COLONIAL BANCGROUP INC
Form 10-Q/A
February 14, 2006
Table of Contents

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

(334) 240-5000

(Registrant s telephone number, including area code)

None

(Former name, former address and former fiscal 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 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 October 31, 2005
Common Stock, $2.50 par value per share	154,199,064 shares

Table of Contents

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 September 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**	**September 30, 2005**
		(In thousands)		
Interest expense	$ 9,421	$ 3,684	$ 2,988	$ 2,749
Noninterest income	3,430	(2,848)	10,836	(4,558)
Noninterest expense	663	213	235	215
Provision for income taxes	(2,409)	(2,442)	2,756	(2,723)
Net income	$ (4,245)	$ (4,303)	$ 4,857	$ (4,799)
Diluted earnings per share	$ (0.03)	$ (0.03)	$ 0.03	$ (0.03)

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

	(In thousands)			
Interest expense	$ 13,274	$ 4,591	$ 4,290	$ 4,393
Noninterest income	12,350	10,955	(10,687)	12,082
Noninterest expense	1,569	499	532	538
Provision for income taxes	(902)	2,123	(5,614)	2,589
Net income	$ (1,591)	$ 3,742	$ (9,895)	$ 4,562
Diluted earnings per share	$ (0.01)	$ 0.03	$ (0.08)	$ 0.04

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.

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

THE COLONIAL BANCGROUP, INC.

INDEX

Table of Contents

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.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CONDITION

(Unaudited)

	September 30, 2005 (Restated)	December 31, 2004 (Restated)
	(In thousands)	
ASSETS		
Cash and due from banks	**$ 425,121**	$ 296,889
Interest bearing deposits in banks	**2,683**	3,828
Federal funds sold	**107,725**	82,160
Securities purchased under agreements to resell	**607,408**	221,491
Securities available for sale	**2,966,915**	3,647,402
Investment securities (market value: 2005, $3,283; 2004, $6,503)	**3,083**	6,152
Loans held for sale	**799,970**	678,496
Total loans, net of unearned income:		
Mortgage warehouse loans	**526,967**	1,114,923
All other loans	**14,196,682**	11,742,888
Less:		
Allowance for loan losses	**(168,324)**	(148,802)
Loans, net	**14,555,325**	12,709,009
Premises and equipment, net	**304,894**	270,236
Goodwill	**660,758**	352,536
Other intangibles, net	**62,667**	41,604
Other real estate owned	**5,747**	9,865
Bank-owned life insurance	**342,380**	315,739
Accrued interest and other assets	**272,104**	261,203
Total	**$ 21,116,780**	$ 18,896,610
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits:		
Noninterest bearing transaction accounts	**$ 3,166,273**	$ 2,468,529
Interest bearing transaction accounts	**5,782,269**	5,077,509
Total transaction accounts	**8,948,542**	7,546,038
Time	**6,321,283**	4,317,657
Total deposits	**15,269,825**	11,863,695

Short-term borrowings	**1,659,174**	3,258,935
Subordinated debt	**266,091**	273,598
Junior subordinated debt	**307,477**	302,412
Other long-term debt	**1,612,904**	1,684,947
Accrued expenses and other liabilities	**98,454**	114,732
Total liabilities	**19,213,925**	17,498,319
Contingencies and commitments (Notes C and I)		
Preferred stock, $2.50 par value; 50,000,000 shares authorized and none issued at September 30, 2005; none authorized at December 31, 2004		
Preference stock, $2.50 par value; 1,000,000 shares authorized and none issued at September 30, 2005 and December 31, 2004, respectively		
Common stock, $2.50 par value; 400,000,000 and 200,000,000 shares authorized, 155,550,888 and 133,823,776 shares issued and 154,190,961 and 133,823,776 outstanding at September 30, 2005 and December 31, 2004, respectively	**388,877**	334,559
Additional paid in capital	**758,909**	343,694
Retained earnings	**830,523**	729,715
Treasury stock, at cost (1,359,927 shares at September 30, 2005 and none at December 31, 2004)	**(31,510)**	
Unearned compensation	**(7,211)**	(449)
Accumulated other comprehensive loss, net of taxes	**(36,733)**	(9,228)
Total shareholders equity	**1,902,855**	1,398,291
Total	**$ 21,116,780**	$ 18,896,610

See Notes to the Unaudited Condensed Consolidated Financial Statements

2

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2005 (Restated)	2004 (Restated)	2005 (Restated)	2004 (Restated)
	(In thousands, except per share amounts)			
Interest Income:				
Interest and fees on loans	**$ 701,947**	$ 500,068	**$ 263,343**	$ 175,699
Interest and dividends on securities	**120,770**	112,506	**34,340**	39,406
Interest on federal funds sold and other short-term investments	**18,397**	1,297	**10,455**	806
Total interest income	**841,114**	613,871	**308,138**	215,911
Interest Expense:				
Interest on deposits	**183,020**	106,562	**76,968**	37,904
Interest on short-term borrowings	**60,803**	23,915	**22,359**	9,780
Interest on long-term debt	**74,632**	70,091	**23,545**	22,785
Total interest expense	**318,455**	200,568	**122,872**	70,469
Net Interest Income	**522,659**	413,303	**185,266**	145,442
Provision for loan losses	**20,946**	21,606	**6,007**	7,153
Net Interest Income After Provision for Loan Losses	**501,713**	391,697	**179,259**	138,289
Noninterest Income:				
Service charges on deposit accounts	**43,784**	44,247	**15,325**	15,033
Financial planning services	**10,621**	10,137	**3,600**	3,030
Electronic banking	**11,316**	9,149	**3,890**	3,157
Mortgage banking	**9,417**	6,525	**4,456**	2,162
Mortgage warehouse fees	**9,225**	914	**4,523**	289
Securities (losses) gains, net	**(4,642)**	7,417		367
Gain on sale of branches	**9,608**			
Bank-owned life insurance	**10,481**	6,842	**3,621**	2,335
Net cash settlement of swap derivatives	**8,812**	12,624	**2,514**	4,183
Change in fair value of swap derivatives	**(5,382)**	726	**(7,072)**	7,899
Other income	**28,434**	17,776	**8,469**	6,687
Total noninterest income	**131,674**	116,357	**39,326**	45,142
Noninterest Expense:				
Salaries and employee benefits	**196,097**	160,492	**70,204**	55,509
Occupancy expense of bank premises, net	**45,286**	38,215	**15,990**	13,513
Furniture and equipment expenses	**31,893**	28,600	**11,456**	9,858

Professional services	**15,176**	12,920	**5,487**	4,296
Amortization of intangible assets	**8,461**	4,438	**2,970**	1,925
Advertising	**8,513**	6,495	**3,591**	2,019
Communications	**7,541**	8,008	**2,601**	2,876
Merger related expenses	**3,822**	1,934	**613**	662
Net losses related to the early extinguishment of debt	**9,550**	6,183	**1,673**	
Other expenses	**56,435**	49,139	**19,379**	16,421
Total noninterest expense	**382,774**	316,424	**133,964**	107,079
Income before income taxes	**250,613**	191,630	**84,621**	76,352
Applicable income taxes	**83,618**	65,100	**28,145**	26,117
Net Income	**$ 166,995**	$ 126,530	**$ 56,476**	$ 50,235
Earnings per share:				
Basic	**$ 1.13**	$ 0.97	**$ 0.37**	$ 0.38
Diluted	**$ 1.12**	$ 0.97	**$ 0.36**	$ 0.38
Average number of shares outstanding:				
Basic	**147,450**	130,267	**153,721**	133,568
Diluted	**149,171**	131,405	**155,510**	134,730
Dividends declared per share	**$ 0.4575**	$ 0.4350	**$ 0.1525**	$ 0.1450

See Notes to the Unaudited Condensed Consolidated Financial Statements

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2005 (Restated)	2004 (Restated)	2005 (Restated)	2004 (Restated)
	(In thousands)			
Net income	**$ 166,995**	$ 126,530	**$ 56,476**	$ 50,235
Other comprehensive income, net of taxes:				
Unrealized (losses)/gains on securities available for sale arising during the period, net of income taxes of $12,587 and $10,205 in 2005 and $(7,791) and $(33,488) in 2004, respectively	**(23,375)**	14,739	**(19,004)**	62,184
Less: reclassification adjustment for net losses/(gains) on securities available for sale included in net income, net of income taxes of $(1,625) and $0 in 2005 and $2,522 and $125 in 2004, respectively	**3,017**	(4,895)		(242)
Unrealized losses on cash flow hedging instruments, net of income taxes of $3,867 and $3,727 in 2005 and $0 in 2004, respectively	**(7,147)**		**(6,888)**	
Comprehensive income	**$ 139,490**	$ 136,374	**$ 30,584**	$ 112,177

See Notes to the Unaudited Condensed Consolidated Financial Statements

[Table of Contents](#)

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

	Common Stock						Accumulated	Total
				Additional	Retained		Other	Shareholders
			Treasury	Paid In	Earnings	Unearned	Comprehensive	Equity
	Shares	Amount	Stock	Capital	(Restated)	Compensation	Loss	(Restated)
	(In thousands, except 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	47,001	118		696				814
Stock option plans	558,736	1,397		4,722				6,119
Stock bonus plan, net of cancellations	374,480	936		6,856		(7,792)		
Employee Stock Purchase Plan	24,429	61		472				533
Tax benefit from exercise of nonqualified stock-based awards				596				596
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		243,298				274,104
Purchase of common stock	(1,359,927)		(31,510)					(31,510)
Amortization of unearned compensation						1,030		1,030
Net income					166,995			166,995
Cash dividends ($0.4575 per share)					(66,187)			(66,187)
Change in unrealized loss on securities available for sale, net of taxes							(20,358)	(20,358)
Change in unrealized loss on derivative instruments, net of taxes							(7,147)	(7,147)
Balance, September 30, 2005	154,190,961	$ 388,877	$ (31,510)	$ 758,909	$ 830,523	$ (7,211)	$ (36,733)	$ 1,902,855

See Notes to the Unaudited Condensed Consolidated Financial Statements

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

	Nine Months Ended September 30,	
	2005 (Restated)	2004 (Restated)
	(In thousands)	
Net cash flows from operating activities	**$ 21,702**	$ 34,296
Cash flows from investing activities:		
Proceeds from maturities and calls of securities available for sale	**319,820**	311,859
Proceeds from sales of securities available for sale	**1,362,696**	1,143,993
Purchase of securities available for sale	**(681,434)**	(1,781,531)
Proceeds from maturities of investment securities	**3,088**	3,661
Increase in securities purchased under agreements to resell	**(385,917)**	(122,416)
Net increase in loans	**(1,045,529)**	(485,711)
Proceeds from sales of interests in mortgage warehouse loans	**760,620**	
Acquisitions, net of cash acquired	**(114,873)**	31,312
Net cash paid from the sale of branches	**(110,202)**	
Capital expenditures	**(29,027)**	(34,191)
Proceeds from sales of other real estate owned	**9,425**	19,595
Proceeds from sales of premises and equipment	**2,391**	1,808
Proceeds from sale of other assets	**5,409**	3,110
Net cash paid for equity investments	**(9,813)**	
Net cash flows from investing activities	**86,654**	(908,511)
Cash flows from financing activities:		
Net increase in demand, savings, and time deposits	**2,075,888**	913,048
Net (decrease) increase in federal funds purchased, repurchase agreements and other short-term borrowings	**(1,749,062)**	350,754
Proceeds from issuance of long-term debt	**751,502**	500,000
Repayment of long-term debt	**(1,122,562)**	(696,909)
Purchase of common stock	**(31,510)**	
Proceeds from issuance of common stock	**6,652**	4,980
Proceeds from settlement of forward equity sales agreement	**179,575**	
Dividends paid ($0.4575 and $0.4350 per share for 2005 and 2004, respectively)	**(66,187)**	(56,232)
Net cash flows from financing activities	**44,296**	1,015,641
Net increase in cash and cash equivalents	**152,652**	141,426
Cash and cash equivalents at beginning of year	**382,877**	345,717
Cash and cash equivalents at September 30	**$ 535,529**	$ 487,143
Supplemental disclosure of cash flow information:		

Cash paid during the period for:		
Interest	**$ 310,468**	$ 204,915
Income taxes	**74,000**	58,000
Non-cash investing and financing activities:		
Transfer of loans to other real estate	**$ 7,256**	$ 11,532
Assets (non-cash) acquired in business combinations	**2,335,163**	724,216
Liabilities assumed in business combinations	**1,946,153**	647,983

See Notes to the Unaudited Condensed Consolidated Financial Statements

6

Table of Contents

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:

	September 30, 2005		December 31, 2004	
	As Previously Reported	As Restated	As Previously Reported(1)	As Restated
	(In thousands)			
Accrued interest and other assets	$ 270,251	$ 272,104	$ 261,743	$ 261,203
Total assets	21,114,927	21,116,780	18,897,150	18,896,610
Time deposits	6,317,252	6,321,283	4,315,645	4,317,657
Total deposits	15,265,794	15,269,825	11,861,683	11,863,695
Junior subordinated debt	314,322	307,477	313,213	302,412
Accrued expenses and other liabilities	94,218	98,454	111,159	114,732
Total liabilities	19,212,503	19,213,925	17,503,535	17,498,319
Retained earnings	830,092	830,523	725,039	729,715
Total shareholders equity	$ 1,902,424	$ 1,902,855	$ 1,393,615	$ 1,398,291

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

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Consolidated Statements of Income (by quarter):

	Nine Months Ended September 30,				Three Months Ended September 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	$ 532,080	$ 522,659	$ 426,577	$ 413,303	$ 188,015	$ 185,266	$ 149,835	$ 145,442
Provision for loan losses	20,946	20,946	21,606	21,606	6,007	6,007	7,153	7,153
Noninterest income:								
Net cash settlement of interest rate swap derivatives		8,812		12,624		2,514		4,183
Change in fair value of interest rate swap derivatives		(5,382)		726		(7,072)		7,899
Other noninterest income	128,244	128,244	104,007	103,007	43,884	43,884	33,060	33,060
Total noninterest income	128,244	131,674	104,007	116,357	43,884	39,326	33,060	45,142
Noninterest expense	382,111	382,774	314,855	316,424	133,749	133,964	106,541	107,079
Income before income taxes	257,267	250,613	194,123	191,630	92,143	84,621	69,201	76,352
Applicable income taxes	86,027	83,618	66,002	65,100	30,868	28,145	23,528	26,117
Net income	$ 171,240	$ 166,995	$ 128,121	$ 126,530	$ 61,275	$ 56,476	$ 45,673	$ 50,235
Diluted earnings per share:								
Net income	$ 1.15	$ 1.12	$ 0.98	$ 0.97	$ 0.39	$ 0.36	$ 0.34	$ 0.38
Impact of accounting correction		$ (0.03)		$		$ (0.03)		$ 0.04
Impact of other non-significant adjustments		$		$ (0.01)		$		$
Average diluted shares outstanding	149,171	149,171	131,405	131,405	155,510	155,510	134,730	134,730

Consolidated Statements of Changes in Shareholders Equity:

	For the Nine Months Ended September 30, 2005	
	As Previously Reported	As Restated

	(In thousands)	
Balance, beginning of period	$ 1,393,615	$ 1,398,291
Increase attributable to net income	171,240	166,995
Balance, end of period	$ 1,902,424	$ 1,902,855

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

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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.

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 September 30, 2005 and December 31, 2004 and the results of operations and cash flows for the interim periods ended September 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 through 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.

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 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 September 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

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. 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 issued in the fourth quarter and will likely be effective for other-than-temporary impairment analysis conducted in periods beginning after December 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 FSP FAS 115-1 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.

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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 should 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 nine months ended September 30, 2005, BancGroup made the following acquisitions to enhance its geographic position and expand its banking operations within Florida.

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

Total consideration for the transaction was $233.4 million, consisting of 2,903,402 shares of BancGroup common stock valued at $58.7 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 $239.9 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, 2005, 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 $247.3 million, consisting of 9,419,064 shares of BancGroup common stock valued at $212.7 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 $249.9 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, 2005, 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 nine and three months ended September 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:

	Nine Months Ended	Three Months Ended
		September 30,

	September 30,			
	2005	2004	2005	2004
	(Restated)	(Restated)	(Restated)	(Restated)
	(In thousands, except per share amounts)			
Net Interest Income	**$ 541,395**	$ 460,983	**$ 185,266**	$ 162,131
Net Income	**172,896**	144,625	**56,476**	56,009
Basic EPS	**1.13**	1.01	**0.37**	0.38
Diluted EPS	**1.12**	1.00	**0.36**	0.38

13

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

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:

	Nine Months Ended September 30,			Three Months Ended September 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	**$ 166,995**	**147,450**	**$ 1.13**	**$ 56,476**	**153,721**	**$ 0.37**
Effect of dilutive instruments:						
Options and nonvested stock bonus awards		**1,721**			**1,789**	
Diluted EPS	**$ 166,995**	**149,171**	**$ 1.12**	**$ 56,476**	**155,510**	**$ 0.36**
2004						
Basic EPS	$ 126,530	130,267	$ 0.97	$ 50,235	133,568	$ 0.38
Effect of dilutive instruments:						
Options		1,138			1,162	
Diluted EPS	$ 126,530	131,405	$ 0.97	$ 50,235	134,730	$ 0.38

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 63,875 for both the three months and nine months ended September 30, 2005 and 10,000 and 58,000 for the three and nine months ended September 30, 2004, respectively.

Note G: Segment Information

The Company has six operating segments. Each regional bank segment consists of commercial lending and full service branches in its geographic region. 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 and services loans sold to third-parties. Corporate/Treasury/Other includes balance sheet management activities that include the investment securities portfolio, wholesale funding and derivative hedging strategies, the parent company s activities, intercompany eliminations, certain support activities not currently allocated to the aforementioned segments, 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 funding costs to assets and earning credits to liabilities as well as an internal capital allocation methodology with offsets in Corporate/Treasury/Other. The provision for loan losses included in each segment is based on management s allocation 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 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.

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Florida Regional Bank	Florida Mortgage Warehouse	Alabama Regional Bank	Georgia Regional Bank	Nevada Regional Bank	Texas Regional Bank	Corporate/ Treasury/ Other	Consolidated BancGroup
				(Dollars in thousands, restated)				
Nine Months Ended September 30, 2005								
Net interest income before intersegment income / expense	**$ 241,972**	**$ 77,964**	**$ 91,305**	**$ 50,023**	**$ 36,182**	**$ 47,262**	**$ (22,049)**	**$ 522,659**
Intersegment interest income /expense	**(5,008)**	**(31,231)**	**22,872**	**(12,128)**	**(3,934)**	**(13,235)**	**42,664**	
Net interest income	**236,964**	**46,733**	**114,177**	**37,895**	**32,248**	**34,027**	**20,615**	**522,659**
Provision for loan losses	**7,699**	**436**	**3,201**	**450**	**1,282**	**1,741**	**6,137**	**20,946**
Noninterest income	**38,415**	**10,633**	**43,205**	**6,443**	**4,392**	**3,946**	**24,640**	**131,674**
Noninterest expense	**155,777**	**5,107**	**80,604**	**21,046**	**17,930**	**21,062**	**81,248**	**382,774**
Income/(loss) before income taxes	**$ 111,903**	**$ 51,823**	**$ 73,577**	**$ 22,842**	**$ 17,428**	**$ 15,170**	**$ (42,130)**	**250,613**
Income taxes								**83,618**
Net Income								**$ 166,995**
Balances at September 30, 2005:								
Total Assets	**$ 9,487,158**	**$ 2,189,969**	**$ 3,919,235**	**$ 1,310,060**	**$ 877,071**	**$ 1,183,415**	**$ 2,149,872**	**$ 21,116,780**
Total Deposits	**$ 8,034,988**	**$ 628,168**	**$ 3,797,728**	**$ 803,144**	**$ 637,071**	**$ 532,875**	**$ 835,851**	**$ 15,269,825**
Nine Months Ended September 30, 2004								
Net interest income before intersegment income / expense	$ 165,533	$ 46,784	$ 87,777	$ 39,319	$ 30,182	$ 33,097	$ 10,611	$ 413,303
Intersegment interest income / expense	11,341	(8,640)	28,146	(1,726)	(2,284)	(4,911)	(21,926)	
Net interest income	176,874	38,144	115,923	37,593	27,898	28,186	(11,315)	413,303
Provision for loan losses	9,008	171	5,616	815	1,128	1,360	3,508	21,606
Noninterest income	29,534	2,182	35,984	6,070	3,993	3,977	34,617	116,357
Noninterest expense	112,131	4,171	85,656	20,503	16,751	19,293	57,919	316,424
Income/(loss) before income taxes	$ 85,269	$ 35,984	$ 60,635	$ 22,345	$ 14,012	$ 11,510	$ (38,125)	191,630
Income taxes								65,100
Net Income								$ 126,530
Balances at September 30, 2004:								
Total Assets	$ 6,513,690	$ 1,716,137	$ 3,856,464	$ 1,298,789	$ 736,196	$ 973,025	$ 3,092,589	$ 18,186,890
Total Deposits	$ 5,410,008	$ 316,978	$ 3,655,801	$ 768,477	$ 479,258	$ 488,851	$ 260,079	$ 11,379,452

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	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 September 30, 2005								
Net interest income before intersegment income / expense	**$ 86,678**	**$ 33,987**	**$ 31,694**	**$ 17,392**	**$ 13,022**	**$ 17,458**	**$ (14,965)**	**$ 185,266**
Intersegment interest income / expense	**(3,952)**	**(16,498)**	**6,044**	**(4,849)**	**(1,380)**	**(5,407)**	**26,042**	
Net interest income	**82,726**	**17,489**	**37,738**	**12,543**	**11,642**	**12,051**	**11,077**	**185,266**
Provision for loan losses	**1,802**	**22**	**532**	**150**	**430**	**588**	**2,483**	**6,007**
Noninterest income	**14,382**	**5,034**	**11,347**	**2,306**	**1,619**	**1,541**	**3,097**	**39,326**
Noninterest expense	**57,168**	**1,811**	**26,968**	**7,200**	**6,219**	**7,558**	**27,040**	**133,964**
Income/(loss) before income taxes	**$ 38,138**	**$ 20,690**	**$ 21,585**	**$ 7,499**	**$ 6,612**	**$ 5,446**	**$ (15,349)**	**84,621**
Income taxes								**28,145**
Net Income								**$ 56,476**
Balances at September 30, 2005:								
Total Assets	**$ 9,487,158**	**$ 2,189,969**	**$ 3,919,235**	**$ 1,310,060**	**$ 877,071**	**$ 1,183,415**	**$ 2,149,872**	**$ 21,116,780**
Total Deposits	**$ 8,034,988**	**$ 628,168**	**$ 3,797,728**	**$ 803,144**	**$ 637,071**	**$ 532,875**	**$ 835,851**	**$ 15,269,825**
Three Months Ended September 30, 2004								
Net interest income before intersegment income / expense	$ 60,202	$ 15,997	$ 29,616	$ 13,446	$ 10,292	$ 11,673	$ 4,216	$ 145,442
Intersegment income / expense	3,980	(3,577)	9,092	(737)	(611)	(1,940)	(6,207)	
Net interest income	64,182	12,420	38,708	12,709	9,681	9,733	(1,991)	145,442
Provision for loan losses	2,469	25	1,414	140	376	420	2,309	7,153
Noninterest income	10,081	690	11,768	1,817	1,414	1,067	18,305	45,142
Noninterest expense	40,256	1,324	28,259	6,917	5,657	6,316	18,350	107,079
Income/(loss) before income taxes	$ 31,538	$ 11,761	$ 20,803	$ 7,469	$ 5,062	$ 4,064	$ (4,345)	76,352
Income taxes								26,117
Net Income								$ 50,235
Balances at September 30, 2004:								
Total Assets	$ 6,513,690	$ 1,716,137	$ 3,856,464	$ 1,298,789	$ 736,196	$ 973,025	$ 3,092,589	$ 18,186,890
Total Deposits	$ 5,410,008	$ 316,978	$ 3,655,801	$ 768,477	$ 479,258	$ 488,851	$ 260,079	$ 11,379,452

Note H: Long-Term Borrowings

In the third quarter of 2005, Colonial prepaid $32 million in long-term borrowings bearing interest at a weighted average rate of 5.44% and unwound the related interest rate swaps, with notional values totaling $30 million. These prepayments resulted in early extinguishment losses of $1.7 million. In the nine months ended September 30, 2005, Colonial prepaid $837 million in long-term borrowings bearing interest at a weighted average rate of 4.23% and unwound the related interest rate swaps, with notional values totaling $90 million. These prepayments resulted in early extinguishment losses of $9.6 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

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 September 30, 2005 was not material to the Company s consolidated balance sheet. At September 30, 2005, Colonial Bank had standby letters of credit outstanding with maturities ranging from less than one year up to five years. The maximum potential amount of future undiscounted payments the Company could be required to make under outstanding standby letters of credit was $261 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.

Interest Rate Swaps

At September 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 September 30, 2005 are shown below:

	September 30, 2005 (Restated)	
	Notional Amount	Fair Value
Fair Value Hedges		
Interest rate swaps hedging long-term FHLB advances	$ 485,000	$ 1,472
Interest rate swaps hedging subordinated debt	250,000	8,366
Interest rate swaps hedging loans	5,169	104
	$ 740,169	$ 9,942
Cash Flow Hedges		
Interest rate swaps hedging loans	$ 750,000	$ (11,000)

	$ 750,000	$ (11,000)
Nonhedging Derivatives		
Interest rate swaps on junior subordinated debt	$ 270,000	$ 6,845
Interest rate swaps on brokered CDs	492,117	(4,031)
	$ 762,117	$ 2,814

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 nine months ended September 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

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 nine month periods ended September 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 September 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.

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 $42.3 million at September 30, 2005. The net unrealized gains/losses of the origination and sales commitments were $45,000 at September 30, 2005.

BancGroup has 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 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 September 30, 2005 were $751.6 million and $50.4 million, respectively. The fair value of the forward sales commitments on the short-term participations was a gain of $3.3 million at September 30, 2005, which was offset by a loss of $3.3 million on the short-term participations. The fair value of the sales commitments on retail mortgage loans was a loss of $47,000 at September 30, 2005.

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 September 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

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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-based compensation plans under the provisions in Opinion No. 25 and has calculated the fair value of outstanding awards 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-based awards have characteristics significantly different from those of traded options, and because 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-based compensation.

The majority of the Company s stock-based awards 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 (restated) follows:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
	(In thousands, except per share data)			
Net income:				
As reported	**$ 166,995**	$ 126,530	**$ 56,476**	$ 50,235
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	**(1,234)**	(1,095)	**(390)**	(316)
Pro forma net income	**$ 165,761**	$ 125,435	**$ 56,086**	$ 49,919
Basic earnings per share:				
As reported	**$ 1.13**	$ 0.97	**$ 0.37**	$ 0.38
Pro forma	**$ 1.12**	$ 0.96	**$ 0.36**	$ 0.37
Diluted earnings per share				
As reported	**$ 1.12**	$ 0.97	**$ 0.36**	$ 0.38
Pro forma	**$ 1.11**	$ 0.95	**$ 0.36**	$ 0.37

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 September 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.

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Employee pension benefit plan status at September 30:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
	(In thousands)			
Components of net periodic benefit cost				
Service cost	**$ 5,247**	$ 4,230	**$ 1,791**	$ 1,295
Interest cost	**3,304**	2,822	**1,130**	867
Expected return on plan assets	**(3,680)**	(3,031)	**(1,230)**	(1,010)
Amortization of transition asset		(3)		(1)
Amortization of prior service cost	**7**	6	**2**	2
Amortization of actuarial loss	**810**	586	**262**	183
Net periodic benefit cost	**$ 5,688**	$ 4,610	**$ 1,955**	$ 1,336

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 September 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	$ 17,700	$ (354)	$ 168,518	$ (6,578)	$ 186,218	$ (6,932)
Obligations of state and political subdivisions	3,065	(18)			3,065	(18)
Federal Agency mortgage-backed securities	73,058	(868)	182,090	(7,954)	255,148	(8,822)
Federal Agency collateralized mortgage obligations	590,472	(7,261)	85,836	(2,602)	676,308	(9,863)
Private collateralized mortgage obligations	1,205,043	(16,119)	284,534	(7,702)	1,489,577	(23,821)
Total temporarily impaired securities	$ 1,889,338	$ (24,620)	$ 720,978	$ (24,836)	$ 2,610,316	$ (49,456)

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 and AAA-rated private CMO s. As of September 30, 2005, there were 166 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.

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 third quarter of 2005 were $500 million, attributable to $187 million of mortgage warehouse loans and $313 million of loans held for sale. Total cash proceeds from sales during the nine months ended September 30, 2005 were $1.5 billion, attributable to $761 million of mortgage warehouse loans and $739 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 third quarter of 2005, the Company recognized approximately $3.9 million of noninterest income related to these transactions, of which $2.6 million was servicing income, and received $3.9 million in cash. For the nine months ended September 30, 2005, the Company recognized approximately $7.8 million of noninterest income related to these transactions, of which $4.9 million was servicing income, and received $6.4 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 September 30, 2005		Three Months Ended September 30, 2005		Nine Months Ended September 30, 2005	
	Principal Balance	Loans past due 30 days or more	Average Balance	Net Credit Losses	Average Balance	Net Credit Losses
			(In thousands)			
Loans						
Assets managed	$ 15,484,269	$ 86,072	$ 15,224,212	$ 3,733	$ 14,294,180	$ 16,046
less: interests sold	760,620		553,173		346,497	
Assets held in portfolio	$ 14,723,649	$ 86,072	$ 14,671,039	$ 3,733	$ 13,947,683	$ 16,046
Loans held for sale						
Assets managed	$ 1,539,350	$	$ 1,469,419	$	$ 1,083,175	$
less: interests sold	739,380		457,697		295,446	
Assets held in portfolio	$ 799,970	$	$ 1,011,722	$	$ 787,729	$

Note O: Variable Interest Entities

As discussed in Note N, the Company sells certain financial assets to a wholly-owned SPE which then sells interests in those assets to third-party commercial paper conduits. While the Company has a variable interest in these conduits, it is not considered to be the primary beneficiary, as the Company does not retain the majority of the expected losses or returns. The Company s maximum exposure to credit loss at September 30, 2005 as a result of its involvement with these non-consolidated conduits is $68 million, which is the amount that would be paid by the Company in the event of credit-related defaults.

During the third quarter of 2005, the Company entered into two joint ventures which invest in real estate developments located in the Atlanta metropolitan area of Georgia. Both entities are considered variable interest

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

entities under the guidance of FIN 46, *Consolidation of Variable Interest Entities*, however based on the nature of the Company s involvement neither entity is required to be consolidated. As of September 30, 2005 the entities had total assets of approximately $22 million, and the Company s maximum exposure to loss was approximately $9 million.

There has been no material change in the Company s other variable interest entities. Refer to the Company s 2004 Annual Report on Form 10-K/A for additional information.

Note P: Capital Stock

On June 24, 2005, the Company entered into an accelerated share repurchase agreement to buy shares of the Company s common stock at an initial cost of approximately $30 million. The treasury stock purchased on July 7, 2005 was approximately 1.4 million shares, at a price of $22.09 per share. The agreement was subject to a future contingent purchase price adjustment based on the volume weighted average price of the Company s stock over the averaging period, which began on July 1, 2005 and ended on September 26, 2005. Pursuant to EITF 99-7, *Accounting for an Accelerated Share Repurchase Program*, the transaction was accounted for as two separate transactions: (a) as shares of common stock acquired in a treasury stock transaction recorded on the acquisition date and (b) as a forward contract indexed to the Company s common stock. The forward contract was accounted for as an equity instrument in accordance with EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock.* Subsequent to completion of the averaging period, a settlement amount was calculated based upon the difference between the volume weighted average price of the Company s shares during the averaging period and the initial purchase price. As the volume weighted average price during the averaging period exceeded the initial purchase price, the Company was required to pay a purchase price adjustment and had the option to settle in cash or in shares of its common stock. The Company paid the final settlement of approximately $1.5 million on September 30, 2005, which was recorded as an additional cost to purchase treasury stock and effectively increased the price paid per share to $23.17.

On April 20, 2005, the Company s shareholders approved an amendment to BancGroup s Restated Certificate of Incorporation to increase the number of authorized shares of the Company s common stock from 200,000,000 to 400,000,000. The increase in the number of authorized shares makes common shares available for possible future financing, acquisition transactions, stock dividends or splits, employee benefits plans or other uses. The shareholders also approved an amendment to authorize the issuance of 50,000,000 preferred shares with a par value of $2.50. The amendment permits the Board of Directors to issue preferred stock in one or more series and to fix the terms, rates, limitations, relative rights and preferences of each series. These preferred shares are available for possible future financing, acquisition transactions, capital management and other general purposes. The Company may find that it can raise needed cash with less dilution to the common shareholders by issuing preferred stock. These amendments became effective on August 17, 2005 and did not change the 1,000,000 preference shares with a par value of $2.50 that had already been authorized. The potential rights and privileges of the preference shareholders, including voting rights, may be determined by the Board of Directors at its discretion.

Table of Contents

Item 2. Management s Discussion And Analysis Of Financial Condition And Results Of Operations

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.

For additional information on the restatement see Note A, Restatement, in the Notes to the Unaudited Condensed Consolidated Financial Statements.

Forward-Looking Statements

This discussion and analysis contains statements that are considered forward-looking statements within the meaning of the federal securities laws. See page 1 for additional information regarding forward-looking statements.

Critical Accounting Policies

Accounting policies considered relatively more critical due to either the subjectivity involved in the estimate and/or the potential impact that changes in the estimates can have on the reported financial results include the accounting for the allowance for loan losses and the assessment of goodwill impairment. Information concerning these policies is included in the Critical Accounting Policies section of Management s Discussion and Analysis in BancGroup s 2004 Annual Report on Form 10-K/A. There were no significant changes in these accounting policies during the first nine months of 2005.

Overview

The Colonial BancGroup, Inc. is a $21 billion financial services company providing diversified services including retail and commercial banking, wealth management services, mortgage banking and insurance through its branch network, private banking offices or officers, ATMs and the internet, as well as other distribution channels to consumers and businesses. At September 30, 2005, BancGroup s branch network consisted of 310 offices in Florida, Alabama, Georgia, Nevada, and Texas.

Table of Contents

The following is a summary of approximate assets, deposits and branches by state as of September 30, 2005.

	% of total Assets	% of total Deposits	Branches
Florida	55%	57%	158
Alabama	19%	25%	106
Georgia	6%	5%	21
Texas	6%	4%	12
Nevada	4%	4%	13
Corporate/Treasury/Other	10%	5%	0
Total	100%	100%	310

BancGroup had earnings for the quarter ended September 30, 2005 of $0.36 per diluted share, a 5% decrease from the $0.38 recorded for the same quarter of the previous year. BancGroup had net income for the quarter of $56.5 million, a 12% increase over the $50.2 million earned in the third quarter of 2004. For the first nine months of 2005, the Company reported $1.12 in net income per diluted share, a 15% increase over the $0.97 reported in the same period in 2004. Net income for the first nine months of 2005 was $167.0 million, a 32% increase over the $126.5 million reported for the same period in 2004.

Financial Condition

Changes in selected components of the Company s balance sheet (restated) from December 31, 2004 to September 30, 2005 are as follows:

	December 31, 2004 to September 30, 2005 Increase (Decrease)	
	Amount	%
	(Dollars in thousands)	
Securities available for sale and investment securities	$ (683,556)	(18.7)%
Loans held for sale	121,474	17.9%
Total loans, net:		
Mortgage warehouse loans	(587,956)	(52.7)%
All other loans, net of unearned income	2,453,794	20.9%
Total loans, net of unearned income	1,865,838	14.5%
Total assets	2,220,170	11.8%
Non-time deposits	1,402,504	18.6%
Total deposits	3,406,130	28.7%
Short-term borrowings	(1,599,761)	(49.1)%
Long-term debt	(74,485)	(3.3)%

Shareholders equity	504,564	36.1%

Securities

Securities available for sale and investment securities totaled approximately $3.0 billion or 14.1% of total assets at September 30, 2005 compared to $3.7 billion or 19.3% of total assets at December 31, 2004. At September 30, 2005, the Company s securities had an effective duration of 3.5 years. For the nine months ended September 30, 2004, securities of $785.6 million were sold at a net realized loss of $4.6 million. Unrealized net losses on securities available for sale changed from a pretax loss of $14.2 million at December 31, 2004 to a pretax loss of $45.5 million at September 30, 2005 due to increases in market rates.

Table of Contents

Loans and Loans Held for Sale

Total loans, excluding mortgage warehouse lending, increased by $2.5 billion from the end of 2004. Excluding the impact of acquisitions, the sale of branches and mortgage warehouse lending, total loans grew $884 million or 10% annualized from the end of 2004. This growth was spread geographically with 71% from Florida, 14% from Texas, 9% from Nevada and 6% from Alabama. Mortgage warehouse loans ended the third quarter of 2005 at $527 million compared to $1.1 billion at the end of 2004. This decrease was the result of the sale of loans to third-party commercial paper conduits of $761 million offset partially by internal growth of $173 million.

Loans held for sale consist of three components: mortgage warehouse, retail mortgages, and non-mortgage loans held for sale. Total loans held for sale increased $121 million from December 31, 2004, primarily due to internal growth of $831 million in the mortgage warehouse component offset by the sale of $739 million to third-party commercial paper conduits. In addition, the retail mortgage component grew $29 million for the same period. The purpose of the mortgage warehouse component of loans held for sale is to accommodate the funding needs of mortgage company customers, therefore these balances, as well as the retail mortgage balances, fluctuate as demand for residential mortgages change.

The following table reflects the Company s loan mix.

Gross Loans By Category

	September 30, 2005	December 31, 2004
	(In thousands)	
Commercial, financial, and agricultural	**$ 1,127,343**	$ 1,007,686
Real estate-commercial	**4,541,836**	4,265,700
Real estate-construction	**5,152,012**	3,925,972
Residential-real estate	**3,032,805**	2,223,889
Consumer	**234,137**	187,315
Mortgage warehouse	**526,967**	1,114,923
Other	**108,549**	132,326
Total loans, net of unearned income	**$ 14,723,649**	$ 12,857,811

The current distribution of commercial real estate and construction loans remains diverse in location, size, and collateral type. This diversification, in addition to our emphasis on quality underwriting, serves to reduce the risk of losses. The following charts reflect the geographic diversity and property type distribution of construction and commercial real estate loans at September 30, 2005.

	Construction	% of Total	Commercial Real Estate	% of Total

	(In thousands)			
Average Loan Size	$ 608		$ 612	
Geographic Diversity				
Florida	$ 2,904,328	56.4%	$ 2,560,539	56.4%
Alabama	540,911	10.5%	730,377	16.1%
Georgia	497,982	9.7%	441,030	9.7%
Nevada	430,092	8.3%	214,527	4.7%
Texas	590,768	11.5%	248,282	5.5%
Other	187,931	3.6%	347,081	7.6%
Total	$ 5,152,012	100.0%	$ 4,541,836	100.0%

Table of Contents

Property Distribution	% of Property Type Distribution to Construction Portfolio	% of Property Type Distribution to Total Portfolio		% of Property Type Distribution to Commercial Real Estate	% of Property Type Distribution to Total Portfolio
Residential Development and Lots	25.3%	8.9%	Retail	26.3%	8.1%
Land Only	23.3%	8.1%	Office	18.5%	5.7%
Residential Home Construction	17.6%	6.2%	Multi-Family	11.6%	3.6%
Condominium	9.4%	3.3%	Warehouse	11.3%	3.5%
Retail	7.0%	2.5%	Other	11.1%	3.4%
Commercial Development	6.5%	2.3%	Lodging	6.8%	2.1%
Other	5.6%	1.9%	Healthcare	6.5%	2.0%
Office	3.2%	1.1%	Church or School	4.2%	1.3%
Multi-Family	2.1%	0.7%	Recreation	2.1%	0.6%
			Industrial	1.6%	0.5%
Total Construction	100.0%	35.0%	**Total Commercial Real Estate**	100.0%	30.8%

Selected Characteristics of the 75 Largest Construction and Commercial Real Estate Loans

	Construction	Commercial Real Estate
75 Largest Loans Total (in thousands)	$ 1,214,963	$ 751,241
% of 75 largest loans to category total	23.6%	16.5%
Average Loan to Value Ratio (75 largest loans)	67.4%	68.2%
Average Debt Coverage Ratio (75 largest loans)	N/A	1.46x

Commercial real estate and construction loans had combined growth, excluding acquisitions, of $655 million, or 8.0%, from December 31, 2004 to September 30, 2005. In the CRE portfolio, 24.9% of the amounts outstanding are associated with owner-occupied real estate. Geographically, the Florida locations continue to contribute most of the growth in these particular portfolios. The acquisition of Union in February 2005 contributed an additional $478 million to these portfolios and the acquisition of FFLC in May 2005 contributed an additional $369 million. Colonial continues to focus its commercial real estate and construction growth efforts on high quality properties owned and/or developed by experienced customers with whom we have established relationships. Substantially all construction and commercial real estate loans have personal guarantees of the principals involved.

Residential real estate loans represent approximately 21% and 17% of total loans at September 30, 2005 and December 31, 2004, respectively. These loans are primarily adjustable rate first and second mortgages on single-family, owner-occupied properties.

BancGroup s mortgage warehouse lending division provides lines of credit collateralized by residential mortgage loans to mortgage origination companies. Mortgage warehouse loans outstanding at September 30, 2005 and December 31, 2004 were $527 million and $1.1 billion, respectively, with unfunded commitments of $505 million and $771 million at September 30, 2005 and December 31, 2004, respectively.

The Company has 40 credits with commitments (funded and unfunded) of $807 million that fall within the bank regulatory definition of a Shared National Credit (generally defined as a total loan commitment in excess of $20 million that is shared by three or more lenders). The largest outstanding amount the Company has to any single borrower is $78 million (which is a mortgage warehouse lending credit), with the smallest amount being approximately $9,000. At September 30, 2005, $511 million of these commitments were funded.

Table of Contents

Although by definition these commitments are considered Shared National Credits, BancGroup s loan officers have established long-term relationships with most of these borrowers. These commitments are comprised of the following:

65% - mortgage warehouse lines to 15 large institutions,

33% - 24 commercial real estate credit facilities to companies with headquarters, or principals, located within Colonial s existing markets, and

2% - one operating facility (unfunded) to a large national insurance company.

Management believes that these are sound participations involving credits that are consistent with Colonial Bank s lending philosophy and meet its conservative underwriting guidelines.

Summary Of Loan Loss Experience

	Nine Months Ended		Three Months Ended	
	September 30, 2005	**September 30, 2004**	**September 30, 2005**	**September 30, 2004**
	(In thousands)			
Allowance for loan losses beginning of period	**$ 148,802**	$ 138,549	**$ 166,050**	$ 147,000
Charge-offs:				
Commercial, financial, and agricultural	**7,039**	9,524	**1,017**	3,490
Real estate commercial	**8,341**	6,140	**2,688**	