

RIGGS NATIONAL CORP  
Form 10-Q  
November 14, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

**For the  
quarterly  
period ended  
September 30,  
2002**

TRANSITION  
REPORT  
PURSUANT  
TO SECTION  
13 OR 15(d)  
OF THE  
SECURITIES  
EXCHANGE  
ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-9756

**RIGGS NATIONAL CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**

**52-1217953**

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

**1503 Pennsylvania Avenue, N.W., Washington, D.C.**

**20005**

(Address of principal executive offices)

(Zip Code)

**(202) 835-4309**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (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  
(or such shorter period that the registrant was required to file such reports), and  
(2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of  
common stock, as of the latest practicable date.

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**Common Stock, \$2.50 par value**

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**28,505,354**

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(Title of Class)

(Outstanding at October 31, 2002)

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**RIGGS NATIONAL CORPORATION**

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Unless otherwise indicated, all references in this Quarterly Report on form 10-Q to we, us, our, Riggs and the Company refer to Riggs National Corporation and its subsidiaries.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS-UNAUDITED

RIGGS NATIONAL CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001	2002	2001

**INTEREST INCOME**

Interest and Fees on Loans	\$ 44,432	\$ 51,076	\$132,221	\$156,438
Interest and Dividends on Securities Available for Sale	17,537	17,522	53,562	53,008
Interest on Time Deposits with Other Banks	784	2,750	1,999	11,444
Interest on Federal Funds Sold and Reverse Repurchase Agreements	2,169	3,851	6,478	12,601

Total Interest Income	64,922	75,199	194,260	233,491
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**INTEREST EXPENSE**

Interest on Deposits:

Savings and NOW Accounts	233	394	793	1,331
Money Market Deposit Accounts	4,928	5,958	14,129	21,495
Time Deposits in Domestic Offices	7,358	8,389	19,852	24,891
Time Deposits in Foreign Offices	1,638	6,806	5,828	22,840

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Total Interest on Deposits  
14,157 21,547 40,602 70,557

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Interest on Short-Term Borrowings and Long-Term Debt:

Repurchase Agreements and Other Short-Term Borrowings  
1,742 3,736 5,444 14,905  
Long-Term Debt  
1,618 1,618 4,854 4,854

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Total Interest on Short-Term Borrowings and Long-Term Debt  
3,360 5,354 10,298 19,759

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Total Interest Expense  
17,517 26,901 50,900 90,316

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Net Interest Income

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47,405	48,298	143,360	143,175
Provision for Loan Losses			
1,400	838	(268)	953

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Net Interest Income after Provision for Loan Losses  
46,005 47,460 143,628 142,222

**NONINTEREST INCOME**

Trust and Investment Advisory Income			
10,206	11,549	33,462	37,562
Service Charges and Fees			
11,557	11,620	33,892	32,979
Venture Capital Investment Losses, Net			
(3,155)	(7,785)	(13,743)	(21,662)
Other Noninterest Income			
2,549	2,390	7,701	7,498
Securities Gains, Net			
5,973	25	7,395	11,410

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Total Noninterest Income  
27,130 17,799 68,707 67,787

**NONINTEREST EXPENSE**

Salaries and Employee Benefits			
28,389	27,105	83,610	79,420
Occupancy, Net			
5,658	5,025	16,255	15,402
Data Processing Services			
5,281	5,184	15,850	15,959
Furniture, Equipment and Software			
3,795	4,857	11,091	14,219
Other Noninterest Expense			
16,182	15,353	49,146	46,205

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Total Noninterest Expense  
59,305 57,524 175,952 171,205

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Income before Taxes and Minority Interest  
13,830 7,735 36,383 38,804  
Applicable Income Tax Expense  
4,424 3,198 12,560 14,590  
Minority Interest in Income of Subsidiaries, Net of  
Taxes  
4,015 4,932 13,005 14,815

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**Net Income (Loss)**  
\$5,391 \$(395) \$10,818 \$9,399  
**EARNINGS (LOSSES) PER SHARE-**  
**Basic** \$0.19 \$(0.01) \$0.38 \$0.33  
**Diluted**  
0.19 (0.01) 0.37 0.32  
**DIVIDENDS DECLARED AND PAID PER**  
**SHARE**  
\$0.05 \$0.05 \$0.15 \$0.15

*The Accompanying Notes Are An Integral Part Of These Statements*

**RIGGS NATIONAL CORPORATION  
CONSOLIDATED STATEMENTS OF CONDITION**

(UNAUDITED)  
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

SEPTEMBER 30, 2002    DECEMBER 31, 2001    SEPTEMBER 30, 2001

**ASSETS**

Cash and Due from Banks  
\$191,227 \$179,743 \$183,389  
Federal Funds Sold and Reverse Repurchase Agreements  
555,000 629,000 429,000

Total Cash and Cash Equivalents  
746,227 808,743 612,389  
Time Deposits with Other Banks  
163,937 289,464 329,849  
Securities Available for Sale (at Market Value)  
2,192,874 1,718,638 1,454,395  
Venture Capital Investments  
49,205 56,320 62,423  
Loans  
2,843,720 2,859,921 2,899,478  
Reserve for Loan Losses  
(26,140) (29,540) (33,002)

Total Net Loans  
2,817,580 2,830,381 2,866,476  
Premises and Equipment, Net  
191,598 197,018 210,195  
Loans Held for Sale  
5,838 8,671 10,489  
Other Assets  
209,799 190,167 193,140

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Total Assets  
\$6,377,058 \$6,099,402 \$5,739,356

**LIABILITIES**

Deposits:

Noninterest-Bearing Demand Deposits  
\$614,205 \$661,823 \$528,230

Interest-Bearing Deposits:

Savings and NOW Accounts  
261,102 305,839 254,744  
Money Market Deposit Accounts  
2,133,625 1,955,483 1,766,813  
Time Deposits in Domestic Offices  
1,723,579 1,132,200 1,032,807  
Time Deposits in Foreign Offices  
289,423 466,938 685,990

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Total Interest-Bearing Deposits  
4,407,729 3,860,460 3,740,354

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Total Deposits  
5,021,934 4,522,283 4,268,584  
Repurchase Agreements and Other Short-Term Borrowings  
402,158 596,620 499,234  
Other Liabilities  
219,385 203,151 152,656  
Long-Term Debt  
66,525 66,525 66,525

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Total Liabilities  
5,710,002 5,388,579 4,986,999

**GUARANTEED PREFERRED BENEFICIAL INTERESTS IN JUNIOR  
SUBORDINATED DEFERRABLE INTEREST DEBENTURES**  
281,584 350,000 350,000

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**COMMITMENTS AND CONTINGENCIES**

**SHAREHOLDERS EQUITY**

Common Stock-\$2.50 Par Value

9/30/2002 12/31/2001 9/30/2001

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Authorized					
50,000,000	50,000,000	50,000,000			
Issued					
31,807,152	31,795,703	31,795,703			
Outstanding					
28,505,354	28,494,905	28,494,905	79,518	79,489	79,489
Additional Paid in Capital					
169,639	163,125	163,125			
Retained Earnings					
204,087	197,545	231,745			
Accumulated Other Comprehensive Gain (Loss)					
3,597	(7,979)	(645)			
Treasury Stock - 3,301,798 shares at September 30, 2002 and 3,300,798 shares at September 30 and December 31, 2001					
(71,369)	(71,357)	(71,357)			

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Total Shareholders Equity					
385,472	360,823	402,357			

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Total Liabilities and Shareholders Equity					
\$6,377,058	\$6,099,402	\$5,739,356			

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*The Accompanying Notes Are An Integral Part Of These Statements*

**RIGGS NATIONAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(UNAUDITED)**  
**(IN THOUSANDS, EXCEPT SHARE AMOUNTS)**

	COMMON STOCK \$2.50 PAR	ADDITIONAL PAID IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
Balance, December 31, 2000	\$79,254	\$162,206	\$226,616	\$(13,973)	\$382,746
Comprehensive Income:					
Net Income					
9,399					9,399
Other Comprehensive Income					
Net of Tax: (1)					
Unrealized Gain on Securities Available for Sale, Net of Reclassification Adjustments					
16,524					16,524
Unrealized Loss on Derivatives, Net of Reclassification Adjustments					
(2,642)					(2,642)
Foreign Exchange Translation Adjustments					
(554)					(554)
<hr/>					
Total Other Comprehensive Income					
13,328					13,328
<hr/>					
Total Comprehensive Income					
22,727					22,727
Issuance of Common Stock for Stock Option Plans-94,239 Shares					
235	919				1,154
Cash Dividends					
(4,270)					(4,270)
Common Stock, \$.15 per Share					
(4,270)					(4,270)
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Balance, September 30, 2001  
 \$79,489 \$163,125 \$231,745 \$(645) \$(71,357) \$402,357  
 Balance, December 31, 2001  
 \$79,489 \$163,125 \$197,545 \$(7,979) \$(71,357) \$360,823  
 Comprehensive Income:

Net Income  
     10,818      10,818  
 Other Comprehensive Income

Net of Tax: (1)

Unrealized Gain on Securities Available for Sale, Net of Reclassification  
 Adjustments  
     11,071      11,071  
 Unrealized Loss on Derivatives, Net of Reclassification Adjustments  
     (745)      (745)  
 Foreign Exchange Translation Adjustments  
     1,250      1,250

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Total Other Comprehensive Income  
     11,576

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Total Comprehensive Income  
     22,394  
 Issuance of Common Stock for Stock Option Plans-11,449 Shares  
     29   121      150  
 Repurchase of Trust Preferred Securities, Net  
     6,393      6,393  
 Common Stock Repurchase-1,000 shares  
     (12)   (12)  
 Cash Dividends   Common Stock, \$.15 per Share  
     (4,276)      (4,276)

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Balance, September 30, 2002  
 \$79,518 \$169,639 \$204,087 \$3,597 \$(71,369) \$385,472

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(1) - See Notes to the Financial Statements for gross unrealized gains or losses arising during each period and the tax effect on each item of comprehensive income.

*The Accompanying Notes Are An Integral Part Of These Statements*



**RIGGS NATIONAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**  
**(IN THOUSANDS)**

**NINE MONTHS ENDED**  
**SEPTEMBER 30,**

**2002**

**2001**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net Income

\$10,818 \$9,399

Adjustments to Reconcile Net

Income to Cash Provided By

Operating Activities:

Provision for Loan Losses

(268) 953

Unrealized Losses on Venture

Capital Investments

10,666 27,955

Losses (Gains) on Sales of Venture

Capital Investments

3,077 (6,293)

Depreciation Expense and

Amortization of Leasehold

Improvements

12,191 11,318

Gains on Sales of Securities

Available for Sale

(7,395) (11,410)

Gains on Sale of OREO

(9) (57)

Increase in Other Assets

(29,264) (8,800)

Increase in Other Liabilities

11,577 12,991

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Total Adjustments

575 26,657

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Net Cash Provided By Operating  
Activities

11,393 36,056

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**CASH FLOWS FROM  
INVESTING ACTIVITIES:**

Net Decrease In Time Deposits with  
Other Banks

125,527 36,052

Principal Collections and Maturities  
of Securities Available for Sale

8,303,206 3,504,678

Proceeds from Sales of Securities  
Available for Sale

470,142 190,041

Purchases of Securities Available for  
Sale

(9,219,690) (3,831,678)

Purchases of Venture Capital  
Investments

(7,494) (10,616)

Proceeds from Sale of Venture  
Capital Investments

866 10,265

Net Decrease in Loans

11,325 26,666

Proceeds from Sale of OREO

3,039

Net Increase in Premises and  
Equipment

(6,702) (5,728)

Other, Net

499 239

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Net Cash Used In Investing  
Activities

(319,282) (80,081)

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**CASH FLOWS FROM  
FINANCING ACTIVITIES:**

Net Increase (Decrease) in:

Demand, NOW, Savings and Money  
Market Deposit Accounts

85,787 (136,698)

Time Deposits

413,864 329,305

Repurchase Agreements and Other  
Short-Term Borrowings  
(194,462) (83,598)  
Proceeds from the Issuance of  
Common Stock  
150 1,154  
Dividend Payments Common  
(4,276) (4,270)  
Repurchase of Trust Preferred  
Securities  
(56,940)

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Net Cash Provided By Financing  
Activities  
244,123 105,893

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Effect of Exchange Rate Changes  
1,250 (554)

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Net (Decrease) Increase in Cash and  
Cash Equivalents  
(62,516) 61,314  
Cash and Cash Equivalents at  
Beginning of Period  
808,743 551,075

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Cash and Cash Equivalents at End of  
Period  
\$746,227 \$612,389

**SUPPLEMENTAL SCHEDULE  
OF CASH FLOW ACTIVITIES:**

**NONCASH ACTIVITIES:**

Trade Dated Securities  
\$103,655 \$50,789  
Loans Transferred to Other Real  
Estate/Other Assets Owned  
3,654

**CASH PAID DURING THE  
YEAR FOR:**

Interest Paid	
\$50,704	\$90,842
Income Tax Payments	
3,546	126

*The Accompanying Notes Are An Integral Part Of These Statements*

**RIGGS NATIONAL CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
(TABLES IN THOUSANDS, EXCEPT SHARE AMOUNTS)**

**NOTE 1. BASIS OF PRESENTATION**

The interim consolidated financial statements presented in this Quarterly Report on Form 10-Q are in conformity with accounting principles generally accepted in the United States of America and follow general practice within the banking industry. These principles have been applied on a consistent basis, except for the adoption of SFAS 142 as discussed in Note 11. In our opinion these interim consolidated financial statements include all normal recurring adjustments necessary to fairly present our results of operations, financial condition and cash flows. The preparation of financial statements requires the use of estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates and the results of operations for the three and nine months ended September 30, 2002 are not necessarily indicative of the results to be expected for all of 2002. For comparability, certain prior period amounts have been reclassified to conform with current period presentation. The financial statements contained herein should be read in conjunction with the financial statements and accompanying notes in our Annual Report on Form 10-K.

**NOTE 2. CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Riggs believes its critical accounting policies and estimates include determining the reserve for loan losses, valuing venture capital investments, assessing the realizability of deferred tax assets and measuring the impairment, if any, on capitalized costs associated with a long-term, fixed price contract.

**Reserve for Loan Losses**

Like all bank holding companies, Riggs maintains a reserve for anticipated loan losses. At September 30, 2002, this reserve totaled \$26.1 million, or .92% of loans. The Company believes this reserve is adequate to absorb losses inherent in the portfolio, subject to the disclosure in the following paragraph. This evaluation is based primarily on an ongoing review of large credit relationships within the portfolio and our historical experience with smaller, homogeneous credits. As part of this analysis, Riggs considers its need for a qualitative component within its reserve. Riggs also limits the ability of known problem borrowers to access unfunded loan commitments. The Company believes that it complies in all material respects with the requirements of SEC Staff Accounting Bulletin No. 102 ( Selected Loan Loss Allowance Methodology and Documentation Issues ).

Credit losses, however, are inherent to our business and, while the Company believes its credit monitoring procedures are adequate, it is possible there may be unidentified losses in the loan portfolio at September 30, 2002 that may become apparent at a future date. The establishment of loan loss reserves for problem credits that are currently unidentified or unanticipated would negatively impact future earnings. A charge, if any is needed, would generally be recorded in the segment in which the loan is recorded.

**Venture Capital Investments**

At September 30, 2002, the Company valued its venture capital portfolio at \$49.2 million. This valuation was arrived at using a variety of factors including, but not limited to: market prices, where available, and discounted, if necessary, to reflect trading history, lock-up provisions, lack of market liquidity and other factors; cost, if there is no readily determinable market price and there has not been a material event, such as a follow-on round of financing or strategic sale; a value higher than cost if indicated by additional financing which fulfills certain requirements; and analysis and commentary from a fund's Investment Manager/General Partner.

The resultant valuation of venture capital investments is subject to uncertainties in that it does not represent a negotiated value between the Company, as seller, and an independent, willing buyer that has the necessary knowledge and financial ability to complete the purchase. Additionally, if the Company attempted to sell its venture capital portfolio, particularly if we deemed it necessary to liquidate our investment within a short period of time, the actual proceeds from the sale could differ significantly from our carrying value. The recent market for the type of venture capital investments we hold has been impacted by a slowing economy, a depressed domestic equity market in which the values of publicly traded technology companies have declined drastically, and, because of these market conditions, a decline in the number of initial public offerings and acquisitions of private companies by publicly traded firms. Although these and other factors have been assessed in determining the values, because of the subjectivity in determining values, it is possible that the Company would experience a material loss if it chose to liquidate its venture capital portfolio, particularly if it attempted to do so quickly. The loss, if any, would be recorded in the Riggs Capital Partners segment.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**

## Deferred Tax Assets

Unrealized losses in our venture capital operations have resulted in the establishment of \$12.6 million of deferred tax assets as of September 30, 2002. Of this amount, \$4.8 million of these assets was established in the first nine months of 2002, with \$1.1 million established in the third quarter. These assets can be utilized to reduce taxes payable on future capital gains but must be utilized within five years of the year in which the loss is realized. Because of continuing losses in our venture capital portfolio and the lack of current suitability of alternatives to generate capital gains, Riggs has established a valuation allowance of \$5.2 million against the deferred tax assets at September 30, 2002. Of the \$5.2 million, \$2.4 million was established in the first nine months of 2002, and \$552 thousand was established in the third quarter. The Company believes that the unreserved deferred tax asset balance of \$7.4 million at September 30, 2002 will be realized through generation of future net capital gains within its venture capital operations or the implementation of alternative business strategies that generate net capital gains. Management has identified several alternative business strategies that we expect could produce sufficient capital gains to allow the deferred tax asset balance to be realized.

If sufficient net capital gains within the Company's venture capital operations are not realized in a timely manner, or if business conditions make it impossible, impractical or imprudent to implement the identified alternative strategies, an additional valuation allowance, resulting in a charge to income, for that portion of the deferred tax asset which will not be utilized, will be recorded in the Other segment.

## Impairment

In the fourth quarter of 2001, the Company recorded an \$8.4 million charge related to a long-term, fixed-price, non-cancelable project contract due to cost overruns that cannot be passed on to subcontractors or other parties to the contract. This contract involves the construction, implementation and maintenance of a computer system to be utilized by the federal government in its cash management and reporting. The contract has significant uncertainties both as to the costs to complete the contract and the development revenues resulting from the contract. At September 30, 2002, the Company has an asset of \$4.2 million related to this contract, which has been determined to be unimpaired.

There are, however, various contractual provisions that have yet to be completed. These contractual requirements are broadly defined and are, therefore, subject to variations of interpretation as to both definition and scope. Since there is uncertainty as to the future obligations of the Company under the existing contract, and since the recoverability of future costs may be dependent upon the willingness of the contractual counterparty to fund such costs, there may be future impairment associated with this contract. The amount of such losses, if any, cannot be estimated at this time. If a loss is recorded at a future date, it will be recorded in the Banking segment.

**NOTE 3. EARNINGS PER SHARE**

Earnings per share computations are as follows:

	THREE MONTHS ENDED SEPTEMBER 30, 2002		THREE MONTHS ENDED SEPTEMBER 30, 2001	
	BASIC EPS	DILUTED EPS	BASIC EPS	DILUTED EPS
Net Income (Loss) Available to Common Shareholders	\$5,391	\$5,391	\$(395)	\$(395)
Weighted-Average Shares Outstanding	28,505,393	28,505,393	28,490,836	28,490,836
Weighted-Average Dilutive Effect of Stock Option Plans	n/a	295,240	n/a	583,169

Adjusted Weighted-Average Shares Outstanding  
28,505,393 28,800,633 28,490,836 29,074,005  
**Earnings (Loss) Per Share**  
\$.19 \$.19 \$(.01) \$(.01)



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

	NINE MONTHS ENDED SEPTEMBER 30, 2002		NINE MONTHS ENDED SEPTEMBER 30, 2001	
	BASIC EPS	DILUTED EPS	BASIC EPS	DILUTED EPS
Net Income Available to Common Shareholders	\$ 10,818	\$ 10,818	\$ 9,399	\$ 9,399
Weighted-Average Shares Outstanding	28,504,684	28,504,684	28,462,881	28,462,881
Weighted-Average Dilutive Effect of Stock Option Plans	n/a	357,899	n/a	478,233

Adjusted Weighted-Average Shares Outstanding  
28,504,684 28,862,583 28,462,881 28,941,114

**Earnings (Loss) Per Share**

\$ .38 \$ .37 \$ .33 \$ .32

Approximately 3.8 million and 4.0 million stock options were outstanding at the end of September 2002 and 2001, respectively, but were not included in the computation of diluted earnings per share because the exercise prices of these options were greater than the average market price of the common shares for the period and, therefore, the effect would be antidilutive. The weighted average exercise price for these options was \$18.79 per share and \$23.58 per share at the end of the same respective periods.

**NOTE 4. OTHER COMPREHENSIVE INCOME (LOSS)**

	BEFORE - TAX AMOUNT	TAX (EXPENSE) BENEFIT	NET-OF-TAX AMOUNT
<b>NINE MONTHS ENDED SEPTEMBER 30, 2001:</b>			
Foreign Currency Translation Adjustments	\$(852)	\$298	\$(554)
Unrealized Gains (Losses) on Securities:			
Unrealized Holding Gains (Losses) Arising During Period	25,523	(8,933)	16,590
Reclassification Adjustment for (Gains) Losses Realized in Net Income	(102)	36	(66)

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Net Unrealized Gains (Losses) on  
Securities

25,421 (8,897) 16,524

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Unrealized Gains (Losses) on  
Derivatives:

Unrealized Holding Gains (Losses)

Arising During Period

(1,736) 607 (1,129)

Reclassification Adjustment for (Gains)

Losses Realized in Net Income

(2,328) 815 (1,513)

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Net Unrealized Gains (Losses) on  
Derivatives

(4,064) 1,422 (2,642)

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Other Comprehensive Income (Loss)

\$20,505 \$(7,177) \$13,328

**NINE MONTHS ENDED**

**SEPTEMBER 30, 2002:**

Foreign Currency Translation

Adjustments

\$1,923 \$(673) \$1,250

Unrealized Gains (Losses) on

Securities:

Unrealized Holding Gains (Losses)

Arising During Period

24,428 (8,550) 15,878  
Reclassification Adjustment for (Gains)  
Losses Realized in Net Income  
(7,395) 2,588 (4,807)

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Net Unrealized Gains (Losses) on  
Securities  
17,033 (5,962) 11,071

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Unrealized Gains (Losses) on  
Derivatives:

Unrealized Holding Gains (Losses)  
Arising During Period  
(3,402) 1,191 (2,211)  
Reclassification Adjustment for (Gains)  
Losses Realized in Net Income  
2,256 (790) 1,466

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Net Unrealized Gains (Losses) on  
Derivatives  
(1,146) 401 (745)

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Other Comprehensive Income (Loss)  
\$17,810 \$(6,234) \$11,576

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

## ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BALANCES

	FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	UNREALIZED GAIN (LOSS) ON SECURITIES	UNREALIZED GAIN (LOSS) ON DERIVATIVES	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
<b>NINE MONTHS ENDED SEPTEMBER 30, 2001:</b>				
Balance, December 31, 2000	\$ (4,657)	\$ (9,316)	\$ (13,973)	
Period Change	(554)	16,524	(2,642)	13,328
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Balance, September 30, 2001	\$ (5,211)	\$ 7,208	\$ (2,642)	\$ (645)
<b>NINE MONTHS ENDED SEPTEMBER 30, 2002:</b>				
Balance, December 31, 2001	\$ (5,679)	\$ (69)	\$ (2,231)	\$ (7,979)
Period Change	1,250	11,071	(745)	11,576
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Balance, September 30, 2002	\$ (4,429)	\$ 11,002	\$ (2,976)	\$ 3,597

**NOTE 5: SEGMENT PROFITABILITY**

Our reportable segments are strategic business units that provide diverse products and services within the financial services industry. We have six reportable segments: Banking, International Banking, Riggs & Company, Treasury, Riggs Capital Partners and Other. The Banking segment provides traditional banking services such as lending and deposit taking to retail, corporate and other customers. The International Banking segment includes our Washington, D.C.-based embassy banking business, the London-based banking subsidiary, Riggs Bank Europe Ltd. ( RBEL ), a branch in Berlin, and our London-based international private-client services division. Riggs & Company is the domestic private client services division that provides trust and investment management services to a broad customer base, and includes our Washington, D.C. and Miami-based international private-client services groups. The Treasury segment is responsible for asset and liability management throughout our Company. Riggs Capital Partners represents our venture capital subsidiaries, which specialize in equity investments in privately-held companies.

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The Other segment consists of our unallocated parent company income and expense, net interest income from unallocated equity, foreclosed real estate activities and other revenue or expenses not attributable to one of the other segments.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies disclosed in our December 31, 2001, Form 10-K. We account for intercompany transactions as if the transactions were to third parties under market conditions. Overhead and support expenses are allocated to each operating segment based on number of employees, service usage and other factors relevant to the expense incurred.

The segment information herein is presented as management views the segments. Revenue and expense allocation formulas and funds transfer pricing methodologies may change. If necessary, prior periods are restated to reflect material changes in the components of the segments. Prior periods have not been restated to reflect changes in our revenue and cost allocations and funds transfer pricing methodologies. In addition, revenues and expenses which are unusual or noncontrollable may be reflected in the Other segment, which is consistent with internal financial reporting, if management believes such presentation most accurately represents the remaining operating segments' performance.

Reconciliations are provided from the segment totals to our consolidated financial statements. The reconciliations of noninterest income and noninterest expense offset as these items result from intercompany transactions and the reconciliation of total average assets represents the elimination of intercompany transactions.

Significant matters affecting segment profitability are discussed in Item 2, Management's Discussion and Analysis as well as in Note 2, Critical Accounting Policies and Estimates.



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NONINTEREST INCOME

Noninterest Income-External Customers							
\$11,366	\$1,261	\$10,980	\$6,555	\$(3,067)	\$35		
Intersegment Noninterest Income							
653	2,097	570		641			

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Total Noninterest Income							
\$12,019	\$3,358	\$11,550	\$6,555	\$(3,067)	\$676	\$(3,961)	\$27,130

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NONINTEREST EXPENSE

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Depreciation and Amortization  
\$927 \$304 \$123 \$3 \$7 \$2,225

Direct Expense  
16,836 9,983 8,148 855 698 23,157

Overhead and Support  
13,426 3,234 3,175 648 125 (20,608)

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Total Noninterest Expense  
\$31,189 \$13,521 \$11,446 \$1,506 \$830 \$4,774 \$(3,961) \$59,305

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Income (Loss) Before Taxes and Minority Interest  
\$9,634 \$4,269 \$3,509 \$3,397 \$(4,737) \$(2,242) \$ 13,830

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Intersegment Noninterest Income

807 1,966 578 641

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Total Noninterest Income

\$12,051 \$3,246 \$12,731 \$237 \$(7,192) \$718 \$(3,992) \$17,799

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NONINTEREST EXPENSE

Depreciation and Amortization

\$1,065 \$359 \$220 \$4 \$7 \$2,336

Direct Expense

17,659 9,531 8,796 969 1,045 19,525

Overhead and Support

13,140 3,391 2,904 565 93 (20,093)

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Total Average Assets

\$2,831,945 \$854,762 \$92,209 \$2,758,064 \$86,253 \$853,714 \$(1,921,327) \$5,555,620

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NONINTEREST INCOME

Noninterest Income-External Customers							
\$32,554	\$3,472	\$35,973	\$9,951	\$(13,488)	\$245		
Intersegment Noninterest Income							
2,055	7,780	1,798		1,924			

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Total Noninterest Income							
\$34,609	\$11,252	\$37,771	\$9,951	\$(13,488)	\$2,169	\$(13,557)	\$68,707

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NONINTEREST EXPENSE

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Depreciation and Amortization

\$2,776 \$902 \$375 \$9 \$21 \$6,569

Direct Expense

51,728 30,951 27,274 2,677 2,108 64,119

Overhead and Support

39,228 9,295 9,494 1,727 328 (60,072)

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Total Noninterest Expense

\$93,732 \$41,148 \$37,143 \$4,413 \$2,457 \$10,616 \$(13,557) \$175,952

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Income (Loss) Before Taxes and Minority Interest

\$32,237 \$5,235 \$10,784 \$6,987 \$(18,548) \$(312) \$ 36,383

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Intersegment Noninterest Income  
2,489 5,576 1,830 1 1,924

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Total Noninterest Income  
\$34,745 \$8,817 \$41,481 \$2,119 \$(21,133) \$13,578 \$(11,820) \$67,787

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NONINTEREST EXPENSE

Depreciation and Amortization  
\$3,198 \$1,057 \$644 \$12 \$22 \$6,954  
Direct Expense  
51,531 29,153 28,120 2,944 6,094 53,296  
Overhead and Support  
39,404 9,822 7,971 1,719 285 (59,201)

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Total Average Assets

\$2,739,725 \$851,244 \$93,960 \$2,527,073 \$89,264 \$866,663 \$(1,740,669) \$5,427,260

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED****NOTE 6: ACCOUNTING FOR DERIVATIVES**

Under the provisions of SFAS 133, *Accounting for Derivative Investments and Hedging Activities*, which was amended by SFAS 138, all derivatives must be recognized as assets or liabilities in the Consolidated Statements of Condition and must be measured at fair value through adjustments to either Other Comprehensive Income or current earnings, depending on the purpose of the derivative. When a derivative contract is entered into, we first determine whether or not it qualifies as a hedge. If it does, we designate it as (1) a hedge of the fair value of a recognized asset or liability, (2) a hedge of actual or forecasted cash flows or (3) a hedge of a net investment in a foreign operation. Changes in the fair value of a derivative that is designated a fair value hedge and qualifies as a highly effective hedge, along with any gain or loss on the hedged asset or liability attributable to the hedged risk, are recorded in current period earnings. The effective portion of changes in fair value of a derivative that is designated a cash flow hedge and that qualifies as a highly effective hedge is recorded in Other Comprehensive Income until such time as periodic settlements on a variable rate hedged item are recorded in earnings. The ineffective portion of changes in fair value of cash flow derivatives is recorded in current period earnings. Changes in the fair value of a derivative designated as a foreign currency hedge and that qualifies as a highly effective hedge are either recorded in current earnings, Other Comprehensive Income, or both, depending on whether the transaction is a fair value hedge or a cash flow hedge. If a derivative is used as a hedge of a net investment in a foreign operation, changes in its fair value, to the extent effective as a hedge, are recorded in Other Comprehensive Income. (See Note 4 for the impact to Other Comprehensive Income.)

The Company has the following hedging instruments at September 30, 2002:

**Fair Value Hedges** We enter into pay fixed, receive floating interest rate swaps to hedge changes in fair value of fixed rate loans attributable to changes in benchmark interest rates. At June 30, 2002, all of the hedged loans were reclassified as Held For Sale based upon a signed sales agreement which called for the loans to be sold at a small discount to face value. Upon reclassification of these loans, the Company ceased hedge accounting. During the third quarter of 2002, we had no fair value hedges. For the first nine months of 2002, we recognized a net loss of \$22 thousand which represented the ineffective portion of all fair value hedges. We recognized a net loss of \$30 thousand during the same period for 2001. These amounts are included in Other Noninterest Income in the Consolidated Statements of Operations.

**Cash Flow Hedges** We use interest rate swaps to hedge the exposure to variability in expected future cash outflows on floating rate liabilities attributable to changes in interest rates. We also use foreign currency forward contracts to hedge the foreign exchange risk associated with principal and interest payments on loans denominated in a foreign currency. For the nine months ending September 30, 2001 and 2002, there was no impact to Other Noninterest Income in the Consolidated Statements of Operations for the ineffective portion of all cash flow hedges.

Gains or losses on derivatives that are reclassified from Accumulated Other Comprehensive Income to income are included in the line in the Consolidated Statements of Operations in which the income or expense related to the hedged item is recorded. At September 30, 2002, \$135 thousand of deferred net gains on derivative instruments in Accumulated Other Comprehensive Income is expected to be reclassified as expense during the next twelve months compared to \$220 thousand of deferred net losses at September 30, 2001. The maximum term over which we were hedging our exposure to the variability of cash flows was 33 months as of September 30, 2002 and 45 months as of September 30, 2001.

The Company uses forward exchange contracts to hedge substantially all of our net investment in a foreign subsidiary. The purpose of this hedge is to protect against adverse movements in currency exchange rates. At September 30, 2002, \$572 thousand of net losses related to the existing net investment forward exchange contract are included in Accumulated Other Comprehensive Income compared to \$271 thousand of net losses at September 30, 2001.

**Other** As of September 30, 2002, we had certain derivative instruments used to manage interest rate risk that were not designated to specific hedge relationships, including the interest rate swaps mentioned above that previously had been classified as fair value hedges. The carrying value of these items is a net liability of \$755 thousand and they are marked to market through current period earnings. The carrying value at September 30, 2001 was a net liability of \$1.1 million.

**NOTE 7: REPURCHASE OF TRUST PREFERRED SECURITIES**

In the third quarter of 2002, we repurchased, in a cash transaction, \$2.7 million of trust preferred securities at a blended interest rate of 8.86%. This resulted in after-tax annual savings of \$155 thousand in minority interest expense. The repurchase was at a discount and resulted in a direct after-tax increase to shareholders' equity of \$233 thousand.

In the first nine months of 2002, we repurchased, in cash transactions, \$68.4 million of trust preferred securities at a blended interest rate of 8.66%.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**

This resulted in after-tax annual savings of \$3.9 million in minority interest expense. The repurchases were at a discount and resulted in a direct after-tax increase to shareholders' equity of \$6.4 million.

Since cash was utilized to repurchase the trust preferred securities, this cash will be unavailable for alternative investments. The repurchase of the trust preferred securities primarily impacts the Other segment.

**NOTE 8: RESTRUCTURING LIABILITY**

In the fourth quarter of 2001, we recorded a restructuring charge of approximately \$4.4 million. A summary of the activity in the liabilities established for restructuring costs from January 1, 2002, to September 30, 2002, is as follows:

Description	Balance at December 31, 2001	Amount Charged to Expense	Deductions	Balance at September 30, 2002
Restructuring Expense	\$2,720	\$	\$1,552	\$1,168

We anticipate the remaining reserve will be substantially utilized by December 31, 2002.

**NOTE 9: ENHANCING PERFORMANCE AND SERVICE**

The Company has retained the services of a consultant to identify and evaluate alternative data processing providers and to identify and implement process improvement and revenue enhancement opportunities. Pending formalization of a contractual relationship with this consultant, we have paid and expensed \$2.0 million to this consultant, of which \$1.0 million was expensed during the quarter ended September 30, 2002. Subsequent to September 30, 2002, we paid this consultant an additional \$1.0 million which is refundable to the Company if agreed upon levels of revenue increases or expense decreases are not realized. Failure of the Company and the consultant to formalize their relationship may result in a liability to the Company that exceeds both the amount expensed and paid to the consultant through September 30, 2002 and the amount paid subsequent to September 30, 2002.

During the third quarter of 2002, the Company capitalized \$213 thousand of costs related to the implementation of new technology that will be provided by a third party service provider. This amount, and an additional \$440 thousand which has been incurred since the end of the quarter, have been recorded as a deferred expense and will be amortized over the agreed upon contractual term. If the Company and the third party service provider fail to reach a contractual agreement, which we believe is unlikely, the Company will seek alternative providers and the amount currently recorded as a deferred expense will be expensed.

As a result of the upgrade of its technology, during the second quarter of 2002 the Company recorded a \$1.1 million write-off of a teller system which was in the process of development and which will not be compatible with our future technology (see Noninterest Expense in Item 2 Management's Discussion and Analysis). The implementation of the new technology may require the recognition of additional expenses such as penalties to exit maintenance, service and other contractual relationships as well as shortening the estimated useful lives of capitalized assets that will not be useful in the new environment. The impact of these increased costs on 2002 operations cannot be reasonably estimated at this time.

**NOTE 10: RELATED PARTY TRANSACTIONS**

During the nine months ended September 30, 2002, we entered into various transactions with officers and directors of the Company and its affiliates as well as with their associates. These transactions were of a similar nature to those described in our Annual Report on Form 10-K for the year ended December 31, 2001.

**NOTE 11: NEW FINANCIAL ACCOUNTING STANDARDS**

SFAS 142, Goodwill and Other Intangible Assets, was issued in June 2001. It discontinues amortization of intangible assets unless they have finite useful lives, and, instead, requires that they be tested at least annually for impairment by comparing their fair values with their recorded amounts. SFAS 142 also requires disclosure of the changes in the carrying amounts of goodwill from period to period, the carrying amounts of



intangible

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**

assets by major intangible asset class for those subject to and not subject to amortization, and the estimated intangible asset amortization expense for the next five years. Since SFAS 142 was required to be implemented starting with fiscal years beginning after December 15, 2001, we discontinued the amortization of goodwill beginning on January 1, 2002. We adopted SFAS 142 as of January 1, 2002, and our analysis indicated that goodwill is not impaired.

Data concerning various intangible assets is as follows:

	<u>SEPTEMBER 30, 2002</u>		<u>DECEMBER 31, 2001</u>		<u>SEPTEMBER 30, 2001</u>	
	<u>GROSS</u>	<u>CARRYING</u>	<u>GROSS</u>	<u>CARRYING</u>	<u>GROSS</u>	<u>CARRYING</u>
	<u>VALUE</u>	<u>AMORTIZATION</u>	<u>VALUE</u>	<u>AMORTIZATION</u>	<u>VALUE</u>	<u>AMORTIZATION</u>
Amortizable Core Deposit Intangibles	\$ 10,881	\$ (10,742)	\$ 10,881	\$ (10,673)	\$ 10,881	\$ (10,641)
Amortizable Fair Value of Leasehold Improvements	3,955	(3,745)	3,955	(3,690)	6,637	(3,614)
Unamortizable Goodwill	12,602	(5,908)	12,602	(5,908)	12,602	(5,747)

Amortization Expense:

	<u>LEASEHOLD FAIR VALUE ADJUSTMENT</u>	<u>CORE DEPOSIT INTANGIBLES</u>	<u>GOODWILL</u>
Actual:			
Nine Months Ended September 30, 2002	\$56	\$69	\$
Nine Months Ended September 30, 2001	227	96	484
Expected:			
Three months ended December 31, 2002	\$18	\$23	\$
Twelve months ended December 31, 2003	74	59	
Twelve months ended December 31, 2004	74	33	
Twelve months ended December 31, 2005	22	14	
Twelve months ended December 31, 2006	22	5	
Twelve months ended December 31, 2007	5		

The comparable effects of the adoption of SFAS 142 for the three and nine months follow:

<u>THREE MONTHS ENDED SEPTEMBER 30,</u>	<u>NINE MONTHS ENDED SEPTEMBER 30,</u>
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	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Reported Net Income	\$ 5,391	\$ (395)	\$ 10,818	\$ 9,399
Add Back: Goodwill Amortization, Net of Tax				
105     315				

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Adjusted Net Income  
 \$5,391 \$(290) \$10,818 \$9,714  
 Reported Basic Earnings Per Share  
 \$0.19 \$(0.01) \$0.38 \$0.33  
 Add Back: Goodwill Amortization Per Share, Net of Tax  
                   0.01

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Adjusted Basic Earnings Per Share  
 \$0.19 \$(0.01) \$0.38 \$0.34  
 Reported Diluted Earnings Per Share  
 \$0.19 \$(0.01) \$0.37 \$0.32  
 Add Back: Goodwill Amortization Per Share, Net of Tax  
                   0.01

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Adjusted Diluted Earnings Per Share  
 \$0.19 \$(0.01) \$0.37 \$0.33

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**

SFAS 143, *Accounting for Asset Retirement Obligations*, also was issued in June 2001. SFAS 143 addresses accounting and reporting for legal obligations and related costs associated with the retirement of long-lived assets. The Statement requires that the fair value of the liability for an asset retirement obligation be recognized in the period incurred if a reasonable estimate of fair value can be made. The estimated retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. We have determined that SFAS 143 will not have a material impact on the Company.

SFAS 144, *Accounting for Impairment of Disposal of Long-Lived Assets*, was issued in August 2001 and is effective for the Company's 2002 fiscal year. This Statement retains existing requirements to recognize impairment only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cashflows and measure any impairment loss as the difference between the carrying amount and the fair value of the asset. SFAS 144 a) excludes goodwill from its scope, b) allows for probability-weighted cash flow estimation techniques when measuring for impairment, c) requires that, for any asset to be abandoned, the depreciable life be adjusted and the cumulative impact of such change treated as an accounting change and d) an impairment loss be recognized at the date a long-lived asset is exchanged for a similar productive asset or distributed to owners in a spinoff if the carrying value of the asset exceeds its fair value. Adoption of this Statement has not had a material impact on the Company.

SFAS 145, *Rescission of FASB Statements 4, 44, and 64, Amendment of FASB Statement 13, and Technical Corrections as of April 2002*, was issued in May 2002. SFAS 145 rescinds FASB Statement No. 4, *Reporting Gains and Losses from Extinguishment of Debt*, and an amendment of that Statement, FASB Statement 64, *Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements*. This Statement also rescinds FASB Statement 44, *Accounting for Intangible Assets of Motor Carriers*. This Statement amends FASB Statement 13, *Accounting for Leases*, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meaning, or describe their applicability under changed conditions. This statement will not have an impact on the Company.

SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*, was issued in June 2002. It addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity*. Unlike EITF 94-3, SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, instead of at the date of an entity's commitment to an exit plan. This statement does not affect the Company at the present time, but will be complied with when and if it becomes necessary.

**RIGGS NATIONAL CORPORATION**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**OVERVIEW**

You should read the following discussion and analysis along with our consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q. The following discussion and analysis contains forward-looking statements that are subject to risks, uncertainties and other factors that could cause our actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. See Cautionary Note Regarding Forward-Looking Statements.

Riggs National Corporation is a bank holding company headquartered in Washington, D.C. The Company engages in a variety of banking and financial services including community, commercial and international banking, trust and investment management services and venture capital investing. With the exception of venture capital investing, the activities of the Company are conducted through its principal operating subsidiary, Riggs Bank National Association and its subsidiaries and divisions. Venture capital investing is performed through two subsidiaries of the Company, Riggs Capital Partners and Riggs Capital Partners II.

We have 48 branch locations and 138 ATMs in the metropolitan Washington, D.C. area and a bank in the United Kingdom, Riggs Bank Europe Ltd. We have additional operations or subsidiaries in London, England; Miami, Florida; Berlin, Germany; and Jersey, Channel Islands. Riggs and Company International Ltd. also is located in London. We serve an array of customers including individuals, partnerships, corporations, foundations, not-for-profit organizations and foreign embassies and delegations.

The Company faces significant competitive pressure from local, regional, national and international banking institutions as well as thrifts, finance companies, credit unions, brokerage and insurance companies, and other financial intermediaries. Many of the Company's competitors are larger and have greater financial resources than we have. We compete on the basis of our reputation, localized decision-making, interest rates, convenient locations, hours of operations and quality of customer service.

The Company is also affected by prevailing economic conditions, including federal monetary and fiscal policies, federal regulations of financial institutions and the perceptions of customers regarding stability of financial markets and the financial services industry. These factors also affect the operations of all of the Company's segments. In addition, the International Banking segment is affected by the political, social and economic environments in those countries in which it does business.

**RESULTS OF OPERATIONS**

We recorded earnings of \$5.4 million, or \$0.19 per diluted share, for the third quarter of 2002, compared to a net loss of \$395 thousand, or \$0.01 per diluted share, in the third quarter of 2001. For the first nine months of 2002, we had net income of \$10.8 million, or \$0.37 per diluted share, compared with net income of \$9.4 million, or \$0.32 per diluted share, for the first nine months of 2001. The increase in the third quarter of 2002 was due primarily to larger securities gains and smaller venture capital losses than in the same period in 2001. Securities gains in the third quarter of 2002 were \$6.0 million compared to \$25 thousand in 2001, and venture capital losses were \$3.2 million compared to \$7.8 million a year ago. The increase in net income for the first nine months of 2002 resulted primarily from lower venture capital losses than those incurred for the corresponding periods in 2001. For the first nine months of 2001, the losses totaled \$21.7 million versus \$13.7 million for the first nine months of this year.

Return on average assets was .34% and .24% for the three and nine months ended September 30, 2002, compared to (.03)% and .23% for the same periods a year ago. Return on average shareholders' equity was 5.60% and 3.90%, compared to (.40)% and 3.20% for the three and nine months ended September 30, 2002 and 2001, respectively.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED**

**NET INTEREST INCOME**

Net interest income on a tax-equivalent basis (net interest income plus an amount equal to the tax savings on tax-exempt interest) totaled \$48.5 million in the third quarter of 2002, a decrease of \$418 thousand from the \$48.9 million for the same quarter in 2001. For the nine months ended September 30, 2002, net interest income increased \$987 thousand to \$146.1 million from \$145.1 million for the same period a year ago. The decrease for the three months was primarily due to a larger decrease in interest income (from \$75.8 million to \$66.0 million) than in interest expense (from \$26.9 million to \$17.5 million). For the nine months, net interest income increased primarily because of a larger decrease in interest expense (from \$90.3 million to \$50.9 million) than in interest income (from \$235.4 million to \$197.0 million). Decreases in interest rates were the major contributor to the declines in both interest income and interest expense. As interest rates have decreased throughout 2002, the Company has found it increasingly difficult to pass on these decreases to its deposit customers whereas loans and other assets have repriced more quickly.

For the three months ended September 30, 2002, compared to the comparable quarter in the prior year, the net interest margin decreased from 3.90% to 3.40%, and for the nine months ended September 30, 2002, it decreased from 3.99% to 3.63%. The decrease in interest rates noted above was a significant reason for the margin decline. In addition, margin is impacted by the amount of deposits that the U.S. Government and its agencies place on deposit at Riggs. Since these deposits have a lower spread relationship than that obtainable in the general marketplace, the more kept on deposit at Riggs by these entities, the lower margin Riggs is generally able to attain and, conversely, the lower the amount of deposits that these institutions keep on deposit with us, generally, the higher the margin we attain. These deposits have a lower spread relationship since they must be collateralized by government securities, which generally yield less than loans of comparable maturities.

An analysis of the changes in interest income and expense attributable to volume and rate changes follows:

**NET INTEREST INCOME CHANGES (1)**

(TAX-EQUIVALENT BASIS) (IN THOUSANDS)	THREE MONTHS ENDED SEPTEMBER 30, 2002 VS. 2001			NINE MONTHS ENDED SEPTEMBER 30, 2002 VS. 2001		
	DUE TO RATE	DUE TO VOLUME	TOTAL CHANGE	DUE TO RATE	DUE TO VOLUME	TOTAL CHANGE
Interest Income:						
Loans, Including Fees	\$(6,129)	\$(40)	\$(6,169)	\$(20,570)	\$(2,845)	\$(23,415)
Securities Available for Sale	(7,790)	7,805	15	(19,979)	20,533	554
Time Deposits with Other Banks	(1,088)	(878)	(1,966)	(6,244)	(3,201)	(9,445)
Federal Funds Sold and Reverse Repurchase Agreements	(2,215)	533	(1,682)	(9,124)	3,001	(6,123)

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Total Interest Income

(17,222) 7,420 (9,802) (55,917) 17,488 (38,429)

Interest Expense:

Interest-Bearing Deposits

(11,299) 3,909 (7,390) (40,455) 10,500 (29,955)

Repurchase Agreements and Other Short-Term Borrowings

(1,686) (308) (1,994) (8,691) (770) (9,461)

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Total Interest Expense

(12,985) 3,601 (9,384) (49,146) 9,730 (39,416)

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Net Interest Income

\$(4,237) \$3,819 \$(418) \$(6,771) \$7,758 \$987

- (1) - The dollar amount of changes in interest income and interest expense attributable to changes in rate/volume (change in rate multiplied by change in volume) has been allocated between rate and volume variances based on the percentage relationship of such variances to each other. Income and rates are computed on a tax-equivalent basis using a Federal income tax rate of 35% and local tax rates as applicable.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED**

An analysis of the changes in our average Statements of Condition and changes to our margin follows:

(TAX-EQUIVALENT BASIS) (1) (IN THOUSANDS)	THREE MONTHS ENDED SEPTEMBER 30, 2002		THREE MONTHS ENDED SEPTEMBER 30, 2001	
	AVERAGE BALANCE	INCOME/ EXPENSE RATE	AVERAGE BALANCE	INCOME/ EXPENSE RATE
<b>ASSETS</b>				
Loans (2)	\$2,906,844	\$45,526 6.21%	\$2,909,096	\$51,695 7.05%
Securities Available for Sale (3)	2,070,804	17,537 3.36	1,316,179	17,522 5.28
Time Deposits with Other Banks	191,810	784 1.62	327,646	2,750 3.33
Federal Funds Sold and Reverse Repurchase Agreements	493,738	2,169 1.74	426,537	3,851 3.58
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Total Earning Assets and Average Rate Earned (5)	5,663,196	66,016 4.62	4,979,458	75,818 6.04
Reserve for Loan Losses	(25,393)	(33,788)		
Cash and Due from Banks	169,633	144,431		
Other Assets	432,828	465,519		
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Total Assets

\$6,240,264      \$5,555,620

**LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS  
EQUITY**

Interest-Bearing Deposits

\$4,445,897   \$14,157   1.26%   \$3,670,742   \$21,547   2.33%

Repurchase Agreements and Other Short-Term Borrowings

421,142   1,742   1.64   462,380   3,736   3.21

Long-Term Debt (6)

66,525   1,618   9.73   66,525   1,618   9.73

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Total Interest-Bearing Funds and Average Rate Paid

4,933,564   17,517   1.41   4,199,647   26,901   2.54

Demand Deposits (4)

514,900      508,965

Other Liabilities

127,360      100,452

Minority Interest in Preferred Stock of Subsidiaries

282,735      350,000

Shareholders' Equity

381,705      396,556

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Total Liabilities, Minority Interest and Shareholders' Equity

\$6,240,264      \$5,555,620

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**NET INTEREST INCOME AND SPREAD**

\$48,499 3.21% \$48,917 3.50%

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**NET INTEREST MARGIN ON EARNING ASSETS**

3.40% 3.90%

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- (1) - Income and rates are computed on a tax-equivalent basis using a Federal income tax rate of 35% and local tax rates as applicable.
- (2) - Loans held for sale and nonperforming loans are included in average balances used to determine rates.(3) - The averages and rates for the securities available for sale portfolio are based on amortized cost.(4) - Demand deposit balances for all

periods  
presented  
exclude certain  
accounts  
transferred to  
the money  
market  
classification to  
reduce the level  
of deposit  
reserves  
required.(5) -  
Includes loans  
held for sale  
but excludes  
venture capital  
investments(6) -  
Rate calculated  
on a 30/360  
basis

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED**

(TAX-EQUIVALENT BASIS) (1) (IN THOUSANDS)	NINE MONTHS ENDED SEPTEMBER 30, 2002		NINE MONTHS ENDED SEPTEMBER 30, 2001	
	AVERAGE BALANCE	INCOME/EXPENSE RATE	AVERAGE BALANCE	INCOME/EXPENSE RATE
<b>ASSETS</b>				
Loans (2)	\$2,850,615	6.33%	\$2,903,502	7.29%
Securities Available for Sale (3)	1,822,584	3.93	1,232,870	5.75
Time Deposits with Other Banks	213,534	1.25	339,279	4.51
Federal Funds Sold and Reverse Repurchase Agreements	494,271	1.75	380,900	4.42
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Total Earning Assets and Average Rate Earned (5)	5,381,004	4.89	4,856,551	6.48
Reserve for Loan Losses	(26,991)		(34,782)	
Cash and Due from Banks	168,787		139,059	
Other Assets	435,250		466,432	
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Total Assets  
 \$5,958,050      \$5,427,260

**LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS  
 EQUITY**

Interest-Bearing Deposits  
 \$4,133,987 \$40,602 1.31% \$3,532,541 \$70,557 2.67%  
 Repurchase Agreements and Other Short-Term Borrowings  
 453,409 5,444 1.61 479,446 14,905 4.16  
 Long-Term Debt (6)  
 66,525 4,854 9.73 66,525 4,854 9.73

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Total Interest-Bearing Funds and Average Rate Paid  
 4,653,921 50,900 1.46 4,078,512 90,316 2.96  
 Demand Deposits (4)  
 509,862      511,277  
 Other Liabilities  
 117,283      94,750  
 Minority Interest in Preferred Stock of Subsidiaries  
 305,693      350,000  
 Shareholders' Equity  
 371,291      392,721

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Total Liabilities, Minority Interest and Shareholders' Equity  
 \$5,958,050      \$5,427,260

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**NET INTEREST INCOME AND SPREAD**

\$146,083 3.43% \$145,096 3.52%

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**NET INTEREST MARGIN ON EARNING ASSETS**

3.63% 3.99%

- (1) - Income and rates are computed on a tax-equivalent basis using a Federal income tax rate of 35% and local tax rates as applicable.
- (2) - Loans held for sale and nonperforming loans are included in average balances used to determine rates.(3) - The averages and rates for the securities available for sale portfolio are based on amortized cost.(4) - Demand deposit balances for all periods presented

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exclude certain  
 accounts  
 transferred to  
 the money  
 market  
 classification to  
 reduce the level  
 of deposit  
 reserves  
 required.(5) -  
 Includes loans  
 held for sale  
 but excludes  
 venture capital  
 investments(6) -  
 Rate calculated  
 on a 30/360  
 basis

The composition of average earning assets and average interest-bearing liabilities is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Total Loans	51%	58%	53%	60%
Securities Available for Sale				
37 26 34 25				
Time Deposits with Other Banks				
3 7 4 7				
Federal Funds Sold & Reverse Repurchase Agreements				
9 9 9 8				

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100% 100% 100% 100%

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Interest-Bearings Deposits

90% 87% 89% 86%

Repurchase Agreements & Other Short-Term Borrowings

9 11 10 12

Long-Term Debt

1 2 1 2

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100% 100% 100% 100%

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED**

**NONINTEREST INCOME**

Noninterest income for the third quarter of 2002 totaled \$27.1 million, an increase of 52% from the \$17.8 million in the third quarter of 2001. This increase resulted primarily from securities gains of \$6.0 million in the third quarter of this year, compared to securities gains of \$25 thousand in the third quarter of 2001, and a \$4.6 million reduction in venture capital losses compared to the prior year. These were partially offset by a decline in trust and investment advisory income of \$1.3 million.

For the nine months ended September 30, 2002, noninterest income totaled \$68.7 million, an increase of \$900 thousand from the \$67.8 million recorded in the first nine months of 2001. This increase was due to a reduction in venture capital losses of \$7.9 million year to year and an increase in service charges and fees of \$913 thousand. Offsetting these factors were a reduction in securities gains of \$4.0 million compared to the same period for 2001 and a decline in trust and investment advisory income of \$4.1 million from the prior year. This year to year decline in trust and investment advisory income was caused primarily by the lower market value of assets under management which decreased 6% from \$6.84 billion in September 2001 to \$6.45 billion in September 2002. Another factor impacting this business activity was the general uncertainty concerning the performance of the stock market. New and existing clients were more inclined to seek less volatile investments, such as fixed income products which typically have lower fee schedules than equity products.

The 2002 securities gains were recorded in conjunction with the Company's shortening of the duration of its portfolio. Substantially all of the prior year's securities gains were attributable to the sale of Concord EFS, Inc., a company in which we had an equity investment for many years.

While the decline in trust and investment advisory income for the nine month period was primarily attributable to the decline in the value of assets under management, it also was adversely impacted by the second quarter 2002 renegotiation of a 10-year agreement with the real estate advisor to the Multi-Employer Property Trust, an open commingled real estate fund. This advisor now will perform all asset management for the fund, but we will continue as trustee, investment manager and custodian, and will provide portfolio-level financial and valuation reporting. The new agreement, which became effective on July 15, 2002, resulted in a reduction in revenue for this business activity for the quarter ended September 30, 2002, of approximately \$717 thousand from the same quarter of 2001 and a reduction of approximately \$168 thousand for the nine month period.

Trust and investment advisory income impacts the Riggs & Company segment while venture capital losses impact the Riggs Capital Partners segment. The prior year securities gains impacted the Other segment. Service charge income primarily impacts the Banking segment.

**NONINTEREST EXPENSE**

Noninterest expense for the three months ended September 30, 2002, was \$59.3 million, an increase of \$1.8 million from the \$57.5 million reported for the three months ended September 30, 2001. For the nine months ended September 30, 2002, noninterest expense totaled \$176.0 million, an increase of \$4.7 million from the same period a year ago. This increase was due principally to increased consulting expenses related to the performance and service improvement initiative, and higher pension and other employee benefit costs, in particular those related to our 401(k) Plan. Partially offsetting these increases were decreases in outsourcing fees and expenses for purchased software of \$1.1 million and \$1.4 million, respectively.

Consulting expenses increased \$1.4 million due to the initiative discussed above. As part of our overall technology upgrade, we also wrote off the previously disclosed \$1.1 million in costs related to prior development of an information system to support bank tellers, which will not be compatible with our future technology. Consulting expenses affect primarily the Other segment.

Effective January 1, 2002, we increased our matching of employee 401(k) Plan contributions from \$0.50 for every dollar contributed (up to 6% of eligible wages) to a dollar-for-dollar match (up to 6% of eligible wages). This change in matching resulted in an increase in compensation expense of \$1.7 million for the first nine months of 2002 versus the same period of 2001. Pension and other employee benefit costs affect all segments with the exception of Riggs Capital Partners.

We periodically perform strategic reviews of our business operations including, but not limited to, operating segments, sub-segments, products, delivery channels and back-office operations to ensure that levels of performance either meet current or required performance or can be modified in such a way and within a reasonable timeframe so as to meet these requirements. If it is determined that our requirements cannot be met in a satisfactory way and timeframe, we may sell, wind-down, abandon or take any other measures deemed necessary and prudent for the long-term benefit of the Company. Any costs related to exiting an activity will be recognized when they are determined to be probable of occurring and are reasonably estimable. Any gain related to exiting an activity will be recognized when it is realized.



**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED**

In July 2002, the Company awarded 370,000 of its common shares to certain key executives. This award will vest in equal amounts through December 2006. In the third quarter of 2002, we recorded \$323 thousand of expense related to this award which is recorded in Salaries and Benefits in the Consolidated Statements of Operations. We anticipate recording \$646 thousand of expense related to this award in 2002 and approximately \$1.3 million of expense in each of the next four calendar years. To obtain this award, however, the individual to whom it was granted must be employed by the Company on the date of distribution each year. Projected expense amounts, therefore, could vary.

Also in July 2002, the Company awarded up to 161,909 shares of its common stock to certain key executives which will be earned if the Company achieves defined financial performance goals in 2002. If these financial performance goals are achieved, the stock will vest in equal amounts on March 15, 2003, 2004 and 2005. The recipients of the awards must be employed on the vesting date to receive the award. We have not recorded any expense related to this plan through September 30, 2002 since management believes that minimum annual financial performance objectives will not be met. If the Company does attain its 2002 financial performance objectives, an expense equal to a pro-rata amount of the shares awarded multiplied by the market price per share will be recorded. If earned, the minimum number of shares to be awarded is 137,623 and the maximum number of shares to be awarded is 161,909.

**FINANCIAL CONDITION**

**SECURITIES**

Securities available for sale totaled \$2.19 billion as of September 30, 2002, compared to \$1.72 billion as of year-end 2001 and \$1.45 billion as of September 30, 2001. The activity for the first nine months of 2002 included purchases of securities available for sale totaling \$9.22 billion, which were mostly offset by maturities and calls, principal payments and sales of securities available for sale totaling \$8.76 billion. The weighted-average duration and yield for the portfolio, adjusted for anticipated prepayments, were approximately .6 years and 3.73%, respectively, as of September 30, 2002. As of September 30, 2001, the weighted-average duration and yield were 1.8 years and 4.87%, respectively.

	SEPTEMBER 30, 2002		SEPTEMBER 30, 2001		DECEMBER 31, 2001	
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE
<b>AVAILABLE FOR SALE</b>						
<b>(IN THOUSANDS)</b>						
U.S. Treasury Securities	\$134,987	\$134,987	\$54,972	\$53,434	\$104,887	\$104,887
Government Agencies Securities	1,471,613	1,475,630	876,440	882,202	952,085	953,559
Mortgage-Backed Securities	521,970	534,889	457,327	464,192	613,855	612,275
Other Securities	47,378	47,368	54,567	54,567	47,917	47,917

Total

\$2,175,948 \$2,192,874 \$1,443,306 \$1,454,395 \$1,718,744 \$1,718,638

The balance of securities available for sale fluctuates in part because of the amount of deposits kept at Riggs by the U.S. Government, as these deposits are collateralized by treasury and agency securities.

**LOANS**

As of September 30, 2002, loans outstanding totaled \$2.84 billion, with residential mortgage/home equity, commercial and financial, and real estate- commercial/construction comprising the bulk of the portfolio. These loans represented 49%, 19% and 20% of loans at September 30, 2002, respectively. At September 30, 2001, these percentages were 51%, 15% and 17%, respectively.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED**

Total loans decreased from balances of \$2.90 billion and \$2.86 billion at September 30, 2001, and December 31, 2001, respectively. The decreases from both periods were primarily in the foreign loan portfolio (discussed in further detail below), with additional decreases in home equity loans. These decreases were partially offset by increases in commercial and financial, and real estate-commercial/construction loans. Our strategy includes consideration of the purchase of residential mortgage loans in bulk when it appears that loan originations will not replace loan runoff.

As of September 30, 2002, foreign loans outstanding totaled \$294.2 million. Foreign loans decreased \$134.4 million from September 30, 2001, and \$121.6 million from December 31, 2001. The decrease resulted primarily from our previously announced initiative to realign Riggs Bank Europe Ltd.'s operations to focus on expatriate banking and embassy banking. In this respect, Riggs Bank Europe Ltd. entered into agreements during the second quarter to sell approximately \$38.0 million in trade finance credits and approximately \$98.0 million in property finance loans, which resulted in an immaterial charge to the reserve for loan losses. At September 30, 2002, only \$2.3 million of these credits remained in the portfolio, and their sale was completed in October of 2002. Riggs Bank Europe Ltd. also is winding down, rather than selling, its fixed asset finance business, while it continues to evaluate its options for its general lending business.

Loans held for sale, which are not included in Total Loans on our Statements of Condition, totaled \$5.8 million, \$8.7 million and \$10.5 million at September 30, 2002, December 31, 2001, and September 30, 2001, respectively. At December 31, 2001, and September 30, 2001, these consisted of domestic mortgages included in the Banking segment. As of September 30, 2002, \$2.3 million of foreign real estate loans were reclassified as loans held for sale as the result of the agreements mentioned previously and were included in the International Banking segment. The remaining \$3.5 million of loans held for sale on our balance sheet at September 30, 2002, were domestic residential real estate loans.

SEPTEMBER 30, 2002	SEPTEMBER 30, 2001	DECEMBER 31, 2001
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**(IN THOUSANDS)**

Commercial and Financial					
\$531,381	19%	\$448,861	15%	\$479,285	17%
Real Estate Commercial/Construction					
555,650	20	495,552	17	494,192	17
Residential Mortgage					
1,107,664	39	1,150,439	40	1,112,409	39
Home Equity					
290,635	10	316,215	11	297,637	10
Consumer					
65,482	2	65,200	2	64,888	2
Foreign					
294,227	10	428,626	15	415,841	15

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Total Loans  
2,845,039 100% 2,904,893 100% 2,864,252 100%

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Net Deferred Loan Fees, Premiums and Discounts  
 (1,319) (5,415) (4,331)

Loans  
 \$2,843,720 \$2,899,478 \$2,859,921

**RESERVE FOR LOAN LOSSES**

Changes in the reserve for loan losses are summarized as follows:

(IN THOUSANDS)	NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001
Balance, January 1	\$29,540	\$36,197
Provision for loan losses (268) 953		
Loans charged-off 5,155 5,205		
Less: Recoveries on charged-off loans 1,363 1,100		

Net loan charge-offs  
 3,792 4,105  
 Foreign exchange translation  
 adjustments  
 660 (43)

Balance, September 30

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\$26,140 \$33,002

Foreign loans and other credits may be adversely affected by political instabilities, including military confrontations. The Company cannot estimate the losses, if any, associated with any such instability. See Note 15 to the 2001 Annual Report on Form 10-K.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED**

For the nine month period ended September 30, 2002, we had a consolidated loan loss provision reversal of \$268 thousand, which resulted from a \$2.0 million provision in the Banking segment and \$2.3 million reversal in the International Banking segment that was primarily the result of decreasing balances in Riggs Bank Europe Ltd.'s loan portfolio. \$1.4 million of the provision was made in the third quarter of 2002 to provide coverage for the Company's increased commercial loan growth, and concerns over the direction of the economy. The year-to-date loan loss provision reversal compares to a provision of \$953 thousand during the comparable period of the prior year. The current year reversal was taken as a result of continued improvement in asset quality as noted in Asset Quality.

The reserve balance has been reduced by approximately \$6.9 million since September 30, 2001. The reduction partially relates to the reversal noted above and charge-offs taken on both consumer domestic loans and commercial loans, both domestic and at our London office. Since September 30, 2001, charge-offs totaling \$2.6 million have been made on commercial domestic loans, \$2.4 million on domestic consumer loans and \$6.2 million on commercial loans in London. These charge-offs were partially offset by recoveries on these same classes of loans of \$128 thousand, \$830 thousand and \$1.6 million, respectively.

The remaining reserve amount has been determined based on the risk in the portfolio, including the risks related to the still slow economy.

Provisions to the reserve for loan losses are charged against, or credited to, earnings in amounts necessary to maintain an adequate reserve for loan losses. Commercial loans are charged off when it is determined that the loan cannot be fully recovered. Consumer loans are charged off upon becoming 120 days delinquent. Residential real estate loans are charged off to the extent necessary when foreclosure occurs.

**ASSET QUALITY**

***NONPERFORMING ASSETS***

Nonperforming assets, which include nonaccrual loans, renegotiated loans and other real estate (net of reserves) and other assets owned, totaled \$1.4 million as of September 30, 2002, a \$2.3 million decrease from the year-end 2001 total of \$3.7 million and a \$4.7 million decrease from the September 30, 2001, total of \$6.1 million. Of the \$1.4 million, \$451 thousand is recorded in our Banking segment, and \$937 thousand is in our International Banking segment. The decrease in nonperforming assets from the prior year's third quarter was mainly due to repayments of \$5.4 million and to charge-offs of \$4.3 million on loans in the International Banking segment. These decreases were partially offset by additions to the nonaccrual loan portfolio of \$5.1 million in the International Banking segment.

In the second quarter of 2002, we sold the last remaining property in our real estate owned portfolio previously held in the Other segment, which as of September 30, 2002, continued to have a balance of \$0. The \$937 thousand balance in other assets owned is comprised of repossessed equipment and automobiles from our commercial lease financing business in London, which is part of the International Banking segment. Since year-end 2001, activity in that portfolio has included \$2.4 million in sales and \$1.4 million in charge-offs. These reductions have been more than offset by additions to the portfolio of \$4.8 million.

There were no material impaired loans and, therefore, no specific reserve required for those loan losses assigned at September 30, 2002.

***PAST-DUE AND POTENTIAL PROBLEM LOANS***

Past-due loans consist of residential real estate loans, commercial and industrial loans, and consumer loans that are in the process of collection and that are accruing interest. Loans past-due over 90 days decreased \$1.7 million from December 31, 2001 to \$11.7 million at September 30, 2002 and increased \$2.6 million from September 30, 2001. Management does not consider the increase in past due loans from a year ago to be significant and does not believe this represents an adverse trend.

Riggs has a \$15.0 million participation in a syndicated loan that is current with regard to principal and interest payments and is not in default of the underlying loan agreement. However, the borrower is experiencing financial difficulties and has announced its intention to seek a restructuring of this loan and its other debt. The amount of loss, if any, that we may incur on this loan cannot be estimated at this time.



**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED**

**NONPERFORMING ASSETS AND PAST-DUE LOANS**

(IN THOUSANDS)	SEPTEMBER 30, 2002	SEPTEMBER 30, 2001	DECEMBER 31, 2001
<b>NONPERFORMING ASSETS:</b>			
Nonaccrual Loans (1)			
\$196 \$4,319 \$1,373			
Renegotiated Loans			
255 858 529			
Other Real Estate and Other Assets Owned, Net			
937 908 1,756			
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<hr/>			
Total Nonperforming Assets			
\$1,388 \$6,085 \$3,658			
<b>PAST-DUE LOANS (2)</b>			
\$41,571 \$64,364 \$46,809			
<b>PAST-DUE LOANS (3)</b>			
\$11,660 \$9,013 \$13,315			
<b>POTENTIAL PROBLEM LOANS</b>			
\$242 \$1,950 \$436			

(1) Loans that are in default in either principal or interest for 90 days or more that are not well-secured and in the process of collection, or that are, in management's opinion, doubtful as to the collectibility of either interest or principal.

(2) Loans contractually past due 30-89 days or more in principal or interest. (3) Loans contractually past due 90 days or more in principal or interest that are well-secured and in the process of collection.

**DEPOSITS**

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Deposits are our primary and most stable source of funds. Deposits totaled \$5.02 billion as of September 30, 2002, an increase of \$499.7 million from \$4.52 billion at December 31, 2001, and an increase of \$753.4 million from \$4.27 billion at September 30, 2001. Compared to the December 31, 2001, and September 30, 2001 totals, deposits increased significantly in time deposits in domestic offices, primarily due to increased compensating balances maintained by a large U.S. governmental customer. Balances in savings and NOW accounts and demand deposits fluctuated slightly, and time deposits in foreign offices decreased. This decrease was primarily due to two foreign government entities which withdrew funds from foreign time deposits. These foreign entities subsequently moved a significant portion of the funds withdrawn from foreign time deposits to money market accounts, as evidenced by the increase in money market accounts from both prior periods. Foreign deposits may also be adversely impacted by political instabilities, including military confrontations. See Note 15 to the 2001 Annual Report on Form 10-K.

As a means of reducing deposit reserve requirements, we periodically sweep excess demand funds into money market accounts. The average balances transferred for the three months ended September 30, 2002 and 2001, which are not included in demand deposits in our averages tables, were \$465.4 million and \$439.9 million, respectively. For the nine months ended September 30, 2002 and 2001, respectively, these amounts were \$465.7 million and \$437.8 million.

### LIQUIDITY

We seek to maintain sufficient liquidity to meet the needs of depositors, borrowers and creditors at a reasonable cost and without undue stress on our operations. Our Asset/Liability Committee (ALCO) actively analyzes and manages liquidity in coordination with other areas of the organization (see Sensitivity to Market Risk ). As of September 30, 2002, our liquid assets, on a consolidated basis, which include cash and due from banks, Government obligations and other securities, federal funds sold, reverse repurchase agreements and time deposits at other banks, totaled \$3.07 billion (48% of total assets). This compares with \$2.72 billion (45% of total assets) as of December 31, 2001, and \$2.40 billion (42% of total assets) as of September 30, 2001. As of September 30, 2002, \$1.69 billion of our assets were pledged to secure deposits and other borrowings. This compares with pledged assets of \$1.22 billion as of December 31, 2001, and \$1.11 billion as of September 30, 2001.

Our liquidity position is maintained by a stable source of funds from our core deposit relationships. We also have a line of credit available through our membership in the Federal Home Loan Bank of Atlanta (FHLB Atlanta). As of September 30, 2002, December 31, 2001, and September 30, 2001, short-term credit lines and the FHLB Atlanta line of credit available totaled approximately \$1.02 billion, \$1.32 billion, and \$1.34 billion, respectively. As of September 30, 2002, December 31, 2001, and September 30, 2001, the amounts outstanding under these lines were \$20.7 million, \$15.9 million, and \$17.5 million, respectively.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED**

Short-term borrowings are another source of funds that we utilize to meet certain asset/liability and daily cash management objectives and are also used to generate cash and to maintain adequate liquidity. As of September 30, 2002, the Company believes it has sufficient liquidity to meet its future funding needs. However, there are many factors which impact liquidity that are beyond our ability to control or influence and, therefore, we cannot represent that future liquidity will remain adequate.

**SHAREHOLDERS' EQUITY AND REGULATORY CAPITAL**

Total shareholders' equity as of September 30, 2002 was \$385.5 million, an increase of \$24.6 million from year-end 2001 and a decrease of \$16.9 million from a year ago. The increase from year-end was primarily the result of net income of \$10.8 million, net unrealized securities gains of \$11.1 million, and a net increase of \$6.4 million due to the repurchase of \$68.4 million of trust preferred securities, partially offset by payments of dividends on our common stock of \$4.3 million. The decrease from September 30, 2001 was primarily the result of a net loss of \$22.0 million and cash dividends of \$5.7 million, partially offset by net unrealized securities gains of \$3.8 million and the \$6.4 million net increase from the repurchase of trust preferred securities. The \$22.0 million period to period net loss included restructuring and other charges totaling \$40.0 million, accounted for in the fourth quarter of 2001.

Book value per common share was \$13.52 as of September 30, 2002, compared to \$12.66 as of year-end 2001 and \$14.12 as of September 30, 2001. The decrease in book value from September 30 of the prior year and the increase from year-end 2001 were primarily the result of the net income/ loss, dividends, net unrealized securities gains, and repurchases of trust preferred securities described in the preceding paragraph.

On July 24, 2002, we announced the resumption of our stock buyback program. The Company will purchase up to 600,000 shares of its common stock in the open market from time to time, subject to market conditions. During the quarter ended September 30, 2002, we repurchased 1,000 shares at a price of \$12.25.

Following are our capital ratios (as defined in the regulations) and those of our banking subsidiary, Riggs Bank National Association (Riggs Bank N.A.) as of September 30, 2002 and 2001, and December 31, 2001. For comparative purposes, it should be noted that our trust preferred securities, which at September 30, 2002 carried a blended interest rate of 8.79%, are included in the calculations for Tier I, as allowed, and Combined Tier I and Tier II capital ratios. This rate paid is significantly higher than the target federal funds rate at September 30, 2002, of 1.75%. Subsequent to September 30, 2002, this target rate was reduced to 1.25%. See Note 7 to the Consolidated Financial Statements for a discussion of the Company's repurchase of some of its trust preferred securities.

Both Riggs and Riggs Bank N.A. are classified as well-capitalized for purposes of federal banking regulations.

	<u>SEPTEMBER 30, 2002</u>	<u>SEPTEMBER 30, 2001</u>	<u>DECEMBER 31, 2001</u>	<u>REQUIRED MINIMUMS</u>
<b>RIGGS NATIONAL CORPORATION:</b>				
Tier I	14.90%	15.97%	14.47%	4.00%
Combined Tier I and Tier II	22.42	25.63	24.34	8.00
Leverage	7.97	9.43	8.15	4.00
<b>RIGGS BANK N.A.:</b>				
Tier I	14.48	14.69	14.07	4.00
Combined Tier I and Tier II	15.29	15.75	15.01	8.00
Leverage	7.79	8.80	8.03	4.00

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK SENSITIVITY TO MARKET RISK**

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We are exposed to various market risks. Some of these risks are discussed in our Annual Report on Form 10-K. We have determined that interest- rate risk may have a material impact on our financial performance, and as such we have established the Asset/Liability Committee to manage interest-rate risk. The role of this committee is to manage the asset/liability mix of our operations in an effort to provide a stable net interest

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK, CONTINUED**

margin while maintaining liquidity and capital. This entails the management of our overall risk in conjunction with the acquisition and deployment of funds based upon ALCO's view of both current and prospective market and economic conditions. We also have risk associated with foreign currency exchange which we attempt to mitigate through various hedges. See Note 6-Accounting for Derivatives. We manage our interest-rate risk through the use of an income simulation model, which forecasts the impact on net interest income of a variety of different interest rate scenarios. A most likely interest rate scenario is forecasted based upon an analysis of current market conditions and expectations. The model then evaluates the impact on net interest income of rates moving significantly higher or lower than the most likely scenario. Most likely is defined as the outlook of the Bank's Treasury Group on the path of future interest rates. As of September 30, 2002, the most likely interest rate scenario calls for the federal funds rate to be flat at 1.75% through December 2003. The federal funds rate then rises gradually to 4.00% by April 2005, holding at that level for the remainder of the forecast horizon. The results are compared to risk tolerance limits set by corporate policy. The model's results as of September 30, 2002 and 2001 are shown in the following tables. Current policy establishes limits for possible changes in net interest income for 12 and 36 month horizons. The interest rate scenarios monitored by ALCO are based upon a 100 basis point (1%) gradual increase or decrease in rates over a 12-month time period versus the most likely scenario and a 300 basis point (3%) gradual increase or decrease in rates over a 36-month time period versus the most likely scenario.

**INTEREST-RATE SENSITIVITY ANALYSIS (1)**

	MOVEMENTS IN INTEREST RATES FROM SEPTEMBER 30, 2002			
	SIMULATED IMPACT OVER NEXT TWELVE MONTHS		SIMULATED IMPACT OVER NEXT THIRTY-SIX MONTHS	
(In Thousands)	+100BP	-100BP	+300BP	-300BP
Simulated Impact Compared With a Most Likely Scenario:				
Net Interest Income Increase/(Decrease)				
(1.4)% 0.4% (1.9)% 1.2%				
Net Interest Income Increase/(Decrease)				
\$(2,689) \$787 \$(10,086) \$6,335				

**(1) Key Assumptions:**

Assumptions with respect to the model's projections of the effect of changes in interest rates on Net Interest Income include: 1. Target balances for various asset and liability classes, which are solicited from the management of the various units of the Corporation. 2. Interest rate scenarios

which are generated by ALCO for the most likely scenario and are dictated by ALCO's policy for the alternative scenarios.3. Spread relationships between various interest rate indices, which are generated by the analysis of historical relationships and ALCO consensus.4. Assumptions about the effect of embedded options and prepayment speeds: instruments that are callable are assumed to be called at the first opportunity if an interest rate scenario makes it advantageous for the owner of the call to do so. Prepayment assumptions for mortgage products are derived from accepted industry sources.5. Reinvestment rates for funds replacing assets or liabilities that are assumed (through early withdrawal, prepayment, calls, etc.) to run off the balance sheet, which are

generated by  
the spread  
relationships.6. Maturity  
strategies  
with respect  
to assets and  
liabilities,  
which are  
solicited from  
the  
management  
of the various  
units of the  
Corporation.

As of September 30, 2002, the forecasted impact of rates rising or falling 100 basis points versus the most likely scenario over a 12-month time period was a change in net interest income not exceeding 2%. For a 300 basis point movement in rates versus the most likely scenario over a 36-month period, the impact on net interest income also did not exceed 2%. The results of the simulation for September 30, 2002 indicated that the Bank was liability sensitive in a rising rate environment due to a large portion of our assets being comprised of fixed-rate instruments. For falling rates, earnings benefit from increasing spreads on fixed-rate assets but are offset somewhat by floors on deposit rates and faster prepayment rates on mortgage loans and mortgage backed securities.

In managing our interest-rate risk, ALCO uses financial derivative instruments, such as interest-rate swaps. Financial derivatives are employed to assist in the management and/or reduction of our interest-rate risk and can effectively alter the interest-rate sensitivity of portions of the Statements of Condition for specified periods of time. Along with financial derivative instruments, the income simulation model includes short-term financial instruments, investment securities, loans, deposits, and other borrowings.

Though we find that the methodologies previously discussed provide a meaningful representation of our interest-rate and market risk sensitivity, factors other than changes in the interest rate environment, such as levels of non-earning assets, and changes in the composition of earning assets, may affect our risk sensitivity, and, therefore, our net interest income. As with any method of measuring interest-rate risk, certain shortcomings are inherent in our model. As such, the predictive value of our model is not guaranteed.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK, CONTINUED**

At September 30, 2002, December 31, 2001 and September 30, 2001, our cumulative one year gap was \$68.8 million, \$(750.0) million and \$(686.2) million, respectively. A small positive gap, such as that which exists at September 30, 2002, indicates that the Company's interest rate position is balanced. A negative gap position indicates that the Company would be adversely impacted by rising interest rates since interest earning deposits would reprice more quickly than interest earning assets.

**COMMITMENTS**

Various commitments to extend credit are made in the normal course of banking business. Commitments to extend credit and letters of credit outstanding as of September 30, 2002 and 2001, and December 31, 2001 are detailed below:

	SEPTEMBER 30, 2002	SEPTEMBER 30, 2001	DECEMBER 31, 2001
Commitments to extend credit	\$1,030,362	\$875,819	\$942,556
Letters of credit			
104,281 143,890 158,406			

The above commitment amounts are not reflected in the Consolidated Statements of Condition and many of the commitments will expire without being drawn upon. Such commitments are issued only upon careful evaluation of the financial condition of the customer. The Company also was committed to fund venture capital investments in the amount of \$18.4 million at September 30, 2002.

**ITEM 4. CONTROLS AND PROCEDURES**

With the participation and under the supervision of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, and within 90 days of the filing date of this quarterly report, the Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13(a)-14(c) and 15(d)-14(c)) and, based on their evaluation, have concluded that the disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective action with regard to significant deficiencies and material weaknesses.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Because we want to provide you with more meaningful and useful information, this Quarterly Report on Form 10-Q includes forward-looking statements (as such term is defined in Section 21E of the Securities Exchange Act of 1934, as amended) that reflect our current expectations and projections about our future results, performance, prospects and opportunities, and include, without limitation, the references in this 10-Q to earnings from venture capital, implementation of our business strategy, hedging activities and our trust and investment advisory income. We have attempted to identify these forward-looking statements by using words such as may, will, expect, anticipate, believe, intend, or similar expressions. These forward-looking statements are based on information currently available to us and are subject to a number of risks, uncertainties and other factors that could cause our actual results, performance, prospects or opportunities in 2002 and beyond to differ materially from those expressed in, or implied by, these forward-looking statements. These risks include, but are not limited to, certain risks and uncertainties that may affect the operations, performance, development, growth projections and results of our business. More specifically, these risks include the growth of (or decline in) the economy, changes in credit quality or interest rates, including how it affects our loan sales at RBEL, changes in value of venture capital investments in the technology and other sectors, timing of technology enhancements for products and operating systems, the impact of competitive products, services and pricing, customer business requirements, Congressional legislation, general economic conditions-both domestic and international-and similar matters. In addition, the continuing impact of the September 11, 2001 terrorist attacks on the U.S. and global economy, the possibility of additional attacks, and international political conditions also may be an important factor or make the occurrence of one or more of the aforementioned risks or factors more likely.

You should not place undue reliance on any forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Quarterly Report on Form 10-Q.



**RIGGS NATIONAL CORPORATION**

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

In the normal course of business we are involved in various types of litigation and disputes which may lead to litigation. The Company believes that pending or unasserted legal actions will not have a material impact on its financial condition or future operations.

**ITEM 2. CHANGES IN SECURITIES**

Not applicable.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

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

(a) **Exhibits**

The exhibits listed on page 32 are incorporated by reference or filed herewith in response to this item.

(b) **Reports on Form 8-K**

None.

**SIGNATURES**

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

**RIGGS NATIONAL CORPORATION**

Date: November 13, 2002

/s/ ROBERT L. ALLBRITTON

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Robert L. Allbritton  
Chairman of the Board and Chief Executive Officer

Date:  
November 13,  
2002 /s/  
STEVEN T.  
TAMBURO

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Steven T.  
Tamburo  
Treasurer  
(Chief Financial  
Officer)

**RIGGS NATIONAL CORPORATION**

**Certification**  
**(Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended)**

I, Robert L. Allbritton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Riggs National Corporation (the registrant );
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date ); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ Robert L. Allbritton

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Robert L. Allbritton  
Chief Executive Officer

**RIGGS NATIONAL CORPORATION**

**Certification**  
**(Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended)**

I, Steven T. Tamburo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Riggs National Corporation (the registrant );
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date ); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ Steven T. Tamburo

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Steven T. Tamburo  
Chief Financial Officer

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INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION	PAGES
(3.1)	Restated Certificate of Incorporation of Riggs National Corporation, dated April 19, 1999 (Incorporated by reference to the Registrant's Form 10-Q for the quarter ended June 30, 1999, SEC File No. 09756).	
(3.2)	By-laws of the Registrant with amendments through January 23, 2002 (Incorporated by reference to the Registrant's Form 10-K for the year ended December 31, 2001, SEC File No. 09756).	
(4.1)	Indenture dated June 1, 1989, with respect to \$100 million 9.65% Subordinated Debentures due 2009 (Incorporated by reference to the Registrant's Form 8-K dated June 20, 1989, SEC File No. 09756.)	
(4.2)	Indenture dated December 13, 1996, with respect to \$150 million, 8.625% Trust Preferred Securities, Series A due 2026 (Incorporated by reference to the Registrant's S-3 dated February 6, 1997, SEC File No. 333-21297.)	
(4.3)	Indenture dated March 12, 1997, with respect to \$200 million, 8.875% Trust Preferred Securities, Series C due 2027 (Incorporated by reference to the Registrant's S-3 dated May 2, 1997, SEC File No. 333-26447.)	
(10.1)	Riggs National Corporation 2002 Long-Term Incentive Plan (Incorporated by reference to the Registrant's Form S-8 dated April 19, 2002, SEC File No. 333-86590).	
(10.2)	First Amendment and Joinder to the Investment and Management Agreement of Riggs Capital Partners, LLC	33-36
(10.3)	First Amendment and Joinder to the Investment and Management Agreement of Riggs Capital Partners II, LLC	37-40
(10.4)	Second Amendment and Joinder to the Operating and Services Agreement between Riggs Bank N.A. and Riggs Capital Partners Investments, L.P. and Riggs Capital Partners Investments II, L.P.	41-44
(10.5)	Third Amendment and Joinder to the Operating Agreement of Riggs Capital Partners, LLC	45-50
(10.6)	First Amendment and Joinder to the Operating Agreement of Riggs Capital Partners II, LLC	51-56
(10.7)	Time Sharing Agreement for lease of the Beechcraft Airplane between Allbritton Communications and Riggs Bank N.A.	57-63
(10.8)	Time Sharing Agreement for the lease of the Gulfstream III between Perpetual Corporation/Lazy Lane Farms, Inc. and Riggs Bank N.A.	64-70
(10.9)	Time Sharing Agreement for the lease of the Gulfstream V between Perpetual Corporation/Lazy Lane Farms, Inc., Allbritton Communications Company and Riggs Bank N.A.	71-77
(99.1)	Chief Executive Officer Certification of Quarterly Report on Form 10-Q	78
(99.2)	Chief Financial Officer Certification of Quarterly Report on Form 10-Q	79

(Exhibits omitted are not required or not applicable.)