RIGGS NATIONAL CORP
Form 10-Q
November 14, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One) [X] 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 [X] 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	**28,505,354**
(Title of Class)	(Outstanding at October 31, 2002)

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 Natio
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, 2002	THREE MONTHS ENDED SEPTEMBER 30, 2001	NINE MONTHS ENDED SEPTEMBER 30, 2002	NINE MONTHS ENDED SEPTEMBER 30, 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
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

Total Interest on Deposits	14,157	21,547	40,602	70,557
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
Total Interest on Short-Term Borrowings and Long-Term Debt	3,360	5,354	10,298	19,759
Total Interest Expense	17,517	26,901	50,900	90,316
Net Interest Income				

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

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

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

COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS EQUITY

Common Stock-$2.50 Par Value

	9/30/2002	12/31/2001	9/30/2001			
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)			
Total Shareholders Equity	385,472	360,823	402,357			
Total Liabilities and Shareholders Equity	$6,377,058	$6,099,402	$5,739,356			

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	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
Balance, December 31, 2000	$79,254	$162,206	$226,616	$(13,973)	$(71,357)	$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)

Total Other Comprehensive Income
13,328

Total Comprehensive Income
22,727
Issuance of Common Stock for Stock Option Plans-94,239 Shares
235 919 1,154
Cash Dividends Common Stock, $.15 per Share
(4,270) (4,270)

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

Total Other Comprehensive Income
11,576

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)

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

(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
Total Adjustments	575	26,657
Net Cash Provided By Operating Activities	11,393	36,056

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
Net Cash Used In Investing Activities	(319,282)	(80,081)
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)	
Net Cash Provided By Financing Activities	244,123	105,893
Effect of Exchange Rate Changes	1,250	(554)
Net (Decrease) Increase in Cash and Cash Equivalents	(62,516)	61,314
Cash and Cash Equivalents at Beginning of Period	808,743	551,075
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.

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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)

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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
NINE MONTHS ENDED SEPTEMBER 30, 2001:			
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)

Net Unrealized Gains (Losses) on Securities
25,421 (8,897) 16,524

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)

Net Unrealized Gains (Losses) on Derivatives
(4,064) 1,422 (2,642)

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)
Net Unrealized Gains (Losses) on Securities	17,033	(5,962)	11,071
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
Net Unrealized Gains (Losses) on Derivatives	(1,146)	401	(745)
Other Comprehensive Income (Loss)	$17,810	$(6,234)	$11,576

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)
NINE MONTHS ENDED SEPTEMBER 30, 2001:				
Balance, December 31, 2000	$(4,657)	$(9,316)	$	$(13,973)
Period Change	(554)	16,524	(2,642)	13,328
Balance, September 30, 2001	$(5,211)	$7,208	$(2,642)	$(645)
NINE MONTHS ENDED SEPTEMBER 30, 2002:				
Balance, December 31, 2001	$(5,679)	$(69)	$(2,231)	$(7,979)
Period Change	1,250	11,071	(745)	11,576
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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

THREE MONTHS ENDED SEPTEMBER 30, 2002	BANKING	INTERNATIONAL BANKING	RIGGS & COMPANY	TREASURY	RIGGS CAPITAL PARTNERS	OTHER	RECLASSIFICATION	RIGGS NATIONAL CORPORATION
NET INTEREST INCOME								

Interest Income
$41,894 $6,932 $1,547 $22,510 $54 $8,468
Interest Expense
11,482 6,742 1,031 4,121 9,530
Funds Transfer Income (Expense)
4,186 10,356 2,889 (20,041) (894) 3,504

Net Interest Income (Loss), Tax-Equivalent
34,598 10,546 3,405 (1,652) (840) 2,442
Provision for Loan Losses
(4,700) 3,886 (586)
Tax Equivalent Adjustment
(1,094)

Net Interest Income (Loss)
$28,804 $14,432 $3,405 $(1,652) $(840) $1,856 $ $46,005

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

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

NONINTEREST EXPENSE

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)

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

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

Total Average Assets	$3,257,062	$635,959	$230,602	$3,216,404	$72,454	$750,523	$(1,922,740)	$6,240,264

THREE MONTHS ENDED SEPTEMBER 30, 2001	BANKING	INTERNATIONAL BANKING	RIGGS & COMPANY	TREASURY	RIGGS CAPITAL PARTNERS	OTHER	RECONCILIATION	RIGGS NATIONAL CORPORATION
NET INTEREST INCOME								
Interest Income	$45,020	$11,310	$1,128	$30,484	$118	$9,953		
Interest Expense	12,542	14,234	1,202	9,178		11,940		
Funds Transfer Income (Expense)	(3,262)	11,595	2,420	(16,390)	(1,182)	6,819		

Net Interest Income (Loss), Tax-Equivalent
29,216 8,671 2,346 4,916 (1,064) 4,832
Provision for Loan Losses
(838)
Tax Equivalent Adjustment
(619)

Net Interest Income (Loss)
$28,597 $7,833 $2,346 $4,916 $(1,064) $4,832 $ $47,460

NONINTEREST INCOME

Noninterest Income-External Customers
$11,244 $1,280 $12,153 $237 $(7,192) $77

Intersegment Noninterest Income
807 1,966 578 641

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

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)

Total Noninterest Expense	$31,864	$13,281	$11,920	$1,538	$1,145	$1,768	$(3,992)	$57,524
Income (Loss) Before Taxes and Minority Interest	$8,784	$(2,202)	$3,157	$3,615	$(9,401)	$3,782	$	$7,735