COLONIAL BANCGROUP INC
Form 10-Q
August 05, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED June 30, 2008**

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.)**
100 Colonial Bank Blvd. Montgomery, AL	**36117**
(Address of principal executive offices)	**(Zip Code)**

(334) 676-5000

(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, and (2) has been subject to the filing requirements for at least the past 90 days. YES x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨
(Do not check if a smaller reporting company)	

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

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

Class	**Outstanding at July 31, 2008**
Common Stock, $2.50 Par Value	202,120,807

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

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 contain forward-looking statements within the meaning of the federal securities laws. Words such as believes , estimates , plans , expects , should , may , might , outlook , potential and anticipates , the negative of these terms and similar expressions as they relate to BancGroup (including its subsidiaries and its management), are intended to identify forward-looking statements. The forward-looking statements in this report 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 Securities and Exchange Commission (the 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:

- *losses in our loan portfolio are greater than estimated or expected;*
- *an inability to raise additional capital on terms and conditions that are satisfactory;*
- *the impact of current economic conditions on our ability to borrow additional funds to meet our liquidity needs;*
- *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 or take longer to recover than expected;*
- *changes in the interest rate environment which expand or reduce margins or adversely affect critical estimates as applied and projected returns on investments and fair values of assets;*
- *deposit attrition, customer loss or revenue loss in the ordinary course of business;*
- *increases in competitive pressure in the banking industry and from non-banks;*
- *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 2008 and beyond;*
- *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;*
- *the impact of recent and future federal and state regulatory changes;*
- *current or future litigation, regulatory investigations, proceedings or inquiries;*
- *strategies to manage interest rate risk may yield results other than those anticipated;*
- *changes which may occur in the regulatory environment;*
- *a significant rate of inflation (deflation);*
- *unanticipated litigation or claims;*
- *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

CONSOLIDATED STATEMENTS OF CONDITION

(Unaudited)

	June 30, 2008	December 31, 2007
	(In thousands, except share amounts)	
ASSETS		
Cash and due from banks	**$ 451,281**	$ 474,948
Interest bearing deposits in banks	**101,391**	28,993
Federal funds sold	**8,891**	71,167
Securities purchased under agreements to resell	**2,185,174**	2,049,664
Securities available for sale	**3,452,686**	3,681,282
Held to maturity securities (fair value: 2008, $1,303; 2007, $1,361)	**1,173**	1,228
Loans held for sale	**1,984,723**	1,544,222
Total loans, net of unearned income:	**15,468,832**	15,923,178
Less: Allowance for loan losses	**(247,009)**	(238,845)
Loans, net	**15,221,823**	15,684,333
Premises and equipment, net	**498,941**	500,558
Goodwill	**1,008,298**	1,008,168
Other intangible assets, net	**57,917**	63,437
Other real estate owned	**113,470**	15,760
Bank-owned life insurance	**485,840**	475,593
Accrued interest and other assets	**459,683**	376,636
Total	**$ 26,031,291**	$ 25,975,989
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits:		
Noninterest bearing transaction accounts	**$ 2,912,071**	$ 2,988,457
Interest bearing transaction accounts	**6,052,774**	6,783,116
Total transaction accounts	**8,964,845**	9,771,573
Time deposits	**8,038,923**	7,317,108
Brokered time deposits	**1,345,397**	1,455,586
Total deposits	**18,349,165**	18,544,267
Repurchase agreements	**525,724**	568,721
Federal funds purchased	**135,000**	
Subordinated debt	**612,134**	386,434
Junior subordinated debt	**108,248**	108,256
Other long-term debt	**3,317,359**	3,529,146
Accrued expenses and other liabilities	**268,611**	272,536
Total liabilities	**23,316,241**	23,409,360
Minority interest/REIT preferred securities	**293,058**	293,058
Contingencies and commitments (Note 8)		
Preferred stock, $2.50 par value; 50,000,000 shares authorized and none issued at both June 30, 2008 and December 31, 2007		

Preference stock, $2.50 par value; 1,000,000 shares authorized and none issued at both June 30, 2008 and December 31, 2007		
Common stock, $2.50 par value; 400,000,000 shares authorized; 211,829,234 and 167,407,169 shares issued and 201,862,507 and 157,440,442 shares outstanding at June 30, 2008 and December 31, 2007, respectively	**529,574**	418,518
Additional paid in capital	**1,231,797**	1,004,888
Retained earnings	**1,060,857**	1,094,916
Treasury stock, at cost (9,966,727 shares at both June 30, 2008 and December 31, 2007)	**(240,336)**	(240,336)
Accumulated other comprehensive loss, net of taxes	**(159,900)**	(4,415)
Total shareholders equity	**2,421,992**	2,273,571
Total	**$ 26,031,291**	$ 25,975,989

See Notes to the Unaudited Consolidated Financial Statements

4

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
	(In thousands, except per share amounts)			
Interest Income:				
Interest and fees on loans	**$ 270,637**	$ 325,180	**$ 572,277**	$ 640,488
Interest and dividends on securities	**51,957**	35,264	**104,603**	77,699
Interest on federal funds sold and other short-term investments	**25,146**	23,430	**54,397**	42,566
Total interest income	**347,740**	383,874	**731,277**	760,753
Interest Expense:				
Interest on deposits	**120,407**	139,069	**257,913**	272,153
Interest on short-term borrowings	**5,078**	13,730	**20,375**	37,562
Interest on long-term debt	**47,831**	40,858	**96,941**	80,876
Total interest expense	**173,316**	193,657	**375,229**	390,591
Net Interest Income	**174,424**	190,217	**356,048**	370,162
Provision for loan losses	**79,000**	6,105	**114,543**	8,355
Net Interest Income After Provision for Loan Losses	**95,424**	184,112	**241,505**	361,807
Noninterest Income:				
Service charges on deposit accounts	**19,259**	18,694	**38,487**	36,373
Electronic banking	**5,275**	4,648	**10,279**	9,049
Other retail banking fees	**2,540**	3,255	**5,088**	6,867
Retail banking fees	**27,074**	26,597	**53,854**	52,289
Mortgage banking origination and sales	**7,953**	3,660	**14,713**	6,847
Financial planning services	**5,061**	4,283	**9,873**	8,105
Mortgage warehouse fees	**1,251**	6,332	**2,246**	13,287
Bank-owned life insurance	**5,169**	5,002	**10,289**	9,957
Securities gains, net	**3,025**	1,116	**9,100**	2,097
Securities restructuring losses				(36,006)
Gain on sale of mortgage loans				3,850
Gain on sale of merchant services		4,900		4,900
Other income	**6,190**	6,891	**13,395**	8,674
Total noninterest income	**55,723**	58,781	**113,470**	74,000
Noninterest Expense:				
Salaries and employee benefits	**74,761**	70,256	**148,428**	139,810
Occupancy expense of bank premises, net	**24,064**	18,722	**47,119**	37,227
Furniture and equipment expenses	**15,134**	13,350	**29,837**	26,472
Professional services	**7,807**	4,628	**13,445**	8,728
FDIC insurance and other regulatory fees	**4,414**	1,232	**8,976**	2,445
Amortization of intangible assets	**4,142**	3,201	**8,305**	6,252
Electronic banking and other retail banking expenses	**4,136**	5,507	**8,293**	9,719
Loan and real estate related costs	**4,486**	898	**7,135**	1,236

Communications	**2,863**	2,900	**5,682**	5,891
Advertising	**2,384**	3,683	**4,987**	5,898
Postage and courier	**2,270**	2,692	**4,892**	5,331
Loss on equity investments	**1,720**	670	**4,467**	925
Travel	**1,522**	1,950	**2,961**	3,689
Severance expense	**550**	520	**786**	3,545
Merger related expenses		1,116		1,545
Net losses related to the early extinguishment of debt	**4,111**	2,512	**10,043**	6,908
Other expense	**9,803**	7,647	**22,789**	14,004
Total noninterest expense	**164,167**	141,484	**328,145**	279,625
Minority interest expense/REIT preferred dividends	**5,336**	2,312	**10,672**	2,312
(Loss) income before income taxes	**(18,356)**	99,097	**16,158**	153,870
Applicable income tax (benefit) expense	**(9,400)**	32,978	**317**	51,272
Net (Loss) Income	**$ (8,956)**	$ 66,119	**$ 15,841**	$ 102,598
(Loss) Earnings per share:				
Basic	**$ (0.05)**	$ 0.43	**$ 0.09**	$ 0.67
Diluted	**$ (0.05)**	$ 0.43	**$ 0.09**	$ 0.66
Average number of shares outstanding:				
Basic	**188,730**	154,217	**172,844**	153,268
Diluted	**188,730**	155,176	**173,072**	154,336
Dividends declared per share	**$ 0.095**	$ 0.1875	**$ 0.285**	$ 0.375

See Notes to the Unaudited Consolidated Financial Statements

5

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Net (loss) income	**$ (8,956)**	$ 66,119	**$ 15,841**	$ 102,598
Other comprehensive (loss) income, net of taxes:				
Available for sale securities:				
Unrealized losses on securities available for sale arising during the period, net of income taxes of $18,246 and $82,813 in 2008 and $18,242 and $12,966 in 2007, respectively	**(59,016)**	(33,877)	**(155,016)**	(24,080)
Less: reclassification adjustment for net (gains) losses on securities available for sale included in net income, net of income taxes of $0 and $2,437 in 2008 and $391 and $(11,868) in 2007, respectively		(725)	**(3,638)**	22,041
Cash flow hedging instruments:				
Reclassification adjustment for losses included in net income, net of income taxes of $(853) and $(1,707) in 2008 and $(853) and $(1,707) in 2007, respectively	**1,585**	1,585	**3,169**	3,169
Comprehensive (loss) income	**$ (66,387)**	$ 33,102	**$ (139,644)**	$ 103,728

See Notes to the Unaudited Consolidated Financial Statements

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

	Common Stock		Additional Paid In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
	Shares	Amount					
			(In thousands, except shares and per share amounts)				
Balance, December 31, 2007	157,440,442	$ 418,518	$ 1,004,888	$ (240,336)	$ 1,094,916	$ (4,415)	$ 2,273,571
Adoption of EITF 06-4 and 06-10					(671)		(671)
Shares issued under:							
Directors plan	28,712	72	445				517
Stock option plans	50,700	127	489				616
Restricted stock plan, net	601,428	1,504	(1,504)				
Employee stock purchase plan	26,330	66	204				270
Dividend reinvestment plan	14,449	36	114				150
Common stock offering	43,700,446	109,251	224,645				333,896
Tax benefit (shortfall) from stock based compensation			(37)				(37)
Stock-based compensation expense			2,553				2,553
Net income					15,841		15,841
Cash dividends ($0.285 per share)					(49,229)		(49,229)
Change in unrealized loss on securities available for sale, net of taxes and reclassification adjustments						(158,654)	(158,654)
Reclassification of cash flow hedging losses, net of taxes						3,169	3,169
Balance, June 30, 2008	**201,862,507**	**$ 529,574**	**$ 1,231,797**	**$ (240,336)**	**$ 1,060,857**	**$ (159,900)**	**$ 2,421,992**

See Notes to the Unaudited Consolidated Financial Statements

7

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2008	2007
	(In thousands)	
Cash flows from operating activities:		
Net income	**$ 15,841**	$ 102,598
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, amortization and accretion	**33,908**	19,359
Provision for loan losses	**114,543**	8,355
Deferred taxes	**(4,203)**	650
Securities gains, net	**(9,100)**	(2,097)
Securities restructuring losses		36,006
Gain on sale of mortgage loans		(3,850)
Gain on sale of other assets	**(6,725)**	(858)
Net increase in loans held for sale	**(434,880)**	(566,352)
Decrease (increase) in interest and other receivables	**24,119**	(21,175)
Decrease (increase) in prepaids	**8,547**	(5,828)
(Increase) decrease in other assets	**(16,421)**	13,260
(Decrease) increase in other liabilities	**(5,601)**	26,009
Increase (decrease) in accrued income taxes	**1,648**	(13,458)
(Decrease) increase in interest payable	**(7,523)**	2,360
Excess tax benefit from stock based compensation	**(17)**	(762)
Other, net	**(3,018)**	(3,904)
Total adjustments	**(304,723)**	(512,285)
Net cash from operating activities	**(288,882)**	(409,687)
Cash flows from investing activities:		
Proceeds from maturities and calls of securities available for sale	**57,216**	69,505
Proceeds from sales of securities available for sale	**293,959**	1,642,704
Purchases of securities available for sale	**(356,228)**	(1,041,123)
Proceeds from maturities of held to maturity securities	**55**	454
Net increase in securities purchased under agreements to resell	**(132,485)**	(580,586)
Net decrease in loans excluding proceeds from sale of loans	**199,773**	112,940
Proceeds from sales of loans	**34,830**	493,101
Net cash paid in bank acquisition		(77,309)
Capital expenditures	**(43,458)**	(60,917)
Proceeds from bank owned life insurance	**114**	319
Proceeds from sale of other assets	**38,541**	10,023
Net (contributions to) return of investment in affiliates	**(8,672)**	3,551
Net cash from investing activities	**83,645**	572,662
Cash flows from financing activities:		
Net (decrease) increase in demand, savings and time deposits	**(195,447)**	168,191
Net increase (decrease) in federal funds purchased, repurchase agreements and other short-term borrowings	**92,003**	(967,700)
Proceeds from issuance of long-term debt, net	**242,059**	600,000

Repayment of long-term debt	**(232,632)**	(205,477)
Purchase of common stock		(57,135)
Proceeds from issuance of common stock	**334,921**	5,483
Proceeds from issuance of REIT preferred securities		293,278
Excess tax benefit from stock-based compensation	**17**	762
Dividends paid	**(49,229)**	(57,365)
Net cash from financing activities	**191,692**	(219,963)
Net decrease in cash and cash equivalents	**(13,545)**	(56,988)
Cash and cash equivalents at the beginning of the year	**575,108**	442,682
Cash and cash equivalents at June 30	**$ 561,563**	$ 385,694

See Notes to the Unaudited Consolidated Financial Statements

8

Table of Contents

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Accounting Policies and Basis of Presentation

The accounting and reporting policies of The Colonial BancGroup, Inc. and its subsidiaries (referred to herein as BancGroup, Colonial, or the Company) are detailed in the Company s 2007 Annual Report on Form 10-K. As discussed more fully below, effective January 1, 2008 Colonial changed certain of those policies as a result of the adoption of new accounting standards. These unaudited interim financial statements should be read in conjunction with the audited financial statements and footnotes included in BancGroup s 2007 Annual Report on Form 10-K.

In the opinion of BancGroup s management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly BancGroup s financial position as of June 30, 2008 and December 31, 2007 and the results of operations and cash flows for the interim periods ended June 30, 2008 and 2007. All 2008 interim amounts have not been audited, and the results of operations for the interim periods herein are not necessarily indicative of the results of operations to be expected for the year.

During the first quarter of 2008, inadvertent errors relating to prior year financial statements, principally relating to the accounting for derivatives and the carrying value of loans held for sale, were identified. The effect of these errors, individually and in the aggregate, was not material to any previously issued financial statements and is not expected to be material to the Company s expected results of operations, financial position or cash flows for fiscal 2008. As a result, no adjustments to prior period amounts have been made. Adjustments that reduced net income by $4.0 million ($6.6 million pretax) were recorded in the first quarter of 2008, representing the cumulative effect of these errors on prior periods.

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

Fair Value Measurements

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about assets and liabilities measured at fair value. The definition of fair value in SFAS 157 retains the notion of exchange price; however, it focuses on the price that would be received to sell the asset or paid to transfer the liability (an exit price), rather than the price that would be paid to acquire the asset or received to assume the liability (an entry price). Under the Statement, a fair value measure should reflect all of the assumptions that market participants would use in pricing the asset or liability, including assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, and the risk of nonperformance. To increase consistency and comparability in fair value measures, SFAS 157 establishes a three-level fair value hierarchy to prioritize the inputs used in valuation techniques between observable inputs that reflect quoted prices in active markets (Level 1), inputs other than quoted prices that are directly or indirectly observable for the asset or liability (Level 2) and unobservable data (Level 3). The Statement does not expand the use of fair value accounting in any new circumstances.

On February 12, 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) SFAS 157-2, *Effective Date of FASB Statement No. 157*. This FSP permits delayed application of the provisions of SFAS 157 to nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis to fiscal years beginning after November 15, 2008.

The Company has elected to delay application of the provisions of SFAS 157 to nonfinancial assets and liabilities under FSP SFAS 157-2. The major categories of assets and liabilities that are recognized or disclosed at fair value for which the provisions of SFAS 157 have not been applied include reporting units measured at fair

Table of Contents

value in the first step of a goodwill impairment test under SFAS 142, *Goodwill And Other Intangible Assets*, and nonfinancial long-lived assets measured at fair value for an impairment assessment under SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

The Company s adoption of SFAS 157 did not have an impact on BancGroup s financial statements.

See Note 4, *Fair Value Measurements*, for disclosures related to fair value measurements.

Loans Held for Sale

Loans held for sale include originated loans and acquired short-term participations in mortgage loans. Prior to January 1, 2008, loans held for sale were carried at the lower of aggregate cost or market. As a result of adopting SFAS 157 on January 1, 2008, loans held for sale are now carried at the lower of aggregate cost or fair value. This change did not have a material impact on the Company s financial statements.

Other Accounting Standards

The following is a list of other accounting standards which became effective as of January 1, 2008 but did not have a material impact on BancGroup and did not change the accounting and reporting policies detailed in the Company s 2007 Annual Report on Form 10-K:

SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities* SFAS 159 permits companies to elect to measure certain eligible items at fair value. Subsequent unrealized gains and losses on those items will be reported in earnings. Upfront costs and fees related to those items will be reported in earnings as incurred and not deferred. As the Company did not elect to apply SFAS 159 to any of its existing eligible items as of January 1, 2008, the adoption of SFAS 159 did not have an impact on BancGroup s financial statements. The Company may elect to apply SFAS 159 to certain newly recognized eligible items in the future.

FSP FIN 39-1, *Amendment of FASB Interpretation No. 39* FSP FIN 39-1 amends Interpretation No. 39 to permit a reporting entity to offset the right to reclaim cash collateral (a receivable), or the obligation to return cash collateral (a payable), against derivative instruments executed with the same counterparty under the same master netting arrangement. The adoption of FSP FIN 39-1 did not have a material impact on BancGroup s financial statements.

Emerging Issues Task Force (EITF) 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* EITF 06-4 stipulates that an agreement by the employer to share a portion of the proceeds of a life insurance policy with the employee during the postretirement period is a postretirement benefit arrangement for which a liability must be recorded. As a result of adopting EITF 06-4 on January 1, 2008, BancGroup recognized an increase of $539,000 to the balance of other liabilities and a corresponding decrease to beginning retained earnings.

EITF 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements* EITF 06-10 stipulates that a liability should be recognized for a postretirement benefit obligation associated with a collateral assignment arrangement if, on the basis of the substantive agreement with the employee, the employer has agreed to maintain a life insurance policy during the postretirement period or provide a death benefit. The employer also must recognize and measure the associated asset on the basis of the terms of the collateral assignment arrangement. As a result of adopting EITF 06-10 on January 1, 2008, BancGroup recognized an increase of $257,000 to the balance of other liabilities, an increase of $125,000 to the balance of other assets and a decrease of $132,000 to beginning retained earnings.

Statement 133 Implementation Issue E23, *Hedging General: Issues Involving the Application of the Shortcut Method under Paragraph 68* Issue E23 amends SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, to explicitly permit use of the shortcut method for hedging

Table of Contents

relationships in which: the interest rate swaps have a nonzero fair value at the inception of the hedging relationship, provided that this value is attributable solely to a bid-ask spread; the settlement date of the hedged item is after the swap trade date, provided that these dates differ because of generally established conventions in the marketplace in which the transaction is executed. The adoption of Issue E23 did not have an impact on BancGroup s financial statements.

SEC Staff Accounting Bulletin (SAB) 109, *Written Loan Commitments Recorded at Fair Value Through Earnings* SAB 109 requires that the expected net future cash flows related to servicing of a loan be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The adoption of SAB 109 did not have a material impact on BancGroup s financial statements.

Note 2: Recent Accounting Standards

In December 2007, the FASB issued SFAS 141(R), *Business Combinations,* which is a revision of SFAS 141, *Business Combinations*. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination: recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and discloses information to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This Statement is effective for fiscal years beginning after December 15, 2008, and is to be applied prospectively. The Company is currently assessing the potential impact SFAS 141(R) will have on the financial statements.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS 160 amends Accounting Research Bulletin 51, *Consolidated Financial Statements,* to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be clearly reported as equity in the consolidated financial statements. Additionally, SFAS 160 requires that the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. The provisions of this Statement are effective on a prospective basis for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, except for the presentation and disclosure requirements, which are required to be applied retrospectively. Early adoption is not permitted. The Company is currently assessing the potential impact SFAS 160 will have on the financial statements.

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS 161 amends SFAS 133, *Accounting for Derivative Instruments and Hedging Activities,* by requiring expanded disclosures about an entity s derivative instruments and hedging activities, but does not change SFAS 133 s scope or accounting. This Statement requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. To meet those objectives, this Statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures in a tabular format about fair value amounts of and gains and losses on derivative instruments including specific disclosures regarding the location and amounts of derivative instruments in the financial statements, and disclosures about credit risk related contingent features in derivative agreements. SFAS 161 also amends SFAS 107, *Disclosures about Fair Value of Financial Instruments*, to clarify that derivative instruments are subject to the SFAS 107 concentration of credit risk disclosures. The provisions of this Statement are effective for fiscal years beginning after November 15, 2008, and earlier application is permitted.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and therefore need to be included in the earnings allocation in calculating earnings per share under the two-class method described in SFAS 128, *Earnings per Share*. This FSP requires companies to treat unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) as a separate class of securities in calculating earnings per share. The provisions of this FSP are effective for fiscal years beginning after December 15, 2008; earlier application is not permitted. Upon adoption of this FSP, all prior-period earnings per share data presented must be adjusted retrospectively to conform to the provisions of this FSP. The Company is currently assessing the potential impact FSP EITF 03-6-1 will have on earnings per share.

In June 2008, the EITF reached a final consensus on Issue 08-3, *Accounting by Lessees for Maintenance Deposits*. EITF 08-3 stipulates that a maintenance deposit should be accounted for as a deposit asset when paid to the lessor if it is probable that the deposit will be refunded to the lessee. If it is determined that a maintenance deposit is less than probable of being refunded to the lessee, the deposit should be recognized as additional expense. If it is probable at inception of the lease that a portion of the deposit will not be refunded, the lessee should recognize as expense a pro-rata portion of the deposit as it is paid. The cost of maintenance activities should be expensed or capitalized by the lessee, as appropriate, when the underlying maintenance is performed. This consensus is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early application is not permitted. The effect of applying this consensus must be recognized as a cumulative effect of a change in accounting principle as of the beginning of the fiscal year in which the consensus is initially applied for all arrangements existing at the effective date. The Company is currently assessing the potential impact EITF 08-3 will have on the financial statements.

Note 3: Supplemental Disclosure of Cash Flow Information

	Six Months Ended June 30,	
	2008	**2007**
	(In thousands)	
Cash paid during the year for:		
Interest	**$ 378,801**	$ 381,814
Income taxes	**23,896**	48,000
Non-cash investing and financing activities:		
Transfer of loans to other real estate	**$ 115,362**	$ 11,090
Transfer of loans to loans held for sale	**5,621**	
Assets (non-cash) acquired in business combination		1,212,478
Liabilities assumed in business combination		980,302
Assets acquired under capital leases	**2,115**	2,136
Capital leases terminated		2,191

Note 4: Fair Value Measurements

BancGroup adopted the provisions of SFAS 157 on January 1, 2008. In February 2008, the FASB issued an FSP which permits delayed application of the provisions of SFAS 157 to nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis to fiscal years beginning after November 15, 2008. Since the Company has elected to delay application of the provisions of SFAS 157 to nonfinancial assets and liabilities in scope of this FSP, the information disclosed below does not consider the impact that SFAS 157 would have on such nonfinancial assets and liabilities. The major categories of assets and liabilities that are recognized or disclosed at fair value for which the provisions of SFAS 157 have not been applied include reporting units measured at fair value in the first step of a goodwill impairment test under SFAS 142 and nonfinancial long-lived assets measured at fair value for an impairment assessment under SFAS 144.

Table of Contents

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1	Quoted prices in active markets for identical assets or liabilities.
Level 2	Directly or indirectly observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates); or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities would include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

		Fair value measurements using:		
	Fair value at June 30, 2008	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(In thousands)		
Assets:				
Securities available for sale(1)	$ 3,277,112	$ 1,719	$ 3,275,393	$
Derivative assets	234			234
Total	$ 3,277,346	$ 1,719	$ 3,275,393	$ 234
Liabilities:				
Derivative liabilities(2)	$ 11,789	$	$ 1,606	$ 10,183

(1) Securities available for sale as of June 30, 2008 per the Consolidated Statement of Condition include $176 million in nonmarketable equity securities (Federal Home Loan Bank stock). As these securities are accounted for under the cost method, they are not included in the table above.

(2) FIN 39 permits the netting of derivative receivables and derivative payables when a legally enforceable master netting agreement exists between the Company and a derivative counterparty. A master netting agreement is an agreement between two counterparties who have multiple derivative contracts with each other that provide for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default on or termination of any one contract. Derivative liabilities are presented net of cash collateral placed of $7.1 million.

Table of Contents

The valuation techniques used to measure fair value for the items in the table above are as follows:

Securities available for sale The fair value of securities available for sale equals quoted market prices, if available. If quoted market prices are not available, fair value is determined using quoted market prices for similar securities. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange. Level 2 securities include mortgage-backed securities, other pass-through securities and collateralized mortgage obligations of government sponsored entities (GSE s) and private issuers and obligations of states and political subdivisions.

Derivative assets and liabilities For derivatives traded in over-the-counter markets where quoted market prices are not readily available, fair value is measured using models that primarily use market observable inputs, such as yield curves and option volatilities. For forward sales commitments on the retail portion of loans held for sale, fair value is based on changes in market prices of comparable securities traded in the market. Accordingly, these are classified as Level 2. In the first quarter of 2008, the Company s call options related to interests in short-term participations in mortgage loans, interest rate lock commitments and the related forward sales commitments were classified as Level 2. Because of the significance of unobservable inputs (such as the probability of funding) to the overall value of these instruments, they were transferred to Level 3 in the second quarter.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized below:

	Net derivative assets and (liabilities) (In thousands)
Balance, April 1, 2008(1)	$
Total net gains included in net income(2)	181
Net transfers into Level 3	(10,130)
Balance, June 30, 2008	$ (9,949)
Net unrealized gains included in net income relating to assets and liabilities held at June 30, 2008(2)	$ 181

(1) BancGroup did not have any Level 3 assets or liabilities as of either January 1, 2008 or March 31, 2008; therefore, the reconciliation of the beginning and ending balances of Level 3 assets and liabilities for the three and six months ended June 30, 2008 is the same.

(2) Approximately $168,000 included in other noninterest income and $13,000 in other noninterest expense.

Certain other assets are measured at fair value on a nonrecurring basis. These adjustments to fair value usually result from application of lower of cost or fair value accounting or write-downs of individual assets due to impairment. For assets measured at fair value on a nonrecurring basis in the first six months of 2008 that were still held in the balance sheet at June 30, 2008, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets at quarter end.

		Carrying value at June 30, 2008		
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(In thousands)		

Loans held for sale	$ 1,810,153	$	$ 1,810,153	$
Loans	105,667			105,667

Table of Contents

The valuation techniques used to measure fair value for the items in the table above are as follows:

Loans held for sale Loans held for sale are carried at the lower of cost or fair value based on product pools. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. Therefore, loans held for sale subjected to nonrecurring fair value adjustments are classified as Level 2.

Loans Nonrecurring fair value adjustments to loans reflect full or partial write-downs that are based on the loan s observable market price or current appraised value of the collateral in accordance with SFAS 114, *Accounting by Creditors for Impairment of a Loan*. Since the market for impaired loans is not active, loans subjected to nonrecurring fair value adjustments based on the loan s observable market price are generally classified as Level 2. Loans subjected to nonrecurring fair value adjustments based on the current appraised value of the collateral may be classified as Level 2 or Level 3 depending on the type of asset and the inputs to the valuation. When appraisals are used to determine impairment and these appraisals are based on a market approach incorporating a dollar-per-square-foot multiple, the related loans are classified as Level 2. If the appraisals require significant adjustments to market-based valuation inputs or apply an income approach based on unobservable cash flows to measure fair value, the related loans subjected to nonrecurring fair value adjustments are typically classified as Level 3 due to the fact that Level 3 inputs are significant to the fair value measurement.

During the three and six months ended June 30, 2008, BancGroup recognized adjustments related to certain assets that are measured at fair value on a nonrecurring basis (i.e. loans and loans held for sale). Approximately $58 million and $96 million of losses related to loans were recognized as either charge-offs or specific allocations of the allowance for loan losses for the three and six months ended June 30, 2008, respectively.

During the three months ended June 30, 2008, the Company recorded approximately $13.9 million of net gains due to the recovery of previous lower of cost or fair value adjustments on loans held for sale. The gains were substantially offset by net losses of approximately $13.2 million on related call options.

During the six months ended June 30, 2008, the Company recorded approximately $15.9 million of net losses due to lower of cost or fair value adjustments on loans held for sale. The losses were substantially offset by net gains of approximately $14.3 million on related call options.

Note 5: Securities

The composition of the Company s securities portfolio is reflected in the following table:

	Carrying Value at June 30, 2008	Carrying Value at December 31, 2007
	(In thousands)	
Securities available for sale:		
Mortgage-backed securities and other pass-through securities of GSE s	**$ 698,055**	$ 655,636
Collateralized mortgage obligations	**2,224,933**	2,404,914
Obligations of state and political subdivisions	**352,406**	371,930
Corporate notes		6,819
Federal Reserve and FHLB stock and other	**177,292**	241,983
Total securities available for sale	**3,452,686**	3,681,282
Held to maturity securities:		
U.S. Treasury securities and obligations of GSE s	**500**	500
Mortgage-backed securities of GSE s	**432**	486
Collateralized mortgage obligations	**8**	9
Obligations of state and political subdivisions	**233**	233

Total held to maturity securities	**1,173**	1,228
Total securities	**$ 3,453,859**	$ 3,682,510

Table of Contents

During the second quarter of 2008, the Company did not sell any securities and purchased approximately $128 million in new securities, excluding transactions in Federal Home Loan Bank of Atlanta (FHLB) stock. In April 2008, the Company recorded a gain of $3.0 million from the early termination of a $250 million resell agreement. In connection with its conversion to a state chartered bank, during the second quarter of 2008, Colonial Bank surrendered approximately 1.2 million shares of Federal Reserve Bank Stock at a par value of $61.3 million plus accrued dividends.

During the first quarter of 2008, the Company sold approximately $217 million in securities and purchased approximately $219 million in new securities, excluding transactions in FHLB stock.

The following table reflects gross unrealized losses and fair values of the Company s available for sale and held to maturity securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2008:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
Mortgage-backed and other pass-through securities of GSE s	$ 437,260	$ (5,143)	$ 12,362	$ (476)	$ 449,622	$ (5,619)
Collateralized mortgage obligations	1,244,828	(130,303)	643,099	(110,470)	1,887,927	(240,773)
Obligations of state and political subdivisions	286,713	(7,815)			286,713	(7,815)
Subtotal, debt securities	1,968,801	(143,261)	655,461	(110,946)	2,624,262	(254,207)
Equity securities	189	(46)	1,499	(3,730)	1,688	(3,776)
Total temporarily impaired securities	$ 1,968,990	$ (143,307)	$ 656,960	$ (114,676)	$ 2,625,950	$ (257,983)

The following table reflects gross unrealized losses and fair values of the Company s available for sale and held to maturity securities, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2007:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
Mortgage-backed and other pass-through securities of GSE s	$ 105	$	$ 44,720	$ (597)	$ 44,825	$ (597)
Collateralized mortgage obligations	900,225	(17,757)	584,327	(12,190)	1,484,552	(29,947)
Obligations of state and political subdivisions	71,518	(496)			71,518	(496)
Subtotal, debt securities	971,848	(18,253)	629,047	(12,787)	1,600,895	(31,040)
Equity securities	3,670	(1,560)			3,670	(1,560)
Total temporarily impaired securities	$ 975,518	$ (19,813)	$ 629,047	$ (12,787)	$ 1,604,565	$ (32,600)

The debt securities shown in the previous tables consist of collateralized mortgage obligations (CMO s) and mortgage-backed securities of Government Sponsored Entities (GSE s), AAA-rated private CMO s, and obligations of state and political subdivisions. As of June 30, 2008 and December 31, 2007, there were 302 and 129 debt securities, respectively, carried at an unrealized loss relating to the level of interest rates prevailing in the market. Illiquid capital markets have negatively impacted the Company s highly-rated investment securities portfolio, which is not reflective of the portfolio s underlying performance. 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 as well as the liquidity of the capital markets. Additionally, BancGroup has the ability to retain these securities until recovery of unrealized loss or maturity when full repayment would be received. There are no known current funding needs which would require their liquidation.

Note 6: Loans

A summary of the major categories of loans outstanding is shown in the table below:

	June 30, 2008	December 31, 2007
	(In thousands)	
Commercial, financial and agricultural	**$ 1,660,417**	$ 1,506,986
Commercial real estate	**4,989,456**	5,012,773
Real estate construction	**5,784,204**	6,296,262
Residential real estate	**2,608,066**	2,673,823
Consumer and other	**443,810**	452,642
Total loans	**15,485,953**	15,942,486
Less: unearned income	**(17,121)**	(19,308)
Total loans, net of unearned income	**$ 15,468,832**	$ 15,923,178

Note 7: Allowance for Loan Losses

An analysis of the allowance for loan losses is as follows:

	Six Months Ended June 30, 2008 (In thousands)
Balance, January 1	**$ 238,845**
Provision charged to income	**114,543**
Loans charged off	**(109,191)**
Recoveries	**2,812**
Balance, June 30	**$ 247,009**

Note 8: Commitments and Contingent Liabilities

Guarantees

Standby letters of credit are contingent commitments issued by Colonial Bank (the 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 the Bank receives a fee. These guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The Bank holds various assets as collateral supporting those commitments for which collateral is deemed necessary. At inception, these commitments are recorded on the balance sheet at fair value. The fair value of the commitment typically approximates the fee received from the customer for issuing such commitments. These fees are deferred and are recognized over the commitment period. The amounts recorded for deferred fees as of June 30, 2008 and December 31, 2007 were $698,000 and $823,000, respectively. At June 30, 2008, Colonial Bank had standby

letters of credit outstanding with maturities of generally one year or less. The maximum potential amount of future undiscounted payments the Bank could be required to make under outstanding standby letters of credit at June 30, 2008 was $254 million.

In connection with the sale of certain loans and related assets, Colonial makes representations, warrants and indemnifications to the purchasers thereof. At June 30, 2008, Colonial s maximum potential amount of future undiscounted payments under these representations, warrants and indemnifications was $14 million. There were no potential future payments related to these transactions at December 31, 2007.

Contingencies

BancGroup and its subsidiaries are, from time to time, defendants in legal actions arising from normal business activities. Management does not anticipate that the outcome of any litigation presently pending at June 30, 2008 will have a material adverse effect on BancGroup s consolidated financial statements or results of operations.

Note 9: Derivatives

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

Interest Rate Swaps

Fair Value Hedges

During the first quarter of 2008, BancGroup entered into interest rate swaps with an aggregate notional amount of $250 million to hedge fixed rate subordinated debt. The fair value of these swaps as of June 30, 2008 was a loss of approximately $7.5 million. There were no hedging gains or losses resulting from hedge ineffectiveness recognized during the six months ended June 30, 2008, or June 30, 2007.

The Company has established collateral agreements with its swap counterparties that provide for exchanges of marketable securities or cash to collateralize either party s net gains. At June 30, 2008, $7.1 million in collateral posted to a swap counterparty was outstanding and has been netted against the swap fair value loss of $7.5 million in other liabilities in the Consolidated Statement of Condition.

Cash Flow Hedges

During the second quarter of 2006, the Company terminated interest rate swaps which were used as cash flow hedges of loans. The hedged forecasted transactions were considered probable of occurring, therefore the net loss remained in accumulated other comprehensive loss and was reclassified into earnings in the same periods during which the hedged forecasted transactions affected earnings. For the six months ended June 30, 2008, losses reclassified into earnings totaled $3.2 million, leaving no further losses to be reclassified. There were no recognized cash flow hedging gains or losses resulting from hedge ineffectiveness for the six months ended June 30, 2008, or June 30, 2007.

Commitments to Originate and Sell Mortgage Loans

In connection with its retail mortgage loan production activities, the Company routinely enters into short-term commitments to fund residential mortgage loans (commonly referred to as interest rate locks). The Company utilizes forward sales commitments to economically mitigate the risk of potential decreases in the value of the loans that would result from the exercise of the loan commitments. The notional amounts of these mortgage loan origination commitments and the related forward sales commitments were approximately $26.6 million at June 30, 2008. The fair value of the origination commitments was a gain of approximately $234,000 at June 30, 2008, which was partially offset by a loss of approximately $66,000 on the related sales commitments.

Table of Contents

BancGroup has executed individual forward sales commitments on the retail portion of loans held for sale. The notional value of these forward sales commitments at June 30, 2008 was $74.7 million, none of which was designated as a hedge. The fair value of the sales commitments was a loss of approximately $1.2 million at June 30, 2008.

Options

Colonial sells call options related to its interests in short-term participations in mortgage loans. Generally, the change in fair value of the participation interests offsets the change in fair value of the call options. The notional amount of the call options at June 30, 2008 was $1.9 billion. The call options are not designated as hedges of the participation interests. The fair value of the call options was a loss of $10.1 million as of June 30, 2008.

BancGroup occasionally enters into over-the-counter option contracts on bonds in its securities portfolio. However, there were no such option contracts outstanding at June 30, 2008.

Note 10: Short-Term Borrowings

Short-term borrowings are summarized as follows:

	June 30, 2008	December 31, 2007
	(In thousands)	
Repurchase agreements (retail)	**$ 525,724**	$ 568,721
Federal funds purchased	**135,000**	
Total	**$ 660,724**	$ 568,721

Note 11: Long-Term Debt

Long-term debt is summarized as follows:

	June 30, 2008	December 31, 2007
	(In thousands)	
Variable rate subordinated debentures	**$**	$ 7,725
Subordinated notes	**612,134**	378,709
Junior subordinated debt	**108,248**	108,256
FHLB borrowings	**3,300,756**	3,513,997
Capital lease obligations	**16,603**	15,149
Total	**$ 4,037,741**	$ 4,023,836

During the second quarter of 2008, the Company paid off $114 million of FHLB borrowings with an interest rate of 4.66% and repurchased $8.1 million of its 8% subordinated notes due March 15, 2009.

During the first quarter of 2008, the Company issued $250 million of 8.875% subordinated notes due March 15, 2038. The notes qualify as Tier II regulatory capital. Colonial may redeem the notes in whole or in part on or after March 15, 2013 in accordance with Federal Reserve guidelines. Colonial also paid off a $100 million FHLB borrowing at a rate of 4.68%; redeemed $7.7 million of variable rate subordinated debentures; and repurchased $2 million of its 8% subordinated notes due March 15, 2009. The subordinated notes maturing in March 2009 ceased to qualify as regulatory capital in March 2008.

19

Table of Contents

There have been no other material changes in BancGroup s long-term debt. Refer to the Company s 2007 Annual Report on Form 10-K for additional information.

Note 12: Employee Benefit Plans

Pension Plan

BancGroup and its subsidiaries sponsor 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. On December 31, 2005, BancGroup closed the pension plan to new employees and set the compensation amount and years of service for the future benefits calculation for participants. Actuarial computations for financial reporting purposes are based on the projected unit credit method. The measurement date is December 31. Based on current actuarial projections, BancGroup will not be required to, nor does it expect to, make a contribution to the plan in 2008.

The following table reflects the components of net periodic benefit income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
	(In thousands)			
Components of net periodic benefit income:				
Interest cost	**$ 929**	$ 727	**$ 1,857**	$ 1,454
Expected return on plan assets	**(1,529)**	(1,104)	**(3,057)**	(2,209)
Net periodic benefit income	**$ (600)**	$ (377)	**$ (1,200)**	$ (755)

401(k) Savings Plan

BancGroup sponsors a 401(k) savings plan which provides certain retirement, death, disability and employment benefits to all eligible employees and qualifies as a deferred arrangement under Section 401(k) of the Internal Revenue Code. Participants make elective contributions into a number of available investment options through payroll deductions, including the option to purchase BancGroup common stock. On April 16, 2008, the Company s Board of Directors approved the registration of 10 million additional shares of the Company s common stock that may be issued under the 401(k) savings plan. On May 5, 2008, the Company filed the related registration statement with the Securities and Exchange Commission registering the new shares.

Note 13: Stock-Based Compensation

Total compensation cost for stock-based compensation awards (both stock options and restricted stock awards) for the three months ended June 30, 2008 and 2007 was $1.3 million and $594,000, respectively. The related income tax benefit was $437,000 and $79,000, respectively. Total compensation cost for stock-based compensation awards for the six months ended June 30, 2008 and 2007 was $2.6 million and $2.0 million, respectively. The related income tax benefit was $882,000 and $446,000, respectively.

The following table summarizes BancGroup s stock option activity since December 31, 2007:

	Options	Weighted Average Exercise Price
Outstanding at December 31, 2007	3,578,070	$ 19.12
Granted	1,094,651	11.33
Exercised	(50,700)	12.14
Cancelled	(235,723)	17.85

Outstanding at June 30, 2008	4,386,298	$	17.35

Table of Contents

The fair value of each option grant was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

	Six months ended June 30, 2008
Expected option term	5.33 years
Weighted average expected volatility	31.15%
Weighted average risk-free interest rate	3.06%
Weighted average expected annual dividend yield	4.50%

The following table summarizes BancGroup s restricted stock activity since December 31, 2007:

	Restricted Stock	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2007	518,166	$ 23.21
Granted	627,355	11.19
Vested	(1,220)	24.39
Cancelled	(25,927)	14.99
Nonvested at June 30, 2008	1,118,374	$ 16.66

Note 14: 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:

	Three Months Ended June 30,			Six Months Ended June 30,		
	Net (Loss) Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
	(In thousands, except per share amounts)					
2008						
Basic EPS	**$ (8,956)**	**188,730**	**$ (0.05)**	**$ 15,841**	**172,844**	**$ 0.09**
Effect of dilutive instruments:						
Options and nonvested restricted stock					**228**	
Diluted EPS	**$ (8,956)**	**188,730**	**$ (0.05)**	**$ 15,841**	**173,072**	**$ 0.09**
2007						
Basic EPS	$ 66,119	154,217	$ 0.43	$ 102,598	153,268	$ 0.67
Effect of dilutive instruments:						
Options and nonvested restricted stock		959			1,068	
Diluted EPS	$ 66,119	155,176	$ 0.43	$ 102,598	154,336	$ 0.66

The above calculations exclude awards that could potentially dilute basic EPS in the future but were antidilutive for the periods presented. The number of such awards excluded was approximately 5,505,000 and 4,516,000 for the three and six months ended June 30, 2008, respectively, and 1,705,000 and 1,643,000 for the three and six months ended June 30, 2007, respectively.

21

Table of Contents

Note 15: Income Taxes

In accordance with FASB Interpretation No. 48, *Accounting for Uncertainty of Income Taxes and Interpretation of FASB Statement No. 109,* BancGroup has recorded a liability for unrecognized tax benefits and the related interest and penalties at June 30, 2008 totaling $30.4 million compared to $26.6 million at December 31, 2007. While the Company expects to settle various state tax audits within the next twelve months, the change in the unrecognized tax benefit is not expected to be material to the financial statements.

Note 16: Segment Information

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

Table of Contents

The results for these segments are based on BancGroup s 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 an offset in Corporate/Treasury/Other. The provision for loan losses included in each banking segment is based on their actual net charge-off experience. The provision for loan losses included in the mortgage warehouse segment was based on an 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 reporting process measures the performance of the defined segments based on the Company s 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.

	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 June 30, 2008								
Net interest income before intersegment income / expense	$ 72,890	$ 60,543	$ 9,364	$ 13,544	$ 11,028	$ 20,334	$ (13,279)	$ 174,424
Intersegment interest income / expense	4,154	(25,841)	18,505	(3,647)	(1,394)	(5,739)	13,962	
Net interest income	77,044	34,702	27,869	9,897	9,634	14,595	683	174,424
Provision for loan losses	55,893	(45)	5,867	2,933	8,107	385	5,860	79,000
Noninterest income	18,202	3,019	13,442	6,408	1,981	1,539	11,132	55,723
Noninterest expense	61,262	5,140	21,748	10,689	6,777	7,788	50,763	164,167
Minority interest expense/REIT preferred dividends							5,336	5,336
Income/(loss) before income taxes	$ (21,909)	$ 32,626	$ 13,696	$ 2,683	$ (3,269)	$ 7,961	$ (50,144)	(18,356)
Income taxes								(9,400)
Net Loss								$ (8,956)
Total Assets	$ 11,486,888	$ 4,534,178	$ 4,240,404	$ 1,341,072	$ 1,061,086	$ 1,692,255	$ 1,675,408	$ 26,031,291
Total Deposits	$ 9,932,324	$ 594,358	$ 4,134,160	$ 724,068	$ 701,696	$ 741,555	$ 1,521,004	$ 18,349,165
Three Months Ended June 30, 2007								
Net interest income before intersegment income / expense	$ 80,791	$ 49,704	$ 17,024	$ 21,086	$ 14,273	$ 26,312	$ (18,973)	$ 190,217
Intersegment interest income / expense	876	(28,545)	17,791	(8,034)	(2,204)	(10,940)	31,056	
Net interest income	81,667	21,159	34,815	13,052	12,069	15,372	12,083	190,217
Provision for loan losses	2,026	45	4,673	742	17	136	(1,534)	6,105
Noninterest income	18,129	6,919	12,902	4,819	1,938	1,725	12,349	58,781
Noninterest expense	51,600	2,140	20,932	5,697	6,303	7,629	47,183	141,484
Minority interest expense/REIT preferred dividends							2,312	2,312
Income/(loss) before income taxes	$ 46,170	$ 25,893	$ 22,112	$ 11,432	$ 7,687	$ 9,332	$ (23,529)	99,097
Income taxes								32,978
Net Income								$ 66,119
Total Assets	$ 11,735,373	$ 3,007,608	$ 4,135,506	$ 1,410,015	$ 978,519	$ 1,557,473	$ 998,468	$ 23,822,962
Total Deposits	$ 9,563,386	$ 749,983	$ 4,095,146	$ 781,475	$ 709,751	$ 702,839	$ 481,483	$ 17,084,063

Table of Contents

	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)				
Six Months Ended June 30, 2008								
Net interest income before intersegment income / expense	**$ 147,113**	**$ 126,812**	**$ 21,514**	**$ 29,254**	**$ 23,569**	**$ 43,295**	**$ (35,509)**	**$ 356,048**
Intersegment interest income / expense	**6,702**	**(60,377)**	**37,496**	**(10,189)**	**(4,499)**	**(15,338)**	**46,205**	
Net interest income	**153,815**	**66,435**	**59,010**	**19,065**	**19,070**	**27,957**	**10,696**	**356,048**
Provision for loan losses	**79,015**	**147**	**9,207**	**8,831**	**8,206**	**877**	**8,260**	**114,543**
Noninterest income	**36,092**	**5,690**	**26,898**	**12,265**	**3,592**	**2,989**	**25,944**	**113,470**
Noninterest expense	**122,277**	**12,713**	**43,622**	**20,250**	**13,618**	**16,188**	**99,477**	**328,145**
Minority interest expense/REIT preferred dividends							**10,672**	**10,672**
Income/(loss) before income taxes	**$ (11,385)**	**$ 59,265**	**$ 33,079**	**$ 2,249**	**$ 838**	**$ 13,881**	**$ (81,769)**	**16,158**
Income taxes								**317**
Net Income								**$ 15,841**
Six Months Ended June 30, 2007								
Net interest income before intersegment income / expense	$ 166,066	$ 86,680	$ 37,736	$ 41,233	$ 27,597	$ 48,971	$ (38,121)	$ 370,162
Intersegment interest income / expense	467	(49,053)	32,628	(15,622)	(4,098)	(20,556)	56,234	
Net interest income	166,533	37,627	70,364	25,611	23,499	28,415	18,113	370,162
Provision for loan losses	2,471	(291)	5,204	1,802	44	301	(1,176)	8,355
Noninterest income	36,127	14,403	25,660	7,115	3,832	3,374	(16,511)	74,000
Noninterest expense	102,931	4,242	41,552	11,694	12,345	14,951	91,910	279,625
Minority interest expense/REIT preferred dividends							2,312	2,312
Income/(loss) before income taxes	$ 97,258	$ 48,079	$ 49,268	$ 19,230	$ 14,942	$ 16,537	$ (91,444)	153,870
Income taxes								51,272
Net Income								$ 102,598

Table of Contents

Note 17: Capital Stock

Common Stock Offering

On April 25, 2008, the Company completed a public common stock offering of 43.7 million shares at $8.00 per share for $350 million. Colonial received proceeds of $333.9 million, which is net of all expenses, commissions and underwriters discounts. The Company will use the proceeds for general corporate purposes as well as investment in subsidiaries.

Dividend Reinvestment and Common Stock Purchase Plan

The Company has a dividend reinvestment and common stock purchase plan under which shareholders may automatically reinvest their cash dividends in shares of common stock as well as make optional cash purchases of common stock. On April 16, 2008, the Company s Board of Directors approved the registration of 10 million additional shares that may be issued under this plan, bringing the total authorized for issuance to 12 million shares. On May 2, 2008, the Company filed the related registration statement with the Securities and Exchange Commission registering the new shares and amending the plan.

Note 18: Goodwill

BancGroup tests goodwill for impairment on an annual basis, or more often if events or circumstances indicate that there may be impairment. In light of the challenging interest rate and credit environments that have persisted since late 2007, and the fact that the Company s stock has been trading below book value per share, interim impairment testing was performed at December 31, 2007, March 31, 2008 and June 30, 2008. The estimated fair values of the Company s reporting units were based on discounted cash flow models derived from internal earnings forecasts. Based on current results and expectations, BancGroup has determined that the fair values of its reporting units continue to exceed their carrying values. Therefore, management determined that no goodwill impairment charge was required as of June 30, 2008.

Due to the ongoing uncertainty in market conditions, which may continue to negatively impact the performance of BancGroup s reporting units, management will continue to monitor and evaluate the carrying value of goodwill, particularly with respect to the Florida reporting units. Earnings forecasts relating to the Company s reporting units have generally declined over the past two quarters. If market and economic conditions or business performance deteriorate further, this could increase the likelihood of the Company recording an impairment charge to the extent that the book equity value, including goodwill, exceeds the estimated fair value of the reporting unit.

Table of Contents

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

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 3 for additional information regarding forward-looking statements.

CRITICAL ACCOUNTING POLICIES

Those accounting policies involving significant estimates and assumptions by management which have, or could have, a material impact on the reported financial results are considered critical accounting policies. BancGroup recognizes the following as critical accounting policies: Allowance for Loan Losses, Purchase Accounting and Goodwill, Income Taxes, Consolidations and Stock-Based Compensation. Information concerning these policies is included in the *Critical Accounting Policies* section of Management s Discussion and Analysis in BancGroup s 2007 Annual Report on Form 10-K.

EXECUTIVE OVERVIEW

The Colonial BancGroup, Inc. is a $26.0 billion financial services company providing diversified services including retail and commercial banking, wealth management services, mortgage origination and insurance products through its branch network, private banking offices and officers, ATMs and the internet as well as other distribution channels to consumers and businesses. At June 30, 2008, BancGroup s branch network consisted of 344 offices in Florida, Alabama, Georgia, Nevada and Texas.

Colonial reported a net loss of $9.0 million for the quarter ended June 30, 2008, compared to net income of $66.1 million for the quarter ended June 30, 2007. The Company also reported a loss per diluted share of $0.05 for the quarter ended June 30, 2008 compared to earnings per diluted share of $0.43 for the quarter ended June 30, 2007. For the six months ended June 30, 2008, the Company reported net income of $15.8 million, or $0.09 per diluted share, compared to $102.6 million, or $0.66 per diluted share, over the same period in 2007.

REVIEW OF RESULTS OF OPERATIONS

Net Interest Income

Net interest income is the Company s primary source of revenue. Net interest income represents the difference between interest and fee income generated from earning assets and the interest expense paid on deposits and borrowed funds. Interest rate volatility, which impacts the volume and mix of earning assets and interest bearing liabilities as well as their rates, can significantly impact net interest income. The net interest margin is fully tax equivalent net interest income expressed as a percentage of average earning assets for the period being measured. The net interest margin is presented on a fully tax equivalent basis to consistently reflect income from taxable and tax-exempt loans and securities.

Beginning in late 2007 and early 2008, the yield curve returned to a more normalized level after remaining flat or inverted since late 2005. Short-term rates were driven by rate decreases by the Federal Reserve, while long-term rates were driven by market supply and demand for debt instruments. After remaining constant at 5.25% from June 2006 to September 2007, the Federal Reserve Board lowered the Federal Funds rate 325 basis points from September 2007 to June 2008. Due to intense competition for deposits from financial services companies, cost of funds in the financial sector have not declined in tandem with the decrease in the Federal Funds rate. The following table shows the Federal Funds rate and U.S. Treasury yield curve at each quarter end during the past five quarters.

Table of Contents

The Company s net interest income, on a tax equivalent basis, decreased $15.1 million, or 7.9%, for the three months ended June 30, 2008, as compared to the same period of the prior year. The yield on average earning assets decreased 58 basis points more than the decrease in the rate on average interest bearing liabilities causing net interest margin to contract 78 basis points. The impact to net interest income caused by net interest margin contraction was mitigated by a $3.6 billion, or a 17%, increase in average earning assets and $333.9 million in net proceeds from the issuance of 43.7 million shares of common stock in April 2008.

For the six months ended June 30, 2008, the Company s net interest income, on a tax equivalent basis, decreased $12 million, or 3.2%, as compared to the same period of the prior year. The yield on average earning assets decreased 50 basis points more than the decrease in the rate on average interest bearing liabilities causing net interest margin to contract 65 basis points. The impact to net interest income caused by net interest margin contraction was mitigated by a $3.8 billion, or an 18% increase in average earning assets and $333.9 million in net proceeds from the issuance of 43.7 million shares of common stock in April 2008.

Net interest income was negatively impacted by the 325 basis point decline in the Wall Street Journal Prime rate and the 271 basis point decline in the 1 Month LIBOR rate from June 2007 to June 2008, as approximately 64% of Colonial s earning assets for both the three and six months ended June 30, 2008 were variable, adjustable or short-term in nature. In addition, Colonial s deposit costs did not decline in tandem with the decline in prime and LIBOR rates due to intense competition for deposit dollars from financial services companies. The average cost of deposits exceeded the average Federal Funds rate by 47 and 10 basis points, respectively, for the three and six months ended June 30, 2008, as compared to average deposit costs which were 186 and 187 basis points, respectively, lower than the average Federal Funds rate for the three and six months ended June 30, 2007. The following table shows average rates for selected balance sheet categories as well as selected market rates.

Table of Contents

Analysis Of Average Rates

	Three Months Ended June 30,		Basis Point Increase/ (Decrease)	Six Months Ended June 30,		Basis Point Increase/ (Decrease)
	2008	2007		2008	2007	
Loans, net of unearned income	**6.02%**	7.78%	(1.76)%	**6.30%**	7.76%	(1.46)%
Loans held for sale	**4.64%**	6.86%	(2.22)%	**4.90%**	6.89%	(1.99)%
Securities	**5.88%**	5.62%	0.26%	**5.91%**	5.42%	0.49%
Resell agreements and other interest earning assets	**4.68%**	6.81%	(2.13)%	**4.97%**	6.76%	(1.79)%
Total interest earning assets	**5.72%**	7.37%	(1.65)%	**5.95%**	7.31%	(1.36)%
Interest bearing deposits	**3.04%**	4.12%	(1.08)%	**3.28%**	4.11%	(0.83)%
Total deposits	**2.55%**	3.39%	(0.84)%	**2.75%**	3.38%	(0.63)%
Wholesale borrowings	**4.19%**	5.23%	(1.04)%	**4.25%**	5.28%	(1.03)%
Total interest bearing liabilities	**3.32%**	4.39%	(1.07)%	**3.54%**	4.40%	(0.86)%
Federal Funds	**2.08%**	5.25%	(3.17)%	**2.65%**	5.25%	(2.60)%
1 Month LIBOR	**2.75%**	5.32%	(2.57)%	**3.05%**	5.32%	(2.27)%
Wall Street Journal Prime	**5.08%**	8.25%	(3.17)%	**5.65%**	8.25%	(2.60)%

Table of Contents

Interest Earning Assets

Average earning assets, as shown below, consist primarily of loans, securities, loans held for sale and securities purchased under agreements to resell (included in other earning assets below). Colonial invested a larger percentage of its funds in securities, loans held for sale, and securities purchased under agreements to resell for the three and six months ended June 30, 2008, as compared to the same periods of the prior year.

Table of Contents

Average Funding

Average funding, as shown below, consists primarily of deposits and wholesale borrowings. Average funding grew $4 billion, or 17%, and $4.3 billion, or 18%, for the three and six months ended June 30, 2008, respectively, as compared to the same periods of the prior year.

Table of Contents

Average Volume and Rates

(Unaudited)

	Three Months Ended June 30,					
	2008			2007		
	Average Volume	Interest	Rate	Average Volume	Interest	Rate
	(Dollars in thousands)					
ASSETS:						
Loans, net of unearned income(2)	**$ 15,797,611**	**$ 236,737**	**6.02%**	$ 15,112,712	$ 293,233	7.78%
Loans held for sale(2)	**2,953,444**	**34,061**	**4.64%**	1,881,595	32,180	6.86%
Securities(2)	**3,663,516**	**53,897**	**5.88%**	2,595,580	36,438	5.62%
Securities purchased under agreements to resell	**2,110,183**	**24,814**	**4.73%**	1,310,840	22,493	6.88%
Other interest earning assets	**51,727**	**332**	**2.58%**	68,127	938	5.52%
Total interest earning assets(3)	**24,576,481**	**$ 349,841**	**5.72%**	20,968,854	$ 385,282	7.37%
Nonearning assets(2)	**2,439,659**			2,128,630		
Total assets	**$ 27,016,140**			$ 23,097,484		
LIABILITIES AND SHAREHOLDERS EQUITY:						
Interest bearing non-time deposits	**$ 6,308,837**	**$ 22,988**	**1.47%**	$ 6,374,663	$ 49,664	3.12%
Time deposits	**8,022,407**	**80,317**	**4.03%**	6,743,475	84,173	5.01%
Brokered time deposits	**1,574,093**	**17,102**	**4.37%**	410,034	5,232	5.12%
Total interest bearing deposits	**15,905,337**	**120,407**	**3.04%**	13,528,172	139,069	4.12%
Repurchase agreements	**522,045**	**2,528**	**1.95%**	511,175	5,327	4.18%
Federal funds purchased and other short-term borrowings	**475,681**	**2,550**	**2.16%**	635,665	8,404	5.30%
Long-term debt(2)	**4,076,494**	**47,831**	**4.71%**	3,033,776	40,858	5.40%
Total interest bearing liabilities	**20,979,557**	**$ 173,316**	**3.32%**	17,708,788	$ 193,658	4.39%
Noninterest bearing demand deposits	**3,067,322**			2,935,570		
Other liabilities(2)	**265,528**			161,766		
Total liabilities	**24,312,407**			20,806,124		
Minority interest/REIT preferred securities	**293,058**			125,416		
Shareholders equity	**2,410,675**			2,165,944		
Total liabilities and shareholders equity	**$ 27,016,140**			$ 23,097,484		
RATE DIFFERENTIAL			**2.40%**			2.98%
NET INTEREST INCOME AND NET YIELD ON INTEREST EARNING ASSETS ON A TAX EQUIVALENT BASIS(3)		**$ 176,525**	**2.88%**		$ 191,624	3.66%
Taxable equivalent adjustments(1):						
Loans		**(161)**			(232)	
Securities		**(1,940)**			(1,175)	
Total taxable equivalent adjustments		**(2,101)**			(1,407)	

Net interest income		**$ 174,424**			$ 190,217	
TOTAL AVERAGE DEPOSITS:						
Total interest bearing deposits	**$ 15,905,337**	**$ 120,407**	**3.04%**	$ 13,528,172	$ 139,069	4.12%
Noninterest bearing demand deposits	**3,067,322**			2,935,570		
Total average deposits	**$ 18,972,659**	**$ 120,407**	**2.55%**	$ 16,463,742	$ 139,069	3.39%
Total average deposits, excluding brokered time	**$ 17,398,566**	**$ 103,305**	**2.39%**	$ 16,053,708	$ 133,837	3.35%

(1) Interest earned and average rates on securities and loans exempt from income taxes are reflected on a fully tax equivalent basis using a federal income tax rate of 35%, net of nondeductible interest expense.

(2) Unrealized gains (losses) on available for sale securities, the adjustments for mark to market valuations on hedged assets and liabilities and lower of cost or fair value adjustments have been classified in either other assets or other liabilities.

(3) Net yield on interest earning assets is calculated by taking annualized fully tax equivalent net interest income divided by average total interest earning assets.

Table of Contents

Analysis of Interest Increases (Decreases)

(Unaudited)

	Three Months Ended June 30, 2008 Change from June 30, 2007		
		Attributed to(1)	
	Total	Volume	Rate
	(In thousands)		
INTEREST INCOME:			
Loans, net of unearned income	$ (56,496)	$ 9,819	$ (66,315)
Loans held for sale	1,881	12,296	(10,415)
Securities	17,459	15,772	1,687
Securities purchased under agreements to resell	2,321	9,347	(7,026)
Other interest earning assets	(606)	(107)	(499)
Total interest income	(35,441)	47,127	(82,568)
INTEREST EXPENSE:			
Interest bearing non-time deposits	(26,676)	(452)	(26,224)
Time deposits	(3,856)	12,620	(16,476)
Brokered time deposits	11,870	12,637	(767)
Repurchase agreements	(2,799)	43	(2,842)
Federal funds purchased and other short-term borrowings	(5,854)	(878)	(4,976)
Long-term debt	6,973	12,192	(5,219)
Total interest expense	(20,342)	36,162	(56,504)
Net interest income	$ (15,099)	$ 10,965	$ (26,064)

(1) Increases (decreases) are attributed to volume changes and rate changes on the following basis: Volume Change = change in volume times old rate. Rate Change = change in rate times old volume. The Rate/Volume Change = change in volume times change in rate, and is allocated to Volume Change.

Interest income decreased $35.4 million for the three months ended June 30, 2008, as compared to the same period of the prior year. Average earning assets increased $3.6 billion while the yield earned on those assets decreased 165 basis points. The drivers of these changes are more fully described in the paragraphs below.

For the three months ended June 30, 2008, interest income on loans decreased $56.5 million, as compared to the same period of the prior year. The decrease was primarily due to the decrease in the prime lending rate and an increase in average nonperforming loans which resulted in the average yield earned on loans decreasing 176 basis points.

Interest income on loans held for sale increased $1.9 million for the three months ended June 30, 2008, as compared to the same period of the prior year. Loans held for sale is comprised of three elements: short-term participations in mortgage loans, retail mortgage loans and other loans held for sale. The primary driver of the increase in interest income on loans held for sale was the average volume increase of $1.1 billion, or 57%, primarily from growth in short-term participations in mortgage loans from the Company s mortgage warehouse division. The yield on loans held for sale is influenced by the prevailing market rates which were lower in the three months ended June 30, 2008 than in the same period of the prior year.

Interest income on securities increased $17.5 million for the three months ended June 30, 2008, as compared to the same period of the prior year. The increase was primarily the result of a 26 basis point increase in yield on the average balances as well as a $1.1 billion, or 41%, increase in average volume. The Company restructured its securities portfolio at the beginning of the second quarter of 2007, selling approximately one-third of the total portfolio and reinvesting the proceeds into higher yielding securities.

32

For the three months ended June 30, 2008, interest income from securities purchased under agreements to resell increased $2.3 million, as compared to the same period of the prior year. The primary driver of the increase was an $800 million, or 61%, increase in average volume. The growth in average volume was the result of growth in the Company s mortgage warehouse division. The yield on securities purchased under agreements to resell is influenced by the prevailing market rates which were lower in the three months ended June 30, 2008 than in the same period of the prior year.

Interest expense decreased approximately $20.3 million for the three months ended June 30, 2008, as compared to the same period of the prior year. The decrease in interest expense was driven primarily by a 107 basis points decrease in the cost of average interest bearing liabilities which was partially offset by a $3.3 billion, or 18%, increase in average interest bearing liabilities. Including the impact of average noninterest bearing deposits, which increased $132 million, average funding costs decreased 86 basis points to 2.90%. The drivers of the decrease in funding costs are described in the paragraphs below.

For the three months ended June 30, 2008, interest expense on interest bearing non-time deposits decreased $26.7 million while interest expense on time deposits increased $8 million, as compared to the same period of the prior year. The decrease in interest expense for non-time deposits was due to a rate reduction of 165 basis points while the increase in interest expense on time deposits was due to an increase in average volume of $2.4 billion. The growth of time deposits is attributable to customer preference for higher rate products, increased competition for deposits and increased use of brokered time deposits as a funding source.

For the three months ended June 30, 2008, interest expense on wholesale borrowings decreased $1.7 million, as compared to the same period of the prior year. The decrease in interest expense was primarily caused by a decrease of 104 basis points in the cost of average wholesale borrowings which was partially offset by an increase of $894 million in average wholesale borrowings. The decline in the cost of average wholesale borrowings was the result of the Company replacing higher rate short-term and long-term borrowings with lower cost long-term debt and the repricing of variable rate wholesale borrowings.

Table of Contents

Average Volume and Rates

(Unaudited)

	Six Months Ended June 30,					
	2008			2007		
	Average Volume	Interest	Rate	Average Volume	Interest	Rate
	(Dollars in thousands)					
ASSETS:						
Loans, net of unearned income(2)	**$ 15,895,842**	**$ 498,176**	**6.30%**	$ 15,230,363	$ 586,707	7.76%
Loans held for sale(2)	**3,057,090**	**74,458**	**4.90%**	1,585,954	54,161	6.89%
Securities(2)	**3,670,331**	**108,509**	**5.91%**	2,928,898	79,443	5.42%
Securities purchased under agreements to resell	**2,112,696**	**53,073**	**5.05%**	1,185,365	40,457	6.87%
Other interest earning assets	**85,978**	**1,323**	**3.10%**	82,486	2,109	5.15%
Total interest earning assets(3)	**24,821,937**	**$ 735,539**	**5.95%**	21,013,066	$ 762,877	7.31%
Nonearning assets(2)	**2,511,054**			2,062,770		
Total assets	**$ 27,332,991**			$ 23,075,836		
LIABILITIES AND SHAREHOLDERS EQUITY:						
Interest bearing non-time deposits	**$ 6,459,247**	**$ 55,622**	**1.73%**	$ 6,344,391	$ 98,145	3.12%
Time deposits	**7,755,201**	**166,158**	**4.31%**	6,648,503	164,747	5.00%
Brokered time deposits	**1,583,487**	**36,133**	**4.59%**	365,409	9,261	5.11%
Total interest bearing deposits	**15,797,935**	**257,913**	**3.28%**	13,358,303	272,153	4.11%
Repurchase agreements	**533,131**	**6,233**	**2.35%**	636,621	13,882	4.40%
Federal funds purchased and other short-term borrowings	**927,821**	**14,142**	**3.07%**	898,468	23,681	5.32%
Long-term debt(2)	**4,080,255**	**96,941**	**4.77%**	2,979,704	80,876	5.46%
Total interest bearing liabilities	**21,339,142**	**$ 375,229**	**3.54%**	17,873,096	$ 390,592	4.40%
Noninterest bearing demand deposits	**3,067,268**			2,858,401		
Other liabilities(2)	**287,537**			164,173		
Total liabilities	**24,693,947**			20,895,670		
Minority interest/REIT preferred securities	**293,058**			63,054		
Shareholders equity	**2,345,986**			2,117,112		
Total liabilities and shareholders equity	**$ 27,332,991**			$ 23,075,836		
RATE DIFFERENTIAL			**2.41%**			2.91%
NET INTEREST INCOME AND NET YIELD ON INTEREST EARNING ASSETS ON A TAX EQUIVALENT BASIS(3)		**$ 360,310**	**2.91%**		$ 372,285	3.56%
Taxable equivalent adjustments(1):						
Loans		**(356)**			(379)	
Securities		**(3,906)**			(1,744)	
Total taxable equivalent adjustments		**(4,262)**			(2,123)	

Net interest income		**$ 356,048**			$ 370,162	
TOTAL AVERAGE DEPOSITS:						
Total interest bearing deposits	**$ 15,797,935**	**$ 257,913**	**3.28%**	$ 13,358,303	$ 272,153	4.11%
Noninterest bearing demand deposits	**3,067,268**			2,858,401		
Total average deposits	**$ 18,865,203**	**$ 257,913**	**2.75%**	$ 16,216,704	$ 272,153	3.38%
Total average deposits, excluding brokered time	**$ 17,281,716**	**$ 221,780**	**2.58%**	$ 15,851,295	$ 262,892	3.34%

(1) Interest earned and average rates on securities and loans exempt from income taxes are reflected on a fully tax equivalent basis using a federal income tax rate of 35%, net of nondeductible interest expense.

(2) Unrealized gains (losses) on available for sale securities, the adjustments for mark to market valuations on hedged assets and liabilities and lower of cost or fair value adjustments have been classified in either other assets or other liabilities.

(3) Net yield on interest earning assets is calculated by taking annualized fully tax equivalent net interest income divided by average total interest earning assets.

Table of Contents

	Six Months Ended June 30, 2008 Change from June 30, 2007		
		Attributed to(1)	
	Total	Volume	Rate
		(In thousands)	
INTEREST INCOME:			
Loans, net of unearned income	$ (88,531)	$ 21,737	$ (110,268)
Loans held for sale	20,297	35,948	(15,651)
Securities	29,066	21,890	7,176
Securities purchased under agreements to resell	12,616	23,314	(10,698)
Other interest earning assets	(786)	53	(839)
Total interest income	(27,338)	102,942	(130,280)
INTEREST EXPENSE:			
Interest bearing non-time deposits	(42,523)	1,208	(43,731)
Time deposits	1,411	24,160	(22,749)
Brokered time deposits	26,872	27,814	(942)
Repurchase agreements	(7,649)	(1,177)	(6,472)
Federal funds purchased and other short-term borrowings	(9,539)	486	(10,025)
Long-term debt	16,065	26,260	(10,195)
Total interest expense	(15,363)	78,751	(94,114)
Net interest income	$ (11,975)	$ 24,191	$ (36,166)

(1) Increases (decreases) are attributed to volume changes and rate changes on the following basis: Volume Change = change in volume times old rate. Rate Change = change in rate times old volume. The Rate/Volume Change = change in volume times change in rate, and is allocated to Volume Change.

Interest income decreased $27.3 million for the six months ended June 30, 2008, as compared to the same period of the prior year. Average earning assets increased $3.8 billion while the yield earned on those assets decreased 136 basis points. The drivers of these changes are more fully described in the paragraphs below.

For the six months ended June 30, 2008, interest income on loans decreased $88.5 million, as compared to the same period of the prior year. The decrease was primarily due to the decrease in the prime lending rate and an increase in average nonperforming loans which resulted in the average yield earned on loans decreasing 146 basis points.

Interest income on loans held for sale increased $20.3 million for the six months ended June 30, 2008, as compared to the same period of the prior year. The primary driver of the increase in interest income on loans held for sale was the average volume increase of $1.5 billion, or 93%, primarily from growth in the Company s mortgage warehouse division. The yield on loans held for sale is influenced by the prevailing market rates which were lower in the six months ended June 30, 2008 than in the same period of the prior year.

Interest income on securities increased $29.1 million for the six months ended June 30, 2008, as compared to the same period of the prior year. The increase was primarily the result of a $741 million, or 25%, increase in average volume as well as a 49 basis point increase in yield on the average balances. The Company restructured its securities portfolio at the beginning of the second quarter of 2007, selling approximately one-third of the total portfolio and reinvesting the proceeds into higher yielding securities.

For the six months ended June 30, 2008, interest income from securities purchased under agreements to resell increased $12.6 million, as compared to the same period of the prior year. The primary driver of the increase was a $927 million, or 78%, increase in average volume. The growth in average volume was the result of growth in the Company s mortgage warehouse division. The yield on securities purchased under agreements to resell is influenced by the prevailing market rates which were lower in the six months ended June 30, 2008 than in the same period of the prior year.

35

Table of Contents

Interest expense decreased approximately $15.4 million for the six months ended June 30, 2008, as compared to the same period of the prior year. The decrease in interest expense was driven primarily by an 86 basis points decrease in the cost of average interest bearing liabilities which was partially offset by a $3.5 billion, or 19%, increase in average interest bearing liabilities. Including the impact of average noninterest bearing deposits, which increased $209 million, average funding costs decreased 71 basis points to 3.09%. The drivers of the decrease in funding costs are described in the paragraphs below.

For the six months ended June 30, 2008, interest expense on interest bearing non-time deposits decreased $42.5 million while interest expense on time deposits increased $28.3 million, as compared to the same period of the prior year. The decrease in interest expense for non-time deposits was due to a rate reduction of 139 basis points while the increase in interest expense on time deposits was due to an increase in average volume of $2.3 billion. The growth of time deposits is attributable to customer preference for higher rate products, increased competition for deposits and increased use of brokered time deposits as a funding source.

For the six months ended June 30, 2008, interest expense on wholesale borrowings decreased $1.1 million, as compared to the same period of the prior year. The decrease in interest expense was primarily caused by a decrease of 103 basis points in the costs of average wholesale borrowings which was partially offset by an increase of $1.0 billion in average wholesale borrowings. The decline in the cost of average wholesale borrowings was the result of the Company replacing higher rate short-term and long-term borrowings with lower cost long-term debt and the repricing of variable rate wholesale borrowings.

Loan Loss Provision

The real estate markets in the U.S. have deteriorated at an accelerated pace over recent quarters, resulting in increased credit losses for many financial institutions. Many banks, including Colonial, have taken steps to increase reserve levels in response to these changing market conditions. Colonial s provision for loan losses for the three and six months ended June 30, 2008 was $79.0 million and $114.5 million, respectively, compared to $6.1 million and $8.4 million for the same periods in 2007. Net charge-offs for the three and six months ended June 30, 2008 were $72.8 million and $106.4 million, or an annualized 1.85% and 1.35% as a percent of average loans, respectively, compared to $7.6 million and $9.8 million, or an annualized 0.20% and 0.13% as a percent of average loans, respectively, for the same periods in 2007. BancGroup s allowance for loan losses was 1.60% of period end net loans at June 30, 2008 compared to 1.50% at December 31, 2007 and 1.15% at June 30, 2007.

Table of Contents

Noninterest Income

The following table shows the dollar and percentage change in noninterest income by category for the three and six months ended June 30, 2008, as compared to the same periods of the prior year. Core noninterest income declined approximately $67,000, or 0.1%, and increased $5.2 million, or 5.3%, for the three and six months ended June 30, 2008, respectively, as compared to the same periods of the prior year.

	Three Months Ended June 30,		Increase (decrease)		Six Months Ended June 30,		Increase (decrease)	
	2008	2007	$	%	2008	2007	$	%
				(Dollars in thousands)				
Service charges on deposit accounts	**$ 19,259**	$ 18,694	$ 565	3.0 %	**$ 38,487**	$ 36,373	$ 2,114	5.8 %
Electronic banking	**5,275**	4,648	627	13.5 %	**10,279**	9,049	1,230	13.6 %
Other retail banking fees	**2,540**	3,255	(715)	(22.0)%	**5,088**	6,867	(1,779)	(25.9)%
Retail banking fees	**27,074**	26,597	477	1.8 %	**53,854**	52,289	1,565	3.0 %
Mortgage banking origination and sales	**7,953**	3,660	4,293	117.3 %	**14,713**	6,847	7,866	114.9 %
Financial planning services	**5,061**	4,283	778	18.2 %	**9,873**	8,105	1,768	21.8 %
Mortgage warehouse fees	**1,251**	6,332	(5,081)	(80.2)%	**2,246**	13,287	(11,041)	(83.1)%
Bank-owned life insurance	**5,169**	5,002	167	3.3 %	**10,289**	9,957	332	3.3 %
Other income	**6,190**	6,891	(701)	(10.2)%	**13,395**	8,674	4,721	54.4 %
Core noninterest income	**52,698**	52,765	(67)	(0.1)%	**104,370**	99,159	5,211	5.3 %
Securities and derivatives gains, net	**3,025**	1,116	1,909	171.1 %	**9,100**	2,097	7,003	334.0 %
Securities restructuring charges						(36,006)	36,006	100.0 %
Gain on sale of mortgage loans						3,850	(3,850)	(100.0)%
Gain on sale of merchant services		4,900	(4,900)	(100.0)%		4,900	(4,900)	(100.0)%
Total noninterest income	**$ 55,723**	$ 58,781	$ (3,058)	(5.2)%	**$ 113,470**	$ 74,000	$ 39,470	53.3 %

Service charges on deposit accounts is comprised of nonsufficient funds fees and service charges on consumer and commercial deposit accounts. Noninterest income from service charges on deposit accounts increased for the three and six months ended June 30, 2008, as compared to the same periods of the prior year. Noninterest income from nonsufficient funds fees is the largest component of these increases and is primarily due to an increase in the number of customer accounts.

Electronic banking includes fees from Colonial s ATM network, business and personal check card services and internet banking. Noninterest income from electronic banking services increased for the three and six months ended June 30, 2008, as compared to the same periods of the prior year, primarily because of an increase in the number of Colonial customer accounts as well as the Company s focused efforts to increase customer check card usage and ATM network fees.

Other retail banking fees decreased for the three and six months ended June 30, 2008, as compared to the same periods of the prior year, primarily due to lower official check commissions and the Company s sale of its merchant services contracts in April 2007. The decline in official check commissions was primarily due to a decrease in rate. Merchant services revenue declined due to the Company s sale of contracts and the subsequent agent bank agreement with a third party service provider of merchant services. The outsourced relationship lowers Colonial s inherent risk of providing merchant services while enabling the Company to continue to offer those services to its customer base. The referral fees for new contracts are less than the previous fee income, but the Company s expenses and risks are also reduced. As part of the sale, Colonial recognized a $4.9 million gain as noted separately in the table above.

Mortgage banking origination and sales revenue is derived from mortgage loans originated and subsequently sold in the secondary market. The Company does not retain any servicing rights related to these loans. Mortgage banking sales volume increased 37% and 39% for the three and six months ended June 30, 2008, as compared to the same periods of the prior year, primarily due to a team of experienced prime mortgage originators hired in late 2007. In addition, profit margins improved due to a shift to higher margin FHA and VA products from other products and enhanced control over pricing and delivery.

Financial planning services include discount brokerage, investment sales, asset management, trust services and insurance sales including term, universal, whole life and long-term care. Financial planning services revenue increased for the three months ended June 30, 2008, as compared to the same period of the prior year, primarily due to fixed annuity sales and securities commissions, partially offset by a decline in variable annuity sales and trust revenues. Financial planning services revenue increased for the six months ended June 30, 2008, as compared to the same period of the prior year, primarily due to fixed and variable annuity sales, partially offset by a decline in security commissions and trust revenue.

Mortgage warehouse fees are comprised of three revenue streams: servicing and other fees associated with interests in mortgage warehouse assets sold to third-party commercial paper conduits, custodial fees associated with mortgage document services for mortgage warehouse customers and syndication fees paid to the Company as agent or participant in mortgage warehouse syndicated loans. The decrease in mortgage warehouse fees for the three and six months ended June 30, 2008, as compared to the same periods of the prior year, was primarily the result of lower servicing and other fees due to the discontinuation of sales of assets to third-party commercial paper conduits in early January 2008.

Income from bank-owned life insurance increased for the three and six months ended June 30, 2008, as compared to the same periods of the prior year, primarily due to the increased value of the policies.

Other income reflects revenues from joint ventures, letter of credit fees, condo association coupon fees, gains on the sales of bank premises and several other small items. The decline for the three months ended June 30, 2008, as compared to the same period of the prior year, was primarily the result of a $3.5 million decline in revenue from joint ventures and a $1.3 million increase in the unfavorable fair value adjustment on retail mortgage forward sale commitments, partially offset by an increase in revenue of $4.3 million from gains related to the sale of bank premises and equipment and the continued amortization of gains associated with the 2007 sale-leaseback of 56 bank locations. The increase for the six months ended June 30, 2008, as compared to the same period of the prior year, was primarily the result of an increase in revenue of $5.9 million from gains related to the sale of bank premises, a $2.1 million gain on the sale of Visa, Inc. stock from an initial public offering and a $1.5 million increase in servicing income partially offset by a decline of $3.9 million in joint venture revenue.

The Company s decision to buy and sell securities is based on its management of interest rate risk and projected liquidity and funding needs. During 2008, the Company recorded gains of $6.1 million in the first quarter from the sale of approximately $217 million in securities and a $3.0 million gain in the second quarter from the early termination of a $250 million resell agreement. In the first quarter of 2007, the Company recorded gains of $981,000 on the sale of $163 million in securities and recognized an impairment loss of $36.0 million as the Company declared its intent to restructure its securities portfolio by selling approximately $1.2 billion in available for sale securities. The securities were sold in April 2007. Also in the second quarter of 2007, the Company recorded gains of $1.1 million from the sale of additional available for sale debt securities and 15,570 shares of equity securities.

Table of Contents

The Company sold approximately $490 million of residential real estate loans in March 2007 and recognized a $3.9 million gain.

Noninterest Expense

The following table shows the dollar and percentage change in noninterest expense by category for the three and six months ended June 30, 2008, as compared to the same periods of the prior year. Core noninterest expense increased $22.2 million, or 16.1%, and $49.7 million, or 18.6%, for the three and six months ended June 30, 2008, respectively, as compared to the same periods of the prior year. Annualized core noninterest expense to average assets was 2.36% and 2.32% for the three and six months ended June 30, 2008, respectively, as compared to 2.38% and 2.32% for the three and six months ended June 30, 2007, respectively.

	Three Months Ended June 30,		Increase (decrease)		Six Months Ended June 30,		Increase (decrease)	
	2008	2007	$	%	2008	2007	$	%
				(Dollars in thousands)				
Salaries and employee benefits	**$ 74,761**	$ 70,256	$ 4,505	6.4 %	**$ 148,428**	$ 139,810	$ 8,618	6.2 %
Occupancy expense of bank premises, net	**24,064**	18,722	5,342	28.5 %	**47,119**	37,227	9,892	26.6 %
Furniture and equipment expenses	**15,134**	13,350	1,784	13.4 %	**29,837**	26,472	3,365	12.7 %
Professional services	**7,807**	4,628	3,179	68.7 %	**13,445**	8,728	4,717	54.0 %
FDIC insurance and other regulatory fees	**4,414**	1,232	3,182	258.3 %	**8,976**	2,445	6,531	267.1 %
Amortization of intangible assets	**4,142**	3,201	941	29.4 %	**8,305**	6,252	2,053	32.8 %
Electronic banking and other retail banking expenses	**4,136**	5,507	(1,371)	(24.9)%	**8,293**	9,719	(1,426)	(14.7)%
Loan and other real estate related costs	**4,486**	898	3,588	399.6 %	**7,135**	1,236	5,899	477.3 %
Communications	**2,863**	2,900	(37)	(1.3)%	**5,682**	5,891	(209)	(3.5)%
Advertising	**2,384**	3,683	(1,299)	(35.3)%	**4,987**	5,898	(911)	(15.4)%
Postage and courier	**2,270**	2,692	(422)	(15.7)%	**4,892**	5,331	(439)	(8.2)%
Loss on equity investments	**1,720**							