

COLONIAL BANGROUP INC
Form 10-Q
May 08, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009

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 BANGROUP, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

63-0661573
(I.R.S. Employer
Identification No.)

100 Colonial Bank Blvd.

Montgomery, AL
(Address of principal executive offices)

36117
(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 NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
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

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

Class
Common Stock, \$2.50 Par Value

Outstanding at April 30, 2009
202,715,186

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THE COLONIAL BANGROUP, 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, could, outlook, potential, would, anticipates, 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, including the failure to close on Colonial's pending agreement with investors led by Taylor, Bean & Whitaker Mortgage Corp.;

failure to receive final approval and actual funding from the U.S. Treasury Department's Capital Purchase Program;

the impact of current economic conditions and the results of our operations 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, projected returns on investments and fair values of assets;

continued or sustained deterioration of market and economic conditions or business performance could increase the likelihood that we would have an additional goodwill impairment charge;

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;

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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 and operating plans for 2009 and beyond;

the anticipated savings and revenue enhancements from the Colonial 1st program may not be achieved in their entirety or accomplished within our expected time frame;

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;

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the impact of recent and future federal and state legislative and 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;

changes in the securities markets;

acts of terrorism or war; and

details of the recently enacted Emergency Economic Stabilization Act of 2008, the American Recovery and Reinvestment Act of 2009, the Homeowner Affordability and Stability Plan and various announced and unannounced programs implemented by the U.S. Treasury Department and bank regulators to address capital and liquidity concerns in the banking system, are still being finalized and may have a significant effect on the financial services industry and BancGroup.

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 BANGGROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CONDITION****(Unaudited)**

	March 31, 2009	December 31, 2008 As Adjusted (Note 1)
	(In thousands, except share amounts)	
ASSETS		
Cash and due from banks	\$ 606,214	\$ 482,755
Interest bearing deposits in banks and the Federal Reserve	1,845,048	1,534,463
Federal funds sold	6,087	7,642
Securities purchased under agreements to resell	1,640,712	1,556,157
Securities available for sale	3,145,187	3,302,959
Held to maturity securities (fair value: 2009, \$189,834; 2008, \$206,593)	181,937	200,421
Loans held for sale (includes \$2,766,503 and \$1,950,445 measured at fair value at March 31, 2009 and December 31, 2008, respectively)	2,800,139	2,082,248
Total loans, net of unearned income	14,119,489	14,530,018
Allowance for loan losses	(450,000)	(325,000)
Loans, net	13,669,489	14,205,018
Premises and equipment, net	568,472	565,769
Goodwill	403,576	432,053
Other intangible assets, net	45,455	49,609
Other real estate owned	182,579	127,850
Bank-owned life insurance	498,839	494,983
Accrued interest and other assets	846,161	774,379
Total	\$ 26,439,895	\$ 25,816,306
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits:		
Noninterest bearing transaction accounts	\$ 3,397,994	\$ 2,816,699
Interest bearing transaction accounts	4,714,457	5,173,208
Total transaction accounts	8,112,451	7,989,907
Time deposits	9,617,336	9,117,388
Brokered time deposits	2,044,490	1,297,651
Reciprocal brokered time deposits	482,941	268,319
Total brokered time deposits	2,527,431	1,565,970
Total deposits	20,257,218	18,673,265
Repurchase agreements	315,605	472,706
Other short-term borrowings		700,000
Subordinated debt	540,567	615,336
Junior subordinated debt	108,248	108,248
Other long-term debt	3,315,459	3,320,223
Accrued expenses and other liabilities	326,373	288,492

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Total liabilities	24,863,470	24,178,270
Contingencies and commitments (Note 8)		
Preferred stock, \$2.50 par value; 50,000,000 shares authorized and none issued at both March 31, 2009 and December 31, 2008		
Preference stock, \$2.50 par value; 1,000,000 shares authorized and none issued at both March 31, 2009 and December 31, 2008		
Common stock, \$2.50 par value; 400,000,000 shares authorized; 212,559,635 and 212,408,915 shares issued and 202,592,908 and 202,442,188 shares outstanding at March 31, 2009 and December 31, 2008, respectively	531,399	531,022
Additional paid in capital	1,231,745	1,231,343
Retained earnings	(28,361)	145,339
Treasury stock, at cost (9,966,727 shares at March 31, 2009 and December 31, 2008)	(240,336)	(240,336)
Accumulated other comprehensive income (loss), net of taxes	(211,080)	(322,390)
Total Colonial BancGroup shareholders' equity	1,283,367	1,344,978
Noncontrolling interest (REIT preferred securities)	293,058	293,058
Total shareholders' equity	1,576,425	1,638,036
Total	\$ 26,439,895	\$ 25,816,306

See Notes to the Unaudited Consolidated Financial Statements

Table of Contents**THE COLONIAL BANGROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

	Three Months Ended March 31,	
	2009	2008
	As	
	Adjusted	
	(Note 1)	
	(In thousands, except	
	per share amounts)	
Interest Income:		
Interest and fees on loans	\$ 213,111	\$ 301,640
Interest and dividends on securities	48,782	52,646
Interest on federal funds sold and other short-term investments	22,843	29,251
Total interest income	284,736	383,537
Interest Expense:		
Interest on deposits	116,481	137,506
Interest on short-term borrowings	877	15,297
Interest on long-term debt	49,566	49,110
Total interest expense	166,924	201,913
Net Interest Income	117,812	181,624
Provision for loan losses	257,220	35,543
Net Interest Income After Provision for Loan Losses	(139,408)	146,081
Noninterest Income:		
Service charges on deposit accounts	16,685	19,228
Electronic banking	4,982	5,004
Other retail banking fees	1,935	2,548
Retail banking fees	23,602	26,780
Mortgage banking origination and sales	12,268	6,760
Wealth management services	5,160	4,812
Mortgage warehouse fees	1,449	995
Bank-owned life insurance	3,894	5,120
Securities gains (losses), net	(837)	6,075
Other income	4,076	7,205
Total noninterest income	49,612	57,747
Noninterest Expense:		
Salaries and employee benefits	72,064	73,667
Occupancy expense of bank premises, net	23,718	23,055
Furniture and equipment expenses	15,641	14,703
Professional services	10,442	5,638
FDIC insurance and other regulatory fees	11,208	4,562
Amortization of intangible assets	4,154	4,163
Electronic banking and other retail banking expenses	3,273	4,157
Losses and expenses on other real estate	7,002	1,207

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Loss on equity investments	3,411	2,747
Advertising	2,700	2,603
Communications	2,917	2,819
Postage and courier	2,258	2,622
Loan closing costs	1,983	2,133
Travel	1,463	1,439
Goodwill impairment	28,477	
Severance expense		236
Net losses (gains) related to the early extinguishment of debt	(20,320)	5,932
Other expenses	8,342	12,295
Total noninterest expense	178,733	163,978
Income (loss) before income taxes	(268,529)	39,850
Income tax expense (benefit)	(100,165)	9,717
Net Income (Loss)	(168,364)	30,133
Less: Net (income) loss attributable to the noncontrolling interest (REIT preferred shareholders)	(5,336)	(5,336)
Net Income (Loss) Attributable to Colonial BancGroup	\$ (173,700)	\$ 24,797
Net Income (Loss) Allocated to Common Shareholders (Note 15)	\$ (173,700)	\$ 24,604
Earnings (Loss) Per Share:		
Basic	\$ (0.86)	\$ 0.16
Diluted	\$ (0.86)	\$ 0.16
Average Number of Shares Outstanding:		
Basic	200,953	156,956
Diluted	200,953	157,117
Dividends Declared Per Share	\$	\$ 0.19

See Notes to the Unaudited Consolidated Financial Statements

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THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended March 31,	
	2009	2008
	As Adjusted (Note 1)	
	(In thousands)	
Net Income (Loss)	\$ (168,364)	\$ 30,133
Other comprehensive income (loss), net of taxes:		
Available for sale securities:		
Unrealized gains (losses) arising during the period, net of income taxes of \$(60,704) and \$64,567 in 2009 and 2008, respectively	112,737	(96,001)
Less: reclassification adjustment for net (gains) losses included in net income, net of income taxes of \$(293) and \$2,437 in 2009 and 2008, respectively	544	(3,638)
Cash flow hedging instruments:		
Reclassification adjustment for losses included in net income, net of income taxes of \$(853) in 2008		1,585
Defined benefit pension plan:		
Additional minimum pension liability adjustment, net of income taxes of \$1,319 in 2009	(1,971)	
Comprehensive Income (Loss)	(57,054)	(67,921)
Less: Comprehensive (income) loss attributable to the noncontrolling interest (REIT preferred shareholders)	(5,336)	(5,336)
Comprehensive Income (Loss) Attributable to Colonial BancGroup	\$ (62,390)	\$ (73,257)

See Notes to the Unaudited Consolidated Financial Statements

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THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

	Colonial BancGroup Shareholders' Equity					Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest (REIT Preferred Securities)	Total Shareholders' Equity
	Common Stock		Additional Paid In Capital	Treasury Stock	Retained Earnings			
	Shares	Amount	Paid In Capital	Treasury Stock (In thousands, except shares)	Retained Earnings	Income (Loss)	Noncontrolling Interest (REIT Preferred Securities)	Total Shareholders' Equity
Balance, December 31, 2008	202,442,188	\$ 531,022	\$ 1,231,343	\$ (240,336)	\$ 145,339	\$ (322,390)	\$	\$ 1,344,978
Adoption of SFAS 160							293,058	293,058
Balance, December 31, 2008, as adjusted (Note 1)	202,442,188	531,022	1,231,343	(240,336)	145,339	(322,390)	293,058	1,638,036
Shares issued under:								
Directors' plan	42,169	105	(19)					86
Restricted stock plan, net	(81,071)	(203)	203					
Employee stock purchase plan	176,985	443	(290)					153
Dividend reinvestment plan	12,637	32	(26)					6
Tax benefit (shortfall) from stock based compensation			(141)					(141)
Stock-based compensation expense			675					675
Net income (loss)					(173,700)		5,336	(168,364)
REIT preferred dividends							(5,336)	(5,336)
Change in unrealized gain (loss) on securities available for sale, net of taxes and reclassification adjustments						113,281		113,281
Additional minimum pension liability adjustment, net of taxes						(1,971)		(1,971)
Balance, March 31, 2009	202,592,908	\$ 531,399	\$ 1,231,745	\$ (240,336)	\$ (28,361)	\$ (211,080)	\$ 293,058	\$ 1,576,425

See Notes to the Unaudited Consolidated Financial Statements

Table of Contents**THE COLONIAL BANGROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Three Months Ended	
	March 31,	
	2009	2008
		As Adjusted
		(Note 1)
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ (168,364)	\$ 30,133
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, amortization and accretion	16,340	14,626
Provision for loan losses	257,220	35,543
Goodwill impairment	28,477	
Deferred taxes	(44,878)	506
Securities (gains) losses, net	837	(6,075)
(Gain) loss on sale of other assets	1,511	(3,099)
Net (increase) decrease in loans held for sale	(721,935)	(1,407,555)
(Increase) decrease in interest and other receivables	(30,785)	11,646
(Increase) decrease in prepaid assets	(1,928)	4,821
(Increase) decrease in other assets	(43,058)	(12,403)
Increase (decrease) in accrued expenses & accounts payable	18,656	(2,345)
Increase (decrease) in accrued income taxes	(10,521)	(8,086)
Increase (decrease) in interest payable	10,391	4,859
Excess tax benefit from stock based compensation		(17)
Other, net	(36)	(1,050)
Net cash provided by (used in) operating activities	(688,073)	(1,338,496)
Cash flows from investing activities:		
Proceeds from maturities and calls of securities available for sale	40,745	26,289
Proceeds from sales of securities available for sale	1,250,761	227,491
Purchases of securities available for sale	(956,856)	(225,955)
Proceeds from maturities of held to maturity securities	18,291	28
Net (increase) decrease in securities purchased under agreements to resell	(84,555)	(56,541)
Net (increase) decrease in loans	189,990	(210,572)
Proceeds from sales of loans	24,601	
Capital expenditures	(15,303)	(24,180)
Proceeds from sale of other assets	14,335	5,784
Net (contributions to) return of investment in affiliates	(5,006)	(7,726)
Net cash provided by (used in) investing activities	477,003	(265,382)
Cash flows from financing activities:		
Net increase in demand, savings and time deposits	1,581,521	726,938
Net increase (decrease) in federal funds purchased, repurchase agreements and other short-term borrowings	(857,101)	610,868
Proceeds from issuance of long-term debt, net		242,273
Repayment of long-term debt	(81,020)	(110,050)
Proceeds from issuance of common stock	159	831
Excess tax benefit from stock-based compensation		17
Dividends paid to common shareholders		(30,031)

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Net cash provided by (used in) financing activities	643,559	1,440,846
Net increase (decrease) in cash and cash equivalents	432,489	(163,032)
Cash and cash equivalents at the beginning of the year	2,024,860	575,108
Cash and cash equivalents at March 31	\$ 2,457,349	\$ 412,076

See Notes to the Unaudited Consolidated Financial Statements

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THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Accounting Policies

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 2008 Annual Report on Form 10-K. As discussed more fully below, effective January 1, 2009 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 2008 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 March 31, 2009 and December 31, 2008 and the results of operations and cash flows for the interim periods ended March 31, 2009 and 2008. All 2009 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.

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

Regulatory Oversight, Capital Adequacy, Liquidity and Management's Plans

The Consolidated Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. Due to BancGroup's financial results for 2008 and the interim period ended March 31, 2009, the substantial uncertainty throughout the U.S. banking industry and other matters discussed below, BancGroup has assessed its ability to continue as a going concern.

Regulatory Oversight

As described in Note 19, *Regulatory Matters and Restrictions*, Colonial Bank and BancGroup are currently operating under heightened regulatory scrutiny and each has entered into informal Memorandums of Understanding (the MOUs) with its regulators. The MOUs place certain requirements and restrictions on the Bank and BancGroup including but not limited to:

Colonial Bank:

The Tier I Leverage Ratio and the Total Risk-Based Capital Ratio must be 8% and 12%, respectively, which are above current levels and the levels necessary to be categorized as "well capitalized" as defined by prompt corrective action regulations by March 31, 2009.

The ratio of certain "classified assets" to Tier I Risk-Based Capital and Loan Loss Reserves must not exceed prescribed levels by dates beginning June 30, 2009.

No dividends may be paid on the common stock of Colonial Bank without prior regulatory approval.

BancGroup:

BancGroup's resources will be used to support the Bank.

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No dividends may be paid on common stock without prior regulatory approval.

Additional debt may not be incurred without prior regulatory approval.

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Colonial Bank and BancGroup continue to work with the banking regulators under the MOUs. As of March 31, 2009, Colonial Bank was not in compliance with the MOU requirements for the Tier I Leverage Ratio and Total Risk-Based Capital Ratio. Colonial Bank is not subject to any formal written agreements or cease and desist orders with the banking regulators.

Capital Adequacy

In light of the requirement to improve capital ratios of the Bank, management is pursuing a number of strategic alternatives, including access to preliminarily approved TARP preferred stock funding of 3% of risk-weighted assets, or approximately \$523 million, at March 31, 2009. The preliminary approval was subject to certain conditions, including the raising of \$300 million in additional capital from unaffiliated parties. On March 31, 2009, BancGroup signed a definitive agreement with investors led by Taylor, Bean & Whitaker Mortgage Corp. (TBW) for a \$300 million equity investment in BancGroup. See Note 20, *Definitive Agreement*, for additional information regarding the proposed investment.

There can be no assurance that the transaction will be consummated or when the transaction will occur.

Liquidity

Both the Bank and BancGroup actively manage liquidity. The Parent Company does not have any debt maturing during 2009 or 2010. Colonial suspended its dividend to shareholders until such time as the Company returns to profitability and receives regulatory approval. At March 31, 2009, the Parent Company had approximately \$93.9 million of cash held in deposits with Colonial Bank.

Cash and cash equivalents at the Bank at March 31, 2009 were approximately \$2.5 billion. Liquidity at the Bank is dependent upon the deposit franchise which funds 77% of the Company's assets. Despite negative publicity about Colonial during the first quarter of 2009, Colonial's deposits increased from December 31, 2008 to March 31, 2009. Colonial is reducing the Company's assets to improve capital ratios and has also been working to reduce collateralized funding as assets decline. Colonial continues to work to increase the availability of collateral that can be used to pledge for secured long-term debt or short-term borrowings. The Federal Deposit Insurance Corporation's (FDIC) temporary changes to increase the amount of deposit insurance to \$250,000 per deposit relationship and to provide unlimited deposit insurance for certain transaction accounts have contributed to the Bank's stable deposit base. All banks that have elected to participate in the deposit component of the Temporary Liquidity Guarantee Program have the same FDIC insurance coverage. At March 31, 2009, Colonial Bank had \$584.9 million of uncollateralized, uninsured deposits. Colonial also does not have a loan portfolio that could rapidly draw additional funds causing an elevated need for additional liquidity at the Bank. If a liquidity issue presents itself, deposit promotions would be expected to yield significant in-flows of cash.

Other funding sources include brokered deposits. Colonial estimates that, as of March 31, 2009, the Bank's capacity to increase brokered deposits is up to \$1.0 billion. At March 31, 2009, Colonial had enough collateral pledged to the Federal Reserve discount window to borrow up to \$935 million on an overnight basis.

Based on current and expected liquidity needs and sources, management expects Colonial Bank and BancGroup to be able to meet obligations at least through March 31, 2010.

As noted above, the Company is actively working toward transactions designed to meet the requirements of the MOUs. Failure to meet these requirements could result in formal, heightened regulatory oversight and could eventually lead to the appointment of a receiver or conservator of the Bank's assets. If unanticipated market factors emerge and/or the Company is unable to successfully execute its plans or the banking regulators take unexpected actions, it could have a material adverse effect on the Company's business, results of operations and financial position.

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Effective January 1, 2009, the Company adopted Statement of Financial Accounting Standards (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.

Upon adoption of SFAS 160, the Company no longer reports the noncontrolling interest (previously referred to as minority interest) attributable to the REIT preferred securities in the mezzanine between liabilities and equity on the Consolidated Statements of Condition. Rather, the noncontrolling interest attributable to the REIT preferred securities is now reported within equity, separately from the equity attributable to BancGroup's shareholders. Additionally, the dividends paid to the REIT preferred shareholders, historically reported in the Consolidated Statements of Income as minority interest expense, are now reported as noncontrolling interest in the Consolidated Statements of Changes in Stockholders' Equity, separately from changes in the equity attributable to BancGroup's shareholders. These changes in presentation have been retrospectively applied to all periods presented.

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

Consolidated Statement of Condition:

	As Originally Reported	December 31, 2008	
		As Adjusted (In thousands)	Effect of Change
Total shareholders' equity	\$ 1,344,978	\$ 1,638,036	\$ 293,058

Consolidated Statement of Income:

	As Originally Reported	Three Months Ended March 31, 2008	
		As Adjusted (In thousands)	Effect of Change
Income before income taxes	\$ 34,514	\$ 39,850	\$ 5,336
Net income	\$ 24,797	\$ 30,133	\$ 5,336

Earnings (Loss) Per Common Share

Effective January 1, 2009, the Company adopted Financial Accounting Standards Board Staff Position (FSP) EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. FSP EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and should be included in the computation of earnings per common share pursuant to the two-class method. The Company has determined that its outstanding non-vested restricted stock awards and performance units are participating securities. Accordingly, effective January 1, 2009, earnings (loss) per common share is computed using the two-class method prescribed by SFAS 128, *Earnings Per Share*. Neither basic nor diluted earnings per common share for the three months ended March 31, 2008 changed as a result of the adoption of this FSP. See Note 15, *Earnings (Loss) Per Common Share*, for additional information. All previously reported earnings (loss) per common share data has been retrospectively adjusted to conform to the new computation method.

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Derivative Instruments and Hedging Activities

The Company utilizes derivatives to manage interest rate risk, to facilitate other asset/liability management strategies and to serve the risk management needs of Colonial Bank's customers. Derivative instruments are used to hedge specific assets, liabilities or cash flows as a part of this overall process. The Company also recognizes certain contracts and commitments as derivatives when the characteristics of those contracts and commitments meet the definition of a derivative. All derivative instruments are carried at fair value.

Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Changes in the fair value of these derivative instruments are recorded in noninterest income and are offset by the changes in the fair value of the hedged asset or liability. The change in fair value of the hedged asset or liability is included in the basis of the hedged item, while the corresponding change in the fair value of the derivative instrument is recorded as an adjustment to other assets or other liabilities.

Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. These derivatives are recorded as either a freestanding asset or liability. The effective portion of the change in the fair value of the derivative instrument is recorded as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in other noninterest income during the period of change.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking each hedge transaction. The Company discontinues hedge accounting prospectively when it is determined that the derivative is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item; the derivative expires or is sold, terminated or exercised; the derivative is de-designated because it is unlikely that a forecasted transaction will occur; or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued, the derivative continues to be carried at fair value, with changes in fair value recognized currently in other noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted as an adjustment of yield over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transaction are still expected to occur, unrealized gains and losses that were accumulated in other comprehensive income are recognized in earnings in the same period when the earnings are affected by the hedged cash flow. When a cash flow hedge is discontinued because a forecasted transaction is not expected to occur, unrealized gains and losses in other comprehensive income are recognized in earnings.