INFORMATION

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

### INQUIRIES

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

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

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

### COMMON STOCK PRICES/DIVIDENDS DECLARED

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

|              | High     | Low      | Close    | Cash<br>Dividends<br>Declared |
|--------------|----------|----------|----------|-------------------------------|
| =====        |          |          |          |                               |
| 2001 QUARTER |          |          |          |                               |
| -----        |          |          |          |                               |
| First        | \$75.813 | \$56.000 | \$67.750 | \$.48                         |
| Second       | 71.110   | 62.400   | 65.790   | .48                           |
| -----        |          |          |          |                               |
| Total        |          |          |          | \$.96                         |
| =====        |          |          |          |                               |
| 2000 QUARTER |          |          |          |                               |
| -----        |          |          |          |                               |
| First        | \$48.500 | \$36.000 | \$45.063 | \$.45                         |
| Second       | 57.500   | 41.000   | 46.875   | .45                           |
| Third        | 66.375   | 47.625   | 65.000   | .45                           |
| Fourth       | 75.000   | 56.375   | 73.063   | .48                           |
| -----        |          |          |          |                               |
| Total        |          |          |          | \$1.83                        |
| =====        |          |          |          |                               |

### DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

The PNC Financial Services Group, Inc. Dividend Reinvestment and Stock Purchase Plan enables holders of common and preferred stock to purchase additional shares

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of common stock conveniently and without paying brokerage commissions or service charges. A prospectus and enrollment card may be obtained by writing to Shareholder Relations at corporate headquarters.

REGISTRAR AND TRANSFER AGENT

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