

RIGGS NATIONAL CORP
Form 10-Q
August 14, 2003

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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 June 30, 2003

 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

(State or other jurisdiction of
incorporation or organization)

52-1217953

(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 by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes . No .

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

Common Stock, \$2.50 par value

28,583,412

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(Title of Class)

(Outstanding at July 31, 2003)

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 INCOME

(UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2003	2002	2003	2002
INTEREST INCOME				
Interest and Fees on Loans	\$ 40,235	\$ 44,098	\$ 82,004	\$ 87,789
Interest and Dividends on Securities Available for Sale	18,481	18,567	37,452	36,025
Interest on Time Deposits with Other Banks	1,484	484	2,813	1,215
Interest on Federal Funds Sold and Reverse Repurchase Agreements	1,120	1,768	3,304	4,309
Total Interest Income	61,320	64,917	125,573	129,338
INTEREST EXPENSE				
Interest on Deposits:				
Savings and NOW Accounts	107	269	284	560
Money Market Deposit Accounts	3,704	4,663	7,097	9,201
Time Deposits in Domestic Offices	4,340	6,114	10,271	12,494
Time Deposits in Foreign Offices	1,578	1,826	2,980	4,190
Total Interest on Deposits	9,729	12,872	20,632	26,445
Interest on Short-Term Borrowings and Long-Term Debt:				
Repurchase Agreements and Other Short-Term Borrowings	1,556	1,714	2,794	3,702
FHLB Borrowings and Other Long-Term Debt	4,319	1,618	8,231	3,236
Total Interest on Short-Term Borrowings and Long-Term Debt	5,875	3,332	11,025	6,938
Total Interest Expense	15,604	16,204	31,657	33,383
Net Interest Income	45,716	48,713	93,916	95,955
Provision for Loan Losses	815		1,741	(1,668)
Net Interest Income after Provision for Loan Losses	44,901	48,713	92,175	97,623
NONINTEREST INCOME				
Trust and Investment Advisory Income	9,591	11,417	18,997	23,256
Service Charges and Fees	11,810	11,285	23,877	22,335
Venture Capital Investment Losses, Net	(436)	(3,722)	(2,658)	(10,588)
Other Noninterest Income	2,613	2,934	4,864	5,152
Securities Gains, Net	6,507	1,135	11,134	1,422
Total Noninterest Income	30,085	23,049	56,214	41,577
NONINTEREST EXPENSE				
Salaries and Employee Benefits	27,721	27,758	56,187	55,221
Occupancy, Net	5,180	5,569	10,535	10,597
Data Processing Services	4,953	5,310	10,160	10,569
Furniture, Equipment and Software	3,573	3,599	7,442	7,650

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Other Noninterest Expense		24,057	17,629	40,106	32,610
Total Noninterest Expense		65,484	59,865	124,430	116,647
Income before Taxes and Minority Interest		9,502	11,897	23,959	22,553
Applicable Income Tax Expense		4,189	3,821	9,186	8,136
Minority Interest in Income of Subsidiaries, Net of Taxes		3,544	4,074	7,075	8,990
Net Income		\$ 1,769	\$ 4,002	\$ 7,698	\$ 5,427
EARNINGS PER SHARE-	Basic	\$ 0.06	\$ 0.14	\$ 0.27	\$ 0.19
	Diluted	0.06	0.14	0.27	0.19
DIVIDENDS DECLARED AND PAID PER SHARE		\$ 0.05	\$ 0.05	\$ 0.10	\$ 0.10

The Accompanying Notes Are An Integral Part Of These Statements

RIGGS NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CONDITION

(UNAUDITED) (IN THOUSANDS, EXCEPT SHARE AMOUNTS)	JUNE 30, 2003	DECEMBER 31, 2002	JUNE 30, 2002
ASSETS			
Cash and Due from Banks	\$ 125,077	\$ 244,703	\$ 174,004
Federal Funds Sold and Reverse Repurchase Agreements	1,053,000	610,000	445,000
Total Cash and Cash Equivalents	1,178,077	854,703	619,004
Time Deposits with Other Banks	242,026	203,267	175,561
Securities Available for Sale (at Market Value)	2,191,971	2,319,917	1,742,835
Venture Capital Investments	45,098	49,419	50,802
Loans	2,995,413	3,007,905	2,939,090
Reserve for Loan Losses	(26,385)	(25,958)	(25,318)
Total Net Loans	2,969,028	2,981,947	2,913,772
Premises and Equipment, Net	187,767	190,684	192,553
Other Assets	365,023	225,758	183,718
Total Assets	\$7,178,990	\$6,825,695	\$5,878,245
LIABILITIES			
Deposits:			
Noninterest-Bearing Demand Deposits	\$ 622,098	\$ 683,338	\$ 579,596
Interest-Bearing Deposits:			
Savings and NOW Accounts	285,251	331,656	261,358
Money Market Deposit Accounts	2,338,335	2,165,449	2,070,480
Time Deposits in Domestic Offices	1,820,471	1,723,474	1,355,713
Time Deposits in Foreign Offices	359,855	335,080	317,243
Total Interest-Bearing Deposits	4,803,912	4,555,659	4,004,794
Total Deposits	5,426,010	5,238,997	4,584,390
Repurchase Agreements and Other Short-Term Borrowings	470,426	470,372	391,660
Other Liabilities	156,386	119,976	174,538
FHLB Borrowings and Other Long-Term Debt	485,525	358,525	66,525
Total Liabilities	6,538,347	6,187,870	5,217,113
GUARANTEED PREFERRED BENEFICIAL INTERESTS IN JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES	248,584	248,584	284,284
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY			
Common Stock-\$2.50 Par Value	6/30/03	12/31/02	6/30/02

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Authorized	50,000,000	50,000,000	50,000,000			
Issued	31,852,506	31,812,022	31,806,653			
Outstanding	28,536,418	28,510,224	28,505,855	79,631	79,530	79,517
Additional Paid in Capital				171,272	170,747	169,401
Retained Earnings				209,709	204,865	200,121
Accumulated Other Comprehensive Income (Loss)				3,038	5,468	(834)
Treasury Stock - 3,316,088 shares at June 30, 2003, 3,301,798 shares at December 31, 2002 and 3,300,798 shares at June 30, 2002				(71,591)	(71,369)	(71,357)
<hr/>						
Total Shareholders' Equity				392,059	389,241	376,848
<hr/>						
Total Liabilities and Shareholders' Equity				\$7,178,990	\$6,825,695	\$5,878,245

The Accompanying Notes Are An Integral Part Of These Statements

RIGGS NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(UNAUDITED)	COMMON STOCK \$2.50	ADDITIONAL PAID IN	RETAINED	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)	PAR	CAPITAL	EARNINGS			EQUITY
Balance, December 31, 2001	\$ 79,489	\$ 163,125	\$ 197,545	\$ (7,979)	\$ (71,357)	\$ 360,823
Comprehensive Income:						
Net Income			5,427			5,427
Other Comprehensive Income						
Net of Tax:						
Unrealized Gain on Securities Available for Sale, Net of Reclassification Adjustments				6,999		6,999
Unrealized Loss on Derivatives, Net of Reclassification Adjustments				(521)		(521)
Foreign Exchange Translation Adjustments				667		667
 Total Other Comprehensive Income						 7,145
 Total Comprehensive Income						 12,572
Issuance of Common Stock for Stock Option Plans-10,950 Shares	28	116				144
Repurchase of Trust Preferred Securities, Net		6,160				6,160
Cash Dividends - Common Stock, \$.10 per Share			(2,851)			(2,851)

The Accompanying Notes Are An Integral Part Of These Statements

RIGGS NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED) (IN THOUSANDS)	SIX MONTHS ENDED JUNE 30,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 7,698	\$ 5,427
Adjustments to Reconcile Net Income to Cash Provided By Operating Activities:		
Provision for Loan Losses	1,741	(1,668)
Losses on Venture Capital Investments	2,658	10,588
Depreciation Expense and Amortization of Leasehold Improvements	8,525	8,162
Net Gains on Sales of Securities Available for Sale	(11,134)	(1,422)
Increase in Other Assets	(11,740)	(1,311)
Increase in Other Liabilities	4,315	19,452
Total Adjustments	(5,635)	33,801
Net Cash Provided By Operating Activities	2,063	39,228
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (Increase) Decrease in Time Deposits with Other Banks	(38,759)	113,903
Proceeds from Maturities of Securities Available for Sale	5,708,631	5,037,630
Proceeds from Sales of Securities Available for Sale	284,980	176,634
Purchases of Securities Available for Sale	(5,952,156)	(5,274,646)
Purchases of Venture Capital Investments	(2,073)	(5,765)
Proceeds from Sale of Venture Capital Investments	3,736	695
Net Decrease (Increase) in Loans	10,161	(76,936)
Proceeds from Sale of OREO	606	2,405
Net Increase in Premises and Equipment	(5,577)	(3,651)
Other, Net	55	297
Net Cash Provided By (Used In) Investing Activities	9,604	(29,434)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Increase (Decrease) in Non-Time Deposits	65,241	(11,711)
Net Increase in Time Deposits	121,772	73,818
Net Increase (Decrease) in Short-Term Borrowings	54	(204,960)
Proceeds from Federal Home Loan Bank Borrowings	127,000	
Proceeds from the Issuance of Common Stock	626	144
Dividend Payments	(2,854)	(2,851)
Repurchase of Common Stock	(222)	
Repurchase of Guaranteed Preferred Beneficial Interests in Junior Subordinated Deferrable Interest Debentures and Common Stock		(54,640)
Net Cash Provided By (Used In) Financing Activities	311,617	(200,200)
Effect of Exchange Rate Changes	90	667
Net Decrease in Cash and Cash Equivalents	323,374	(189,739)

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Cash and Cash Equivalents at Beginning of Period	854,703	808,743
<hr/>		
Cash and Cash Equivalents at End of Period	\$ 1,178,077	\$ 619,004
SUPPLEMENTAL DISCLOSURES:		
Trade Dated Securities Purchases	\$ 34,234	\$ 51,814
Trade Dated Securities Sales	126,993	
Interest Paid	31,037	34,237

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 and 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 six months ended June 30, 2003 are not necessarily indicative of the results to be expected for all of 2003. For comparability, certain prior period amounts may have been reclassified to conform with current period presentation. The financial statements contained herein should be read in conjunction with the audited financial statements and accompanying notes in our Annual Report on Form 10-K for the year ended December 31, 2002.

NOTE 2. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

As noted above, management has prepared the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Accordingly, management is required to make certain estimates, judgments and assumptions that it believes to be reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net interest income, noninterest income and noninterest expense. The following accounting policies comprise those that management believes involve estimates, judgments and assumptions that are the most critical to aid in fully understanding and evaluating our reported financial results. Because of the uncertainty inherent in these matters, actual results could differ.

Reserve for Loan Losses

The reserve for loan losses is maintained at a level that we believe is adequate to absorb probable losses in the loan portfolio. The determination of the adequacy of the reserve for loan losses is based upon an on-going, analytical review of the loan portfolio. This analysis requires application of judgment, evaluation of economic uncertainties and assessment of business conditions that may change. Because of these and other factors, adjustments to the reserve for loan losses may be required.

The analytical review of the loan portfolio performed to determine the adequacy of the reserve for loan losses includes a review of loans with balances over \$500 thousand for impairment, an analysis of historical loss experience by loan type and, for groups of loans with similar characteristics, an evaluation of current economic conditions and all other factors we consider pertinent to the analysis. Impaired loans are defined as specifically reviewed loans for which it is probable that we will be unable to collect all amounts due in accordance with the loan agreement. Impaired loans are generally commercial and financial loans and commercial real estate loans and are usually on non-accrual status. Each impaired loan with an outstanding balance equal to or greater than \$500 thousand has a specific, identified loan loss reserve associated with it. Impaired loans do not include large groups of smaller balance homogeneous loans with similar collateral characteristics, such as residential mortgage and home equity loans. Loss reserves for these types of loans are established on an aggregate basis using historical loss experience. Balances related to impaired loans for which there are specific reserves are excluded when applying historical loss ratios to determine loan loss reserves.

The specific reserves for impaired loans are included in the reserve for loan losses. Impaired loans are valued based upon the fair value of the related collateral if the loans are collateral dependent. For all other impaired loans, the specific reserves are based on the present values of expected cash flows discounted at each loan's initial effective interest rate.

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 they cannot be fully recovered and non-commercial loans are generally charged-off or loan foreclosure proceedings begun upon becoming 120 days delinquent or at such time as permitted by law or other regulations. Recoveries of loans previously charged-off are credited to the reserve for loan losses.

The Company maintains its reserve for loan losses in accordance with a policy approved by the Board of Directors. The Company has an established methodology for analyzing its reserve for loan losses that includes an internal loan classification policy. The Company periodically reviews its methodology. Domestic and international loans are subjected to similar review procedures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

While the Company believes its credit monitoring procedures are adequate, credit losses are, however, inherent to our business, and it is possible there may be unidentified losses in the loan portfolio at June 30, 2003 that may become apparent at a later date pursuant to our analysis or pursuant to comment following regulatory examination. In addition, collateral values, which are valued in the loan underwriting process, may deteriorate such that a loss exposure develops after the loan is made. 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

Venture capital investments are accounted for at fair value with gains and losses included in noninterest income in the Consolidated Statements of Income.

At June 30, 2003, the Company valued its venture capital portfolio at \$45.1 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.

Since the Company has no present intention to sell or liquidate the venture capital portfolio, the 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 market for the type of venture capital investments we hold has been impacted over the last several years 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 current 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.

Deferred Tax Assets and Liabilities

We record a provision for income taxes based upon the amounts of current taxes payable (or refundable) and the change in net deferred tax assets or liabilities during the year. Deferred tax assets and liabilities are recognized for the tax effects of differing carrying values of assets and liabilities for tax and financial statement reporting purposes that will reverse in future periods. When substantial uncertainty exists concerning the recoverability of a deferred tax asset, the carrying value of the asset is reduced by a valuation allowance which results in an increase in income tax expense.

Realized and unrealized losses in our venture capital operations have resulted in the establishment of \$13.9 million of deferred tax assets as of June 30, 2003. 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 for tax return purposes. 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 \$6.4 million against the deferred tax asset at June 30, 2003. Of this amount, \$979 thousand was established in 2003. The Company believes that the unreserved deferred tax asset balance of \$7.6 million at June 30, 2003 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.

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

Impairment of Long-Lived Assets

The Company tests for impairment in the carrying value of any asset or group of assets, other than intangible assets, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets are tested for impairment annually.

In prior years the Company recorded \$9.4 million in impairment charges in the Banking segment related to a long-term, fixed-price, non-cancelable project contract due to cost overruns that could not 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

reporting. The contract continues to have significant uncertainties as to the on-going operating costs upon full implementation of the new system and the willingness of the counterparty to fund these costs. Since the recoverability of these costs is dependent upon the willingness of the contractual counterparty to fund them, there may be additional impairment associated with this contract. The amount of such losses, if any, cannot be reasonably estimated at this time. At June 30, 2003, the Company has an asset of \$10.2 million related to this contract.

In June 2003, we wrote-down the carrying value of a London property held for sale by \$3.8 million. The amount of the write-down was determined by an independent appraisal of the property. This write-down generated a \$1.3 million deferred tax asset against which a \$1.3 million valuation allowance was established.

NOTE 3. EARNINGS PER SHARE

Earnings per share computations are as follows:

	THREE MONTHS ENDED JUNE 30, 2003		THREE MONTHS ENDED JUNE 30, 2002	
	BASIC EPS	DILUTED EPS	BASIC EPS	DILUTED EPS
Net Income Available to Common Shareholders	\$ 1,769	\$ 1,769	\$ 4,002	\$ 4,002
Weighted-Average Shares Outstanding	28,534,363	28,534,363	28,505,803	28,505,803
Weighted-Average Dilutive Effect of Stock Option Plans	n/a	458,817	n/a	413,964
Adjusted Weighted-Average Shares Outstanding	28,534,363	28,993,180	28,505,803	28,919,767
Earnings Per Share	\$.06	\$.06	\$.14	\$.14
	SIX MONTHS ENDED JUNE 30, 2003		SIX MONTHS ENDED JUNE 30, 2002	
	BASIC EPS	DILUTED EPS	BASIC EPS	DILUTED EPS
Net Income Available to Common Shareholders	\$ 7,698	\$ 7,698	\$ 5,427	\$ 5,427
Weighted-Average Shares Outstanding	28,531,253	28,531,253	28,504,324	28,504,324
Weighted-Average Dilutive Effect of Stock Option Plans	n/a	449,607	n/a	364,912
Adjusted Weighted-Average Shares Outstanding	28,531,253	28,980,860	28,504,324	28,869,236
Earnings Per Share	\$.27	\$.27	\$.19	\$.19

Approximately 3.7 million and 3.8 million stock options were outstanding at the end of June 2003 and 2002, 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 \$18.76 per share and \$18.82 per share at the end of the same respective periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Stock-Based Employee Compensation Plans

At June 30, 2003, the Company had five stock-based compensation plans, which are described more fully in Note 14 of Notes to Consolidated Financial Statements in our 2002 Form 10-K. The Company accounts for these plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, SFAS 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement 123, and related Interpretations. No stock-based compensation cost for these plans is reflected in net income on the Consolidated Statements of Income, as all options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

In April 2003, the Company awarded 181,813 shares of its common stock to certain key executives. The award will vest in equal amounts through December 2005. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, SFAS 148, and related Interpretations. For the three and six months ended June 30, 2003, we recorded \$183 thousand of expense related to this award.

In July 2002, the Company awarded 370,000 shares of its common stock to certain key executives (see Note 14 of Notes to Consolidated Financial Statements in our 2002 Form 10-K). The award vests in equal amounts through December 2006. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, SFAS 148, and related Interpretations. For the three and six months ended June 30, 2003, we recorded \$323 thousand and \$646 thousand of expense, respectively, related to this award.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)	SIX MONTHS ENDED JUNE 30,	
	2003	2002
Net income, as reported	\$ 7,698	\$ 5,427
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	539	
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2,178)	(1,096)
Pro forma net income	\$ 6,059	\$ 4,331
Earnings per share:		
Basic-as reported	\$ 0.27	\$ 0.19
Basic-pro forma	\$ 0.21	\$ 0.15
Diluted-as reported	\$ 0.27	\$ 0.19
Diluted-pro forma	\$ 0.21	\$ 0.15
Weighted-Average Fair Value of Options and Awards Granted	\$ 5.70	N/A
Weighted-Average Assumptions:		
Expected Lives (Years)	9.00	N/A
Risk-Free Interest Rate	4.18%	N/A
Expected Volatility	34.41%	N/A
Expected Dividends (Year to Date Per Share)	\$ 0.10	N/A

There were no options granted in the first six months of 2002. The fair values of the non-fully vested stock options outstanding are used to determine the proforma impact of the options on compensation expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 4. OTHER COMPREHENSIVE INCOME (LOSS)

	BEFORE - TAX AMOUNT	TAX (EXPENSE) BENEFIT	NET-OF-TAX AMOUNT
SIX MONTHS ENDED JUNE 30, 2002:			
Foreign Currency Translation Adjustments	\$ 1,026	\$ (359)	\$ 667
Unrealized Gains on Securities:			
Unrealized Holding Gains Arising During Period	12,189	(4,266)	7,923
Reclassification Adjustment for Gains Realized in Net Income	(1,422)	498	(924)
Net Unrealized Gains on Securities	10,767	(3,768)	6,999
Unrealized Gains on Derivatives:			
Unrealized Holding Losses Arising During Period	(470)	165	(305)
Reclassification Adjustment for Gains Realized in Net Income	(332)	116	(216)
Net Unrealized Losses on Derivatives	(802)	281	(521)
Other Comprehensive Income	\$ 10,991	\$ (3,846)	\$ 7,145
SIX MONTHS ENDED JUNE 30, 2003:			
Foreign Currency Translation Adjustments	\$ 138	\$ (48)	\$ 90
Unrealized Losses on Securities:			
Unrealized Holding Gains Arising During Period (1)	6,268	(2,204)	4,064
Reclassification Adjustment for Gains Realized in Net Income	(11,134)	3,897	(7,237)
Net Unrealized Losses on Securities(1)	(4,866)	1,693	(3,173)
Unrealized Gains on Derivatives:			
Unrealized Holding Gains Arising During Period	1,005	(352)	653
Reclassification Adjustment for Gains Realized in Net Income			
Net Unrealized Gains on Derivatives	1,005	(352)	653
Other Comprehensive Loss	\$ (3,723)	\$ 1,293	\$ (2,430)

(1) Tax (expense) benefit reflects a blended tax rate of 35% for the gain (loss) recorded in the U.S. and 30% for the gain (loss) recorded in the U.K.

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)
SIX MONTHS ENDED JUNE 30, 2002:				
Balance, December 31, 2001	\$ (5,679)	\$ (69)	\$ (2,231)	\$ (7,979)
Period Change	667	6,999	(521)	7,145
Balance, June 30, 2002	\$ (5,012)	\$ 6,930	\$ (2,752)	\$ (834)
SIX MONTHS ENDED JUNE 30, 2003:				
Balance, December 31, 2002	\$ (4,154)	\$ 12,746	\$ (3,124)	\$ 5,468
Period Change	90	(3,173)	653	(2,430)
Balance, June 30, 2003	\$ (4,064)	\$ 9,573	\$ (2,471)	\$ 3,038

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 & Co. (wealth management), Treasury, Riggs Capital Partners (venture capital) and Other.

The accounting policies for the segments are substantially the same as those described in Note 1 of Notes to Consolidated Financial Statements in our 2002 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. Geographic financial information is provided in Note 15 of Notes to Consolidated Financial Statements in our 2002 Form 10-K.

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, however, are not 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.

Following are brief descriptions of our segments:

Banking

The Banking segment provides traditional banking services to retail, corporate and commercial customers. This segment includes Corporate & Institutional Banking, which concentrates its business in the corporate, commercial real estate, government contracting and not-for-profit sectors. Its services include lines of credit, secured and unsecured term loans, letters of credit, credit support facilities and cash management. Also included within this segment is our Community Banking Group. Community Banking provides traditional retail banking services, such as deposit taking and mortgage and home equity lending, and it continually expands its alternative delivery channels such as automated teller machines and the telephone customer sales and service center. It primarily conducts its business through 48 branches and 146 ATM locations in the Washington, D.C., metropolitan area.

International Banking

The International Banking segment includes our Washington, D.C., based embassy banking business, the London based banking subsidiary, Riggs Bank Europe Ltd. (RBEL), and a branch in Berlin. Among the services provided are letters of credit, foreign exchange, taking of deposits, private banking and cash management. The International Banking segment also includes our international private-client services division, which has offices in London and in Jersey (Channel Islands), and Riggs Bank & Trust Company (Channel Islands), which provides credit, treasury and investment management services to affluent international clients.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Riggs & Co.

Riggs & Co. is the domestic private client and institutional services division that provides trust, private banking and investment management services to a broad customer base. Other services provided consist of tax planning, estate planning, and trust administration. Included in this division are our full-service broker-dealer subsidiary, Riggs Securities Inc., our portfolio management business, and our investment management group, Riggs Investment Advisors, Inc. (RIA).

Treasury

The Treasury segment is responsible for asset and liability management throughout the Company including management of the securities portfolio, foreign exchange activities, wholesale funding, overall management of interest rate risk, and facilitation of the funds transfer pricing component for segments.

Riggs Capital Partners

Riggs Capital Partners represents our venture capital subsidiaries, which specialize in equity investments in privately-held high-tech and high-growth companies.

Other

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

THREE MONTHS ENDED JUNE 30, 2003	INTERNATIONAL BANKING	INTERNATIONAL BANKING	RIGGS & COMPANY	TREASURY	RIGGS CAPITAL PARTNERS	OTHER	RECONCILIATION	RIGGS NATIONAL CORPORATION
NET INTEREST INCOME								
Interest Income	\$ 37,230	\$ 5,737	\$ 1,408	\$ 20,887	\$ 3	\$ 8,338	\$ (12,283)	\$ 61,320
Interest Expense	6,078	5,631	651	5,998		9,529	(12,283)	15,604
Funds Transfer Income (Expense)	1,502	10,653	2,608	(16,406)	(744)	2,387		
Net Interest Income (Loss)	32,654	10,759	3,365	(1,517)	(741)	1,196		45,716
Provision for Loan Losses	(668)	(93)	(54)					(815)
Net Interest Income (Loss)	\$ 31,986	\$ 10,666	\$ 3,311	\$ (1,517)	\$ (741)	\$ 1,196	\$	\$ 44,901
NONINTEREST INCOME								
Noninterest Income-External Customers	\$ 10,840	\$ 1,566	\$ 10,634	\$ 7,432	\$ (400)	\$ 13		\$ 30,085
Intersegment Noninterest Income	744	1,430	748			520	(3,442)	
Total Noninterest Income	\$ 11,584	\$ 2,996	\$ 11,382	\$ 7,432	\$ (400)	\$ 533	\$ (3,442)	\$ 30,085
NONINTEREST EXPENSE								
Direct Depreciation and Amortization	\$ 937	\$ 288	\$ 96	\$ 2	\$ 4	\$ 2,364		\$ 3,691
Direct Expense	18,205	11,958	8,353	992	218	25,509	(3,442)	61,793

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Overhead and Support	17,506	4,422	4,147	768	107	(26,950)		
Total Noninterest Expense	\$ 36,648	\$ 16,668	\$ 12,596	\$ 1,762	\$ 329	\$ 923	\$ (3,442)	\$ 65,484
Income (Loss) Before Taxes and Minority Interest	\$ 6,922	\$ (3,006)	\$ 2,097	\$ 4,153	\$ (1,470)	\$ 806	\$	\$ 9,502
Taxes	\$ 1,650	\$ 340	\$ 694	\$ 1,452	\$	\$ 53		\$ 4,189
Minority Interest					(4)	3,548		3,544
Net Income (Loss)	\$ 5,272	\$ (3,346)	\$ 1,403	\$ 2,701	\$ (1,466)	\$ (2,795)	\$	\$ 1,769

Total Average Assets
 \$3,291,618 \$697,154 \$238,645 \$3,046,921 \$59,235 \$802,416 \$(1,648,897) \$6,487,092

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

THREE MONTHS ENDED JUNE 30, 2002	BANKING	INTERNATIONAL BANKING	RIGGS & COMPANY	TREASURY	RIGGS CAPITAL PARTNERS	OTHER	RECONCILIATION	RIGGS NATIONAL CORPORATION
NET INTEREST INCOME								
Interest Income	\$ 39,425	\$ 7,691	\$ 1,466	\$ 24,078	\$ 54	\$ 8,566	\$ (16,363)	\$ 64,917
Interest Expense	10,021	7,177	1,010	4,829		9,530	(16,363)	16,204
Funds Transfer Income (Expense)	2,101	9,553	2,852	(17,176)	(922)	3,592		
Net Interest Income (Loss)	31,505	10,067	3,308	2,073	(868)	2,628		48,713
Provision for Loan Losses		1,082				(1,082)		
Net Interest Income (Loss)	\$ 31,505	\$ 11,149	\$ 3,308	\$ 2,073	\$ (868)	\$ 1,546	\$	\$ 48,713
NONINTEREST INCOME								
Noninterest Income-External Customers	\$ 10,905	\$ 1,041	\$ 12,114	\$ 2,504	\$ (3,640)	\$ 125		\$ 23,049
Intersegment Noninterest Income	681	2,649	570			641	(4,541)	
Total Noninterest Income	\$ 11,586	\$ 3,690	\$ 12,684	\$ 2,504	\$ (3,640)	\$ 766	\$ (4,541)	\$ 23,049
NONINTEREST EXPENSE								
Direct Depreciation and Amortization	\$ 862	\$ 290	\$ 127	\$ 3	\$ 7	\$ 2,159		\$ 3,448
Direct Expense	18,673	10,459	9,722	907	704	20,493	(4,541)	56,417
Overhead and Support	13,145	3,126	3,220	568	112	(20,171)		
Total Noninterest Expense	\$ 32,680	\$ 13,875	\$ 13,069	\$ 1,478	\$ 823	\$ 2,481	\$ (4,541)	\$ 59,865
Income (Loss) Before Taxes and Minority Interest	\$ 10,411	\$ 964	\$ 2,923	\$ 3,099	\$ (5,331)	\$ (169)	\$	\$ 11,897
Taxes	\$ 3,049	\$ 401	\$ 1,035	\$ 1,080	\$ (933)	\$ (811)		\$ 3,821
Minority Interest					(28)	4,102		4,074
Net Income (Loss)	\$ 7,362	\$ 563	\$ 1,888	\$ 2,019	\$ (4,370)	\$ (3,460)	\$	\$ 4,002
Total Average Assets								
Total Average Assets	\$ 3,116,717	\$ 702,171	\$ 219,976	\$ 2,904,627	\$ 74,489	\$ 772,850	\$ (2,109,569)	\$ 5,681,261

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

SIX MONTHS ENDED JUNE 30, 2003	INTERNATIONAL BANKING	RIGGS & BANKING	RIGGS & COMPANY	TREASURY	RIGGS CAPITAL PARTNERS	OTHER	RIGGS NATIONAL CORPORATION RECONCILIATION	RIGGS NATIONAL CORPORATION
NET INTEREST INCOME								
Interest Income	\$ 75,818	\$ 11,075	\$ 2,668	\$ 43,361	\$ 8	\$ 16,666	\$ (24,023)	\$ 125,573
Interest Expense	13,730	10,470	1,410	11,012		19,058	(24,023)	31,657
Funds Transfer Income (Expense)	6,154	20,092	5,372	(35,037)	(1,529)	4,948		
Net Interest Income (Loss)	68,242	20,697	6,630	(2,688)	(1,521)	2,556		93,916
Provision for Loan Losses	(1,963)	306	(81)			(3)		(1,741)
Net Interest Income (Loss)	\$ 66,279	\$ 21,003	\$ 6,549	\$ (2,688)	\$ (1,521)	\$ 2,553	\$	\$ 92,175
NONINTEREST INCOME								
Noninterest Income-External Customers	\$ 21,848	\$ 3,129	\$ 21,151	\$ 12,660	\$ (2,585)	\$ 11		\$ 56,214
Intersegment Noninterest Income	1,454	3,181	1,495			1,040	(7,170)	
Total Noninterest Income	\$ 23,302	\$ 6,310	\$ 22,646	\$ 12,660	\$ (2,585)	\$ 1,051	\$ (7,170)	\$ 56,214
NONINTEREST EXPENSE								
Direct Depreciation and Amortization	\$ 1,865	\$ 609	\$ 201	\$ 5	\$ 8	\$ 4,699		\$ 7,387
Direct Expense	35,860	20,130	17,647	1,969	440	48,167	(7,170)	117,043
Overhead and Support	33,418	7,950	7,338	1,516	201	(50,423)		
Total Noninterest Expense	\$ 71,143	\$ 28,689	\$ 25,186	\$ 3,490	\$ 649	\$ 2,443	\$ (7,170)	\$ 124,430
Income (Loss) Before Taxes and Minority Interest	\$ 18,438	\$ (1,376)	\$ 4,009	\$ 6,482	\$ (4,755)	\$ 1,161	\$	\$ 23,959
Taxes	\$ 4,890	\$ 907	\$ 1,376	\$ 2,268	\$	\$ (255)		\$ 9,186
Minority Interest					(21)	7,096		7,075
Net Income (Loss)	\$ 13,548	\$ (2,283)	\$ 2,633	\$ 4,214	\$ (4,734)	\$ (5,680)	\$	\$ 7,698

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

SIX MONTHS ENDED JUNE 30, 2002	BANKING	INTERNATIONAL BANKING	RIGGS & COMPANY	TREASURY	RIGGS CAPITAL PARTNERS	OTHER	RECONCILIATION	RIGGS NATIONAL CORPORATION
NET INTEREST INCOME								
Interest Income	\$ 77,888	\$ 15,399	\$ 2,957	\$ 48,065	\$ 111	\$ 17,350	\$ (32,432)	\$ 129,338
Interest Expense	20,075	14,516	2,157	9,736		19,331	(32,432)	33,383
Funds Transfer Income (Expense)	4,743	18,734	5,951	(35,228)	(1,874)	7,674		
Net Interest Income (Loss)	62,556	19,617	6,751	3,101	(1,763)	5,693		95,955
Provision for Loan Losses		1,082				586		1,668
Net Interest Income (Loss)	\$ 62,556	\$ 20,699	\$ 6,751	\$ 3,101	\$ (1,763)	\$ 6,279	\$	\$ 97,623
NONINTEREST INCOME								
Noninterest Income-External Customers	\$ 21,188	\$ 2,211	\$ 24,993	\$ 3,396	\$(10,421)	\$ 210		\$ 41,577
Intersegment Noninterest Income	1,401	5,683	1,228			1,282	(9,594)	
Total Noninterest Income	\$ 22,589	\$ 7,894	\$ 26,221	\$ 3,396	\$(10,421)	\$ 1,492	\$ (9,594)	\$ 41,577
NONINTEREST EXPENSE								
Direct Depreciation and Amortization	\$ 1,846	\$ 598	\$ 252	\$ 6	\$ 14	\$ 4,344		\$ 7,060
Direct Expense	34,886	20,967	19,133	1,822	1,410	40,963	(9,594)	109,587
Overhead and Support	25,772	6,105	6,243	1,076	203	(39,399)		
Total Noninterest Expense	\$ 62,504	\$ 27,670	\$ 25,628	\$ 2,904	\$ 1,627	\$ 5,908	\$ (9,594)	\$ 116,647
Income (Loss) Before Taxes and Minority Interest	\$ 22,641	\$ 923	\$ 7,344	\$ 3,593	\$(13,811)	\$ 1,863	\$	\$ 22,553
Taxes Minority Interest	\$ 6,876	\$ 421	\$ 2,509	\$ 1,253	\$(2,416) (77)	\$ (507) 9,067		\$ 8,136 8,990
Net Income (Loss)	\$ 15,765	\$ 502	\$ 4,835	\$ 2,340	\$(11,318)	\$ (6,697)	\$	\$ 5,427
Total Average Assets	\$3,030,592	\$ 702,543	\$226,152	\$3,060,997	\$ 75,529	\$796,906	\$(2,078,115)	\$5,814,604

NOTE 6: ACCOUNTING FOR DERIVATIVES

Under the provisions of SFAS 133, *Accounting for Derivative Investments and Hedging Activities*, which was amended by SFAS 138 and SFAS 149, (see further discussion in Note 10, *New Financial Accounting Standards*) 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 June 30, 2003:

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, 2003 and 2002, we had no fair value hedges. At June 30, 2002 all of the hedged loans were reclassified as Held For Sale. Upon reclassification of these loans, the Company ceased hedge accounting. Since that time, the Company has not entered into any fair value hedge contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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. At June 30, 2003, we have 7 such interest rate swaps with a total notional value of \$46.6 million versus 6 swaps with a total notional of \$42.7 million at June 30, 2002. 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. At June 30, 2003, there was 1 contract with a notional value of \$517 thousand compared to 30 contracts with a total notional value of \$115.5 million at June 30, 2002. The reduction in the number of these contracts is related to the previously disclosed sale of loans at RBEL. For the six months ending June 30, 2003 and 2002, there was no impact to Other Noninterest Income in the Consolidated Statements of Income 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 Statement of Income in which the income or expense related to the hedged item is recorded. At June 30, 2003, \$6 thousand of deferred net losses on derivative instruments in Accumulated Other Comprehensive Income is expected to be reclassified as expense during the next twelve months compared to \$748 thousand of deferred net losses at June 30, 2002. The maximum term over which we were hedging our exposure to the variability of cash flows was 24 months as of June 30, 2003 and 36 months as of June 30, 2002.

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, in this case for pounds sterling. At June 30, 2003, \$575 thousand of net gains related to the existing net investment forward exchange contract are included in Accumulated Other Comprehensive Income compared to \$837 thousand of net losses at June 30, 2002. The corresponding notional values for these periods was \$76.8 million and \$69.1 million, respectively.

As of June 30, 2003 and 2002, we had certain derivative instruments used to manage interest rate risk that were not designated to specific hedge relationships. The carrying value of these items is a net liability of \$433 thousand and \$999 thousand at June 30, 2003 and 2002, respectively. The impact to the Consolidated Statements of Income from these swaps was a gain of \$172 thousand for the first six months of 2003 and a gain of \$237 thousand for the same period in 2002. At June 30, 2003, we had 20 interest rate contracts and 2 forward contracts with a total notional value of \$81.1 million compared to 21 interest rate contracts and no forward contracts with a total notional value of \$79.2 million at June 30, 2002. These instruments are marked to market through current period earnings.

NOTE 7: ENHANCING PERFORMANCE AND SERVICE

In 2001, the Company announced plans to implement a series of actions intended to enhance its financial performance and customer service. This effort to Enhance Performance and Service (Project EPS) consists of a technology initiative, a re-design of operational processes and a realignment of our European operations to focus on private banking and embassy banking. The operational re-design and European realignment have been substantially completed. The domestic technology upgrade is expected to be substantially completed in the third quarter of 2003 and the European technology upgrade will be completed in the first half of 2004.

Progress made on Project EPS during 2002 included the elimination of approximately 100 employee positions, with the anticipation that more will be eliminated during the second half of 2003. In the fourth quarter of 2002 and in January of 2003 we also implemented a new fee structure which resulted in increased fee income of approximately \$432 thousand for the second quarter of 2003 compared to the second quarter of 2002. For the six months ended June 30, 2003 the new fee structure has resulted in increased fee income of approximately \$860 thousand compared to the first six months of 2002.

The Company expects to capitalize approximately \$40.0 million of Project EPS costs that will be amortized over an average of approximately 5 years. In addition, there will be project-related costs that will be expensed as incurred. Management anticipates that over time these expenses will be offset by further expense reductions and by additional fee income from the various Project EPS initiatives. These expenses will be included in the appropriate categories of Noninterest Expense in the Consolidated Statements of Operations and will impact all segments excluding Riggs Capital Partners. Upon completion of the project, management believes that the annual net pre-tax benefit provided by Project EPS to the Company's earnings will be approximately \$9.0 million.

NOTE 8: SUBSEQUENT EVENTS

Regulatory Matters

On July 16, 2003, the Bank entered into a Stipulation and Consent to the Issuance of a Consent Order and a Consent Order (collectively the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Consent Order) with the Office of the Comptroller of the Currency (OCC). The Consent Order addresses the OCC 's findings relative to the Bank 's compliance with the Bank Secrecy Act (BSA), as amended, and any related laws and regulations. A description of the more significant provisions of the Consent Order follows.

The Consent Order requires that the Bank maintain a BSA Compliance Committee of at least three (3) directors, the majority of which are not employed by the Bank or related to a Bank employee. Within forty-five days of the Consent Order, and monthly thereafter, the BSA Compliance Committee is required to report the actions needed to achieve compliance with the Consent Order, the actions taken to achieve compliance and the result of those actions.

Among other things, the Consent Order also requires that within thirty (30) days the Bank 's Board of Directors shall engage an independent management consultant to study the Bank 's compliance with BSA, as amended, and any related laws and regulations. In addition, this consultant shall study the responsibilities, competence and capabilities of the Bank 's BSA Officer and supporting staff.

Within sixty (60) days of the Consent Order this consultant or the Bank shall assess the levels of risk for compliance with BSA including risks for all accounts, customers, products, services and geographic areas. In addition, within sixty (60) days, the Bank must complete an evaluation of the capabilities and competencies of the BSA Officer and supporting staff, the adequacy of reporting tools, particularly technology-related tools, necessary to monitor and ensure BSA compliance, the BSA Officer 's structure and independence from Bank management and an evaluation of the types of transactions, accounts, customers, products, services and geographic areas that pose greater than normal risk for compliance with BSA.

Within this sixty (60) day timeframe the Bank will also develop, implement and thereafter ensure adherence to a comprehensive BSA training program for appropriate personnel.

Within ninety (90) days of the Consent Order, the Bank 's Board of Directors shall determine if any changes are needed regarding the BSA Officer or the supporting staff. Within this time period the Board shall also develop, implement and ensure adherence to a written program of policies and procedures to provide for BSA compliance, including those related to the monitoring and reporting of suspicious cash, monetary instrument and wire transfer transactions.

Within one hundred (100) days of the Consent Order, the Board of Directors shall expand the Bank 's BSA audit procedures to include: the development of a formal internal audit schedule with all deviations of more than forty-five (45) days requiring Board approval; development of a program to periodically test the adequacy of internal controls intended to ensure BSA compliance; prompt management response and follow-up to any BSA exception; and a risk-based approach to BSA compliance testing.

Within one hundred and fifty (150) days of the Consent Order, the Board will ensure that the auditor for BSA matters has developed findings and recommendations on the Bank 's internal controls addressing BSA compliance matters and reviewed prior activity for accounts that pose a greater than normal risk for BSA compliance in order to ascertain if any unusual or suspicious transaction has occurred. The Board 's findings will be reported to the OCC.

The Consent Order allows the OCC to take whatever future actions it deems necessary to fulfill its regulatory responsibilities. These actions could include the imposition of a monetary penalty, including a civil-money monetary penalty, at a future date. The amount of such monetary penalty, if any, cannot be estimated at this time.

The provisions of the Consent Order are effective until such time as they are amended, suspended, waived or terminated in writing by the OCC. It is the Company 's intention to fully cooperate with the OCC on this matter.

Depository Compensation Security (DCS)

Subsequent to June 30, 2003, the United States Department of the Treasury (Treasury) changed the method by which it compensates financial agent banks. Fiscal agent banks, including Riggs, had previously been paid for services provided to the Treasury through the earnings on compensating balances which were required to be collateralized. Beginning on July 14, 2003, the Treasury will compensate banks through zero cost deposits and a depository compensation security (DCS). The Treasury deposits funds in the bank and the bank is required to simultaneously purchase an equal amount of the DCS with the DCS acting as collateral for the deposits. The DCS and deposit balances will be reflected as a net amount on the Statement of Condition in compliance with FIN 39, Offsetting of Amounts Related to Certain Contracts. The amount of DCS purchased on July 14, 2003 was approximately \$1.1 billion. Earnings on the DCS will be recorded in Other Noninterest Income.

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Sale of Funds

On July 18, 2003, we announced an agreement had been reached between Federated Investors, Inc. and the Company for the sale of approximately \$470.0 million in mutual fund assets of eight Riggs mutual funds to Federated Investors, Inc. Because of various provisions in the agreement, the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

amount of gain recognized as a result of this sale cannot currently be estimated. Management anticipates that the sale will be completed in the quarter ending September 30, 2003.

Check Card Program

In July 2003, we were informed by our credit card program that a fee may be imposed whereby the Company may be required to pay an annual fee of 1% of annual check card sales if future annual check card sales volumes are less than 90% of a base year sales amount of approximately \$230 million. Since the Company cannot reasonably estimate future check card sales volumes, the amount of this new fee, if any, cannot currently be estimated. Current annual revenues derived by the Company from its check card program are approximately \$3.4 million.

Trust Preferred Repurchases

In August of 2003, we repurchased, in a cash transaction, \$2.6 million of trust preferred securities at a blended interest rate of 8.83%. This repurchase was at par.

NOTE 9: RELATED PARTY TRANSACTIONS

Prior to and during the six months ended June 30, 2003, 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, 2002.

NOTE 10: NEW FINANCIAL ACCOUNTING STANDARDS

SFAS 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*, an amendment of FASB Statement 123, was issued in December 2002. It amends SFAS 123, *Accounting for Stock Based Compensation* to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provision of that statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, this statement amends APB Opinion 28, *Interim Financial Reporting*, to require disclosure about those effects in interim financial information. This interim disclosure is contained in Note 3, *Earnings Per Share* of this Form 10-Q. We currently do not anticipate changing to the fair value based method of accounting for stock based compensation.

SFAS 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activity*, was issued in May 2003. It amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. It accomplishes this by requiring that contracts with comparable characteristics be accounted for similarly. The statement is effective for contracts entered into or modified after June 30, 2003, with minor exceptions, and should be applied prospectively. The statement will not have a material impact on the Company.

On May 30, 2003, the FASB issued FASB Statement 150, *Accounting for Certain Financial Instruments with Characteristics of Liabilities and Equity*. It establishes standards for issuers' classification as liabilities in the statement of financial position of financial instruments that have characteristics of both liabilities and equity, including financial instruments that are mandatorily redeemable on a fixed or determinable date. Our guaranteed preferred beneficial interests in junior subordinated deferrable interest debentures (trust preferred securities), currently classified on our consolidated Statements of Condition as minority interest, meet that description. The statement is effective at the beginning of the first interim period beginning after June 15, 2003. Therefore, we will begin reporting our trust preferred securities as a long-term liability in our financial statements dated September 30, 2003. Restatement of prior periods is not permitted. The related interest expense, currently included in minority interest, net of taxes, on our Consolidated Statements of Income, will be reported as (gross) interest expense, thereby decreasing net interest income. The tax benefit attributable to this interest expense will be recorded in applicable income tax expense in the Consolidated Statements of Income. There will be no impact on earnings as a result of the implementation of SFAS 150.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantors, including Indirect Guarantees of Indebtedness of Others: an Interpretation of FASB Statements No. 5, 57 and 107 and rescission of FASB Interpretation No. 34*. Under FIN 45, a liability must be recognized at the inception of certain guarantees whether or not payment is probable. When the guarantor has assumed a stand-ready obligation, the fair value of the guarantee must be recorded as a liability. This interpretation was effective at December 31, 2002, with the disclosure provisions of FIN 45 effective in 2002 and the accounting provisions effective in 2003. At June 30, 2003, a liability of \$223 thousand existed for the stand-by letters of credit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities: an interpretation of ARB No. 51. This interpretation addresses the issue of consolidation of variable interest entities, which were previously commonly referred to as special-purpose entities (SPEs). Generally, in a variable interest entity the equity investment at risk is not sufficient to allow the entity to function without subordinated financial support from other parties that absorb some of the expected losses and the equity investors do not have the essential characteristics of a controlling financial interest. According to FIN 46, if a business has a controlling financial interest in a variable interest entity, the assets, liabilities and operating results of the variable interest entity should be consolidated with the business, even if the business does not have voting control of the variable interest entity. FIN 46 applies immediately to variable interest entities created after January 31, 2003 and to interests in variable interest entities acquired after that date. FIN 46 also applies to the first interim or fiscal periods beginning after June 15, 2003 for those variable interest entities in which a business holds an interest that was acquired before February 1, 2003. Riggs currently has no variable interest entities which require consolidation of previously unconsolidated entities.

FIN 46 may, however, have implications for how our trust preferred securities are reported in the consolidated financial statements. The two trusts formed to issue the trust preferred securities may no longer be consolidated since the economic risks associated with the trusts are held by the holders of the trust preferred securities rather than Riggs, which has a controlling equity interest. It would mean that the Company would no longer consolidate the trust preferred securities as minority interest but, rather, would hold debt payable to a related party. This change may also impact regulatory capital as further described in Shareholders Equity and Regulatory Capital in Management s Discussion and Analysis.

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. We conduct our activities through six reportable segments: Banking, International Banking, Riggs & Co. (wealth management), Treasury, Riggs Capital Partners (venture capital) and Other. With the exception of venture capital investing, the activities of the Company are conducted through its principal operating subsidiary, Riggs Bank, 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 146 ATMs in the metropolitan Washington, D.C. area and a bank in the United Kingdom. We have additional operations or subsidiaries in London (England), Miami (Florida), Berlin (Germany), Jersey (Channel Islands) and Nassau (Bahamas). 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 operation and quality of customer service.

The Company also is affected by prevailing economic conditions, including federal monetary and fiscal policies, federal regulation of financial institutions and the perceptions of customers regarding stability of financial markets and the financial services industry. These factors affect the operations of all of the Company s segments. The International Banking segment also is affected by the political, social and economic environments in those countries in which it does business. While we strive to monitor and minimize risk, the Company does in fact fund customers that have alternative, and in some instances competing, goals and strategies. These competitive frictions may have future negative consequences to the Company. In addition, the Company s international presence exposes it to various political risks and the further risk that the general public may look unfavorably upon some of its foreign customer relationships.

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

RESULTS OF OPERATIONS

We recorded net income of \$1.8 million, or \$0.06 per diluted share, for the second quarter of 2003, compared to net income of \$4.0 million, or \$0.14 per diluted share, in the second quarter of 2002. The decrease in earnings in the second quarter of 2003 was due primarily to increases in noninterest expense, which increased from \$59.9 million in 2002 to \$65.5 million in the current year, and lower net interest income, which decreased from \$48.7 million a year ago to \$45.7 million for the current quarter. Offsetting these decreases to earnings was a \$7.0 million increase in noninterest income. Return on average assets was .11% for the three months ended June 30, 2003, compared to .28% for the same period a year ago, and return on average shareholders' equity was 1.81% for the three months ended June 30, 2003, compared to 4.36% for the same period in June 30, 2002.

For the six months ended June 30, 2003, we recorded net income of \$7.7 million, or \$0.27 per diluted share, compared to net income of \$5.4 million, or \$0.19 per diluted share, in the first half of 2002. The increase in earnings in the first half of 2003 compared to the prior year was due primarily to increased securities gains of \$9.7 million and reduced venture capital losses of \$7.9 million. Offsetting these earnings increases was a \$7.8 million increase in noninterest expense. Also, net interest income decreased from \$96.0 million to \$93.9 million. Return on average assets was .23% for the six months ended June 30, 2003, compared to .19% for the same period a year ago. Return on average shareholders' equity was 3.95%, compared to 2.99% for the six months ended June 30, 2002.

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 \$46.9 million in the second quarter of 2003, a decrease of \$2.6 million (or 5.3%) from the \$49.5 million for the same quarter in 2002. The decrease was primarily due to a decrease in interest income (from \$65.7 million to \$62.5 million) that was significantly larger than the decrease in interest expense (from \$16.2 million to \$15.6 million). Decreases in interest rates earned on loans and securities were the major contributors to the decline in interest income, as prepayments increased resulting in more rapid amortization of purchase premiums, partially offset by increases in volume. The decrease in revenues was partially offset by a decrease in interest expense on deposits. Since mid-December 2002, the Company has borrowed \$419.0 million from the FHLB at rates ranging from .78% to 3.70%. The Company uses these advances to fund the purchase of mortgage-backed securities as part of a leverage strategy to utilize our strong capital position. The goal of this strategy is to increase net interest income. The average rate of FHLB borrowings outstanding at June 30, 2003 was 2.59%. As interest rates have continued to decrease within the past year, loans and other assets have prepaid and repriced quickly. Due to market forces, however, the Company has found it increasingly difficult to pass on these rate decreases to its deposit customers. At the same time, deposit volumes have increased as the result of customers seeking to place their money in more secure, insured fixed-income products.

For the six months ended June 30, 2003, net interest income on a tax-equivalent basis totaled \$96.3 million, a decrease of \$1.3 million (or 1.3%) from the \$97.6 million for the same period in 2002. The decrease was primarily due to a larger decrease in interest income (from \$131.0 million to \$128.0 million) than in interest expense (from \$33.4 million to \$31.7 million). As it was for the three month period, decreases in interest rates earned on loans and securities were the major contributors to the decline in interest income, which was partially offset by decreased interest expense on deposits. Market forces affecting net interest income for the three month period have also affected the six-month period.

For the three months ended June 30, 2003, compared to the same quarter in the prior year, the net interest margin decreased from 3.88% to 3.21%. For the six months ended June 30, 2003, the net interest margin was 3.23%, a decrease of 53 basis points from the same period a year ago. The decrease in interest rates on the Company's assets noted previously was a significant reason for the margin decline in both periods, caused both by market forces and sales of mortgage-backed securities. Proceeds from these sales were used to purchase securities at the lower prevailing market rates. 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 the funds are reinvested in short-term assets (generally 30 days or shorter) which generally yield less than loans of comparable maturities. See Subsequent Events.

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

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 JUNE 30, 2003 VS. 2002			SIX MONTHS ENDED JUNE 30, 2003 VS. 2002		
	DUE TO RATE	DUE TO VOLUME	TOTAL CHANGE	DUE TO RATE	DUE TO VOLUME	TOTAL CHANGE
Interest Income:						
Loans, Including Fees	\$ (6,009)	\$2,530	\$(3,479)	\$(10,904)	\$ 5,905	\$(4,999)
Securities Available for Sale	(5,301)	5,215	(86)	(8,314)	9,741	1,427
Time Deposits with Other Banks	762	238	1,000	1,504	94	1,598
Federal Funds Sold and Reverse Repurchase Agreements	(503)	(145)	(648)	(1,359)	354	(1,005)
Total Interest Income	(11,051)	7,838	(3,213)	(19,073)	16,094	(2,979)
Interest Expense:						
Interest-Bearing Deposits	(4,030)	887	(3,143)	(8,472)	2,659	(5,813)
Repurchase Agreements and Other						
Short-Term Borrowings	(356)	198	(158)	(810)	(98)	(908)
FHLB Borrowings and Other Long-Term Debt	(1,602)	4,303	2,701	(3,048)	8,043	4,995
Total Interest Expense	(5,988)	5,388	(600)	(12,330)	10,604	(1,726)
Net Interest Income	\$ (5,063)	\$2,450	\$(2,613)	\$ (6,743)	\$ 5,490	\$(1,253)

(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. The above demonstrates that reductions in net interest income for both the three and six month periods ended June 30, 2003 compared to comparable periods of 2002 are primarily attributable to rate changes.

**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 for the quarters ended June 30 follows:

(TAX-EQUIVALENT BASIS) (1) (IN THOUSANDS)	THREE MONTHS ENDED JUNE 30, 2003			THREE MONTHS ENDED JUNE 30, 2002		
	AVERAGE BALANCE	INCOME/ EXPENSE	RATE	AVERAGE BALANCE	INCOME/ EXPENSE	RATE
ASSETS						
Loans (2)	\$3,025,493	\$41,428	5.49%	\$2,857,469	\$44,907	6.30%
Securities Available for Sale (3)	2,209,490	18,481	3.35	1,665,450	18,567	4.47
Time Deposits with Other Banks	258,362	1,484	2.30	187,242	484	1.04
Federal Funds Sold and Reverse Repurchase Agreements	367,802	1,120	1.22	403,268	1,768	1.76
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Total Earning Assets and Average Rate Earned (5)	5,861,147	62,513	4.28	5,113,429	65,726	5.16
Reserve for Loan Losses	(25,760)			(26,463)		
Cash and Due from Banks	176,770			161,910		
Other Assets	474,935			432,385		
<hr/>						
Total Assets	\$6,487,092			\$5,681,261		