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COLONIAL BANGROUP INC  
Form 10-Q  
May 15, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

-----  
FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED MARCH 31, 2001

COMMISSION FILE NUMBER 1-13508

THE COLONIAL BANGROUP, INC.  
(Exact name of registrant as specified in its charter)

DELAWARE

63-0661573

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer  
Identification No.)

One Commerce Street  
Montgomery, Alabama 36104

-----  
(Address of principle executive offices)

(334) 240-5000

-----  
(Registrant's telephone number)

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  NO

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

Class	Outstanding at April 30, 2001
----- Common Stock, \$2.50 Par Value	----- 110,676,810

THE COLONIAL BANGROUP, INC.  
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CAUTIONARY STATEMENT PURSUANT TO SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995:

This report contains "forward-looking statements" within the meaning of the federal securities laws. 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. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among other things, the following possibilities: (i) deposit attrition, customer loss, or revenue loss in the ordinary course of business; (ii) increases in competitive pressure in the banking industry; (iii) changes in the interest rate environment which reduce margins; (iv) general economic conditions, either nationally or regionally, that are less favorable than expected, resulting in, among other things, a deterioration in credit quality, (v) changes which may occur in the regulatory environment; (vi) a significant rate of inflation (deflation); and (vii) changes in the securities markets. When used in this Report, the words "believes," "estimates," "plans," "expects," "should," "may," "might," "outlook," and "anticipates," and similar expressions as they relate to BancGroup (including its subsidiaries), or its management are intended to identify forward-looking statements.

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THE COLONIAL BANGROUP, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CONDITION  
(Unaudited)  
(Dollars in thousands, except per share amounts)

March 31, December 31, Ma

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	2001	2000	
<b>ASSETS:</b>			
Cash and due from banks	\$ 290,371	\$ 348,891	\$
Interest-bearing deposits in banks and federal funds sold	7,516	15,855	
Securities available for sale	1,461,208	1,449,386	1
Investment securities	41,881	44,310	
Mortgage loans held for sale	20,811	9,866	
Loans, net of unearned income	9,879,577	9,416,770	8
Less: Allowance for possible loan losses	(113,613)	(107,165)	
Loans, net	9,765,964	9,309,605	8
Premises and equipment, net	184,588	184,831	
Excess of cost over tangible and identified intangible assets acquired, net	93,224	74,393	
Mortgage servicing rights	-	-	
Other real estate owned	9,680	8,928	
Accrued interest and other assets	273,794	281,572	
<b>TOTAL ASSETS:</b>	<b>\$12,149,037</b>	<b>\$11,727,637</b>	<b>\$11</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY:</b>			
Deposits	\$ 8,274,669	\$ 8,143,017	\$ 8
FHLB short-term borrowings	425,000	425,000	
Other short-term borrowings	1,471,356	1,463,328	1
Subordinated debt	111,865	111,900	
Trust preferred securities	70,000	70,000	
FHLB long-term debt	796,832	547,022	
Other long-term debt	102,325	102,325	
Other liabilities	107,663	108,193	
<b>TOTAL LIABILITIES</b>	<b>11,359,710</b>	<b>10,970,785</b>	<b>10</b>
<b>SHAREHOLDERS' EQUITY:</b>			
Preference Stock, \$2.50 par value; 1,000,000 shares authorized, none issued	--	--	
Common Stock, \$2.50 par value; 200,000,000 shares authorized; 113,071,807, 113,081,198, and 112,844,273 shares issued at March 31, 2001, December 31, 2000, and March 31, 2000, respectively	282,680	282,703	
Treasury stock; 2,419,251, 2,773,752, and 1,416,876 at March 31, 2001, December 31, 2000, and March 31, 2000, respectively	(22,973)	(26,467)	
Additional paid in capital	119,832	118,600	
Retained earnings	405,643	390,442	
Unearned compensation	(4,924)	(2,541)	
Accumulated other comprehensive income (loss), net of taxes	9,069	(5,885)	
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>789,327</b>	<b>756,852</b>	
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$12,149,037</b>	<b>\$11,727,637</b>	<b>\$11</b>

See Notes to the Unaudited Condensed Consolidated Financial Statements

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THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)  
(Dollars in thousands, except per share amounts)

	Three Months Ended March 31,	
	2001	
<b>INTEREST INCOME:</b>		
Interest and fees on loans	\$ 208,469	\$ 1
Interest and dividends on securities	25,521	
Other interest income	738	
	234,728	2
<b>INTEREST EXPENSE:</b>		
Interest on deposits	93,431	
Interest on short-term borrowings	23,245	
Interest on long-term debt	18,214	
	134,890	1
<b>NET INTEREST INCOME</b>	99,838	
Provision for possible loan losses	9,464	
<b>Net Interest Income After Provision for Possible Loan Losses</b>	90,374	
<b>NONINTEREST INCOME:</b>		
Service charges on deposit accounts	9,286	
Wealth management	2,242	
Electronic banking	1,531	
Mortgage origination	1,613	
Securities gains (losses), net	1,143	
Other income	4,635	
	20,450	
<b>NONINTEREST EXPENSE:</b>		
Salaries and employee benefits	33,911	
Occupancy expense of bank premises, net	8,085	
Furniture and equipment expenses	7,158	
Amortization of intangibles	1,631	
Other expense	15,599	
	66,384	
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	44,440	
Applicable income taxes	15,998	
<b>INCOME FROM CONTINUING OPERATIONS</b>	28,442	

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DISCONTINUED OPERATIONS:

Income/(Loss) from discontinued operations, net of  
income  
taxes of \$0 and (\$358) for the three  
months ended March 31, 2001 and 2000

NET INCOME

-----  
\$ 28,442  
=====

-----  
\$  
=====

EARNINGS PER SHARE:

INCOME FROM CONTINUING OPERATIONS:

Basic

\$ 0.26

\$

Diluted

\$ 0.26

\$

NET INCOME

Basic

\$ 0.26

\$

Diluted

\$ 0.26

\$

See Notes to the Unaudited Condensed Consolidated Financial Statements

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THE COLONIAL BANGROUP, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

(Dollars in thousands, except per share amounts)

Three Months Ended  
March 31,

	2001	2000
	-----	-----
Net Income	\$ 28,442	\$ 29,941
OTHER COMPREHENSIVE INCOME, NET OF TAXES:		
Unrealized gains (losses) on securities available for sale arising during the period, net of taxes	15,686	(3,841)
Less: reclassification adjustment for net (gains) losses included in net income	(732)	(5)
COMPREHENSIVE INCOME	\$ 43,396 =====	\$ 26,095 =====

See Notes to the Unaudited Condensed Consolidated Financial Statements

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THE COLONIAL BANGROUP, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW  
(Unaudited)

(Dollars in thousands, except per share amounts)

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	----- 2001 -----
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 30,828
Cash flows from investing activities:	
Proceeds from maturities of securities available for sale	107,883
Proceeds from sales of securities available for sale	26,968
Purchase of securities available for sale	(121,806)
Proceeds from maturities of investment securities	2,228
Net increase in loans	(419,125)
Cash received in branch acquisition	32,801
Capital expenditures	(5,318)
Proceeds from sale of other real estate owned	1,829
Other, net	24
NET CASH USED IN INVESTING ACTIVITIES	(374,516)
Cash flows from financing activities:	
Net increase in demand, savings, and time deposits	28,770
Net increase in federal funds purchased, repurchase agreements and other short-term borrowings	138,026
Proceeds from issuance of long-term debt	250,000
Repayment of long-term debt	(130,189)
Proceeds from issuance of common stock	3,464
Purchase of treasury stock	--
Dividends paid (\$0.12 and \$0.11 per share for 2001 and 2000, respectively)	(13,242)
NET CASH PROVIDED BY FINANCING ACTIVITIES	276,829
Net decrease in cash and cash equivalents	(66,859)
Cash and cash equivalents at beginning of year	364,746
Cash and cash equivalents at March 31	\$ 297,887

See Notes to the Unaudited Condensed Consolidated Financial Statements

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THE COLONIAL BANGROUP, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW  
(Unaudited)  
(Dollars in thousands, except per share amounts)

	----- Three Mon Marc ----- 2001 -----
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid during the year for:	
Interest	\$145,148

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Income taxes	\$ 15,998
Non-cash investing activities:	
Transfer of loans to other real estate	\$ 10,909
Origination of loans from the sale of other real estate	\$ 3,085
Non-cash financing activities:	
Conversion of subordinated debentures	\$ 35
Reissuance of shares of treasury stock for stock plans	\$ 3,003

See Notes to the Unaudited Condensed Consolidated Financial Statements.

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### THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE A: ACCOUNTING POLICIES

The Colonial BancGroup, Inc. and its subsidiaries ("BancGroup" or the "Company") have not changed their accounting and reporting policies from those stated in the 2000 annual report on Form 10-K. These unaudited interim financial statements should be read in conjunction with the audited financial statements and footnotes included in BancGroup's 2000 annual report on Form 10-K.

In the opinion of BancGroup, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position as of March 31, 2001 and 2000 and the results of operations and cash flows for the interim periods ended March 31, 2001 and 2000. All 2001 interim amounts are subject to year-end audit, and the results of operations for the interim period herein are not necessarily indicative of the results of operations to be expected for the year.

#### NOTE B: COMMITMENTS AND 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 ultimate liability arising from litigation outstanding at March 31, 2001 will have a materially adverse effect on BancGroup's financial statements.

#### NOTE C: RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financials Accounting Standards Board issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires that entities recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an

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available-for-sale security, or a foreign-currency-denominated forecasted transaction. The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation.

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Under this Statement, an entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the entity's approach to managing risk.

On September 23, 1999, the Financial Accounting Standards Board issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133," an amendment to delay the effective date of SFAS No. 133. The effective date for this statement was delayed from fiscal years beginning after June 15, 1999 to fiscal years beginning after June 15, 2000. BancGroup had no significant derivative position or exposure in 2000 or the first quarter of 2001; therefore, there was no impact as a result of the implementation of SFAS No. 133 and SFAS No. 137.

On September 29, 2000, the Financial Accounting Standards Board issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a Replacement of FASB Statement No. 125." The effective date for this statement is for transfers that occur after April 1, 2001. Management has determined that the implementation of SFAS No. 140 will not have a material impact on BancGroup's financial statements.

### NOTE D: DISCONTINUED OPERATIONS

As noted in prior quarters, in July 2000 the Company decided to exit the mortgage servicing business and discontinue the operations of mortgage servicing as a separate business unit. As of December 31, 2000, all loan transfers were completed and the mortgage servicing rights removed from the Company's balance sheet. In addition, the escrow and custodial deposits related to those servicing rights have been transferred out of Colonial Bank resulting in a \$168 million reduction in average noninterest bearing deposits from March 31, 2000 to March 31, 2001. At March 31, 2001, the balance sheet of the Company includes approximately \$7.4 million in receivables and other advances related to the various transfers of servicing. These receivable and advance balances represent the expected recoverable amounts once all documentation supporting the transferred loans is provided to the new servicer. The anticipated costs of providing the necessary documents have been accrued. However, due to the volume of loans transferred and the costs and complexity in providing certain documentation, the Company's current estimate of recoverable amounts or costs may be revised for future periods.

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### NOTE E: MORTGAGE SERVICING RIGHTS

An analysis of mortgage servicing rights (MSR's) and the related valuation reserve is as follows:

Three Months Ended  
March 31



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	2001	2000
	-----	-----
(Dollars in thousands)		
MORTGAGE SERVICING RIGHTS		
Balance, January 1	\$ -	\$ 265,888
Additions, net	-	920
Sales	-	(162,380)
Scheduled amortization	-	(8,568)
Hedge losses applied	-	1,720
	-----	-----
Balance, March 31	-	97,580
	-----	-----
VALUATION RESERVE		
Balance, January 1	-	27,483
Reductions	-	(17,185)
Additions	-	300
	-----	-----
Balance, March 31	-	10,598
	-----	-----
Mortgage Servicing Rights, net	\$ -	\$ 86,982
	=====	=====

As a result of the previously discussed plan to exit the mortgage servicing business, all hedges related to MSR's were liquidated during the third quarter of 2000.

NOTE F: EARNINGS PER SHARE

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

(Dollars in thousands, except per share amounts)	Three Months	
	Income	S
	-----	-----
Basic EPS		
Income from continuing operations	\$28,442	
Effect of dilutive securities:		
Options		
Convertible debentures		48
	-----	-----
Diluted EPS	\$28,490	
	-----	-----

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(Dollars in thousands, except per share amounts)

	Three Months End	
	Income	Shares
Basic EPS		
Income from continuing operations	\$30,533	111,948
Effect of dilutive securities		
Options		255
Convertible debentures	46	608
Diluted EPS	\$30,579	112,811

### NOTE G: SEGMENT INFORMATION

Through its wholly owned subsidiary Colonial Bank, BancGroup has previously segmented its operations into two distinct lines of business: Commercial Banking and Mortgage Banking (which has been discontinued as a line of business effective July 2000). Colonial Bank operates 239 branches throughout six states.

Operating results and asset levels of the two segments reflect those which are specifically identifiable or which are based on an internal allocation method. The two segments are designed around BancGroup's organizational and management structure and while the assignments and allocations have been consistently applied for all periods presented, the results are not necessarily comparable to similar information published by other financial institutions.

The following table reflects the approximate amounts of consolidated revenues, expense, and assets for the quarters ended March 31, for each segment (Dollars in thousands):

	Continuing Operations		
QUARTER ENDED MARCH 31, 2001	Commercial Banking	Corporate Other*	To
Net interest income	\$ 101,652	\$ (1,814)	\$ 9
Provision for possible loan losses	9,464	--	
Noninterest income	20,458	(8)	2
Depreciation and Amortization	8,108	(109)	
Noninterest expense	57,173	1,212	5
Income from continuing Operations before income taxes	47,365	(2,925)	4
Applicable income taxes	16,813	(815)	1
INCOME FROM CONTINUING OPERATIONS	30,552	(2,110)	2
Income (Loss) from Discontinued Operations and loss on disposal (net of taxes)	--	--	

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NET INCOME

\$ 30,552                      \$ (2,110)      \$ 2

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QUARTER ENDED MARCH 31, 2000	Continuing Operations		
	Commercial Banking	Corporate Other*	Total
Net interest income	\$98,987	\$ (1,668)	\$97,319
Provision for possible loan losses	5,547	--	5,547
Noninterest income	18,455	(8)	18,447
Depreciation and Amortization	8,010	(102)	7,908
Noninterest expense	53,129	1,081	54,210
Income from continuing Operations before income taxes	50,756	(2,655)	48,101
Applicable income taxes	18,283	(715)	17,568
INCOME FROM CONTINUING OPERATIONS	32,473	(1,940)	30,533
Income (Loss) from Discontinued Operations and loss on disposal (net of taxes)	--	--	--
NET INCOME	\$32,473	\$ (1,940)	\$30,533

\* Includes elimination's of certain intercompany transactions.

NOTE H: BUSINESS ACQUISITIONS AND COMBINATIONS

On January 13, 2001, Colonial Bank acquired two branches in Nevada from First Security Bank in a branch divestiture resulting from their merger with Wells Fargo. Through this acquisition, the Company purchased \$49.5 million in loans and assumed \$102.9 million in deposits at a purchase price of \$70.2 million.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
 -----  
 OPERATIONS  
 -----

FINANCIAL CONDITION:

Ending balances of total assets, securities, mortgage loans held for sale, net loans, mortgage servicing rights, deposits, and long term debt changed for the three months and twelve months ended March 31, 2001, respectively, as follows (Dollars in thousands):

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	December 31, 2000 to March 31, 2001		March 31, to March 31
	Increase	(Decrease)	Increase (De
	Amount	%	Amount
<b>Assets:</b>			
Bank	\$445,006	3.8%	\$1,152,405
Mortgage Banking	(23,798)	-67.8%	(226,518)
Other	192	1.5%	199
<hr/>			
Total Assets	421,400	3.6%	926,086
Securities	9,393	0.6%	(157,038)
Mortgage loans held for sale	10,945	110.9%	(2,480)
Loans, net of unearned income	462,807	4.9%	1,329,165
Mortgage servicing rights	--	0%	(86,982)
Deposits	131,652	1.6%	145,083
Long-term debt	249,774	30.1%	191,886

Assets:

BancGroup's total assets have increased 8.3% and 3.6% since March 31, 2000 and December 31, 2000, respectively. This growth resulted primarily from internal loan growth throughout BancGroup's banking regions partially offset by the decline in mortgage banking assets due to the discontinuance of this line of business as discussed in Note D to the consolidated financial statements.

Securities:

Investment securities and securities available for sale have decreased \$157.0 million (-9.5%) and increased \$9.4 million (0.6%) from March 31, 2000 and December 31, 2000, respectively. These fluctuations were due to normal business activities.

Loans and Mortgage Loans Held for Sale:

Loans, net of unearned income, have increased \$1.3 billion (15.6%) and \$462.8 million (4.9%) from March 31, 2000 and December 31, 2000, respectively. This increase is primarily due to 15% internal loan growth from March 31, 2000 and 18% annualized internal loan growth from December 31, 2000. The Mortgage Warehouse Lending unit, which generates lines of credit secured by single-family residential

loans in the process of being sold, contributed \$458.7 million and \$267.5 million of this growth from March 31, 2000 and December 31, 2000, respectively. Internal loan growth excluding the Mortgage Warehouse Lending Unit was 9% annualized from December 31, 2000 compared to 14% for the full year of 2000. In addition to internal growth, \$49.5 million of the increase in loans was the result of the acquisition of two branches in Nevada, as discussed in Note H of the consolidated financial statements.

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(In thousands)	2001	2000	2000
Commercial, financial, and agricultural	\$ 1,254,944	\$ 1,221,131	\$ 1,16
Real estate-commercial	3,268,950	3,174,483	2,66
Real estate-construction	1,810,132	1,693,958	1,56
Real estate-residential	2,541,015	2,562,708	2,56
Installment and consumer	263,837	272,124	29
Mortgage warehouse lending	644,484	376,995	18
Other	96,246	115,413	11
<b>Total Loans</b>	<b>\$ 9,879,608</b>	<b>\$ 9,416,812</b>	<b>\$ 8,55</b>

Commercial loans collateralized by real estate and construction loans increased approximately \$94.5 million and \$116.2 million, respectively from December 31, 2000 and \$607.1 million and \$249.8 million, respectively, from March 31, 2000. Commercial, financial, and agricultural loans increased \$33.8 million and \$91.2 million from December 31, 2000 and March 31, 2000, respectively. Mortgage Warehouse Lending's loan growth was due primarily to declines in mortgage interest rates which significantly increased the volume of mortgage loan applications for new and refinanced borrowing. BancGroup's loans are concentrated in various areas in Alabama, the metropolitan Atlanta market in Georgia as well as BancGroup's markets in Florida, Nevada, and Texas.

BancGroup does not have a syndicated lending department; however, the Company has commitments (including unfunded amounts) that fall within the regulatory definition of a "shared national credit". These commitments total approximately \$460.0 million, up from \$193.0 million at December 31, 2000. Substantially all of this increase was attributed to the growth within our Mortgage Warehouse Lending unit. The quality of these credits remains strong, with no credits being adversely rated.

Management believes that any existing distribution of loans, whether geographically, by industry, or by borrower, does not expose BancGroup to unacceptable levels of risk. The current distribution of loans remains diverse in location, size, and collateral function. These differences, in addition to our emphasis on quality underwriting, serve to reduce the risk of losses. The following chart reflects the geographic diversity, and industry distribution of Construction and Commercial Real Estate loans as of March 31, 2001.

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CONSTRUCTION & COMMERCIAL REAL ESTATE GEOGRAPHIC DIVERSITY AND INDUSTRY DISTRIBUTION

	Construction	Commercial Real
Average Loan Size (Dollars in Thousands)	\$ 663,576	\$ 4
Geographic Diversity		
Alabama	\$ 235,500	\$ 8
Georgia	396,181	4
Florida	824,392	1,4
Texas	154,749	
Nevada	95,699	1
Other	63,070	3

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Total

\$1,769,591

\$3,2

Industry Distribution	% of Industry Distribution to			% of I
	Construction Portfolio	Total Portfolio		
Residential Developments	29%	5%	Retail	
Multi-Family Condominium	21%	4%	Office	
Office	10%	2%	Lodging	
Retail	9%	2%	Multi-Family	
Other (13 types)	7%	1%	Land Only	
	6%	1%	Warehouse	
	18%	3%	Other (11 types)	
Total Construction	100%	18%	Total Commercial Real Estate	

Characteristics of the 75 Largest Loans

	Construction
75 Largest Loans Total	\$ 800,685
% of 75 largest loans to category total	44.7%
Average Loan to Value Ratio (75 largest loans)	71%
Debt Coverage Ratio (75 largest loans)	N/A

Substantially all Construction and Commercial Real Estate loans have personal guarantees of the borrower. Owner occupied Commercial Real Estate portfolio totals represented 30% of the total Commercial Real Estate portfolio at March 31, 2001.

ALLOCATION OF THE ALLOWANCE FOR POSSIBLE LOAN LOSSES

Allocations of the allowance for possible loan losses are made on an individual loan basis for all identified potential problem loans with a percentage allocation for the remaining portfolio. The allocation of the remaining allowance represents an approximation of the reserves for each category of loans based on management's evaluation of the respective historical charge-off experience and risk within each loan type.

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(Dollars In thousands)	March 31, 2001	Percent of Loans to Total Loans	December 31, 2000	Percent of Loans to Total Loans	Ma
Commercial, financial, and agricultural	\$ 32,503	12.7%	\$ 27,861	13.0%	\$
Real estate-commercial	44,909	33.1%	43,843	33.7%	
Real estate-construction	15,344	18.3%	15,909	18.0%	
Real estate-mortgage	12,705	25.7%	12,814	27.2%	
Installment and consumer	2,514	2.7%	2,927	2.9%	
Mortgage warehouse lending	1,611	6.6%	942	4.0%	
Other	4,027	0.9%	2,869	1.2%	
<b>TOTAL</b>	<b>\$113,613</b>	<b>100.0%</b>	<b>\$107,165</b>	<b>100.0%</b>	<b>\$</b>

SUMMARY OF LOAN LOSS EXPERIENCE

(Dollars In thousands)	March 31, 2001	December 31, 2000
Allowance for possible loan losses - January 1	\$ 107,165	\$ 95,993
Charge-offs:		
Commercial, financial, and agricultural	2,737	10,493
Real estate-commercial	201	3,240
Real estate-construction	45	529
Real estate-residential	652	3,260
Installment and consumer	839	4,345
Other	173	1,119
Total charge-offs	4,647	22,986
Recoveries:		
Commercial, financial, and agricultural	115	1,210
Real estate-commercial	191	627
Real estate-construction	7	62
Real estate-residential	194	440
Installment and consumer	497	1,856
Other	60	283
Total recoveries	1,064	4,478

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	March 31, 2001	December 31, 2000	Mar
Net charge-offs	3,583	18,508	
Addition to allowance for branch acquisition	567	-	
Addition to allowance charged to operating expense	9,464	29,680	

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Allowance for possible loan losses-end of period	\$ 113,613	\$ 107,165	\$
--	------------	------------	----

Nonperforming assets were 0.53% of net loans and other real estate at March 31, 2001. Nonperforming assets have increased \$1.3 million from December 31, 2000. The increase in nonperforming assets primarily resulted from a \$585,000 increase in nonaccrual loans and a \$752,000 increase in other real estate. Management continuously monitors and evaluates recoverability of problem assets and adjusts loan loss reserves accordingly. Loan loss reserve is 1.15% of loans at March 31, 2001 and 1.14% at December 31, 2000 compared to 1.15% at March 31, 2000.

NONPERFORMING ASSETS ARE SUMMARIZED BELOW

(Dollars In thousands)	March 31, 2001	December 31, 2000	Mar 2
Nonaccrual loans	\$ 41,209	\$ 40,624	\$
Restructured loans	1,147	1,161	
Total nonperforming loans *	42,356	41,785	
Other real estate owned and in substance foreclosures	9,680	8,928	
Total nonperforming assets *	\$ 52,036	\$ 50,713	\$
Aggregate loans contractually past due 90 days for which interest is being accrued	\$ 16,739	\$ 9,841	\$
Net charge-offs year-to-date	\$ 3,583	\$ 18,508	\$

RATIOS

PERIOD END:

Total nonperforming assets as a percent of net loans and other real estate	0.53%	0.54%
Allowance as a percent of net loans	1.15%	1.14%
Allowance as a percent of nonperforming assets *	218%	211%
Allowance as a percent of nonperforming loans *	268%	256%

FOR THE PERIOD ENDED:

Net charge-offs as a percent of average net loans - (annualized basis):		
Quarter to date	0.15%	0.21%

\* Does not include loans contractually past due 90 days or more which are still accruing interest.

Management, through its loan officers internal credit review staff, and external examinations by regulatory agencies, has identified approximately \$194.9 million of potential problem loans not included above. The status of these loans is reviewed at least quarterly by loan officers and annually by BancGroup's centralized credit review function and by regulatory agencies. In connection with such reviews, collateral values are updated where considered necessary. If



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collateral values are judged insufficient or other sources of repayment inadequate, the loans are reduced to estimated recoverable amounts through increases in reserves allocated to the loans or charge-offs. As of March 31, 2001, substantially all of these loans are current with their existing repayment terms. Management believes that classification of such loans as potential problem loans well in advance of their reaching a delinquent status allows the Company the greatest flexibility in correcting problems and providing adequate reserves. Given the reserves and the ability of the borrowers to comply with the existing repayment terms, management believes any exposure from these potential problem loans has been adequately addressed at the present time. Management does expect nonperforming assets and net charge-offs to increase in the near term over the balances recorded as of March 31, 2001. However, nonperforming assets to total loans is not expected to exceed 0.75% and net charge-offs to average loans is not expected to exceed 0.25% for the year.

The above nonperforming loans and potential problem loans represent all material credits for which management has serious doubts as to the ability of the borrowers to comply with the loan repayment terms. Management also expects that the resolution of these problem credits as well as other performing loans will not materially impact future operating results, liquidity or capital resources. The recorded investment in impaired loans at March 31, 2001 was \$36.5 million and these loans had a corresponding valuation allowance of \$15.7 million.

LIQUIDITY:

BancGroup has addressed its liquidity and interest rate sensitivity through its policies and structure for asset/liability management. It has created the Asset/Liability Management Committee ("ALMCO"), the objective of which is to optimize the net interest margin while assuming reasonable business risks. ALMCO annually establishes operating constraints for critical elements of BancGroup's business, such as liquidity and interest rate sensitivity. ALMCO constantly monitors performance and takes action in order to meet its objectives.

A prominent focus of ALMCO is maintaining adequate liquidity. Liquidity is the ability of an organization to meet its financial commitments and obligations on a timely basis. These commitments and obligations include credit needs of customers, withdrawals by depositors, repayment of debt when due and payment of operating expenses and dividends.

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Core deposit growth is a primary focus of BancGroup's funding and liquidity strategy. Average retail deposits grew at an annualized rate of 10% for the first quarter of 2001 compared to 9% for 2000. This growth continues to be primarily from the Company's high growth markets, with Florida contributing 86% and 69% of the growth in the first quarter of 2001 and in 2000, respectively. Deposit growth will continue to be a primary strategic objective of the Company.

In addition to funding growth through core deposits, BancGroup has worked to expand the availability of wholesale funding sources. The following table estimates the total wholesale funding sources that BancGroup believes would be available to it, along with what portion of those sources were used as of March 31, 2001. It should be noted that these are estimates, these funding sources are not guaranteed lines.

Estimated Wholesale Funding Sources as of March 31, 2001  
\$ in millions

Total	Outstanding	Available
-------	-------------	-----------

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FHLB Advances*	\$2,230	\$1,300	\$ 930
Fed Funds lines	1,757	943	814
Brokered Deposits	1,049	449	600
-----			
Total	\$5,036	\$2,692	\$2,344
=====			

\* Based on Residential and Commercial Real Estate loans pledged at 03/31/01.

Management believes its liquidity sources and funding strategies are adequate given the nature of its asset base and current loan demand.

INTEREST RATE SENSITIVITY:

The Federal Reserve has lowered the target fed funds rate a total of 200 basis points in four 50 basis point moves since December 31, 2000. The latest move on April 18, 2001 was the second action taken between FOMC (Federal Open Market Committee) meetings this year. The Federal Reserve actions have been dramatic and appear to be designed to re-stimulate growth in the economy and head off the potential for a recession.

ALMCO's goal is to minimize volatility in the net interest margin by taking an active role in managing the level, mix, repricing characteristics and maturities of assets and liabilities and by analyzing and taking action to manage mismatch and basis risk. ALMCO monitors the impact of changes in interest rates on net interest income using several tools, including static rate sensitivity reports, or Gap reports, and income simulations modeling under multiple rate scenarios.

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The following table represents the output from the Company's simulation model and measures the impact on net interest income of an immediate and sustained change in interest rates in 100 basis point increments for the 12 calendar months following the date of the change.

	Percentage Change in Net Interest Income (1)	
	As of December 31, 2000	As of March 31, 2001
	-----	-----
Fed Funds Rate under Stable Environment	6.00%	5.00%
Basis Points change from stable.....		
-----		
+200.....	(3)%	(3)%
+100.....	(2)	(1)
-100.....	1	0
-200.....	1	(2)
-----		

(1) The computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and deposit decay rates, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions BancGroup could undertake in response to changes in interest rates.

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The rate shock results in the simulation model as of December 31, 2000 reflect that BancGroup's net interest income would benefit from the 200 basis point rate decline experienced thus far in 2001 versus if rates had not changed. The results as of March 31, 2001 are very similar, net interest income for the next 12 months will be best under the stable scenario (100 basis points below year-end levels) or under another 100 basis point decline (200 basis points below year-end). As of March 31, 2001 net interest income is lower under a more dramatic immediate rate decrease of 200 basis points to a 3.00% fed funds rate, than under the stable scenario, due to the rate compression which occurs in historically low rate environments. These results also reflect that currently BancGroup's largest interest rate risk exposure is to an immediate and sustained rate increase of 200 basis points. Overall interest rate risk is well within the constraints set by ALMCO.

The following table summarizes BancGroup's Maturity / Rate Sensitivity or Gap at March 31, 2001.

(Dollars in millions)

	0-90 days	0-365 days
Rate Sensitive Assets (RSA)	\$5,014	\$ 6,477
Rate Sensitive Liabilities (RSL)	3,933	7,526
Cumulative Gap (RSA-RSL)	1,080	(1,049)
Cumulative Gap Ratio (Cum. Gap / Total Assets)	8.9%	(8.6%)

The last two lines of the proceeding table represent interest rate sensitivity gap which is the difference between rate sensitive assets and rate sensitive liabilities. The interest sensitivity schedule reflects an 8.9% positive cumulative gap at three months but a (8.6%) negative cumulative gap at 12 months. Gap

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schedules have limitations as discussed in the following paragraph. Given these limitations, what may be inferred from these results is that as of March 31, 2001 BancGroup's earning in the first three months after a rate decrease will not perform as well as if rates stayed unchanged. However, over the course of 12 months as liabilities reprice at lower rate levels, earnings are positively impacted by the rate decline. These results are consistent with the income simulation results discussed earlier. The March 31, 2001 stable rate scenario, with fed funds at 5.00%, is currently the most positive outcome, since the full impact of the rate declines since January 2001 have not yet been fully reflected in the assets and liabilities as of March 31, 2001. Therefore, a simulation with stable rates will include the additional downward repricing of the liabilities over the course of the next 12 months.

In reviewing the table, it should be noted that the balances are shown for a specific point in time and, because the interest sensitivity position is dynamic, it can change significantly over time. For all interest earning assets and interest bearing liabilities, variable rate assets and liabilities are reflected in the time interval of the assets or liabilities' earliest repricing date. Fixed rate assets and liabilities have been allocated to various time intervals based on contractual repayment. Furthermore, the balances reflect contractual repricing of the deposits and management's position on repricing certain deposits where management discretion is permitted. Prepayment assumptions are applied at a constant rate based on the Company's historical experience. Certain demand deposit accounts and regular savings accounts have been classified as repricing beyond one year in accordance with regulatory guidelines. While these accounts are subject to immediate withdrawal, experience and analysis have shown them to be relatively rate insensitive.

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### CAPITAL RESOURCES:

Management is committed to maintaining capital at a level sufficient to protect shareholders and depositors, provide for reasonable growth and fully comply with all regulatory requirements. Management's strategy to achieve these goals is to retain sufficient earnings while providing a reasonable return to shareholders in the form of dividends and return on equity. The Company's dividend payout ratio target range is 30-45%. Dividend rates are determined by the Board of Directors in consideration of several factors including current and projected capital ratios, liquidity and income levels and other bank dividend yields and payment ratios.

The amount of a cash dividend, if any, rests with the discretion of the Board of Directors of BancGroup as well as upon applicable statutory constraints such as the Delaware law requirement that dividends may be paid only out of capital surplus or net profits for the fiscal year in which the dividend is declared or the preceding fiscal year.

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BancGroup also has access to equity capital markets through both public and private issuances. Management considers these sources and related return in addition to internally generated capital in evaluating future expansion or acquisition opportunities.

The Federal Reserve Board has issued guidelines identifying minimum Tier I leverage ratios relative to total assets and minimum capital ratios relative to risk-adjusted assets. The minimum leverage ratio is 3% but is increased from 100 to 200 basis points based on a review of individual banks by the Federal Reserve. The minimum risk adjusted capital ratios established by the Federal Reserve are 4% for Tier I and 8% for total capital. BancGroup's actual capital ratios and the components of capital and risk adjusted asset information (subject to regulatory review) as of March 31, 2001 are stated below:

### Capital (Dollars in thousands):

#### Tier I Capital:

Shareholders' equity (as adjusted for unrealized loss on securities available for sale, less intangibles plus Trust Preferred Securities)	\$ 757,035
---	------------

#### Tier II Capital:

Allowable loan loss reserve	113,613
Subordinated debt	111,865

Total Capital	\$ 982,513
---------------	------------

Risk Adjusted Assets (Dollars in thousands)	\$ 9,771,609
---	--------------

### Capital Ratios:

	March 31, 2001	December 31, 2000
Tier I leverage ratio (minimum 3%)	6.40%	6.63%
Risk Adjusted Capital Ratios:		

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Tier I Capital Ratio (minimum 4%)	7.75%	8.21%
Total Capital Ratio (minimum 8%)	10.05%	10.58%

BancGroup has increased capital gradually through normal earnings retention as well as through stock registrations to capitalize acquisitions. The decreases in the risk adjusted ratios shown above were primarily due to asset growth. The reduction in capital due to outstanding treasury stock was \$23.0 million and \$26.5 million at March 31, 2001 and December 31, 2000, respectively.

Management continuously monitors its capital levels in order to insure it is taking the necessary steps to support future internally generated growth and fund the quarterly dividend rates that are currently \$0.12 per share each quarter.

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AVERAGE VOLUME AND RATE  
(UNAUDITED)  
(Dollars in thousands)

	Three Months Ended Ma			
	2001			
	Average Volume	Interest	Rate	A
<b>ASSETS</b>				
Loans, net	\$ 9,660,125	\$ 208,439	8.73%	\$
Mortgage loans held for sale	11,987	195	6.51%	
Investment securities and securities available				
for sale and other interest-earning assets	1,592,557	26,905	6.76%	
Total interest-earning assets(1)	11,264,669	235,539	8.45%	1
Nonearning assets	664,459			
Total assets	\$11,929,128			\$1
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>				
Interest-bearing deposits	\$ 7,116,844	93,432	5.32%	\$
Short-term borrowings	1,623,323	23,244	5.81%	
Long-term debt	1,210,291	18,401	6.17%	
Total interest-bearing liabilities	9,950,458	135,077	5.51%	
Noninterest-bearing demand deposits	1,100,535			
Other liabilities	108,420			
Total liabilities	11,159,413			1
Shareholders' equity	769,715			
Total liabilities and shareholders' equity	\$11,929,128			\$1

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RATE DIFFERENTIAL		2.94%
NET YIELD ON INTEREST-EARNING ASSETS	\$ 100,462 =====	3.59%

(1) Interest earned and average rates on obligations of states and political subdivisions are reflected on a tax equivalent basis. Tax equivalent interest earned is equal to actual interest earned times 145%. The taxable equivalent adjustment has given effect to the disallowance of interest expense deductions, for federal income tax purposes, related to certain tax-free assets.

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ANALYSIS OF INTEREST INCREASES (DECREASES)  
(UNAUDITED)

(Dollars in thousands)

	Three Months Ended March 31, 2001 Change from 2000		
	Total	Volume	Attributed to (1) Rate
	-----	-----	-----
INTEREST INCOME:			
Total loans, net	\$ 27,798	\$ 27,009	\$ 789
Mortgage loans held for sale	(333)	(241)	(92)
Investment securities and securities for sale and other interest-earning assets	(982)	(1,063)	81
	-----	-----	-----
Total interest income (2)	26,483	25,705	778
	-----	-----	-----
INTEREST EXPENSE:			
Interest-bearing deposits	\$ 15,646	\$ 6,257	\$ 9,389
Short-term borrowings	4,472	4,188	284
Long-term debt	2,847	3,184	(337)
	-----	-----	-----
Total interest expense	22,965	13,629	9,336
	-----	-----	-----
Net interest income	\$ 3,518	\$ 12,076	\$ (8,558)
	=====	=====	=====

(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 it is allocated between Volume Change and Rate Change at the ratio that the absolute value of each of those components bear to the absolute value of their total.

(2) Interest earned and average rates on obligations of states and political subdivisions are reflected on a tax equivalent basis. Tax equivalent interest earned is: actual interest earned times 145%. Tax equivalent average rate is: tax equivalent interest earned divided by average volume.

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### NET INTEREST INCOME:

Net interest income from continuing operations on a tax equivalent basis increased \$2.5 million to \$100.6 million for the quarter ended March 31, 2001 from \$98.1 million for the quarter ended March 31, 2000. Net interest margins decreased to 3.59% for the first quarter of 2001 compared to 3.62% for the fourth quarter of 2000, and 3.87% for the first quarter of 2000. The three 50 basis point reductions in the Fed Funds Rate by the Federal Reserve during the first quarter have had a slightly negative impact on the margin due to the Company's asset sensitive position in the first three months following rate changes. The Company is liability sensitive after the first three months of a rate change and therefore should benefit from rate reductions after that time frame.

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In addition to the Fed rate changes and its effect on the repricing of loans and deposit products, margins were impacted by the growth in loans, specifically mortgage warehouse loans. The growth in warehouse loans of \$267.5 million and \$458.7 million from December 31, 2000 and March 31, 2000, respectively, resulted in an increase of \$676,000 and \$2.2 million in net interest income for the same periods. However, mortgage warehouse loans have lower margins due to their relatively low credit risk, which resulted in a six basis point reduction in the margin compared to the fourth quarter of 2000.

The rate on average interest bearing deposits was 5.32% for the first quarter of 2001 compared to 5.50% and 4.75% for the fourth quarter and first quarter of 2000, respectively. During this same time, the average rate on loans was 8.73% for the first quarter of 2001 compared to 9.08% and 8.69% for the fourth quarter and first quarter of 2000, respectively. Although rates on deposits have declined, they reprice more slowly than loan rates primarily due to market competition and the effect of fixed rates on certificates of deposits.

First quarter reductions in the Federal Funds Rate by the Federal Reserve should have a modest benefit over the remainder of 2001 in the net interest margin. Future rate reductions however may postpone a portion of the benefit for Colonial until 2002 due to the Company's interest rate sensitivity position.

### LOAN LOSS PROVISION:

The provision for possible loan losses for the first quarter ended March 31, 2001 was \$9.46 million compared to \$5.55 million for the same period in 2000. The increased provision reflects management's conservative approach to concerns over a slowing national economy and the related impact on credit quality.

The current allowance for possible loan losses provides a 268% coverage of nonperforming loans compared to 256% at December 31, 2000 and 271% at March 31, 2000. See management's discussion on loan quality and the allowance for possible loan losses presented in the Financial Condition section of this report.

### NONINTEREST INCOME:

Noninterest income increased \$2.0 million for the three months ended March 31, 2001 compared to the same period in 2000. These increases are primarily attributable to additional fee income related to mortgage origination fees, electronic banking fees, and securities gains.

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The increase in mortgage origination fees is the result of additional production

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of one-to-four family mortgage loans sold in the secondary market. This increase in production is directly related to the decrease in mortgage rates in the first quarter of 2001.

BancGroup continues to expand electronic banking services through its ATM network, check card services, and internet banking. Non-interest income from electronic banking services increased approximately 20% for the three months ended March 31, 2001 compared to the same period in 2000 while income from traditional banking services such as service charges remained level. Wealth management experienced a \$319,000 decrease in fee income from security sales due to the recent volatility in the equity market and the overall outlook on the economy. Noninterest income also included \$1.1 million related to gains on the sales of securities.

### NONINTEREST EXPENSES:

BancGroup's net overhead (total noninterest expense less noninterest income, excluding security gains) was \$47.1 million for the three months ended March 31, 2001 compared to \$43.7 million for the three months ended March 31, 2000.

Noninterest expense increased \$4.3 million for the first quarter of 2001 compared to the first quarter of 2000. Noninterest expense to average assets improved to 2.23% from 2.26% for the same period in 2000.

The increase in bank related expenses is primarily due to an increase of approximately \$3.1 million for the three months ended March 31, 2001 over the same period in 2000 in salaries and employee benefits. These salary increases are due to normal salary increases, additional incentive related compensation, and increased pension costs. Occupancy and equipment expense for the first quarter of 2001 increased \$962,000 when compared to the same period in 2000. This increase is due to increased rent expense, higher utility cost, and improvements and expansions of bank facilities as well as improved technology equipment and software. Intangible asset amortization increased \$329,000 due to the purchase of two branches in Nevada in January of 2001 (See Note H to the Consolidated Financial Statements).

### PROVISION FOR INCOME TAXES:

BancGroup's provision for income taxes is based on an approximate 36.0% and 36.5%, estimated annual effective tax rate for the years 2001 and 2000, respectively. The provision for income taxes for the three months ended March 31, 2001 and 2000 was \$16.0 million and \$17.6 million, respectively.

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### Item III Quantitative and Qualitative Disclosures About Market Risk

The information required by this item is included in Item II. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Part II Other Information

- ITEM 1: Legal Proceedings - See Note B - COMMITMENTS AND CONTINGENCIES AT PART 1
- ITEM 2: Changes in Securities - N/A
- ITEM 3: Defaults Upon Senior Securities - N/A
- ITEM 4: Submission of Matters to a Vote of Security Holders



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On April 18, 2001, the annual meeting of the shareholders of Colonial BancGroup was held. The following are the results of the votes cast by shareholders present at such meeting, by proxy or in person, for such proposals.

- 1) Election of the following directors:

For a Term Expiring in 2004.

	For	Withhold
Robert S. Craft	89,654,664	2,500,644
Clinton O. Holdbrooks	89,665,132	2,490,176
Harold D. King	89,649,880	2,505,428
Robert E. Lowder	84,913,288	7,242,020
John C. H. Miller, Jr.	89,466,337	2,688,971
James W. Rane	89,642,339	2,515,969

For a Term Expiring in 2002

Augustus K. Clements, III	89,655,053	2,500,255
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In addition to the foregoing, the following directors will continue to serve:

Term Expires in 2003	Term Expires in 2002
Lewis E. Beville	William Britton
Jerry J. Chesser	Patrick F. Dye
John Ed Mathison	Milton E. McGregor
Joe D. Mussafer	William E. Powell, III
Frances E. Roper	Simual Sippial
Edward V. Welch	

	For	Against
2) To adopt The Colonial BancGroup, Inc. 2001 Long-Term Incentive Plan.	52,762,246	21,157,535

ITEM 5: Other Information - None

ITEM 6: Exhibits and Reports on Form 8-K

(a) Exhibits required by Item 601 of Regulation S-K - None

(b) Reports on Form 8-K

1. Form 8-K - Was filed under Item 9 as Regulation FD disclosure on January 29, 2001 in regard to presentations to analysts between January 29, 2001 and February 22, 2001.

2. Form 8-K - Was filed on January 17, 2001 in regard to fourth quarter and year-end earnings.

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SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE COLONIAL BANCGROUP, INC.

Date: May 15, 2001

By: /s/ W. Flake Oakley, IV

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W. Flake Oakley, IV  
its Chief Financial Officer