COLONIAL BANCGROUP INC
Form 10-Q/A
February 14, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2005

OR

¨ **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: 1-13508

THE COLONIAL BANCGROUP, INC.

(Exact name of registrant as specified in its charter)

DELAWARE **(State or other jurisdiction of** **incorporation or organization)**	**63-0661573** **(I.R.S. Employer** **Identification No.)**
One Commerce Street **Montgomery, Alabama** **(Address of principal executive offices)**	**36104** **(Zip Code)**

(334) 240-5000

(Registrant s telephone number, including area code)

None

(Former name, former address and former filed year, if changed since last report)

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 for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days. YES x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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

Class	Outstanding at July 31, 2005
Common Stock, $2.50 par value per share	154,066,106 shares

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Explanatory Note

The Colonial BancGroup, Inc. (BancGroup , Colonial or the Company) is filing this amendment to its Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 to amend and restate financial statements and other financial information filed with the Securities and Exchange Commission (SEC). This amendment is being filed to correct errors in the originally filed Quarterly Report on Form 10-Q related to the Company s derivative accounting under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133).

In 2005 and prior years, the Company entered into interest rate swap agreements on brokered certificates of deposit (CD swaps) and junior subordinated debt (junior subordinated debt swaps) that were accounted for as fair value hedges under SFAS No. 133. The Company elected a method of fair value hedge accounting, commonly referred to as the abbreviated method of hedge accounting described in paragraph 65 of SFAS No. 133, which allowed the Company to assume no ineffectiveness in these transactions as long as critical terms did not change. The Company recently concluded that the CD swaps and junior subordinated debt swaps did not qualify for these methods in the periods covered by this restatement. In retrospect, the CD swaps did not comply due to the death puts contained in the brokered CDs, which allow the estate of the CD holder to require the bank to redeem the CD in the event of the CD holder s death. In addition, the junior subordinated debt swaps did not comply due to interest deferral features present in the junior subordinated debt. Hedge accounting under SFAS No. 133 is not allowed retrospectively because the hedge documentation required for the long-haul method was not in place at the inception of the hedge. Eliminating the application of fair value hedge accounting reverses the fair value adjustments that have been made to the brokered certificates of deposit and junior subordinated debt and results in all fair value changes for the interest rate swaps being recognized in noninterest income. Additionally, the net cash settlement payments received during each of the affected periods for these interest rate swaps were reclassified from interest expense on brokered certificates of deposit and junior subordinated debt to noninterest income. Adjustments were also made for other non-significant items.

The effect this restatement had on earnings for the affected periods is as follows:

		For the Quarter Ended	
	Total	March 31, 2005	June 30, 2005
		(In thousands)	
Interest expense	$ 6,672	$ 3,684	$ 2,988
Noninterest income	7,988	(2,848)	10,836
Noninterest expense	448	213	235
Provision for income taxes	314	(2,442)	2,756
Net income	$ 554	$ (4,303)	$ 4,857
Diluted earnings per share	$	$ (0.03)	$ 0.03

		For the Quarter Ended	
	Total	March 31, 2004	June 30, 2004

		(In thousands)	
Interest expense	$ 8,881	$ 4,591	$ 4,290
Noninterest income	268	10,955	(10,687)
Noninterest expense	1,031	499	532
Provision for income taxes	(3,491)	2,123	(5,614)
Net income	$ (6,153)	$ 3,742	$ (9,895)
Diluted earnings per share	$ (0.05)	$ 0.03	$ (0.08)

In addition, the following Items have changed: Item 1, Item 2 and Item 4. For additional information on the restatement see Note A, Restatement, in the Notes to the Unaudited Condensed Consolidated Financial Statements.

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THE COLONIAL BANCGROUP, INC.

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THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

CAUTIONARY STATEMENT PURSUANT TO SAFE HARBOR PROVISIONS

OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995:

FORWARD-LOOKING STATEMENTS

This report and the information incorporated by reference include forward-looking statements within the meaning of the federal securities laws. Words such as believes, estimates, plans, expects, should, may, might, outlook, and anticipates, and similar expressions, as they BancGroup (including its subsidiaries or its management), are intended to identify forward-looking statements. The forward-looking statements in these reports are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by the statements. In addition to factors mentioned elsewhere in this report or previously disclosed in BancGroup s SEC reports (accessible on the SEC s website at *www.sec.gov* or on BancGroup s website at *www.colonialbank.com*), the following factors, among others, could cause actual results to differ materially from forward-looking statements and future results could differ materially from historical performance. These factors are not exclusive:

- deposit attrition, customer loss, or revenue loss in the ordinary course of business;
- increases in competitive pressure in the banking industry;
- costs or difficulties related to the integration of the businesses of BancGroup and institutions it acquires are greater than expected;
- the inability of BancGroup to realize elements of its strategic plans for 2005 and beyond;
- changes in the interest rate environment which expand or reduce margins or adversely affect critical estimates as applied and projected returns on investments;
- economic conditions affecting real estate values and transactions in BancGroup s market and/or general economic conditions, either nationally or regionally, that are less favorable then expected;
- natural disasters in BancGroup s primary market areas result in prolonged business disruption or materially impair the value of collateral securing loans;
- management s assumptions and estimates underlying critical accounting policies prove to be inadequate or materially incorrect or are not borne out by subsequent events;
- changes which may occur in the regulatory environment;

a significant rate of inflation (deflation);

acts of terrorism or war; and

changes in the securities markets.

Many of these factors are beyond BancGroup s control. The reader is cautioned not to place undue reliance on any forward looking statements made by or on behalf of BancGroup. Any such statement speaks only as of the date the statement was made or as of such date that may be referenced within the statement. BancGroup does not undertake any obligation to update or revise any forward-looking statements.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CONDITION

(Unaudited)

	June 30, 2005 (Restated)	December 31, 2004 (Restated)
	(In thousands)	
ASSETS		
Cash and due from banks	**$ 414,834**	$ 296,889
Interest bearing deposits in banks	**4,884**	3,828
Federal funds sold	**108,203**	82,160
Securities purchased under agreements to resell	**575,267**	221,491
Securities available for sale	**3,076,374**	3,647,402
Investment securities (market value: 2005, $4,436; 2004, $6,503)	**4,193**	6,152
Loans held for sale	**751,231**	678,496
Total loans, net of unearned income:		
Mortgage warehouse loans	**713,254**	1,114,923
All other loans	**13,864,136**	11,742,888
Less:		
Allowance for loan losses	**(166,050)**	(148,802)
Loans, net	**14,411,340**	12,709,009
Premises and equipment, net	**299,772**	270,236
Goodwill	**643,610**	352,536
Other intangibles, net	**73,293**	41,604
Other real estate owned	**4,245**	9,865
Bank-owned life insurance	**338,820**	315,739
Accrued interest and other assets	**276,609**	261,203
Total	**$ 20,982,675**	$ 18,896,610
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits:		
Noninterest bearing transaction accounts	**$ 3,114,321**	$ 2,468,529
Interest bearing transaction accounts	**5,772,340**	5,077,509
Total transaction accounts	**8,886,661**	7,546,038

Time	**5,261,714**	4,317,657
Total deposits	**14,148,375**	11,863,695
Short-term borrowings	**3,083,688**	3,258,935
Subordinated debt	**272,044**	273,598
Junior subordinated debt	**307,506**	302,412
Other long-term debt	**1,158,920**	1,684,947
Accrued expenses and other liabilities	**87,279**	114,732
Total liabilities	**19,057,812**	17,498,319
Contingencies and commitments (Notes C and I)		
Preference stock, $2.50 par value; 1,000,000 shares authorized and none issued at June 30, 2005 and December 31, 2004, respectively		
Common stock, $2.50 par value; 200,000,000 shares authorized; 155,336,221 and 133,823,776 shares issued and outstanding at June 30, 2005 and December 31, 2004, respectively	**388,341**	334,559
Additional paid in capital	**756,593**	343,694
Retained earnings	**797,543**	729,715
Unearned compensation	**(6,773)**	(449)
Accumulated other comprehensive loss, net of taxes	**(10,841)**	(9,228)
Total shareholders equity	**1,924,863**	1,398,291
Total	**$ 20,982,675**	$ 18,896,610

See Notes to the Unaudited Condensed Consolidated Financial Statements

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THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2005 (Restated)	**2004 (Restated)**	**2005 (Restated)**	**2004 (Restated)**
	(In thousands, except per share amounts)			
Interest Income:				
Interest and fees on loans	**$ 438,604**	$ 324,369	**$ 231,349**	$ 166,133
Interest and dividends on securities	**86,430**	73,100	**42,964**	37,661
Interest on federal funds sold and other short-term investments	**7,941**	491	**4,799**	412
Total interest income	**532,975**	397,960	**279,112**	204,206
Interest Expense:				
Interest on deposits	**106,052**	68,658	**59,198**	34,680
Interest on short-term borrowings	**38,444**	14,135	**19,796**	7,639
Interest on long-term debt	**51,086**	47,306	**25,683**	22,542
Total interest expense	**195,582**	130,099	**104,677**	64,861
Net Interest Income	**337,393**	267,861	**174,435**	139,345
Provision for loan losses	**14,939**	14,453	**9,010**	6,519
Net Interest Income After Provision for Loan Losses	**322,454**	253,408	**165,425**	132,826
Noninterest Income:				
Service charges on deposit accounts	**28,459**	29,214	**14,827**	15,029
Financial planning services	**7,021**	7,107	**3,129**	3,983
Electronic banking	**7,426**	5,992	**3,927**	3,180
Mortgage banking	**4,961**	4,363	**2,940**	2,373
Mortgage warehouse fees	**4,702**	625	**3,919**	380
Securities (losses) gains, net	**(4,642)**	7,050	**(3,487)**	(392)
Gain on sale of branches	**9,608**		**9,608**	
Bank-owned life insurance	**6,860**	4,506	**3,456**	2,276
Net cash settlement of swap derivatives	**6,298**	8,441	**2,802**	4,259
Change in fair value of swap derivatives	**1,690**	(7,173)	**8,034**	(14,946)
Other income	**19,965**	11,090	**11,442**	6,415
Total noninterest income	**92,348**	71,215	**60,597**	22,557
Noninterest Expense:				
Salaries and employee benefits	**125,893**	104,983	**64,905**	54,283

Occupancy expense of bank premises, net	**29,296**	24,702	**15,268**	12,594
Furniture and equipment expenses	**20,437**	18,742	**10,723**	9,483
Professional services	**9,688**	8,624	**5,254**	4,401
Amortization of intangible assets	**5,491**	2,513	**3,186**	1,390
Advertising	**4,923**	4,476	**2,694**	2,126
Communications	**4,939**	5,132	**2,429**	2,656
Merger related expenses	**3,209**	1,272	**2,071**	1,190
Net loss related to the early extinguishment of debt	**7,877**	6,183	**5,587**	
Other expenses	**37,057**	32,718	**19,865**	17,111
Total noninterest expense	**248,810**	209,345	**131,982**	105,234
Income before income taxes	**165,992**	115,278	**94,040**	50,149
Applicable income taxes	**55,473**	38,983	**31,709**	16,710
Net Income	**$ 110,519**	$ 76,295	**$ 62,331**	$ 33,439
Earnings per share:				
Basic	**$ 0.76**	$ 0.59	**$ 0.42**	$ 0.26
Diluted	**$ 0.75**	$ 0.59	**$ 0.41**	$ 0.25
Average number of shares outstanding:				
Basic	**144,263**	128,598	**149,782**	130,130
Diluted	**145,960**	129,726	**151,568**	131,228
Dividends declared per share	**$ 0.3050**	$ 0.2900	**$ 0.1525**	$ 0.1450

See Notes to the Unaudited Condensed Consolidated Financial Statements

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THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2005 (Restated)	2004 (Restated)	2005 (Restated)	2004 (Restated)
	(In thousands)			
Net income	**$ 110,519**	$ 76,295	**$ 62,331**	$ 33,439
Other comprehensive income, net of taxes:				
Unrealized (losses)/gains on securities available for sale arising during the period, net of income taxes of $(2,381) and $20,113 in 2005 and $(25,686) and $(43,874) in 2004, respectively	**(4,371)**	(47,445)	**37,456**	(81,491)
Less: reclassification adjustment for net losses/(gains) on securities available for sale included in net income, net of income taxes of $(1,625) and $(1,221) in 2005 and $2,397 and $(133) in 2004, respectively	**3,017**	(4,653)	**2,266**	259
Unrealized losses on cash flow hedging instruments, net of income taxes of $(139)	**(259)**		**(259)**	
Comprehensive income (loss)	**$ 108,906**	$ 24,197	**$ 101,794**	$ (47,793)

See Notes to the Unaudited Condensed Consolidated Financial Statements

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THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

	Common Stock		Additional Paid In	Retained Earnings		Accumulated Other Comprehensive	Total Shareholders Equity
	Shares	Amount	Capital	(Restated)	Unearned Compensation	Loss	(Restated)
	(In thousands, except per share amounts)						
Balance, December 31, 2004	133,823,776	$ 334,559	$ 343,694	$ 729,715	$ (449)	$ (9,228)	$ 1,398,291
Shares issued under:							
Directors plan	45,549	114	670				784
Stock option plans	380,856	952	3,690				4,642
Stock bonus plan, net of cancellations	347,630	870	6,182		(7,030)		22
Employee Stock Purchase Plan	15,944	40	297				337
Settlement of forward equity sales agreement	8,400,000	21,000	158,575				179,575
Issuance of shares for business combinations	12,322,466	30,806	243,485				274,291
Amortization of unearned compensation					706		706
Net income				110,519			110,519
Cash dividends ($.3050 per share)				(42,691)			(42,691)
Change in unrealized loss on securities available for sale, net of taxes						(1,354)	(1,354)
Change in unrealized loss on derivative instruments, net of taxes						(259)	(259)
Balance, June 30, 2005	**155,336,221**	**$ 388,341**	**$ 756,593**	**$ 797,543**	**$ (6,773)**	**$ (10,841)**	**$ 1,924,863**

See Notes to the Unaudited Condensed Consolidated Financial Statements

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THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

	Six Months Ended June 30,	
	2005 (Restated)	**2004 (Restated)**
	(In thousands)	
Net cash flows from operating activities	**$ 1,102**	$ (49,558)
Cash flows from investing activities:		
Proceeds from maturities and calls of securities available for sale	**217,643**	218,814
Proceeds from sales of securities available for sale	**1,279,853**	935,924
Purchase of securities available for sale	**(569,977)**	(1,392,601)
Proceeds from maturities of investment securities	**1,967**	3,037
Increase in securities purchased under agreements to resell	**(353,776)**	(19,572)
Net increase in loans	**(716,638)**	(215,806)
Proceeds from sales of interests in mortgage warehouse loans	**573,311**	
Acquisitions, net of cash acquired	**(114,873)**	31,312
Net cash paid from the sale of branches	**(110,202)**	
Capital expenditures	**(13,669)**	(26,885)
Proceeds from sales of other real estate owned	**7,673**	1,941
Proceeds from sales of premises and equipment	**2,152**	981
Proceeds from sale of other assets	**4,861**	1,650
Other, net	**(592)**	
Net cash flows from investing activities	**207,733**	(461,205)
Cash flows from financing activities:		
Net increase in demand, savings, and time deposits	**955,436**	583,084
Net (decrease) increase in federal funds purchased, repurchase agreements and other short-term borrowings	**(324,548)**	138,656
Proceeds from issuance of long-term debt	**250,000**	500,000
Repayment of long-term debt	**(1,086,542)**	(636,909)
Proceeds from issuance of common stock	**4,979**	3,427
Proceeds from settlement of forward equity sales agreement	**179,575**	
Dividends paid ($0.305 and $0.290 per share for 2005 and 2004, respectively)	**(42,691)**	(36,866)
Net cash flows from financing activities	**(63,791)**	551,392
Net increase in cash and cash equivalents	**145,044**	40,629
Cash and cash equivalents at beginning of year	**382,877**	345,717
Cash and cash equivalents at June 30	**$ 527,921**	$ 386,346
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	**$ 194,003**	$ 136,596

Income taxes	**41,300**	36,000
Non-cash investing and financing activities:		
Transfer of loans to other real estate	**$ 3,416**	$ 11,010
Assets (non-cash) acquired in business combinations	**2,335,024**	723,751
Liabilities assumed in business combinations	**1,945,860**	647,518

See Notes to the Unaudited Condensed Consolidated Financial Statements

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THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note A: Restatement

The Colonial BancGroup, Inc. is restating its financial statements and other financial information to correct errors related to the Company s derivative accounting under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133).

In 2005 and prior years, the Company entered into interest rate swap agreements on brokered certificates of deposit (CD swaps) and junior subordinated debt (junior subordinated debt swaps) that were accounted for as fair value hedges under SFAS No. 133. The Company elected a method of fair value hedge accounting, commonly referred to as the abbreviated method of hedge accounting described in paragraph 65 of SFAS No. 133, which allowed the Company to assume no ineffectiveness in these transactions as long as critical terms did not change. The Company recently concluded that the CD swaps and junior subordinated debt swaps did not qualify for these methods in the periods covered by this restatement. In retrospect, the CD swaps did not comply due to the death puts contained in the brokered CDs, which allow the estate of the CD holder to require the bank to redeem the CD in the event of the CD holder s death. In addition, the junior subordinated debt swaps did not comply due to interest deferral features present in the junior subordinated debt. Hedge accounting under SFAS No. 133 is not allowed retrospectively because the hedge documentation required for the long-haul method was not in place at the inception of the hedge. Eliminating the application of fair value hedge accounting reverses the fair value adjustments that have been made to the brokered certificates of deposit and junior subordinated debt and results in all fair value changes for the interest rate swaps being recognized in noninterest income. Additionally, the net cash settlement payments received during each of the affected periods for these interest rate swaps were reclassified from interest expense on brokered certificates of deposit and junior subordinated debt to noninterest income. Adjustments were also made for other non-significant items.

The following tables reflect a summary of both the originally reported and the restated amounts:

Consolidated Statements of Condition:

	June 30, 2005		December 31, 2004	
	As Previously Reported	As Restated	As Previously Reported(1)	As Restated
	(In thousands)			
Accrued interest and other assets	$ 278,242	$ 276,609	$ 261,743	$ 261,203
Total assets	20,984,308	20,982,675	18,897,150	18,896,610
Time deposits	5,260,074	5,261,714	4,315,645	4,317,657
Total deposits	14,146,735	14,148,375	11,861,683	11,863,695

Junior subordinated debt	320,030	307,506	313,213	302,412
Accrued expenses and other liabilities	83,258	87,279	111,159	114,732
Total liabilities	19,064,675	19,057,812	17,503,535	17,498,319
Retained earnings	792,313	797,543	725,039	729,715
Total shareholders equity	$ 1,919,633	$ 1,924,863	$ 1,393,615	$ 1,398,291

(1) Certain reclassifications were made to previously reported balances in order to be consistent with current presentation.

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THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Consolidated Statements of Income (by quarter):

	Six Months Ended June 30,				Three Months Ended June 30,			
	2005		2004		2005		2004	
	As Previously Reported	As Restated	As Previously Reported	As Restated	As Previously Reported	As Restated	As Previously Reported	As Restated
	(In thousands, except per share amounts)							
Net interest income	$ 344,065	$ 337,393	$ 276,742	$ 267,861	$ 177,423	$ 174,435	$ 143,635	$ 139,345
Provision for loan losses	14,939	14,939	14,453	14,453	9,010	9,010	6,519	6,519
Noninterest Income:								
Net cash settlement of interest rate swap derivatives		6,298		8,441		2,802		4,259
Change in fair value of interest rate swap derivatives		1,690		(7,173)		8,034		(14,946)
Other noninterest income	84,360	84,360	70,947	69,947	49,761	49,761	33,244	33,244
Total noninterest income	84,360	92,348	70,947	71,215	49,761	60,597	33,244	22,557
Noninterest expense	248,362	248,810	208,314	209,345	131,747	131,982	104,702	105,234
Income before income taxes	165,124	165,992	124,922	115,278	86,427	94,040	65,658	50,149
Applicable income taxes	55,159	55,473	42,474	38,983	28,953	31,709	22,324	16,710
Net income	$ 109,965	$ 110,519	$ 82,448	$ 76,295	$ 57,474	$ 62,331	$ 43,334	$ 33,439
Diluted earnings per share:								
Net income	$ 0.75	$ 0.75	$ 0.64	$ 0.59	$ 0.38	$ 0.41	$ 0.33	$ 0.25
Impact of accounting correction				$ (0.04)		$ 0.03		$ (0.08)
Impact of other non-significant adjustments				$ (0.01)		$		$
Average diluted shares outstanding	145,960	145,960	129,726	129,726	151,568	151,568	131,228	131,228

Consolidated Statements of Changes in Shareholders Equity

	For the Six Months Ended June 30, 2005	
	As Previously Reported	As Restated

	(In thousands)	
Balance, beginning of period	$ 1,393,615	$ 1,398,291
Increase attributable to net income	109,965	110,519
Balance, end of period	$ 1,919,633	$ 1,924,863

In addition, the following Notes to the Unaudited Condensed Consolidated Financial Statements have been restated: E, F, G, J, and K.

Note B: Accounting Policies

The accounting and reporting policies of The Colonial BancGroup, Inc. and its subsidiaries (variously referred to herein as BancGroup , Colonial , or the Company) are as stated in the 2004 Annual Report on Form 10-K/A. The Company adopted additional policies as noted below with respect to Sales and Servicing of Financial Assets and Loans Held for Sale as a result of 2005 business activities. The Company also adopted new policies with respect to Acquired Loans pursuant to Statement of Position (SOP) 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer.* These unaudited interim financial statements should be read in conjunction with the audited financial statements and footnotes included in BancGroup s 2004 Annual Report on Form 10-K/A.

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In the opinion of BancGroup, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly BancGroup s financial position as of June 30, 2005 and December 31, 2004 and the results of operations and cash flows for the interim periods ended June 30, 2005 and 2004. All 2005 interim amounts are subject to year-end audit, and the results of operations for the interim period herein are not necessarily indicative of the results of operations to be expected for the year.

Certain reclassifications were made to prior periods in order to conform with the current period presentation.

Sales and Servicing of Financial Assets

The Company has a facility in which it sells certain mortgage warehouse loans and mortgage loans held for sale to a wholly-owned special purpose entity (SPE) which then sells interests in those assets to third-party commercial paper conduits. These transactions provide a source of liquidity for the Company and allow the Company to utilize its balance sheet capacity and capital for higher-yielding assets while continuing to manage its customer relationships.

Under the provisions of Statement of Financial Accounting Standards (SFAS) No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, any retained interests resulting from sales of financial assets should be recognized at the time of sale. Retained interests include such items as servicing assets or liabilities, subordinated tranches, interest-only strips, and cash reserve accounts. The previous carrying amount of the assets sold should be allocated between the retained interests and the assets sold based on each component s fair value in relation to the total fair value at the date of sale. Any gain or loss recognized from the sale would depend in part on the allocation of value to the assets sold and interests retained.

Based on the structure of these transactions, the Company s only retained interest is the assets retained in the SPE as a first risk of loss position. The Company does retain servicing responsibilities for the assets sold and receives a servicing fee as compensation. However, due to the short-term nature of these assets and the Company s conclusion that the fee represents adequate compensation as a servicer, no servicing asset or liability is recorded. At the time of sale, the previous carrying amount of the assets is allocated between the interests sold and interests retained based on their relative fair values, which approximate cost because of the short-term and floating-rate nature of these assets. The sales price equals the Company s carrying amount for the assets sold, thus no gain or loss is recorded at the time of sale.

The Company provides credit enhancements to these transactions by maintaining assets in the SPE as a first risk of loss position to the interests sold to the commercial paper conduits. This credit risk is reviewed quarterly, and a reserve for loss exposure is maintained in the allowance for loan losses. The Company also provides a liquidity backstop facility to the commercial paper conduits. The Company, under this facility, may be required to purchase assets from the conduits in certain limited circumstances, including the conduits inability to place commercial paper. Colonial includes this liquidity risk in its liquidity risk analysis to ensure that it would have sufficient sources of liquidity.

Loans Held for Sale

Effective January 1, 2005, the Company began using forward sales commitments as fair value hedges of its short-term participations in mortgage loans which are included in loans held for sale on the consolidated balance sheet. Prior to January 1, 2005, all loans held for sale were carried at the lower of aggregate cost or market. After January 1, 2005, the carrying values of these hedged short-term participations are adjusted for changes in fair value. The fair values are calculated based on changes in market interest rates during the periods that the

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

participations have been on the balance sheet. See Note J for discussion of the derivatives associated with this hedging strategy.

Acquired Loans

The Company generally acquires loans through business combinations rather than individually or in groups or portfolios. An acquired loan which has experienced deterioration of credit quality between origination and the Company s acquisition, and for which it is probable that the Company will be unable to collect all amounts due according to the loan s contractual terms, is accounted for under the provisions of SOP 03-3. For such loans, the Company estimates the amount and timing of undiscounted expected principal, interest, and other cash flows (including expected prepayments, if any) as of the acquisition date. The excess of the loan s contractually required cash flows over the Company s expected cash flows is referred to as a nonaccretable difference and is not recorded by the Company. The loan is initially recorded at fair value, or the present value of the expected cash flows. The difference between the undiscounted expected cash flows and the fair value at which the loan is recorded is referred to as accretable yield and is accreted into interest income over the remaining expected life of the loan.

On a quarterly basis, the Company updates its estimate of cash flows expected to be collected. If the estimated cash flows have decreased, the Company creates a valuation allowance equal to the present value of the decrease in the cash flows and recognizes a loss. If the estimated cash flows have increased, the Company would first reverse any existing valuation allowance for that loan, and would then account for the remainder of the increase as an adjustment to the yield accreted on a prospective basis over the loan s remaining life.

Note C: Contingencies

BancGroup and its subsidiaries are from time to time defendants in legal actions and assertions from normal business activities. Management does not anticipate that the ultimate liability arising from such matters outstanding at June 30, 2005 will have a materially adverse effect on BancGroup s financial condition.

Note D: Recent Accounting Pronouncements

In December 2003, the American Institute of Certified Public Accountants (AICPA) issued SOP 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. This SOP addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor s initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. It includes such loans acquired in purchase business combinations and applies to all nongovernmental entities, including not-for-profit organizations. This SOP does not apply to loans originated by the entity. This SOP limits the yield that may be accreted (accretable yield) to the excess of the investor s estimate of undiscounted expected principal, interest, and other cash flows (cash flows expected at acquisition to be collected) over the investor s initial investment in the loan. This SOP requires that the excess of contractual cash flows over cash flows expected to be collected (nonaccretable difference) not be recognized as an adjustment of yield, loss accrual, or valuation allowance. This SOP prohibits investors from displaying accretable yield and nonaccretable difference in the balance sheet. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan s yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as impairment. This SOP prohibits carrying over or creation of valuation allowances in the initial accounting of all loans acquired in a transfer that are within the scope of this SOP. The prohibition of the valuation allowance carryover applies to the purchase of an individual loan, a pool of loans, a group of loans and loans acquired in a purchase business combination. This SOP is effective for loans acquired in fiscal years beginning after December 15, 2004. The changes required by this SOP have not had and are not expected to have a material impact on the Company s financial statements.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

With respect to the acquisitions of Union Bank and FFLC Bancorp discussed in Note E, there were no loans and nine loans, respectively, which fell within the scope of this SOP.

In March 2004, the Emerging Issues Task Force (EITF) reached a final consensus on Issue 03-1, *The Meaning of Other-Than-Temporary and Its Application to Certain Investments*. The Issue applies to debt and equity securities within the scope of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, certain debt and equity securities within the scope of SFAS 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, and equity securities that are not subject to the scope of SFAS 115 and not accounted for under the equity method of accounting (i.e., cost method investments). Issue 03-1 outlines a three-step model for assessing other-than-temporary impairment. The model involves first determining whether an investment is impaired, then evaluating whether the impairment is other-than-temporary, and if it is, recognizing an impairment loss equal to the difference between the investment s cost and its fair value. The model was to be applied prospectively to all current and future investments in interim or annual reporting periods beginning after June 15, 2004. However, in September 2004 the Financial Accounting Standards Board (FASB) staff issued FASB Staff Position (FSP) EITF Issue 03-1-1 which delayed the effective date for the measurement and recognition guidance contained in Issue 03-1 until such time as additional implementation guidance could be provided. In June 2005, the FASB decided not to provide additional guidance on the meaning of other-than-temporary impairment, but directed the staff to draft and submit for vote FSP FAS 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, which will replace the measurement and recognition guidance set forth in Issue 03-1 with references to existing other-than-temporary impairment guidance. FSP FAS 115-1 will also codify the guidance set forth in EITF Topic D-44 and clarify that an investor should recognize an impairment loss no later than when the impairment is deemed other-than-temporary, even if a decision to sell has not been made. The FSP is expected to be voted on in the third quarter and would likely be effective for other-than-temporary impairment analysis conducted in periods beginning after September 15, 2005. The disclosure guidance of Issue 03-1 remains effective. See Note M for BancGroup s disclosures under Issue 03-1. The changes required by Issue 03-1 are not expected to have a material impact on the Company s financial statements.

In December 2004, the FASB issued SFAS 123(R), *Share-Based Payment*, which is a revision of SFAS 123, *Accounting for Stock-Based Compensation*. SFAS 123(R) supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS 95, *Statement of Cash Flows*. Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. SFAS 123(R) was originally effective for interim or annual periods beginning after June 15, 2005. However, in April 2005 the Securities and Exchange Commission (SEC) amended this requirement allowing companies to adopt the standard at the beginning of their next fiscal year that begins after June 15, 2005. Early adoption will be permitted in periods in which financial statements have not yet been issued. SFAS 123(R) permits public companies to adopt its requirements using one of two methods:

A modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date.

A modified retrospective method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

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The Company plans to adopt SFAS 123(R) on January 1, 2006 using the modified prospective method.

As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using Opinion 25 s intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS 123(R) s fair value method will have an impact on the Company s results of operations, although it will have no material impact on its overall financial position. The impact of adopting SFAS 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS 123(R) in prior periods, the impact of that standard would likely have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share included in Note K.

In March 2005, the SEC issued Staff Accounting Bulletin (SAB) No. 107, *Share-Based Payment*, which provides interpretive guidance on various issues in SFAS 123(R), particularly valuation methodologies and the selection of assumptions. This SAB also discusses the SEC staff s expectations regarding disclosures in Management s Discussion and Analysis related to share-based payment transactions, as well as the interaction of SFAS 123(R) with existing SEC guidance, such as that dealing with disclosure of non-GAAP financial measures.

In May 2005, the FASB issued SFAS 154, *Accounting Changes and Error Corrections*, which replaces APB Opinion No. 20, *Accounting Changes*, and SFAS 3, *Reporting Accounting Changes in Interim Financial Statements An Amendment of APB Opinion No. 28*. SFAS 154 changes the requirements for the accounting and reporting of a change in accounting principle. It applies to all voluntary changes in accounting principle as well as to changes required by an accounting pronouncement that does not include specific transition provisions. SFAS 154 eliminates the requirement in APB Opinion No. 20 to include the cumulative effect of changes in accounting principle in the income statement in the period of change. Instead, to enhance the comparability of prior period financial statements, SFAS 154 requires that changes in accounting principle be retrospectively applied. Under retrospective application, the new accounting principle is applied as of the beginning of the first period presented as if that principle had always been used. The cumulative effect of the change is reflected in the carrying value of assets and liabilities as of the first period presented and the offsetting adjustments are recorded to opening retained earnings. Each period presented is adjusted to reflect the period-specific effects of applying the change. Although retrospective application is similar to restating prior periods, SFAS 154 gives the treatment a new name to differentiate it from restatement for the correction of an error. Only direct effects of the change will be included in the retrospective application; all indirect effects will be recognized in the period of change. If it is impracticable to determine the cumulative effect for all prior periods, the new accounting principle should be applied as if it were adopted prospectively from the earliest date practicable. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date SFAS 154 was issued. The changes required by SFAS 154 are not expected to have a material impact on the Company s financial statements.

Note E: Business Combinations

During the six months ended June 30, 2005, BancGroup made the following acquisitions to enhance its geographic position and expand its banking operations within Florida.

Union Bank Acquisition

BancGroup completed the acquisition of UB Financial Corporation s wholly-owned subsidiary, Union Bank of Florida (Union), a Florida state chartered bank, on February 10, 2005. Union s results of operations were included in BancGroup s consolidated financial results beginning February 11, 2005.

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Total consideration for the transaction was $233.5 million, consisting of 2,903,402 shares of BancGroup common stock valued at $58.8 million and $174.7 million in cash. This consideration along with other direct acquisition costs and liabilities incurred led to a total acquisition cost of approximately $240.0 million. The value of the common stock issued was determined based on the average market price of BancGroup s shares over the five day period beginning two days before and ending two days after February 3, the measurement date for this transaction.

FFLC Bancorp, Inc. Acquisition

BancGroup completed the acquisition of FFLC Bancorp, Inc. (FFLC) and its subsidiary, First Federal Savings Bank of Lake County, on May 18, 2005. FFLC s results of operations were included in BancGroup s consolidated financial results beginning May 19, 2005.

Total consideration for the transaction was $247.5 million, consisting of 9,419,064 shares of BancGroup common stock valued at $212.9 million, $31.9 million in cash, and stock options valued at $2.7 million. This consideration along with other direct acquisition costs and liabilities incurred led to a total acquisition cost of approximately $250.0 million. The value of the common stock issued was determined based on the average market price of BancGroup s shares over the five day period beginning two days before and ending two days after May 16, the measurement date for this transaction. The fair value of the stock options was determined using the Black-Scholes option pricing model.

Pro Forma Results of Operations

The following table presents unaudited pro forma results of operations for the six and three months ended June 30, 2005 and 2004, as if the Union and FFLC acquisitions had occurred at January 1, 2004. Since no consideration is given to operational efficiencies and expanded products and services, the pro forma summary information does not necessarily reflect the results of operations as they actually would have been if the acquisitions had occurred at January 1, 2004:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2005 (Restated)	2004 (Restated)	2005 (Restated)	2004 (Restated)
	(unaudited) (In thousands, except per share amounts)			
Net Interest Income	**$ 356,129**	$ 298,852	**$ 180,107**	$ 155,012
Net Income	**116,420**	88,617	**64,947**	39,997

Basic EPS	**0.76**	0.62	**0.42**	0.28
Diluted EPS	**0.73**	0.60	**0.40**	0.27

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note F: Earnings Per Share

The following table reflects a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation:

	Six Months Ended June 30,			Three Months Ended June 30,		
	Net Income (Restated)	Shares	Per Share Amount (Restated)	Net Income (Restated)	Shares	Per Share Amount (Restated)
	(In thousands, except per share amounts)					
2005						
Basic EPS	**$ 110,519**	**144,263**	**$ 0.76**	**$ 62,331**	**149,782**	**$ 0.42**
Effect of dilutive instruments:						
Options and nonvested stock bonus awards		**1,697**			**1,786**	
Diluted EPS	**$ 110,519**	**145,960**	**$ 0.75**	**$ 62,331**	**151,568**	**$ 0.41**
2004						
Basic EPS	$ 76,295	128,598	$ 0.59	$ 33,439	130,130	$ 0.26
Effect of dilutive instruments:						
Options		1,128			1,098	
Diluted EPS	$ 76,295	129,726	$ 0.59	$ 33,439	131,228	$ 0.25

The above calculations exclude options that could potentially dilute basic EPS in the future but were antidilutive for the periods presented. The number of such options excluded was 49,000 and 511,500 for the three months and six months ended June 30, 2005, respectively, and 75,500 for both the three and six months ended June 30, 2004.

Note G: Segment Information

The Company has six reportable segments for management reporting. Each regional bank segment consists of commercial lending and full service branches in its geographic region with its own management team. The branches provide a full range of traditional banking products as well as financial planning and mortgage banking services. The mortgage warehouse segment headquartered in Orlando, Florida provides loans, collateralized by residential mortgage loans, to mortgage origination companies. The Corporate/Treasury/Other segment includes the investment securities portfolio, wholesale funding activities including long-term debt, short term liquidity and balance sheet risk management including derivative hedging activities, the parent company s activities, intercompany eliminations, certain support activities not currently allocated to the aforementioned segments and income taxes. In addition, Corporate/Treasury/Other includes income from bank owned life insurance, income and expenses from various nonbank subsidiaries, joint ventures and equity investments, merger related expenses and the unallocated portion of the Company s financial planning business.

The results for these segments are based on our management reporting process, which assigns balance sheet and income statement items to each segment. Unlike financial reporting, there is no authoritative guidance for management reporting equivalent to generally accepted accounting principles. Colonial uses an internal funding methodology to assign funds costs to assets and earning credits to liabilities as well as an internal capital allocation methodology with an offset in Corporate/Treasury/Other. The provision for loan losses included in each segment is based on each segment s share of the Company s loan loss reserve. Certain back office support functions are allocated to each segment on the basis most applicable to the function being allocated. The management accounting process measures the performance of the defined segments based on our management

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structure and is not necessarily comparable with similar information for other financial services companies. If the management structure and/or allocation process changes, allocations, transfers and assignments may change. Results for prior periods have been restated for comparability.

	Florida Regional Bank	Florida Mortgage Warehouse	Alabama Regional Bank	Georgia Regional Bank	Nevada Regional Bank	Texas Regional Bank	Corporate/ Treasury/ Other	Consolidated BancGroup
				(In thousands, restated)				
Six Months Ended June 30, 2005								
Net interest income before intersegment income / expense	**$ 155,294**	**$ 43,977**	**$ 59,611**	**$ 32,631**	**$ 23,160**	**$ 29,804**	**$ (7,084)**	**$ 337,393**
Intersegment income / expense	**(1,056)**	**(14,733)**	**16,828**	**(7,279)**	**(2,554)**	**(7,828)**	**16,622**	
Net interest income	**154,238**	**29,244**	**76,439**	**25,352**	**20,606**	**21,976**	**9,538**	**337,393**
Provision for loan losses	**5,897**	**414**	**2,669**	**300**	**852**	**1,153**	**3,654**	**14,939**
Noninterest income	**24,033**	**5,599**	**31,858**	**4,137**	**2,773**	**2,405**	**21,543**	**92,348**
Noninterest expense	**98,609**	**3,296**	**53,636**	**13,846**	**11,711**	**13,504**	**54,208**	**248,810**
Income/(loss) before income taxes	**$ 73,765**	**$ 31,133**	**$ 51,992**	**$ 15,343**	**$ 10,816**	**$ 9,724**	**$ (26,781)**	**165,992**
Income taxes								**55,473**
Net Income								**$ 110,519**
Total Assets	**$ 9,204,007**	**$ 2,334,523**	**$ 3,874,525**	**$ 1,357,045**	**$ 829,114**	**$ 1,181,315**	**$ 2,202,146**	**$ 20,982,675**
Total Deposits	**$ 7,833,646**	**$ 423,461**	**$ 3,745,626**	**$ 765,805**	**$ 598,546**	**$ 515,623**	**$ 265,668**	**$ 14,148,375**
Six Months Ended June 30, 2004								
Net interest income before intersegment income / expense	$ 105,331	$ 30,787	$ 58,161	$ 25,873	$ 19,890	$ 21,424	$ 6,395	$ 267,861
Intersegment income / expense	7,361	(5,063)	19,054	(989)	(1,673)	(2,971)	(15,719)	
Net interest income	112,692	25,724	77,215	24,884	18,217	18,453	(9,324)	267,861
Provision for loan losses	6,539	146	4,202	675	752	940	1,199	14,453
Noninterest income	19,453	1,492	24,216	4,253	2,579	2,910	16,312	71,215
Noninterest expense	71,875	2,847	57,397	13,586	11,094	12,977	39,569	209,345
Income/(loss) before income taxes	$ 53,731	$ 24,223	$ 39,832	$ 14,876	$ 8,950	$ 7,446	$ (33,780)	115,278
Income taxes								38,983
Net Income								$ 76,295

Total Assets	$ 6,254,319	$ 1,642,516	$ 3,855,485	$ 1,255,529	$ 740,469	$ 965,150	$ 2,878,144	$ 17,591,612
Total Deposits	$ 5,182,723	$ 251,065	$ 3,656,799	$ 732,797	$ 454,714	$ 501,710	$ 268,862	$ 11,048,670
Three Months Ended June 30, 2005								
Net interest income before intersegment income / expense	**$ 83,557**	**$ 20,618**	**$ 29,139**	**$ 17,034**	**$ 11,821**	**$ 15,854**	**$ (3,588)**	**$ 174,435**
Intersegment income / expense	**(2,720)**	**(6,247)**	**8,570**	**(4,228)**	**(1,419)**	**(4,484)**	**10,528**	
Net interest income	**80,837**	**14,371**	**37,709**	**12,806**	**10,402**	**11,370**	**6,940**	**174,435**
Provision for loan losses	**2,377**	**1,477**	**967**	**150**	**426**	**583**	**3,030**	**9,010**
Noninterest income	**13,138**	**4,423**	**20,405**	**2,092**	**1,611**	**1,226**	**17,702**	**60,597**
Noninterest expense	**52,838**	**1,703**	**26,668**	**7,033**	**5,965**	**6,861**	**30,914**	**131,982**
Income/(loss) before income taxes	**$ 38,760**	**$ 15,614**	**$ 30,479**	**$ 7,715**	**$ 5,622**	**$ 5,152**	**$ (9,302)**	**94,040**
Income taxes								**31,709**
Net Income								**$ 62,331**
Total Assets	**$ 9,204,007**	**$ 2,334,523**	**$ 3,874,525**	**$ 1,357,045**	**$ 829,114**	**$ 1,181,315**	**$ 2,202,146**	**$ 20,982,675**
Total Deposits	**$ 7,833,646**	**$ 423,461**	**$ 3,745,626**	**$ 765,805**	**$ 598,546**	**$ 515,623**	**$ 265,668**	**$ 14,148,375**

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	Florida Regional Bank	Florida Mortgage Warehouse	Alabama Regional Bank	Georgia Regional Bank	Nevada Regional Bank	Texas Regional Bank	Corporate/ Treasury/ Other	Consolidated BancGroup
				(In thousands, restated)				
Three Months Ended June 30, 2004								
Net interest income before intersegment income / expense	$ 53,637	$ 17,803	$ 28,756	$ 12,530	$ 10,108	$ 10,907	$ 5,604	$ 139,345
Intersegment income / expense	5,137	(3,119)	10,122	(114)	(691)	(1,409)	(9,926)	
Net interest income	58,774	14,684	38,878	12,416	9,417	9,498	(4,322)	139,345
Provision for loan losses	2,999	(73)	1,902	337	376	470	508	6,519
Noninterest income	10,371	880	12,425	2,385	1,352	1,470	(6,326)	22,557
Noninterest expense	36,533	1,404	28,946	6,828	5,525	6,614	19,384	105,234
Income/(loss) before income taxes	$ 29,613	$ 14,233	$ 20,455	$ 7,636	$ 4,868	$ 3,884	$ (30,540)	50,149
Income taxes								16,710
Net Income								$ 33,439
Total Assets	$ 6,254,319	$ 1,642,516	$ 3,855,485	$ 1,255,529	$ 740,469	$ 965,150	$ 2,878,144	$ 17,591,612
Total Deposits	$ 5,182,723	$ 251,065	$ 3,656,799	$ 732,797	$ 454,714	$ 501,710	$ 268,862	$ 11,048,670

Note H: Long-Term Borrowings

In the second quarter of 2005, Colonial prepaid $605 million in long-term borrowings bearing interest at a weighted average rate of 3.92% and unwound the related interest rate swaps, with notional values totaling $60 million. These prepayments resulted in early extinguishment losses of $5.6 million.

In March 2005, Colonial prepaid $200 million in long-term borrowings bearing interest at a weighted average rate of 4.98% resulting in early extinguishment losses of $2.3 million.

Note I: Guarantees

Standby letters of credit are contingent commitments issued by Colonial Bank generally to guarantee the performance of a customer to a third party. A financial standby letter of credit is a commitment by Colonial Bank to guarantee a customer s repayment of an outstanding loan or debt instrument. In a performance standby letter of credit, Colonial Bank guarantees a customer s performance under a contractual nonfinancial obligation for which it receives a fee. These guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The Company holds various assets as collateral supporting those commitments for which collateral is deemed necessary. FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, requires the fair value of these commitments to be recorded on the balance sheet. The fair value of the commitment typically approximates the fee received from the customer for issuing such commitments. The amount recorded for fees as of June 30, 2005 was not material to the Company s consolidated balance sheet. At June 30, 2005, Colonial Bank had standby letters of credit outstanding with maturities ranging from less than one year up to 15 years. The maximum potential amount of future undiscounted payments the Company could be required to make under outstanding standby letters of credit was $219 million.

Note J: Derivatives

BancGroup maintains positions in derivative financial instruments to manage interest rate risk and facilitate asset/liability management strategies. The fair value of derivatives are recorded in other assets or other liabilities.

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Interest Rate Swaps

At June 30, 2005, BancGroup had interest rate swap positions on subordinated debt, junior subordinated debt, brokered CDs, long-term FHLB advances and loans. The fair value and related notional amounts (in thousands) of all interest rate swaps by category as of June 30, 2005 are shown below:

	June 30, 2005 (Restated)	
	Notional Amount	Fair Value
Fair Value Hedges		
Interest rate swaps hedging long-term FHLB advances	$ 515,000	$ 12,787
Interest rate swaps hedging subordinated debt	250,000	14,318
Interest rate swaps hedging loans	5,777	(34)
	$ 770,777	$ 27,071
Cash Flow Hedges	$ 750,000	$ (399)
Interest rate swaps hedging loans	$ 750,000	$ (399)
Nonhedging Derivatives		
Interest rate swaps on junior subordinated debt	$ 270,000	$ 12,523
Interest rate swaps on brokered CDs	120,000	(1,640)
	$ 390,000	$ 10,883

Fair Value Hedges

The Company enters into fair value hedges to effectively convert the interest rates of certain instruments from fixed to floating. The critical terms of the interest rate swaps match the terms of the corresponding hedged items. There were no hedging gains and losses resulting from hedge ineffectiveness recognized for either the three or the six months ended June 30, 2005 and 2004.

Cash Flow Hedges

During the second quarter of 2005, Colonial entered into interest rate swap agreements to hedge the cash flows of variable rate loans, which effectively converted their floating rates to fixed. The initial and ongoing assessments of hedge effectiveness as well as the periodic measurements of hedge ineffectiveness are performed using the change in variable cash flows method. The derivatives are recorded at fair value with an offsetting entry, net of taxes, recorded in other comprehensive income. There were no cash flow hedging gains or losses resulting from hedge ineffectiveness recognized for either the three or six month periods ended June 30, 2005. Amounts included in other comprehensive income are not required to be amortized to earnings (unless a swap is terminated) because amortization occurs automatically through the accounting for the cash flows of the swaps as adjustments to interest income each period. At June 30, 2005, the cash flow hedges had an average maturity of approximately 3 years.

Nonhedging Derivatives

For derivatives not designated as hedging instruments, all changes in fair value are recognized in earnings during the period of change. The net cash settlement of these derivatives is included in noninterest income.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Commitments to Originate and Sell Mortgage Loans

BancGroup, as part of its retail mortgage loan production activities, routinely enters into short-term commitments to originate fixed rate loans. Most of the loans will be sold to third party correspondent banks upon closing. For those loans, BancGroup enters into individual forward sales commitments at the same time the commitment to originate is finalized. While the forward sales commitments function as an economic hedge and effectively eliminate BancGroup s financial risk of rate changes during the rate lock period, both the commitment to originate mortgage loans that will be sold and the commitment to sell the mortgage loans are derivatives, the fair values of which are essentially equal and offsetting. The fair values are calculated based on changes in market interest rates after the commitment date. The notional amounts of these mortgage loan origination commitments and the related forward sales commitments were $39.3 million at June 30, 2005. The unrealized gains/losses of the origination and sales commitments were not material at June 30, 2005.

BancGroup has also executed individual forward sales commitments related to short-term participations in mortgage loans and retail mortgage loans, which are all classified as loans held for sale. The forward sales commitments related to the short-term participations allow BancGroup to sell the mortgage loan participations to investor institutions for an amount equal to BancGroup s original acquisition cost. The Company has designated these commitments as fair value hedges of the short-term participations. The forward sales commitments on retail mortgage loans function as an economic offset and mitigate the Company s market risk on these loans. The notional values of the forward sales commitments on short-term participations and retail mortgage loans at June 30, 2005 were $702.6 million and $47.3 million, respectively. The fair value of the forward sales commitments on the short-term participations was a gain of $87,000 at June 30, 2005, which was offset by a loss of $87,000 on the short-term participations. The fair value of the sales commitments on retail mortgage loans was immaterial.

Options

BancGroup from time to time enters into over-the-counter option contracts on bonds in its securities portfolio. SFAS No. 133 requires that the fair value of these option contracts be recorded in the financial statements. However, there were no option contracts outstanding as of June 30, 2005 and 2004.

Note K: Stock-Based Compensation

SFAS No. 123, *Accounting for Stock-Based Compensation*, defines a fair value based method of accounting for an employee stock option or similar equity instrument. However, SFAS No. 123 allows an entity to continue to measure compensation costs for those plans using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees*. Entities electing to remain with the accounting in Opinion No. 25 must make pro forma disclosures of net income and earnings per share as if the fair value based method of accounting defined in SFAS No. 123 had been applied. Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock. BancGroup has elected to continue to measure compensation cost for its stock option plans under the provisions in Opinion No. 25 and has calculated the fair value of outstanding options for purposes of pro forma disclosure utilizing the Black-Scholes method.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company s employee stock options have characteristics significantly different from those of traded options, and because

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changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The majority of the Company s options granted vest ratably over a period of five years; therefore for purposes of pro forma disclosures, the compensation expense related to these options has been allocated over the vesting period.

The Company s actual and pro forma information follows:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2005 (Restated)	2004 (Restated)	2005 (Restated)	2004 (Restated)
	(In thousands, except per share data)			
Net income:				
As reported	**$ 110,519**	$ 76,295	**$ 62,331**	$ 33,439
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	**(731)**	(730)	**(330)**	(371)
Pro forma net income	**$ 109,788**	$ 75,565	**$ 62,001**	$ 33,068
Basic earnings per share:				
As reported	**$ 0.76**	$ 0.59	**$ 0.42**	$ 0.26
Pro forma	**$ 0.76**	$ 0.59	**$ 0.41**	$ 0.25
Diluted earnings per share				
As reported	**$ 0.75**	$ 0.59	**$ 0.41**	$ 0.25
Pro forma	**$ 0.75**	$ 0.58	**$ 0.41**	$ 0.25

Note L: Pension Plan

BancGroup and subsidiaries are participants in a pension plan that covers most employees who have met certain age and length of service requirements. The plan provides benefits based on final average earnings, covered compensation, and years of benefit service. Actuarial computations for financial reporting purposes are based on the projected unit credit method. The measurement date is June 30. Based on current actuarial projections, BancGroup will not be required to make a contribution to the plan in 2005. However, BancGroup assesses the funded status of the plan quarterly and may, at its discretion, make contributions even when not required. Currently, BancGroup does not expect to make a material contribution during 2005.

Employee pension benefit plan status at June 30:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2005	**2004**	**2005**	**2004**
	(In thousands)			
Components of net periodic benefit cost				
Service cost	**$ 3,456**	$ 2,935	**$ 1,612**	$ 1,521
Interest cost	**2,174**	1,955	**1,018**	1,019
Expected return on plan assets	**(2,450)**	(2,021)	**(1,230)**	(1,010)
Amortization of transition asset		(2)		(1)
Amortization of prior service cost	**5**	4	**2**	2
Amortization of actuarial loss	**548**	403	**236**	216
Net periodic benefit cost	**$ 3,733**	$ 3,274	**$ 1,638**	$ 1,747

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Note M: Securities

The following table reflects gross unrealized losses and market value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2005.

	Less than 12 months		12 months or more		Total	
Description of Securities	**Market Value**	**Unrealized Losses**	**Market Value**	**Unrealized Losses**	**Market Value**	**Unrealized Losses**
			(In thousands)			
U.S. Treasury obligations and direct obligations of U.S. Government agencies	$ 17,828	$ (234)	$ 171,131	$ (4,000)	$ 188,959	$ (4,234)
Obligations of state and political subdivisions	571	(2)			571	(2)
Federal Agency mortgage-backed securities	48,021	(164)	191,721	(4,780)	239,742	(4,944)
Federal Agency collateralized mortgage obligations	324,271	(3,422)	86,434	(2,044)	410,705	(5,466)
Private collateralized mortgage obligations	1,092,897	(6,010)	269,507	(4,526)	1,362,404	(10,536)
Corporate notes	2,005	(2)			2,005	(2)
Total temporarily impaired securities	$ 1,485,593	$ (9,834)	$ 718,793	$ (15,350)	$ 2,204,386	$ (25,184)

The securities above consist of Treasury notes and government agency debentures, municipal obligations, mortgage-backed securities, agency collateralized mortgage obligations (CMO s) and mortgage backed securities, AAA-rated private CMO s and corporate notes. As of June 30, 2005, there were 115 securities carried at an unrealized loss relating to the level of interest rates prevailing in the market. Because of the creditworthiness of the issuers and because the future direction of interest rates is unknown, the impairments are deemed to be temporary. The severity and duration of such impairments are determined by the level of interest rates set by the market. Additionally, BancGroup has the ability to retain these securities until maturity when full repayment would be received. There are also no known current funding needs which would require their liquidation.

Note N: Sales and Servicing of Financial Assets

During the first quarter of 2005, the Company structured a facility in which it sold certain mortgage warehouse loans and mortgage loans held for sale to a wholly-owned SPE which then sold interests in those assets to third-party commercial paper conduits. Refer to Note B for further information regarding accounting for these transactions.

Total cash proceeds from the sales of interests in these assets to the conduits during the first quarter of 2005 were $750 million, attributable to $435 million of mortgage warehouse loans and $315 million of loans held for sale. Total cash proceeds from sales during the second quarter of 2005 were $250 million, attributable to $138 million of mortgage warehouse loans and $112 million of loans held for sale. Based on the structure of these transactions, the Company s only retained interest is the assets retained in the SPE as a first risk of loss position. No gain or loss was recorded at the time of sale. The Company receives servicing income based on a percentage of the outstanding balance of assets sold.
During the first quarter of 2005, the Company recognized approximately $400,000 of noninterest income related to these transactions, of which $188,000 was servicing income, but no cash was received. During the second quarter of 2005, the Company recognized approximately

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$3.5 million of noninterest income related to these transactions, of which $2.1 million was servicing income, and received $2.5 million in cash.

The following table presents a summary of the components of managed financial assets, representing both owned and sold assets, along with quantitative information about delinquencies and net credit losses:

	As of June 30, 2005	Three Months Ended