Form

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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

171,240 171,240

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	$830,092	$(7,211)	$(36,733)	$1,902,424

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	**2004**
	(In thousands)	
Net cash flows from operating activities	**$ 22,724**	$ 32,985
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
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	**472,571**	(786,095)
Cash flows from financing activities:		
Net increase in demand, savings, and time deposits	**2,074,866**	914,359
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 $0.4350 per share for 2005 and 2004, respectively)	**(66,187)**	(56,232)
Net cash flows from financing activities	**43,274**	1,016,952
Net increase in cash and cash equivalents	**538,569**	263,842
Cash and cash equivalents at beginning of year	**604,368**	345,717
Cash and cash equivalents at September 30	**$ 1,142,937**	$ 609,559
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	**$ 301,047**	$ 191,641
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

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note A: 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. 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.

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.

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 I 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 B: 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 C: 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

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 D, 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 L 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 J.

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 D: 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
	(In thousands, except per share amounts)			
Net Interest Income	**$ 550,816**	$ 474,257	**$ 188,015**	$ 166,524
Net Income	**177,141**	146,216	**61,275**	51,447
Basic EPS	**1.16**	1.02	**0.40**	0.35
Diluted EPS	**1.14**	1.01	**0.39**	0.35

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note E: 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	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
	(In thousands, except per share amounts)					
2005						
Basic EPS	**$ 171,240**	**147,450**	**$ 1.16**	**$ 61,275**	**153,721**	**$ 0.40**
Effect of dilutive instruments:						
Options and nonvested stock bonus awards		**1,721**			**1,789**	
Diluted EPS	**$ 171,240**	**149,171**	**$ 1.15**	**$ 61,275**	**155,510**	**$ 0.39**
2004						
Basic EPS	$ 128,121	130,267	$ 0.98	$ 45,673	133,568	$ 0.34
Effect of dilutive instruments:						
Options		1,138			1,162	
Diluted EPS	$ 128,121	131,405	$ 0.98	$ 45,673	134,730	$ 0.34

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 F: 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)				
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**	**$ (12,628)**	**$ 532,080**
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**	**30,036**	**532,080**
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**	**21,210**	**128,244**
Noninterest expense	**155,777**	**5,107**	**80,604**	**21,046**	**17,930**	**21,062**	**80,585**	**382,111**
Income/(loss) before income taxes	**$ 111,903**	**$ 51,823**	**$ 73,577**	**$ 22,842**	**$ 17,428**	**$ 15,170**	**$ (35,476)**	**257,267**
Income taxes								**86,027**
Net Income								**$ 171,240**
Balances at September 30, 2005:								
Total Assets	**$ 9,487,158**	**$ 2,189,969**	**$ 3,919,235**	**$ 1,310,060**	**$ 877,071**	**$ 1,183,415**	**$ 2,148,019**	**$ 21,114,927**
Total Deposits	**$ 8,034,988**	**$ 628,168**	**$ 3,797,728**	**$ 803,144**	**$ 637,071**	**$ 532,875**	**$ 831,820**	**$ 15,265,794**
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	$ 23,885	$ 426,577
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	1,959	426,577
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	22,267	104,007
Noninterest expense	112,131	4,171	85,656	20,503	16,751	19,293	56,350	314,855
Income/(loss) before income taxes	$ 85,269	$ 35,984	$ 60,635	$ 22,345	$ 14,012	$ 11,510	$ (35,632)	194,123
Income taxes								66,002
Net Income								$ 128,121
Balances at September 30, 2004:								
Total Assets	$ 6,513,690	$ 1,716,137	$ 3,856,464	$ 1,298,789	$ 736,196	$ 973,025	$ 3,096,998	$ 18,191,299
Total Deposits	$ 5,410,008	$ 316,978	$ 3,655,801	$ 768,477	$ 479,258	$ 488,851	$ 260,299	$ 11,379,672

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)							
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**	**$ (12,216)**	**$ 188,015**
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**	**13,826**	**188,015**
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**	**7,655**	**43,884**
Noninterest expense	**57,168**	**1,811**	**26,968**	**7,200**	**6,219**	**7,558**	**26,825**	**133,749**
Income/(loss) before income taxes	**$ 38,138**	**$ 20,690**	**$ 21,585**	**$ 7,499**	**$ 6,612**	**$ 5,446**	**$ (7,827)**	**92,143**
Income taxes								**30,868**
Net Income								**$ 61,275**
Balances at September 30, 2005:								
Total Assets	**$ 9,487,158**	**$ 2,189,969**	**$ 3,919,235**	**$ 1,310,060**	**$ 877,071**	**$ 1,183,415**	**$ 2,148,019**	**$ 21,114,927**
Total Deposits	**$ 8,034,988**	**$ 628,168**	**$ 3,797,728**	**$ 803,144**	**$ 637,071**	**$ 532,875**	**$ 831,820**	**$ 15,265,794**
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	$ 8,609	$ 149,835
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	2,402	149,835
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	6,223	33,060
Noninterest expense	40,256	1,324	28,259	6,917	5,657	6,316	17,812	106,541
Income/(loss) before income taxes	$ 31,538	$ 11,761	$ 20,803	$ 7,469	$ 5,062	$ 4,064	$ (11,496)	69,201
Income taxes								23,528
Net Income								$ 45,673
Balances at September 30, 2004:								
Total Assets	$ 6,513,690	$ 1,716,137	$ 3,856,464	$ 1,298,789	$ 736,196	$ 973,025	$ 3,096,998	$ 18,191,299
Total Deposits	$ 5,410,008	$ 316,978	$ 3,655,801	$ 768,477	$ 479,258	$ 488,851	$ 260,299	$ 11,379,672

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note G: 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 H: 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 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 I: 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.

Fair Value Hedges

At September 30, 2005, BancGroup had interest rate swap positions on subordinated debt, junior subordinated debt, brokered CD s, long-term FHLB advances and a fixed rate loan, which effectively converted their fixed rates 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 the nine months ended September 30, 2005 and 2004. The related balances of all interest rate swaps by category as of September 30, 2005 are

shown below:

Derivative Type	Notional Amount	Fair Value	Asset or Liability Hedged
	(In thousands)		
Interest rate swaps	$ 270,000	$ 6,845	Fixed Rate Junior Subordinated Debt
Interest rate swaps	485,000	1,472	Fixed Rate Long-Term FHLB Advances
Interest rate swaps	250,000	8,366	Fixed Rate Subordinated Debt
Interest rate swaps	492,117	(4,031)	Fixed Rate Brokered CD s
Interest rate swaps	5,169	104	Fixed Rate Commercial Loan

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 in other assets 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 expected to be reclassified to interest income as net settlements occur throughout the duration of the hedges. At September 30, 2005, the cash flow hedges had a notional value of $750 million, fair value of ($11.0) million and average maturity of approximately 2.75 years.

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 J: 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 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	**$ 171,240**	$ 128,121	**$ 61,275**	$ 45,673
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	**$ 170,006**	$ 127,026	**$ 60,885**	$ 45,357
Basic earnings per share:				
As reported	**$ 1.16**	$ 0.98	**$ 0.40**	$ 0.34
Pro forma	**$ 1.15**	$ 0.98	**$ 0.40**	$ 0.34
Diluted earnings per share				
As reported	**$ 1.15**	$ 0.98	**$ 0.39**	$ 0.34
Pro forma	**$ 1.14**	$ 0.97	**$ 0.39**	$ 0.34

Note K: Pension Plan