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RIGGS NATIONAL CORP  
Form 10-Q  
August 10, 2001

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, 2001

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

28,493,321

-----  
(Title of Class)

-----  
(Outstanding at July 31, 2001)

RIGGS NATIONAL CORPORATION

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS-UNAUDITED

RIGGS NATIONAL CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)

THREE MONTHS  
JUNE 30

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

2001

INTEREST INCOME

Interest and Fees on Loans	\$ 51,775
Interest and Dividends on Securities Available for Sale	16,885
Interest on Time Deposits with Other Banks	3,617
Interest on Federal Funds Sold and Reverse Repurchase Agreements	4,626

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Total Interest Income	76,903
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INTEREST EXPENSE

Interest on Deposits:

Savings and NOW Accounts	428
Money Market Deposit Accounts	6,864
Time Deposits in Domestic Offices	7,570
Time Deposits in Foreign Offices	7,691

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Total Interest on Deposits 22,553

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

Repurchase Agreements and Other Short-Term Borrowings	4,281
Long-Term Debt	1,618

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Total Interest on Short-Term Borrowings and Long-Term Debt 5,899

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Total Interest Expense 28,452

---

Net Interest Income 48,451

Less: Provision for Loan Losses -

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Net Interest Income after Provision for Loan Losses 48,451

NONINTEREST INCOME

Trust and Investment Advisory Income	13,349
Service Charges and Fees	11,022
Venture Capital Investment Gains (Losses), Net	(5,991)
Other Noninterest Income	2,890
Securities Gains, Net	997

---

Total Noninterest Income 22,267

NONINTEREST EXPENSE

Salaries and Employee Benefits	26,406
Occupancy, Net	5,142
Data Processing Services	5,188
Furniture and Equipment	2,780
Other Real Estate Owned (Income) Expense, Net	(50)
Other Noninterest Expense	17,696

---

Total Noninterest Expense 57,162

---

Income before Taxes, Minority Interest and Extraordinary Loss 13,556

Applicable Income Tax Expense 4,408

Minority Interest in Income of Subsidiaries, Net of Taxes 4,960

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Net Income \$ 4,188

EARNINGS PER SHARE- Basic \$ 0.15  
Diluted 0.14

DIVIDENDS DECLARED AND PAID PER SHARE \$ 0.05

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ASSETS

Cash and Due from Banks	\$ 151,174	\$
Federal Funds Sold and Reverse Repurchase Agreements	429,000	
<hr/>		
Total Cash and Cash Equivalents	580,174	
Time Deposits with Other Banks	326,333	
Securities Available for Sale (at Market Value)	1,131,895	
Venture Capital Investments	68,723	
Loans	2,929,381	
Reserve for Loan Losses	(34,111)	
<hr/>		
Total Net Loans	2,895,270	
Premises and Equipment, Net	196,325	
Other Assets	197,402	
<hr/>		
Total Assets	\$5,396,122	\$

LIABILITIES

Deposits:		
Noninterest-Bearing Demand Deposits	\$ 594,736	\$
Interest-Bearing Deposits:		
Savings and NOW Accounts	276,093	
Money Market Deposit Accounts	1,667,092	
Time Deposits in Domestic Offices	721,541	
Time Deposits in Foreign Offices	728,492	
<hr/>		
Total Interest-Bearing Deposits	3,393,218	
<hr/>		
Total Deposits	3,987,954	
Repurchase Agreements and Other Short-Term Borrowings	442,558	
Other Liabilities	160,356	
Long-Term Debt	66,525	
<hr/>		
Total Liabilities	4,657,393	

GUARANTEED PREFERRED BENEFICIAL INTERESTS IN JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES	350,000	
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SHAREHOLDERS' EQUITY

Common Stock-\$2.50 Par Value		
Shares Authorized - 50,000,000 at June 30, 2001 and 2000, and December 31, 2000		
Shares Issued - 31,775,785 at June 30, 2001, 31,651,464 at June 30, 2000 and 31,701,464 at December 31, 2000	79,440	
Surplus	162,918	
Retained Earnings	233,565	
Accumulated Other Comprehensive Loss	(15,837)	
Treasury Stock - 3,300,798 shares at June 30, 2001 and 2000, and December 31, 2000	(71,357)	
<hr/>		
Total Shareholders' Equity	388,729	
<hr/>		
Total Liabilities and Shareholders' Equity	\$5,396,122	\$

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

	COMMON STOCK \$2.50 PAR	SURPLUS	RETAINED EARNINGS	CO IN
Balance, December 31, 1999	\$ 79,039	\$161,439	\$ 210,682	
Comprehensive Income:				
Net Income			21,882	
Other Comprehensive Income				
(Loss), Net of Tax: (1)				
Unrealized Gain (Loss) on				
Securities Available for Sale, Net				
of Reclassification Adjustments				
Foreign Exchange				
Translation Adjustments				
Total Other Comprehensive				
Income (Loss)				
Total Comprehensive Income (Loss)				
Issuance of Common Stock for				
Stock Option Plans-33,000 Shares	90	305		
Cash Dividends -				
Common Stock, \$.10 per Share			(2,830)	
Balance, June 30, 2000	\$ 79,129	\$161,744	\$ 229,734	
Balance, December 31, 2000	\$ 79,254	\$162,206	\$ 226,616	
Comprehensive Income:				
Net Income			9,794	
Other Comprehensive Income				
(Loss), Net of Tax: (1)				
Unrealized Gain (Loss) on				
Securities Available for Sale, Net				
of Reclassification Adjustments				
Unrealized Gain (Loss) on Derivatives,				
Net of Reclassification Adjustments				
Foreign Exchange				
Translation Adjustments				
Total Other Comprehensive				
Income (Loss)				
Total Comprehensive Income (Loss)				
Issuance of Common Stock for				
Stock Option Plans-74,321 Shares	186	712		
Cash Dividends -				
Common Stock, \$.10 per Share			(2,845)	
Balance, June 30, 2001	\$ 79,440	\$162,918	\$ 233,565	

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

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

=====

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Income

Adjustments to Reconcile Net Income to Cash

Provided By Operating Activities:

Provision for Loan Losses

Unrealized Losses (Gains) on Venture Capital Investments

Gains on Sale of Venture Capital Investments

Depreciation Expense and Amortization of Leasehold Improvements

Gains on Sale of Securities Available for Sale

Gains on Sales of OREO Properties

Decrease (Increase) in Other Assets

Increase in Other Liabilities

-----  
Total Adjustments

-----  
Net Cash Provided By Operating Activities

-----  
CASH FLOWS FROM INVESTING ACTIVITIES:

Net Decrease In Time Deposits with Other Banks

Principal Collections and Maturities of Securities Available for Sale

Proceeds from Sales of Securities Available for Sale

Purchases of Securities Available for Sale

Purchases of Venture Capital Investments

Proceeds from Sale of Venture Capital Investments

Net Decrease in Loans

Net Increase in Premises and Equipment

Other, Net

-----  
Net Cash Provided By Investing Activities

-----  
CASH FLOWS FROM FINANCING ACTIVITIES:

Net Increase (Decrease) in:

Demand, NOW, Savings and Money Market Deposit Accounts

Time Deposits

Repurchase Agreements and Other Short-Term Borrowings

Proceeds from the Issuance of Common Stock

Dividend Payments - Common

-----  
Net Cash Used In Financing Activities

-----  
Effect of Exchange Rate Changes

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Net Increase in Cash and Cash Equivalents  
 Cash and Cash Equivalents at Beginning of Period

=====

Cash and Cash Equivalents at End of Period

SUPPLEMENTAL SCHEDULE OF CASH FLOW ACTIVITIES:

NONCASH ACTIVITIES:

Trade Dated Securities Included in Other Liabilities

CASH PAID DURING THE YEAR FOR:

Interest Paid (Net of Amount Capitalized)

Income Tax Payments

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RIGGS NATIONAL CORPORATION

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

NOTE 1. BASIS OF PRESENTATION

The interim financial statements presented in this Quarterly Report on Form 10-Q are in conformity with accounting principles generally accepted in the United States which have been applied on a consistent basis. In our opinion these interim 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 six months ended June 30, 2001 are not necessarily indicative of the results to be expected for all of 2001. 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. EARNINGS PER SHARE

Earnings per share computations are as follows:

	THREE MONTHS JUNE 30, =====
	BASIC EPS =====
Net Income Available to Common Shareholders	\$ 4,188
Weighted-Average Shares Outstanding	28,458,875 2
Weighted-Average Dilutive Effect of Stock Option Plans	n/a
Adjusted Weighted-Average Shares Outstanding	28,458,875 2
Basic EPS	\$ .15
Diluted EPS	

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	SIX MONTHS JUNE 30,
	=====
	BASIC EPS
	=====
Net Income Available to Common Shareholders	\$ 9,794
Weighted-Average Shares Outstanding	28,448,673 2
Weighted-Average Dilutive Effect of Stock Option Plans	n/a
	-----
Adjusted Weighted-Average Shares Outstanding	28,448,673 2
Basic EPS	\$ .34
Diluted EPS	

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 3. OTHER COMPREHENSIVE INCOME

OTHER COMPREHENSIVE INCOME (LOSS)

=====

SIX MONTHS ENDED JUNE 30, 2001:

Foreign Currency Translation Adjustments

Unrealized Gains (Losses) on Securities:

Unrealized Holding Gains (Losses) Arising During Period

Less: Reclassification Adjustment for (Gains) Losses Realized in Net Income

-----

Net Unrealized Gains (Losses)

-----

Unrealized Gains (Losses) on Derivatives:

Unrealized Holding Gains (Losses) Arising During Period

-----

Net Unrealized Gains (Losses)

-----

Other Comprehensive Income (Loss)

SIX MONTHS ENDED JUNE 30, 2000:

Foreign Currency Translation Adjustments

Unrealized Gains (Losses) on Securities:

Unrealized Holding Gains (Losses) Arising During Period

Less: Reclassification Adjustment for (Gains) Losses Realized in Net Income

-----

Net Unrealized Gains (Losses)

-----

Unrealized Gains (Losses) on Derivatives:

Unrealized Holding Gains (Losses) Arising During Period

-----

Net Unrealized Gains (Losses)

-----

Other Comprehensive Income (Loss)



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ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BALANCES

	FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	UN GA SE
=====		
SIX MONTHS ENDED JUNE 30, 2001:		
Balance, December 31, 2000	\$ (4,657)	
Current-Period Change	(1,492)	
=====		
Balance, June 30, 2001	\$ (6,149)	
SIX MONTHS ENDED JUNE 30, 2000:		
Balance, December 31, 1999	\$ (2,597)	
Current-Period Change	(1,769)	
=====		
Balance, June 30, 2000	\$ (4,366)	

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 4: 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 commercial customers. The International Banking segment includes our Washington, D.C.- based embassy banking business, our London-based banking subsidiary, Riggs Bank Europe Limited (RBEL), and our Berlin branch (a subsidiary of RBEL). The International Banking segment also includes the part of our private-client services division based in London-Riggs & Company International, Limited. Riggs & Company is our private client services division that provides trust and investment management services to a broad customer base. The Treasury segment is responsible for asset and liability management throughout our company, and of our investment portfolio. Riggs Capital Partners represents our venture capital subsidiaries, which initially invest in privately-held and hold equities in both privately-held and publicly-owned growth companies. "Other" consists of our unallocated parent-company income and expense, net interest income from unallocated equity and foreclosed real estate activities.

We evaluate segment performance based on income before taxes and minority interest. The accounting policies of the segments are substantially the same as those described in the summary of significant accounting policies disclosed in our December 31, 2000 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.

Reconciliations are provided from the segment totals to our consolidated financial statements. The reconciliations of noninterest income and noninterest

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expense offset as these items result from intercompany transactions. For years in which we have either no provision for loan losses or a reduction to the reserve for loan losses, an allocation of loan loss is not provided to the segments. The reconciliation of total average assets represents the elimination of intercompany transactions.

THREE MONTHS ENDED JUNE 30, 2001	BANKING	INTERNATIONAL BANKING	RIGGS & COMPANY	TREASURY	RIGGS CAPITAL PARTNERS
<b>NET INTEREST INCOME</b>					
Interest Income	\$ 45,234	\$ 11,593	\$ 1,223	\$ 31,388	\$ 140
Interest Expense	13,217	15,294	1,821	10,008	-
Funds Transfer Income (Expense)	(431)	13,381	3,652	(21,773)	(12)
Net Interest Income (Loss), Tax-Equivalent	31,586	9,680	3,054	(393)	128
Provision for Loan Losses	-	-	-	-	-
Tax Equivalent Adjustment	(606)	-	-	-	-
Net Interest Income (Loss)	\$ 30,980	\$ 9,680	\$ 3,054	\$ (393)	\$ 128
<b>NONINTEREST INCOME</b>					
Noninterest Income-External Customers	\$ 10,664	\$ 1,464	\$ 14,112	\$ 840	\$ (5,991)
Intersegment Noninterest Income	837	1,866	607	-	-
Total Noninterest Income	\$ 11,501	\$ 3,330	\$ 14,719	\$ 840	\$ (5,991)
<b>NONINTEREST EXPENSE</b>					
Depreciation and Amortization	\$ 1,068	\$ 350	\$ 216	\$ 4	\$ 7
Direct Expense	17,814	9,809	9,505	989	1,045
Overhead and Support	12,856	3,110	2,406	550	76
Total Noninterest Expense	\$ 31,738	\$ 13,269	\$ 12,127	\$ 1,543	\$ 1,128
Income (Loss) Before Taxes and Minority Interest	\$ 10,743	\$ (259)	\$ 5,646	\$ (1,096)	\$ (6,991)
Total Average Assets	\$2,723,818	\$ 837,466	\$ 94,324	\$2,480,263	\$ 87,841

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

THREE MONTHS ENDED JUNE 30, 2000	BANKING	INTERNATIONAL BANKING	RIGGS & COMPANY	TREASURY	RIGGS CAPITAL PARTNERS
<b>NET INTEREST INCOME</b>					
Interest Income	\$ 49,799	\$ 15,938	\$ 1,493	\$ 37,278	\$ -
Interest Expense	15,253	21,520	2,769	14,429	-
Funds Transfer Income (Expense)	(3,050)	14,599	4,146	(20,421)	93

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Net Interest Income (Loss), Tax-Equivalent	31,496	9,017	2,870	2,428	93
Provision for Loan Losses	-	(403)	-	-	-
Tax Equivalent Adjustment	(559)	-	-	-	-
Net Interest Income (Loss)	\$ 30,937	\$ 8,614	\$ 2,870	\$ 2,428	\$ 93
NONINTEREST INCOME					
Noninterest Income-External Customers	\$ 10,153	\$ 996	\$ 14,589	\$ 846	\$ 5,579
Intersegment Noninterest Income	892	983	45	-	-
Total Noninterest Income	\$ 11,045	\$ 1,979	\$ 14,634	\$ 846	\$ 5,579
NONINTEREST EXPENSE					
Depreciation and Amortization	\$ 1,890	\$ 245	\$ 225	\$ 4	\$ 5
Direct Expense	17,083	7,355	9,427	1,022	530
Overhead and Support	13,401	3,128	3,061	455	22
Total Noninterest Expense	\$ 32,374	\$ 10,728	\$ 12,713	\$ 1,481	\$ 557
Income (Loss) Before Taxes and Minority Interest	\$ 9,608	\$ (135)	\$ 4,791	\$ 1,793	\$ 5,115
Total Average Assets	\$2,795,051	\$ 927,655	\$ 107,253	\$ 2,380,600	\$ 70,745

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

SIX MONTHS ENDED JUNE 30, 2001	BANKING	INTERNATIONAL BANKING	RIGGS & COMPANY	TREASURY	RIGGS CAPITAL PARTNERS
NET INTEREST INCOME					
Interest Income	\$ 91,005	\$ 25,170	\$ 2,529	\$ 65,422	\$ 245
Interest Expense	29,297	32,826	4,915	20,794	-
Funds Transfer Income (Expense)	2,205	26,579	8,609	(47,853)	92
Net Interest Income (Loss), Tax-Equivalent	63,913	18,923	6,223	(3,225)	337
Provision for Loan Losses	3,444	(3,559)	-	-	-
Tax Equivalent Adjustment	(1,237)	-	-	-	-
Net Interest Income (Loss)	\$ 66,120	\$ 15,364	\$ 6,223	\$ (3,225)	\$ 337
NONINTEREST INCOME					
Noninterest Income-External Customers	\$ 21,011	\$ 1,961	\$ 27,498	\$ 1,882	\$ (13,877)
Intersegment Noninterest Income	1,682	3,610	1,252	-	-
Total Noninterest Income	\$ 22,693	\$ 5,571	\$ 28,750	\$ 1,882	\$ (13,877)
NONINTEREST EXPENSE					
Depreciation and Amortization	\$ 2,137	\$ 697	\$ 424	\$ 8	\$ 14
Direct Expense	34,089	19,618	19,317	1,974	5,049
Overhead and Support	26,142	6,421	5,005	1,152	190

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Total Noninterest Expense	\$ 62,368	\$ 26,736	\$ 24,746	\$ 3,134	\$ 5,253
Income (Loss) Before Taxes and Minority Interest	\$ 26,445	\$ (5,801)	\$ 10,227	\$ (4,477)	\$ (18,793)
Total Average Assets	\$2,692,797	\$ 849,759	\$ 94,752	\$2,409,658	\$ 90,583

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

SIX MONTHS ENDED JUNE 30, 2000	BANKING	INTERNATIONAL BANKING	RIGGS & COMPANY	TREASURY	RIGGS CAPITAL PARTNERS
<b>NET INTEREST INCOME</b>					
Interest Income	\$ 98,750	\$ 31,957	\$ 2,947	\$ 74,799	\$ -
Interest Expense	29,151	41,328	5,854	29,597	-
Funds Transfer Income (Expense)	(7,520)	27,481	8,751	(38,480)	145
Net Interest Income (Loss), Tax-Equivalent	62,079	18,110	5,844	6,722	145
Provision for Loan Losses	(300)	(703)	-	-	-
Tax Equivalent Adjustment	(1,125)	-	-	-	-
Net Interest Income (Loss)	\$ 60,654	\$ 17,407	\$ 5,844	\$ 6,722	\$ 145
<b>NONINTEREST INCOME</b>					
Noninterest Income-External Customers	\$ 19,670	\$ 2,030	\$ 28,624	\$ 1,783	\$ 12,616
Intersegment Noninterest Income	1,778	2,070	132	1	-
Total Noninterest Income	\$ 21,448	\$ 4,100	\$ 28,756	\$ 1,784	\$ 12,616
<b>NONINTEREST EXPENSE</b>					
Depreciation and Amortization	\$ 3,782	\$ 489	\$ 444	\$ 9	\$ 10
Direct Expense	33,366	14,649	18,276	2,039	1,052
Overhead and Support	26,149	6,260	6,241	852	39
Total Noninterest Expense	\$ 63,297	\$ 21,398	\$ 24,961	\$ 2,900	\$ 1,101
Income (Loss) Before Taxes and Minority Interest	\$ 18,805	\$ 109	\$ 9,639	\$ 5,606	\$ 11,660
Total Average Assets	\$2,804,332	\$ 944,652	\$ 103,316	\$2,438,887	\$ 60,854

NOTE 5: ACCOUNTING FOR DERIVATIVES

Adoption of SFAS No. 133

We adopted SFAS No. 133, "Accounting for Derivative Investments and Hedging Activities", as amended by SFAS No.138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No.

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133", as of January 1, 2001. The adoption of SFAS No. 133 resulted in a cumulative charge of \$8 thousand, recorded as a component of Other Noninterest Income, to reflect the fair value of derivatives designated as fair-value hedges and fair values of related hedged items. In addition, we recorded a cumulative net of tax charge to Other Comprehensive Income of \$751 thousand to recognize at fair value all derivatives that are designated as cash flow hedges and net investment hedges.

### Derivative Instruments and Hedging

We maintain a risk management strategy that includes the use of derivative instruments to reduce unplanned earnings and equity fluctuations caused by interest rate volatility and foreign exchange fluctuation. We attempt to minimize our sensitivity to rate volatility by altering the repricing or maturity characteristics of certain assets and liabilities so that income is not materially impacted by unexpected rate movements.

Use of derivative instruments is a component of our overall risk management strategy and is utilized in accordance with a formal policy that is monitored by a committee which has delegated authority over our interest rate risk management function.

The derivative instruments that we utilize include interest rate swaps, futures contracts and options contracts that relate to the pricing of specific assets and liabilities. Interest rate swaps involve the exchange of fixed and variable rate interest payments between two parties based upon a notional principal amount and maturity date. Interest rate futures generally involve exchange-traded contracts to buy or sell U.S. Treasury bonds or notes in the future at specified prices. Interest rate options represent contracts that allow the owner the option to either receive cash or purchase, sell or enter into a financial

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

instrument at a specified price within a specified time period. Certain of these contracts grant the right to enter into interest rate swaps and cap and floor agreements with the writer of the option.

We also enter into foreign exchange derivative contracts, including foreign currency forward contracts, to manage our exchange risk associated with the translation of foreign currency into U. S. dollars.

We are exposed to credit and market risk as a result of our use of derivative instruments. If the fair value of the derivative contract is positive, the counterparty owes us and, hence, a repayment risk exists. If the fair value of the derivative contract is negative, we owe the counterparty and, therefore, there is no repayment risk. We minimize repayment risk by entering into transactions with financially stable counterparties that are specified by our policy and reviewed periodically by our credit committee. We require that derivative contracts be governed by an International Swaps and Derivative Master Agreement and, depending on the nature of the agreement, bilateral collateral arrangements also may be obtained. When we have multiple derivative transactions with the counterparty, the net mark-to-market exposure represents the netting of positive and negative exposures with the same counterparty. The net mark-to-market exposure with a counterparty is a measure of credit risk when there is a legally enforceable master netting agreement between us and the counterparty. We use master netting agreements with the majority of our counterparties.

Market risk is the adverse effect that a change in interest rates or comparative

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currency values has on the fair value of a financial instrument or expected cash flows. We manage the market risk associated with interest rate and foreign exchange hedge contracts by establishing formal policy limits concerning the types and degree of risk that may be undertaken. Our Treasury group monitors compliance with this policy.

### Accounting for Derivatives

All derivatives are recognized on the Consolidated Statements of Condition at fair value. When a derivative contract is entered into, we first determine whether or not it qualifies as a hedge. If it does, we designate the derivative 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 as 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.

When entering into hedging transactions, we document the relationships between hedging instruments and hedged items, as well as the risk management objective and strategy. This process links all derivatives that are designated fair value, cash flow or foreign currency hedges to specific assets and liabilities on the Consolidated Statements of Condition. We assess, both at inception and on an on-going basis, the effectiveness of all hedges in offsetting changes in fair values or cash flows of hedged items.

We discontinue hedge accounting prospectively when (1) the derivative is no longer effective in offsetting changes in fair values or cash flows of a hedged item, (2) the derivative matures or is sold, terminated or exercised, or (3) the derivative is dedesignated as a hedge instrument.

When hedge accounting is discontinued because the derivative no longer qualifies as an effective fair value hedge, it will continue to be carried on the Consolidated Statements of Condition at its fair value and the hedged asset or liability will no longer be adjusted to reflect changes in fair value. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, we will continue to carry the derivative on the Consolidated Statements of Condition at its fair value and any gains or losses accumulated in Other Comprehensive Income will be recognized immediately in earnings. In all situations in which hedge accounting is discontinued, the derivative will be carried at fair value with changes in fair value recognized in income.

### 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 market interest rates.

For the quarter ended June 30, 2001, we recognized a net loss of \$71 thousand which represented the ineffective portion of all fair value hedges, and for the

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six months ended June 30, 2001, we recognized a net loss of \$93 thousand. These amounts are included in Other Noninterest Income in the Consolidated Statements of Income.

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### 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. We also use foreign currency forward contracts to hedge the foreign exchange risk associated with principal and interest payments on loans denominated in a foreign currency.

For the quarter and for the six months ended June 30, 2001, 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 item in the Consolidated Statements of Income in which the income or expense related to the hedged item is recorded. As of June 30, 2001, \$277 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. The maximum term over which we are hedging our exposure to the variability of cash flows was 48 months as of June 30, 2001.

#### Hedges of Net Investments in Foreign Operations

We use 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. As of June 30, 2001, \$577 thousand of net losses related to the existing net investment forward exchange contract are included in Accumulated Other Comprehensive Income.

#### Other

As of June 30, 2001, 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 \$619 thousand and they are marked to market through current period earnings.

#### NOTE 6: NEW FINANCIAL ACCOUNTING STANDARDS

SFAS No. 141, "Business Combinations," was issued in June 2001. SFAS No. 141 requires corporations to account for business combinations using the purchase method. The Statement also requires that intangible assets resulting from a business combination, if they can be identified and result from contractual or other legal rights, be recognized as assets apart from goodwill. Two criteria, the contractual-legal criterion or the separability criterion, must be met before separate recognition can occur. Finally, the Statement requires disclosure of the primary reasons for the business combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by major balance sheet caption. Implementation of SFAS No. 141 applies to all business combinations we initiate after June 30, 2001.

SFAS No. 142, "Goodwill and Other Intangible Assets," was issued in June 2001. SFAS No. 142 discontinues amortization of intangible assets unless they have finite useful lives. Instead, intangible assets will be tested at least annually

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for impairment by comparing their fair values with their recorded amounts. The Statement also requires disclosure about the changes in the carrying amounts of goodwill from period to period, the carrying amount of intangible assets by major intangible asset class for those subject to and not subject to amortization, and the estimated intangible asset amortization expense for the next five years. SFAS No. 142 is required to be implemented starting with fiscal years beginning after December 15, 2001, therefore we will discontinue the amortization of goodwill beginning on January 1, 2002. Goodwill totaled \$7.0 million as of June 30, 2001. For the six months ended June 30, 2001, amortization expense was \$322 thousand. For comparative purposes, goodwill amortization expense was \$322 thousand and \$645 thousand for the six and twelve months ended June 30, 2000.

In July 2001, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 102 ("SAB 102"), "Selected Loan Loss Allowance Methodology and Documentation Issues." SAB 102 represents the SEC staff's views on the development, documentation and application of a systematic methodology for determining the required allowance for loan losses. We do not anticipate any significant impact on either the way we determine the adequacy of our allowance for loan losses or future provisions for loan losses as a result of SAB 102.

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RIGGS NATIONAL CORPORATION

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

#### RESULTS OF OPERATIONS

We recorded net income of \$4.2 million, or \$.14 per diluted share, for the second quarter of 2001, compared to \$10.3 million, or \$.36 per diluted share, in the second quarter of 2000. The decrease resulted primarily from losses in our venture capital segment of \$6.0 million in the second quarter of this year compared to \$5.6 million in venture capital gains in the second quarter a year ago. These losses were partially offset by a \$1.2 million gain from the settlement of a significant estate and an additional \$1.0 million in investment gains on the sale of our investment in Concord EFS, Inc., an ATM network exchange company. We had already recorded \$10.3 million in investment gains on the investment in Concord EFS, Inc. in the first quarter of this year.

For the six months ended June 30, 2001, we had net income of \$9.8 million, or \$.34 per diluted share, compared with net income of \$21.9 million, or \$.77 per diluted share, for the first half of 2000. Venture capital losses totaled \$13.9 million, compared to \$12.6 million in venture capital gains for the first six months of 2000. The 2001 losses were partially offset by \$11.3 million in gains from the sale of our Concord EFS, Inc. investment.

Return on average assets was .31% and .37% for the three and six months ended June 30, 2001, compared to .73% and .77% for the same periods a year ago. Return on average shareholders' equity was 4.31% and 5.05% for the three and six months ended June 30, 2001, and 11.88% and 12.78% for the three and six months ended June 30, 2000.

#### 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 \$49.1 million in the second quarter of 2001, a decrease of \$235 thousand from the \$49.3 million for the same quarter in 2000. For the six months ended June 30, 2001, net interest income was \$96.1 million, a \$2.8 million decrease from the \$98.9



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million recorded for the first six months of 2000. The decrease was primarily due to a reduction in interest income, which was \$21.5 million less than a year ago. Decreases in interest rates contributed to the decline, but decreases in average balances, primarily in the loan portfolio, were the primary reason. The decrease in interest income was partially offset by a decrease in interest expense of \$18.7 million, primarily attributable to decreases in rates paid on time deposits and other short-term borrowings.

NET INTEREST INCOME CHANGES (1)

(TAX-EQUIVALENT BASIS) (IN THOUSANDS)	THREE MONTHS ENDED JUNE 30, 2001 VS 2000		
	DUE TO RATE	DUE TO VOLUME	TOTAL CHANGE
Interest Income:			
Loans, Including Fees	\$ (3,192)	\$ (4,354)	\$ (7,546)
Securities Available for Sale	(1,142)	(1,551)	(2,693)
Time Deposits with Other Banks	(1,647)	(243)	(1,890)
Federal Funds Sold and Reverse Repurchase Agreements	(1,878)	1,145	(733)
Total Interest Income	(7,859)	(5,003)	(12,862)
Interest Expense:			
Interest-Bearing Deposits	(7,343)	(954)	(8,297)
Repurchase Agreements and Other Short-Term Borrowings	(2,441)	(1,889)	(4,330)
Total Interest Expense	(9,784)	(2,843)	(12,627)
Net Interest Income	\$ 1,925	\$ (2,160)	\$ (235)

(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.

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

AVERAGE CONSOLIDATED STATEMENTS OF CONDITION AND RATES

(TAX-EQUIVALENT BASIS) (1) (IN THOUSANDS)	THREE MONTHS ENDED JUNE 30, 2001		
	AVERAGE BALANCE	INCOME/ EXPENSE	RATE
ASSETS			
Loans, Including Fees (2)	\$2,893,172	\$52,381	7.26%

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Securities Available for Sale (3)	1,145,459	16,885	5.91
Time Deposits with Other Banks	335,656	3,617	4.32
Federal Funds Sold and Reverse Repurchase Agreements	420,780	4,626	4.41
<hr/>			
Total Earning Assets and Average Rate Earned (5)	4,795,067	77,509	6.48
Reserve for Loan Losses	(34,619)		
Cash and Due from Banks	138,987		
Other Assets	457,148		
<hr/>			
Total Assets	\$5,356,583		\$
<hr/>			
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY			
Interest-Bearing Deposits	\$3,494,631	\$22,552	2.59%
Repurchase Agreements and Other Short-Term Borrowings	443,075	4,282	3.88
Long-Term Debt	66,525	1,618	9.76
<hr/>			
Total Interest-Bearing Funds and Average Rate Paid	4,004,231	28,452	2.85
Demand Deposits (4)	515,509		
Other Liabilities	97,217		
Minority Interest in Preferred Stock of Subsidiaries	350,000		
Shareholders' Equity	389,626		
<hr/>			
Total Liabilities, Minority Interest and Shareholders' Equity	\$5,356,583		\$
<hr/>			
NET INTEREST INCOME AND SPREAD		\$49,057	3.63%
<hr/>			
NET INTEREST MARGIN ON EARNING ASSETS			4.10%

(1) - Income and rates are computed on a tax-equivalent basis using a Federal income tax rate of 35% and local tax rates as applicable.

(2) - Nonperforming loans are included in average balances used to determine rates.

(3) - The averages and rates for the securities available for sale portfolio are based on amortized cost.

(4) - Demand deposit balances for all periods presented exclude certain accounts transferred to the money market classification to reduce the level of deposit reserves required.

(5) - Excludes venture capital investments

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

AVERAGE CONSOLIDATED STATEMENTS OF CONDITION AND RATES

SIX MONTHS ENDED  
JUNE 30, 2001

(TAX-EQUIVALENT BASIS) (1) (IN THOUSANDS)	AVERAGE BALANCE	INCOME/ EXPENSE	RATE
--	--------------------	--------------------	------

ASSETS

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Loans, Including Fees (2)	\$2,900,659	\$106,599	7.41%
Securities Available for Sale (3)	1,190,524	35,486	6.01
Time Deposits with Other Banks	345,191	8,694	5.08
Federal Funds Sold and Reverse Repurchase Agreements	357,704	8,750	4.93
-----			
Total Earning Assets and Average Rate Earned	4,794,078	159,529	6.71
Reserve for Loan Losses	(35,287)		
Cash and Due from Banks	136,329		
Other Assets	466,896		
=====			
Total Assets	\$5,362,016		\$
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY			
Interest-Bearing Deposits	\$3,462,296	\$ 49,010	2.85%
Repurchase Agreements and Other Short-Term Borrowings	488,120	11,169	4.61
Long-Term Debt	66,525	3,236	9.81
-----			
Total Interest-Bearing Funds and Average Rate Paid	4,016,941	63,415	3.18
Demand Deposits (4)	512,452		
Other Liabilities	91,852		
Minority Interest in Preferred Stock of Subsidiaries	350,000		
Shareholders' Equity	390,771		
=====			
Total Liabilities, Minority Interest and Shareholders' Equity	\$5,362,016		\$
-----			
NET INTEREST INCOME AND SPREAD		\$ 96,114	3.53%
-----			
NET INTEREST MARGIN ON EARNING ASSETS			4.04%

(1) - Income and rates are computed on a tax-equivalent basis using a Federal income tax rate of 35% and local tax rates as applicable.

(2) - Nonperforming loans are included in average balances used to determine rates.

(3) - The averages and rates for the securities available for sale portfolio are based on amortized cost.

(4) - Demand deposit balances for all periods presented exclude certain accounts transferred to the money market classification to reduce the level of deposit reserves required.

(5) - Excludes venture capital investments

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

NONINTEREST INCOME

Noninterest income for the second quarter of 2001 totaled \$22.3 million, a decrease of \$10.0 million from the \$32.3 million in the second quarter of 2000. Contributing to the decrease was \$6.0 million in venture capital losses. This compares to a gain of \$5.6 million in the second quarter of 2000. The decrease was partially offset by an additional \$1.0 million on the sale of our investment in Concord EFS, Inc., an ATM network exchange company which we sold in June

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2001, and a \$1.2 million gain from the settlement of a significant estate by our private client services division.

For the six months ended June 30, 2001, we recorded \$50.0 million in noninterest income. This compares to \$64.8 million earned in the same period a year ago. The decrease was mostly due to \$13.9 million in venture capital losses for the first half of 2001, compared to venture capital gains of \$12.6 million in the first half of 2000. This decrease was partially offset by total securities gains on the Concord EFS, Inc. investment of \$11.3 million recorded for the first half of 2001, and the gain on the estate settlement previously mentioned.

### NONINTEREST EXPENSE

Noninterest expense for the three months ended June 30, 2001, was \$57.2 million, an increase of \$1.6 million from the \$55.6 million reported for the three months ended June 30, 2000. This increase was due principally to the start-up costs of \$1.1 million associated with our international private banking initiative. Start-up costs of \$500 thousand associated with the formation of our second venture capital subsidiary, Riggs Capital Partners II, LLC, also contributed to the increase.

For the six months ended June 30, 2001, noninterest expense totaled \$113.7 million, compared to \$109.5 million for the same period a year ago. As mentioned in the preceding paragraph, start-up costs associated with our international private banking group of \$3.0 million and \$1.0 million for Riggs Capital Partners II, LLC, were the principal reasons for the increase.

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

### FINANCIAL CONDITION

#### SECURITIES

Securities available for sale totaled \$1.13 billion as of June 30, 2001, compared to \$1.24 billion as of year-end 2000 and \$1.31 billion as of June 30, 2000. The activity for the first six months included purchases of securities available for sale totaling \$1.71 billion, which were more than offset by maturities and calls, principal payments and sales of securities available for sale totaling \$1.86 billion. The weighted-average duration and yield for the portfolio, adjusted for anticipated prepayments, were approximately 3.3 years and 5.89%, respectively, as of June 30, 2001. As of June 30, 2000, the weighted-average duration and yield were 3.4 years and 6.06%, respectively.

In June 2001 we sold our investment in 243,849 shares of Concord EFS, Inc. At the time of sale we recognized an additional gain on the investment of \$1.0 million. In the first quarter of 2001 we recognized a \$10.3 million gain as a result of Concord EFS's acquisition of STAR Systems, Inc., an investment we had previously accounted for at cost.

	JUNE 30, 2001		JUNE 30,	
	AMORTIZED COST	MARKET/ BOOK VALUE	AMORTIZED COST	BO
AVAILABLE FOR SALE				

(IN THOUSANDS)

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U.S. Treasury Securities	\$ 179,583	\$ 174,545	\$ 313,826	\$
Government Agencies Securities	428,858	429,207	475,239	
Mortgage-Backed Securities	486,364	478,812	511,911	
Other Securities	49,331	49,331	58,111	
=====				
Total	\$1,144,136	\$1,131,895	\$1,359,087	\$

LOANS

As of June 30, 2001, loans outstanding totaled \$2.93 billion, decreasing from the June 30, 2000 and December 31, 2000 balances of \$3.14 and \$2.94 billion, respectively. The decreases were primarily in commercial and financial, home equity/consumer and foreign loans from both prior periods. The majority of the decrease in commercial and financial loans from both prior periods was in syndicated loans. Syndicated loan commitments decreased \$155.1 million from June 30, 2000 and \$57.7 million from December 31, 2000, respectively. It is part of our strategy generally to no longer participate in these types of loans, except where the borrower is in our primary market area. These decreases were partially offset by increases in real estate-commercial/construction loans and loans available for sale.

During the second quarter of 2000, we began originating mortgage loans for sale in the secondary market. As of June 30, 2001, residential real estate loans originated and held for sale totaled \$18.3 million. As of June 30 and December 31, 2000, these loans totaled \$7.8 and \$15.4 million, respectively.

(IN THOUSANDS)	JUNE 30, 2001	JUNE 30, 2000
Commercial and Financial	\$ 428,706	\$ 630,296
Real Estate - Commercial/Construction	493,836	421,885
Residential Mortgage	1,172,765	1,204,924
Loans Available for Sale	18,303	7,803
Home Equity	322,032	339,168
Consumer	66,325	70,686
Foreign	432,094	470,994
-----		
Total Loans	2,934,061	3,145,756
Net Deferred Loan Fees, Premiums and Discounts	(4,680)	(5,315)
=====		
Loans	\$2,929,381	\$3,140,441

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

RESERVE FOR LOAN LOSSES

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

(IN THOUSANDS)

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Balance, January 1  
Provision for loan losses  
Loans charged-off  
Less: Recoveries on charged-off loans

-----  
Net loan charge-offs (recoveries)  
Foreign exchange translation adjustments

=====  
Balance, June 30

As of June 30, 2001, the reserve for loan losses was \$34.1 million, a decrease of \$2.9 million from the June 30, 2000 balance. In the first quarter of 2001, our domestic reserve needs were reduced by \$3.4 million, primarily due to the sale, at par value, of a \$25.0 million loan previously classified as non-performing. However, we provided approximately \$3.5 million for loan losses primarily associated with a single loan at our London operations. A reduction in our loan portfolio balance and improvements in credit quality also reduced reserve needs.

### ASSET QUALITY

#### NONPERFORMING ASSETS

Nonperforming assets, which include nonaccrual loans, renegotiated loans and other real estate owned (net of reserves), totaled \$14.4 million as of June 30, 2001, a \$22.8 million decrease from the year-end 2000 total of \$37.2 million and a \$27.4 million decrease from the June 30, 2000 total of \$41.7 million. The decrease in nonperforming assets from both periods was mainly due to the aforementioned sale of a \$25.0 million nonaccrual loan. From year-end 2000, further decreases were attributable to a \$713 thousand charge off on a domestic loan and payments on three nonperforming London loans totaling \$1.0 million. The decrease was partially offset by the addition of two nonaccrual loans at our London operation in the first and second quarters of 2001. These loans were in the amounts of \$3.3 and \$1.4 million, respectively.

From June 30, 2000, additional decreases were due to charge-offs of \$2.7 million on three domestic and two London based loans in the third and fourth quarters of 2000 and the first quarter of 2001. These additional decreases were partially offset by the \$3.3 and \$1.4 million London loans mentioned previously.

As a result of the sale of the \$25.0 million loan, the reserve needs for domestic loan losses were reduced by approximately \$3.4 million, which was more than offset by a \$3.5 million provision for loan losses associated with the \$3.3 million London loan. The assigned reserve for loan losses for impaired loans was \$5.6 million as of June 30, 2001.

#### PAST-DUE AND POTENTIAL PROBLEM LOANS

Past-due loans consist of residential real estate loans, commercial and industrial loans, and consumer loans that are in the process of collection and that are accruing interest. Past-due loans increased \$404 thousand during the first six months of 2001 to \$11.5 million, while potential problem loans decreased \$6.9 million during the same period. The decrease in potential problem loans resulted from the removal of two loans previously considered potential problems at December 31, 2000 at our London operations. One loan in the amount of \$4.0 million was upgraded, while the second, for \$4.5 million, was placed on nonaccrual. The decrease was partially offset by the addition of two loans totaling \$1.1 million in London.

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

NONPERFORMING ASSETS AND PAST-DUE LOANS

(IN THOUSANDS)	JUNE 30, 2001	JUNE 30, 2000
-----		
NONPERFORMING ASSETS:		
Nonaccrual Loans (1)	\$ 12,806	\$ 39,751
Renegotiated Loans	647	1,055
Other Real Estate Owned, Net	908	908
-----		
Total Nonperforming Assets	\$ 14,361	\$ 41,714
PAST-DUE LOANS (2)	\$ 47,917	\$ 55,424
PAST-DUE LOANS (3)	\$ 11,523	\$ 10,419
POTENTIAL PROBLEM LOANS	\$ 1,789	\$ 5,206

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

(2) Loans contractually past due 30-89 days or more in principal or interest.

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

DEPOSITS

Deposits are our primary and most stable source of funds. Deposits totaled \$3.99 billion as of June 30, 2001, a decrease of \$88.0 million from the December 31, 2000 total of \$4.08 billion, and a decrease of \$264.4 million from the June 30, 2000 deposit total of \$4.25 billion. For both periods, deposits decreased in time deposits in domestic offices and savings and NOW accounts. Balances in time deposits in foreign offices and money market accounts fluctuated. Demand deposits decreased as balances were swept into money market accounts.

SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings decreased \$140.3 million from the year-end 2000 balance and \$193.8 million from the June 30, 2000 balance. The decrease from June 30, 2000 reflects \$200 million in advances from the Federal Home Loan Bank of Atlanta (FHLB), which was called in the third quarter of last year. Short-term borrowings are an additional source of funds that we have utilized to meet certain asset/liability and daily cash management objectives and are used to generate cash and maintain adequate levels of liquidity.

(IN THOUSANDS)	JUNE 30, 2001	JUNE 30, 2000
=====		

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Repurchase Agreements and Other Short-Term Borrowings	\$ 442,558	\$ 636,377
Subordinated Debentures due 2009	66,525	66,525
Total Short-Term Borrowings and Long-Term Debt	\$ 509,083	\$ 702,902

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

#### LIQUIDITY

We seek to maintain sufficient liquidity to meet the needs of depositors, borrowers and creditors at a reasonable cost and without undue stress on our operations. Our Asset/Liability Committee actively analyzes and manages liquidity in coordination with other areas of the organization (see "Sensitivity to Market Risk"). As of June 30, 2001, our liquid assets, on a consolidated basis, which include cash and due from banks, Government obligations and other securities, federal funds sold, reverse repurchase agreements and time deposits at other banks, totaled \$2.04 billion (38% of total assets). This compares with \$2.16 billion (39%) as of December 31, 2000, and \$2.18 billion (38%) as of June 30, 2000. As of June 30, 2001, \$713.4 million of our assets were pledged to secure deposits and other borrowings. This compares with pledged assets of \$971.4 million as of December 31, 2000, and \$977.6 million as of June 30, 2000.

Our liquidity position is maintained by a stable source of funds from our core deposit relationships. We have other sources of funds, such as short-term revolving credit lines available from several Federal Home Loan Banks and other financial institutions. In addition, we have a line of credit available through our membership in the FHLB. As of June 30, 2001, December 31, 2000, and June 30, 2000, short-term credit lines and the FHLB Atlanta line of credit available totaled approximately \$1.34 billion, \$1.34 billion, and \$1.56 billion, respectively. As of June 30, 2001, December 31, 2000, and June 30, 2000, the amounts outstanding under these lines were \$28.1 million, \$17.9 million, and \$214.3 million, respectively. The decrease from June 2000 was due to \$200 million in borrowings which were called in July of that year.

#### SHAREHOLDERS' EQUITY AND REGULATORY CAPITAL

Total shareholders' equity as of June 30, 2001, was \$388.7 million, an increase of \$6.0 million from year-end 2000 and \$25.7 million from a year ago. The increase from year-end was primarily the result of net income of \$9.8 million and a reduction in unrealized securities losses of \$1.4 million, after tax. This increase was partially offset by cash dividends paid of \$2.9 million, and unrealized losses on our derivatives and foreign exchange translation adjustments totaling \$3.1 million. The increase from June 30, 2000 was primarily the result of net income of \$9.5 million, and a reduction in unrealized securities losses of \$23.8 million. \$5.8 million in cash dividends, and \$3.4 million in unrealized losses on derivatives and foreign exchange translation adjustments partially offset this increase. For more information on our securities portfolio, see the discussion under "Securities" in the Management's Discussion and Analysis of Financial Condition and Results of Operation in this Form 10-Q.

Book value per common share was \$13.65 as of June 30, 2001, compared to \$13.48 as of year-end 2000 and \$12.81 as of June 30, 2000. The increases in book value from June 30th and year-end 2000 were primarily the result of the net income and



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net unrealized securities gains described in the preceding paragraph.

Following are our capital ratios (as defined in the regulations) and those of our banking subsidiary, Riggs Bank National Association (Riggs Bank N.A.) as of June 30, 2001 and 2000, and December 31, 2000.

	JUNE 30, 2001
=====	
RIGGS NATIONAL CORPORATION:	
Tier I	16.61%
Combined Tier I and Tier II	26.69
Leverage	9.79
RIGGS BANK N.A.:	
Tier I	14.92
Combined Tier I and Tier II	16.06
Leverage	8.95

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

SENSITIVITY TO MARKET RISK

We are exposed to various market risks. Some of these risks, such as credit risk and currency risk, are discussed in our Annual Report on Form 10-K. We have determined that interest-rate risk has a material impact on our financial performance, and as such we have established the Asset/Liability Committee ("ALCO") to manage interest-rate risk. The role of this committee is to manage the asset/liability mix of our operations in an effort to provide a stable net interest margin while maintaining liquidity and capital. This entails the management of our overall risk in conjunction with the acquisition and deployment of funds based upon ALCO's view of both current and prospective market and economic conditions.

We manage our interest-rate risk through the use of an income simulation model, which forecasts the impact on net interest income of a variety of different interest rate scenarios. A "most likely" interest rate scenario is forecasted based upon an analysis of current market conditions and expectations. The model then evaluates the impact on net interest income of rates moving significantly higher or lower than the "most likely" scenario. The results are compared to risk tolerance limits set by corporate policy. The model's results as of June 30, 2001 and 2000 are shown in the following tables. Current policy establishes limits for possible changes in net interest income for 12 and 36 month horizons. The interest rate scenarios monitored by ALCO are based upon a 100 basis point (1%) gradual increase or decrease in rates over a 12-month time period and a 300 basis point (3%) gradual increase or decrease in rates over a 36-month time period.

INTEREST-RATE SENSITIVITY ANALYSIS (1)

	MOVEMENTS IN INT
=====	
	SIMULATED IMPACT OVER NEXT TWELVE MONTHS
-----	

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(In Thousands)	+100BP	-100BP
-----		
Simulated Impact Compared With a "Most Likely" Scenario:		
Net Interest Income Increase/(Decrease)	(0.4)%	(0.4)%
Net Interest Income Increase/(Decrease)	\$ (732)	\$ (787)

=====		
	MOVEMENTS IN INT	
	SIMULATED IMPACT OVER NEXT TWELVE MONTHS	
(In Thousands)	+100BP	-100BP
-----		
Simulated Impact Compared With a "Most Likely" Scenario:		
Net Interest Income Increase/(Decrease)	(1.0)%	2.3%
Net Interest Income Increase/(Decrease)	\$ (1,840)	\$4,348

(1) Key Assumptions:

Assumptions with respect to the model's projections of the effect of changes in interest rates on Net Interest Income include:

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

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

As of June 30, 2001, the forecasted impact of rates rising or falling 100 basis points versus the "most likely" scenario over a 12-month time period was a change in net interest income not exceeding 1%. For a 300 basis point movement in rates versus the "most likely" scenario over a 36-month period, the impact on net interest income did not exceed 2%. The results of the simulation for June 30, 2001 indicated that we were "liability sensitive" in a rising rate environment and "asset sensitive" in a declining rate environment (due to floors on deposit rates) over the 12 month time horizon. Over the 36-month time horizon, we were "neutral" in a rising rate environment, and "asset sensitive" in a declining rate environment due to the deposit floors previously mentioned. We were within our policy guidelines for interest rates moving significantly in

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either direction.

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

We find that the methodologies previously discussed provide a meaningful representation of our interest-rate and market risk sensitivity, though factors other than changes in the interest rate environment, such as levels of non-earning assets, and changes in the composition of earning assets, may affect net interest income. We believe our current interest-rate sensitivity level is appropriate, considering our economic outlook and what we believe is a conservative approach taken in the review and monitoring of our sensitivity position.

### COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding commitments and contingent liabilities as of June 30, 2001 and 2000, and December 31, 2000 are detailed in the tables below, including the notional amounts of all derivatives whose fair values are included in the consolidated financial statements. As of June 30, 2001, our financial derivative instruments included five pay fixed, receive floating swaps and three basis swaps with a total notional amount of \$141.5 million. These agreements were contracted in October 1999, December 1999, January 2000 and July 2000.

We had 23 swaps at Riggs Bank Europe Limited, our London-based banking subsidiary, with a total notional amount of \$75.3 million that entail the payment of a blended 6.40% fixed rate and the receipt of a floating rate equal to six-month LIBOR. These swaps have varying maturities extending until 2005 and are entered into primarily for the purpose of converting fixed rate loans to variable.

As a result of Riggs Capital Partners venture capital investment activity, we had venture capital commitments of \$21.8 million as of June 30, 2001 of which \$582 thousand are committed to be funded within one year.

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

	CONTRACTUAL OR NOTIONAL	
	JUNE 30, 2001	JUNE 30, 2000
Commitments to Extend Credit	\$ 887,042	\$ 892,238
Venture Capital Commitments	21,807	15,818
Letters of Credit	127,406	120,546
Derivative Instruments:		
Foreign Exchange Contracts:		

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Commitments to Purchase	\$ 16,080	\$ 66,969
Commitments to Sell	241,453	287,429
Interest Rate Agreements		
Swaps	216,794	119,385

Our interest rate agreement activity for the six months ended June 30, 2001, is as follows:

	BALANCE DECEMBER 31, 2000	ADDITIONS
=====		
Interest Rate Agreements:		
Receive variable/pay fixed	\$ 41,500	\$ -
Basis swaps	100,000	-
Riggs Bank Europe Limited	88,354	3,904
=====		
Total	\$229,854	\$ 3,904

This Quarterly Report on Form 10-Q, including the Management's Discussion and Analysis of Financial Condition and Results of Operations, and the Quantitative and Qualitative Disclosures About Market Risk, contains forward-looking statements, including the references to earnings from venture capital, implementation of our business strategy, hedging activities and our trust and investment advisory income. A variety of factors could cause our actual results and experiences to differ materially from those expressed or implied by the forward-looking statements. These factors include, but are not limited to, certain risks and uncertainties that may affect the operations, performance, development, growth projections and results of our business. These factors also include the growth of the economy, changes in credit quality or interest rates, changes in value of venture capital investments in the technology and other sectors, timing of technology enhancements for products and operating systems, the impact of competitive products, services and pricing, customer business requirements, Congressional legislation, general economic conditions, both domestic and international, and similar matters.

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RIGGS NATIONAL CORPORATION

### PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 2. CHANGES IN SECURITIES

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

The Annual Meeting of the shareholders of the Corporation was held on April 11, 2001, in Washington D.C. Chairman of the Board Robert L. Allbritton presided and 26,056,199 of the 28,448,466 shares outstanding as of the record date of February 28, 2001, were represented in person or by proxy.

1-Elections of Directors

Nominees for membership on the Board of Directors of the Corporation, listed below, were elected by the shareholders. The following schedule lists the number of shares cast for each nominee:

	Total Votes For	Total Votes With
Joe L. Allbritton	24,668,547	1,191,9
Robert L. Allbritton	24,107,412	1,191,9
J. Carter Beese, Jr.	23,739,434	1,191,9
Charles A. Camalier, III	24,519,060	1,191,9
Timothy C. Coughlin	24,866,468	1,191,9
Lawrence I. Hebert	24,132,526	1,191,9
Steven B. Pfeiffer	24,314,988	1,191,9
Robert L. Sloan	24,312,070	1,191,9
Jack Valenti	24,836,210	1,191,9
William L. Walton	23,441,791	1,191,9
Eddie N. Williams	24,864,265	1,191,9

2-Proposal to Elect the Corporation's Independent Accountants Each Year

By a vote of 6,597,285 For, to 15,629,119 Against, with 154,423 Abstaining, the Corporation's shareholders rejected a proposal to implement procedures to have the shareholders elect the Corporation's independent accountants each year.

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RIGGS NATIONAL CORPORATION

ITEM 5. OTHER INFORMATION

Not applicable.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

The exhibits listed on page 28 are incorporated by reference or filed herewith in response to this item.

(b) Reports on Form 8-K

None.

SIGNATURES

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

RIGGS NATIONAL CORPORATION

Date: August 10, 2001  
-----  
President

/s/ TIMOTHY C. COUGHLIN  
-----  
Timothy C. Coughlin

Date: August 10, 2001  
-----  
Treasurer

/s/ STEVEN T. TAMBURO  
-----  
Steven T. Tamburo  
(Chief Financial Officer)

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INDEX TO EXHIBITS

EXHIBIT  
NO.

DESCRIPTION

- =====
- (3.1) Restated Certificate of Incorporation of Riggs National Corporation, dated April 19, 1999 (Incorporated by reference to the Registrant's Form 10-Q for the quarter ended June 30, 1999, SEC File No. 09756).
  - (3.2) By-laws of the Registrant with amendments through April 12, 2000 (Incorporated by reference to the Registrant's Form 10-Q for the quarter ended June 30, 2000, SEC File No. 09756).
  - (4.1) Indenture dated June 1, 1989, with respect to \$100 million 9.65% Subordinated Debentures due 2009 (Incorporated by reference to the Registrant's Form 8-K dated June 20, 1989, SEC File No. 09756.)
  - (4.2) Indenture dated December 13, 1996, with respect to \$150 million, 8.625% Trust Preferred Securities, Series A due 2026 (Incorporated

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by reference to the Registrant's S-3 dated February 6, 1997, SEC File No. 333-21297.)

(4.3) Indenture dated March 12, 1997, with respect to \$200 million, 8.875% Trust Preferred Securities, Series C due 2027 (Incorporated by reference to the Registrant's S-3 dated May 2, 1997, SEC File No. 333-26447.)

(10.1) Time Sharing Agreement for lease of Beechcraft King Air 300 between Allbritton Communications Company and Riggs Bank N.A.

(Exhibits omitted are not required or not applicable.)