COLONIAL BANCGROUP INC
Form 10-K/A
February 14, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _________ to _________

Commission File Number: 1-13508

THE COLONIAL BANCGROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**63-0661573**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One Commerce Street **Suite 800** **Montgomery, AL**	**36104**
(Address of principal executive offices)	**(Zip Code)**

(334) 240-5000

(Registrant s telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $2.50 par value per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

As of June 30, 2004, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $2,266,757,667 based on the closing price of $18.17 per share for Common Stock as reported on the New York Stock Exchange. (For purposes of calculating this amount, all directors, officers and principal shareholders of the registrant are treated as affiliates).

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 February 28, 2005
Common Stock, $2.50 par value per share	145,546,391 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Portions of Definitive Proxy Statement for 2005 Annual Meeting as specifically referred to herein.	Part III

Explanatory Note

The Colonial BancGroup, Inc. (BancGroup , Colonial or the Company) is filing this amendment to its Annual Report on Form 10-K for the year ended December 31, 2004 to amend and restate financial statements and other financial information filed with the Securities and Exchange Commission (SEC). This amendment is being filed to correct errors in the originally filed Annual Report on Form 10-K related to the Company s derivative accounting under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133).

In 2005 and prior years, the Company entered into interest rate swap agreements on brokered certificates of deposit (CD swaps) and junior subordinated debt (junior subordinated debt swaps) that were accounted for as fair value hedges under SFAS No. 133. The Company elected a method of fair value hedge accounting, commonly referred to as the abbreviated method of hedge accounting described in paragraph 65 of SFAS No. 133, which allowed the Company to assume no ineffectiveness in these transactions as long as critical terms did not change. The Company recently concluded that the CD swaps and junior subordinated debt swaps did not qualify for these methods in the periods covered by the restatement. In retrospect, the CD swaps did not comply due to the death puts contained in the brokered CDs, which allow the estate of the CD holder to require the bank to redeem the CD in the event of the CD holder s death. In addition, the junior subordinated debt swaps did not comply due to interest deferral features present in the junior subordinated debt. Hedge accounting under SFAS No. 133 is not allowed retrospectively because the hedge documentation required for the long-haul method was not in place at the inception of the hedge. Eliminating the application of fair value hedge accounting reverses the fair value adjustments that have been made to the brokered certificates of deposit and junior subordinated debt and results in all fair value changes for the interest rate swaps being recognized in noninterest income. Additionally, the net cash settlement payments received during each of the affected periods for these interest rate swaps were reclassified from interest expense on brokered certificates of deposit and junior subordinated debt to noninterest income. Adjustments were also made for other non-significant items.

The effect this restatement had on earnings for the affected periods is as follows:

	Year Ended December 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002
		(In thousands)	
Interest expense	$ 17,268	$ 11,495	$ 5,961
Noninterest income	15,174	5,605	24,846
Noninterest expense	1,779	877	917
Provision for income taxes	(1,402)	(2,451)	6,505
Net income	$ (2,471)	$ (4,316)	$ 11,463
Diluted earnings per share	$ (0.02)	$ (0.04)	$ 0.10

In addition, the following Items have changed: Item 6, Item 7, Item 7A and Item 9A. For additional information on the restatement see Note 1, Restatement, in the Notes to Consolidated Financial Statements.

PART I

Item 1. *Business*

General

The Registrant, The Colonial BancGroup, Inc. (BancGroup) is a Delaware corporation organized in 1974 as a bank holding company under the Bank Holding Act of 1956, as amended (the BHCA). BancGroup was originally organized as Southland Bancorporation, and its name was changed in 1981. In 1997, pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, BancGroup consolidated its banking subsidiaries located in Georgia, Florida and Tennessee into Colonial Bank, its banking subsidiary in Alabama. In 2000, pursuant to the Gramm-Leach-Bliley Financial Services Modernization Act (Gramm-Leach), BancGroup elected to become a financial holding company which allows it to affiliate with securities firms and insurance companies and to engage in other activities that are financial in nature, incidental to such financial activities, or complementary to such activities.

The principal activity of BancGroup is to supervise and coordinate the business of its subsidiaries and to provide them with capital and services. BancGroup derives substantially all of its income from dividends received from Colonial Bank. Various statutory provisions and regulatory policies limit the amount of dividends Colonial Bank may pay without regulatory approval. In addition, federal statutes restrict the ability of Colonial Bank to make loans to BancGroup.

Bank Subsidiary

Colonial Bank was converted into a national association on August 8, 2003. Its legal name was changed to Colonial Bank, N.A. but it still does business as, and is usually referred to herein as Colonial Bank. As of December 31, 2004, Colonial Bank had a total of 292 branches, with 127 branches in Florida, 115 branches in Alabama, 22 branches in Georgia, 12 branches in Texas, 13 branches in Nevada and 3 branches in Tennessee. Colonial Bank conducts a general commercial banking business in its respective service areas and offers a variety of demand, savings and time deposit products as well as extensions of credit through personal, commercial and mortgage loans within each of its market areas. Colonial Bank also provides additional services to its markets through cash management services, electronic banking services, credit card and merchant services and wealth management services. Wealth management services include trust services, insurance sales and the sales of various types of investment products such as mutual funds, annuities, stocks, municipal bonds and U.S. government securities.

Colonial Bank encounters intense competition in its commercial banking business, generally from other banks located in its respective metropolitan and service areas. Colonial Bank competes for interest bearing funds with other banks and with many non-bank issuers of commercial paper and other securities. In the case of larger customers, competition exists with banks in other metropolitan areas of the United States, many of which are larger in terms of capital resources and personnel. In the conduct of certain aspects of its commercial banking business, Colonial Bank competes with savings and loan associations, credit unions, mortgage banks, factors, insurance companies and other financial institutions. At December 31, 2004, Colonial Bank accounted for approximately 99.8% of BancGroup s consolidated assets.

Nonbanking Subsidiaries

BancGroup has the following directly and wholly owned nonbanking subsidiaries that are currently active. Colonial Brokerage, Inc., a Delaware Corporation, provides full service and discount brokerage services and investment advice and is a member of and is regulated by the National Association of Securities Dealers (NASD). The Colonial BancGroup Building Corporation, an Alabama Corporation, was established primarily to own and lease certain buildings and land used by Colonial Bank. Colonial Capital II, a Delaware statutory trust, issued $70 million in trust preferred securities in 1997, which are guaranteed by BancGroup. Colonial Capital Trust III, a Delaware statutory trust, was formed in March 2002 and issued $100 million in trust preferred

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securities which are guaranteed by BancGroup. Colonial Capital Trust IV, a Delaware statutory trust, was formed in September of 2003, and issued $100 million in trust preferred securities which are guaranteed by BancGroup. PCB Statutory Trust I and II were acquired in May 2004 as part of the acquisition of PCB Bancorp, Inc. and have a combined $15 million in trust preferred securities outstanding, which are guaranteed by BancGroup. MBI Capital Trust was acquired in March 2002 as part of the acquisition of Mercantile BancCorp, Inc. and has $8 million in trust preferred securities outstanding, which are guaranteed by BancGroup. BancGroup acquired Great Florida Title, LLC, which operates as a title insurance agency, as part of the Manufacturers Bancshares, Inc. acquisition in October 2001.

BancGroup has interests in several real estate developments located in the metropolitan area of Atlanta Georgia. The aggregate investment in such entities is $5.4 million.

Colonial Bank controls the following active subsidiaries: CBG, Inc., a Nevada Corporation, owns certain trade names and trademarks which it licenses to BancGroup, Colonial Bank, Colonial Brokerage, Inc. and their affiliates for use in their businesses; CBG Investments, Inc., a Nevada corporation, owns and manages investment securities; Colonial Investment Services, Inc., an Alabama corporation; Colonial Investment Services of Florida, Inc., a Florida corporation; Colonial Investment Services of Tennessee, Inc., a Tennessee corporation; Colonial Investment Services of Georgia, Inc., a Georgia corporation; and Colonial Investment Services of Nevada, Inc., a Nevada corporation, all offer various insurance products and annuities for sale to the public, and are regulated by each state s department of insurance. Colonial Asset Management, Inc., an Alabama corporation, is an investment advisor registered with the Alabama Securities Commission. Colonial Bank has 72.43% ownership in Goldleaf Technologies, Inc., a Delaware corporation, which provides internet and ACH services to community banks. CBG Florida REIT Corp., a Florida corporation and Real Estate Investment Trust formed in 2002, owns and manages certain real estate loans. CBG Nevada Holding Corp., a Nevada corporation and wholly owned subsidiary of Colonial Bank, owns all of the common stock and in excess of 90% of the preferred stock of CBG Florida REIT Corp.

At December 31, 2004, BancGroup and its subsidiaries employed 4,303 persons. BancGroup s principal offices are located at and its mailing address is: One Commerce Street, Suite 800, Montgomery, Alabama 36104. BancGroup s telephone number at its principal office is (334) 240-5000.

Available Information

BancGroup makes available, free of charge through its Internet website (www.colonialbank.com), the Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after electronically filing or furnishing such material with the Securities and Exchange Commission.

Certain Regulatory Considerations

The following is a brief summary of the regulatory environment in which BancGroup and Colonial Bank operate and is not designed to be a complete discussion of all statutes and regulations affecting such operations, including those statutes and regulations specifically mentioned herein. Changes in the laws and regulations applicable to BancGroup and Colonial Bank can affect the operating environment in substantial and unpredictable ways. BancGroup cannot accurately predict whether legislation will ultimately be enacted, and if enacted, the ultimate effect that it or implementing regulations would have on its or its subsidiaries financial condition or results of operations. While banking regulations are material to the operations of BancGroup and Colonial Bank, it should be noted that supervision, regulation, and examination of BancGroup and Colonial Bank are intended primarily for the protection of depositors, not security holders.

BancGroup is a registered bank holding company and a financial holding company subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve). As such, it is

subject to the BHCA and many of the Federal Reserve s regulations promulgated thereunder. The Federal Reserve has broad enforcement powers over bank holding companies, including the power to impose substantial fines and civil penalties.

Colonial Bank, a national banking association, is subject to supervision and examination by the Office of the Comptroller of the Currency (the OCC). Colonial Bank converted from an Alabama state-chartered Federal Reserve member bank to a national banking association on August 8, 2003. The deposits of Colonial Bank are insured by the Federal Deposit Insurance Corporation (FDIC) to the extent provided by law. The FDIC assesses deposit insurance premiums the amount of which may, in the future, depend in part on the condition of Colonial Bank. Moreover, the FDIC may terminate deposit insurance of Colonial Bank under certain circumstances. The bank regulatory agencies have broad enforcement powers over depository institutions under their jurisdiction, including the power to terminate deposit insurance, to impose fines and other civil and criminal penalties, and to appoint a conservator or receiver if any of a number of conditions are met.

Mergers, Acquisitions and Changes in Control

One limitation under the BHCA and the Federal Reserve s regulations requires that BancGroup obtain prior approval of the Federal Reserve before BancGroup acquires, directly or indirectly, more than 5% of any class of voting securities of another bank. Prior approval also must be obtained before BancGroup acquires all or substantially all of the assets of another bank, or before it merges or consolidates with another bank holding company. Because BancGroup is a registered bank holding company, persons seeking to acquire 25% or more of any class of its voting securities must receive the prior approval of the Federal Reserve. Similarly, under certain circumstances, persons seeking to acquire between 5% and 25% also may be required to obtain prior Federal Reserve approval.

In September 1994, Congress enacted the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. This legislation, among other things, amended the BHCA to permit bank holding companies, subject to certain limitations, to acquire either control or substantial assets of a bank located in states other than that bank holding company s home state regardless of state law prohibitions. This legislation became effective on September 29, 1995. In addition, this legislation also amended the Federal Deposit Insurance Act to permit, beginning on June 1, 1997 (or earlier where state legislatures provided express authorization), the merger of insured banks with banks in other states, subject to certain limitations.

FDIC Improvement Act

As a result of enactment in 1991 of the FDIC Improvement Act, banks are subject to increased reporting requirements and more frequent examinations by the bank regulatory agencies. The agencies also have the authority to dictate certain key decisions that formerly were left to management, including compensation standards, loan underwriting standards, asset growth, and payment of dividends. Failure to comply with these standards, or failure to maintain capital above specified levels set by the regulators, could lead to the imposition of penalties or the forced resignation of management. If a bank becomes critically undercapitalized, the banking agencies have the authority to place an institution into receivership.

Consumer Protection Laws

There are a number of laws that govern the relationship between Colonial Bank and its customers. For example, the Community Reinvestment Act is designed to encourage lending by banks to persons in low and moderate income areas. The Home Mortgage Disclosure Act and the Equal Credit Opportunity Act attempt to minimize lending decisions based on impermissible criteria, such as race or gender. The Truth-in-Lending Act and the Truth-in-Savings Act require banks to provide certain disclosure of relevant terms related to loans and savings accounts, respectively. Anti-tying restrictions (which prohibit, for instance, conditioning the availability or terms of credit on the purchase of another banking product) further restrict Colonial Bank s relationships with its customers.

Gramm-Leach-Bliley Financial Services Modernization Act

In 1999, Gramm-Leach was signed into law and it became effective on March 11, 2000. The primary purpose of Gramm-Leach was to eliminate barriers between investment banking and commercial banking and to permit, within certain limitations, the affiliation of financial service providers. Generally, Gramm-Leach (1) repealed the historical restrictions against, and eliminated many federal and state law barriers to affiliations among banks, securities firms, insurance companies and other financial service providers, (2) provided a uniform framework for the activities of banks, savings institutions and their holding companies, (3) broadened the activities that may be conducted by and through national banks and other banking subsidiaries of bank holding companies, (4) provided an enhanced framework for protecting the privacy of consumers information, (5) adopted a number of provisions related to the capitalization, membership, corporate governance and other measures designed to modernize the Federal Home Loan Bank System, (6) modified the laws governing the implementation of the Community Reinvestment Act, and (7) addressed a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions.

More specifically, under Gramm-Leach, bank holding companies, such as BancGroup, that meet certain management, capital, and Community Reinvestment Act standards, are permitted to become financial holding companies and, by doing so, to affiliate with securities firms and insurance companies and to engage in other activities that are financial in nature, incidental to such financial activities, or complementary to such activities. A bank holding company may become a financial holding company if each of its subsidiary banks is well capitalized under the FDIC Improvement Act prompt corrective action provisions, is well managed and has at least a satisfactory rating under the Community Reinvestment Act. The required filing is a declaration that the bank holding company wishes to become a financial holding company and meets all applicable requirements. BancGroup became a financial holding company on May 12, 2000.

Generally, no prior regulatory approval will be required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities permitted under Gramm-Leach. Activities cited by Gramm-Leach as being financial in nature include:

- securities underwriting, dealing and market making;
- sponsoring mutual funds and investment companies;
- insurance underwriting and agency;
- merchant banking activities; and
- activities that the Federal Reserve has determined to be closely related to banking.

Privacy Laws

In 2000, the federal banking regulators issued final regulations implementing certain provisions of Gramm-Leach governing the privacy of consumer financial information. The regulations limit the disclosure by financial institutions, such as BancGroup, Colonial Bank and certain of their subsidiaries, of nonpublic personal information about individuals who obtain financial products or services for personal, family, or household purposes. Subject to certain exceptions allowed by law, the regulations cover information sharing between financial institutions and nonaffiliated third parties. More specifically, the regulations require financial institutions to (i) provide initial notices to customers about their privacy policies, describing the conditions under which they may disclose nonpublic personal financial information to nonaffiliated third parties and affiliates; (ii) provide annual notices of their privacy policies to their current customers; and (iii) provide a reasonable method for consumers to opt out of disclosures to nonaffiliated third parties.

The Fair Credit Reporting Act (FCRA) governs the ability of a financial institution to share consumer financial information with its affiliates. The FCRA requires financial institutions to provide their customers with notice and an opportunity to opt-out before sharing certain information with its affiliates. In December 2003, the Fair and Accurate Credit Transactions Act of 2003 (FACTA) was enacted. FACTA included a provision

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further limiting a financial institution s ability to share customer information with its affiliates for marketing purposes by requiring financial institutions to provide their customers with the ability to opt-out of such sharing of customer information. Regulations implementing this provision of FACTA have been proposed but not finalized.

Protection of Customer Information

In February 2001, the federal banking regulators issued final regulations implementing the provisions of Gramm-Leach relating to the protection of customer information. The regulations, applicable to national banking associations, like Colonial Bank, and certain of their nonbank subsidiaries, and to bank holding companies, like BancGroup, and certain of their nonbank subsidiaries, relate to administrative, technical, and physical safeguards for customer records and information. These safeguards are intended to: insure the security and confidentiality of customer records and information; protect against any anticipated threats or hazards to the security or integrity of such records; protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer; and ensure the proper disposal of such information.

Bank Secrecy Act

The Bank Secrecy Act (the BSA) and its implementing regulation is a tool the U.S. government uses to fight drug trafficking, money laundering and other crimes. Under the BSA, financial institutions are required to file certain reports, including suspicious activities reports, with the Financial Crimes Enforcement Network under certain circumstances. Financial institutions are also required to have policies and procedures in place to ensure compliance with the BSA. If a financial institution fails to timely file a report or fails to implement its BSA policies and procedures, it could subject the institution to enforcement action or civil money penalties.

On October 26, 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 USA PATRIOT Act was signed into law. The USA PATRIOT Act amended the BSA and broadened the application of anti-money laundering regulations to apply to additional types of financial institutions, such as broker-dealers, and strengthened the ability of the U.S. government to detect and prosecute international money laundering and the financing of terrorism. The principal provisions of Title III of the USA PATRIOT Act require that regulated financial institutions, including national banks: (i) establish an anti-money laundering program that includes training and audit components; (ii) comply with regulations regarding the verification of the identity of any person seeking to open an account; (iii) take additional required precautions with non-U.S. owned accounts; and (iv) perform certain verification and certification of money laundering risk for their foreign correspondent banking relationships. The USA PATRIOT Act also expanded the conditions under which funds in a U.S. interbank account may be subject to forfeiture and increased the penalties for violation of anti-money laundering regulations. Failure of a financial institution to comply with the USA PATRIOT Acts requirements could have serious legal and reputational consequences for the institution. BancGroup has adopted policies, procedures and controls to address compliance with the requirements of the USA PATRIOT Act under the existing regulations and will continue to revise and update its policies, procedures and controls to reflect changes required by the USA PATRIOT Act and implementing regulations.

Safety and Soundness Standards

Pursuant to FDICIA, the federal banking regulatory agencies have adopted a set of guidelines prescribing safety and soundness standards for depository institutions such as Colonial Bank. The guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. In addition, the agencies adopted regulations that authorize an agency to order

an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If the institution fails to submit an acceptable compliance plan or fails to implement an accepted plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions be taken, including restricting asset growth, restricting interest rates paid on deposits, and requiring an increase in the institution s ratio of tangible equity to assets.

Payment of Dividends and Other Restrictions

BancGroup is a legal entity separate and distinct from its subsidiaries, including Colonial Bank. There are various legal and regulatory limitations on the extent to which BancGroup s subsidiaries can, among other things, finance, or otherwise supply funds to, BancGroup. Specifically, dividends from Colonial Bank are the principal source of BancGroup s cash funds and there are certain legal restrictions under the National Bank Act and OCC regulations on the payment of dividends by national banks. The relevant regulatory agencies also have authority to prohibit BancGroup and Colonial Bank from engaging in what, in the opinion of such regulatory body, constitutes an unsafe or unsound banking practice. The payment of dividends could, depending upon the financial condition of BancGroup and Colonial Bank, be deemed to constitute such an unsafe or unsound practice.

In addition, Colonial Bank and its subsidiaries are subject to limitations under Sections 23A and 23B of the Federal Reserve Act with respect to extensions of credit to, investments in, and certain other transactions with, BancGroup and its other subsidiaries. Furthermore, loans and extensions of credit are also subject to various collateral requirements. On October 31, 2002, the Federal Reserve adopted Regulation W, which combines the Federal Reserve s interpretations and exemptions relating to Sections 23A and 23B of the Federal Reserve Act. Regulation W became effective on April 1, 2003 and is applicable to national banks.

Capital Adequacy

The Federal Reserve has adopted minimum risk-based and leverage capital guidelines for bank holding companies. The minimum required ratio of total capital to risk-weighted assets (including certain off-balance sheet items, such as standby letters of credit) is 8%, of which 4% must consist of Tier 1 capital. As of December 31, 2004, BancGroup s total risk-based capital ratio was 11.39% (restated), including 8.80% (restated) of Tier 1 capital. The minimum required leverage capital ratio is 3% for bank holding companies that meet certain specified criteria, including that they have the highest regulatory rating. A minimum leverage ratio of 4% is required for bank holding companies not meeting these criteria. As of December 31, 2004, BancGroup s leverage capital ratio was 7.16% (restated). Generally, bank holding companies are expected to operate well above the minimum capital ratios. Higher capital ratios may be required for any bank holding company if warranted by its particular circumstances or risk profile. Failure to meet capital guidelines can subject a bank holding company to a variety of enforcement remedies, including restrictions on its operations and activities. The OCC has adopted substantially similar capital requirements for national banks.

Regarding depository institutions, the prompt corrective action provisions of the federal banking statutes establish five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized), and impose significant restrictions on the operations of an institution that is not at least adequately capitalized. Under certain circumstances, an institution may be downgraded to a category lower than that warranted by its capital levels, and subjected to the supervisory restrictions applicable to institutions in the lower capital category. As of December 31, 2004, Colonial Bank was well capitalized under the regulatory framework for prompt corrective action.

An undercapitalized depository institution is subject to restrictions in a number of areas, including capital distributions, payments of management fees and expansion. In addition, an undercapitalized depository institution is required to submit a capital restoration plan. A depository institution s holding company must guarantee the capital plan up to an amount equal to the lesser of 5% of the depository institution s assets at the time it becomes undercapitalized or the amount needed to restore the capital of the institution to the levels

required for the institution to be classified as adequately capitalized at the time the institution fails to comply with the plan. A depository institution is treated as if it is significantly undercapitalized if it fails in any material respect to implement a capital restoration plan.

Significantly undercapitalized depository institutions may be subject to a number of additional significant requirements and restrictions, including requirements to sell sufficient voting stock to become adequately capitalized, to improve management, to restrict asset growth, to prohibit acceptance of correspondent bank deposits, to restrict senior executive compensation and to limit transactions with affiliates. Critically undercapitalized depository institutions are further subject to restrictions on paying principal or interest on subordinated debt, making investments, expanding, acquiring or selling assets, extending credit for highly- leveraged transactions, paying excessive compensation, amending their charters or bylaws and making any material changes in accounting methods. In general, a receiver or conservator must be appointed for a depository institution within 90 days after the institution is deemed to be critically undercapitalized.

Support of Subsidiary Bank

Under Federal Reserve Board policy, BancGroup is expected to act as a source of financial strength to, and to commit resources to support, Colonial Bank. This support may be required at times when, absent such Federal Reserve Board policy, BancGroup might not otherwise be inclined to provide it. In the event of a bank holding company s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

FDIC Insurance Assessments

The FDIC is an independent federal agency established originally to insure the deposits, up to prescribed statutory limits, of federally insured banks and to preserve the safety and soundness of the banking industry. The FDIC maintains two separate insurance funds: the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). Colonial Bank s deposit accounts are insured by the FDIC under the BIF to the maximum extent permitted by law. Colonial Bank pays deposit insurance premiums to the FDIC based on a risk-based assessment system established by the FDIC for all BIF-member institutions.

Under FDIC regulations, institutions are assigned to one of three capital groups for insurance premium purposes (well capitalized, adequately capitalized and undercapitalized). These three groups are then divided into subgroups, which are based on supervisory evaluations by the institution s primary federal regulator, resulting in nine assessment classifications. Assessment rates vary depending upon the assessment classification. In addition, regardless of the potential risk to the insurance fund, federal law requires the FDIC to establish assessment rates that will maintain each insurance fund s ratio of reserves to insured deposits at 1.25%. During 2004 and for the first semiannual assessment period of 2005, assessment rates for BIF-insured institutions ranged from 0 cents per $100 of assessable deposits for well-capitalized institutions with minor supervisory concerns to 27 cents per $100 of assessable deposits for undercapitalized institutions with substantial supervisory concerns. The assessment rate schedule is subject to change by the FDIC and, accordingly, the assessment rate could increase or decrease in the future.

In addition to deposit insurance assessments, the FDIC is authorized to collect assessments against insured deposits to be paid to the Finance Corporation (FICO) to service FICO debt incurred in the 1980s. The FICO assessment rate is adjusted quarterly. The average annual assessment rate in 2004 was 1.50 cents per $100 for BIF-insured deposits. For the first quarter of 2005, the FICO assessment rate for such deposits will be 1.44 cents per $100 of assessable deposits.

The Bank s assessment expense for the year ended December 31, 2004 equaled $1,542,000.

OCC Assessment

The OCC imposes a semiannual assessment on all national banks under its supervision. The amount of the assessment is based on the bank s total assets. The assessment for the first half of the year is based on prior year s total assets as of December 31, and the assessment for the second half of the year is based on the total assets as of June 30. Colonial Bank s assessment expense for the year ended December 31, 2004 equaled $2,149,000.

Other Subsidiary Regulation

Certain subsidiaries of BancGroup and Colonial Bank are regulated by other governmental agencies. Where material, such regulation is disclosed with the disclosure of the subsidiary.

Additional Information

Additional information, including statistical information concerning the business of BancGroup, is set forth herein. See Selected Financial Data and Selected Quarterly Financial Data 2004-2003 and Management s Discussion and Analysis of Financial Condition and Results of Operations .

Executive Officers and Directors

Pursuant to general instruction G, information regarding executive officers of BancGroup is contained herein at Item 10.

Item 2. ***Properties***

BancGroup leases its executive offices in Montgomery, Alabama, operations centers in Birmingham, Alabama and Orlando, Florida and maintains regional executive offices in Alabama, Florida, Georgia, Nevada, and Texas.

As of December 31, 2004, Colonial Bank owned 201 and leased 91 of its full-service banking offices. See Notes to the Consolidated Financial Statements included herein.

Item 3. ***Legal Proceedings***

In the opinion of BancGroup, based on review and consultation with legal counsel, the outcome of any litigation presently pending is not anticipated to have a material adverse effect on BancGroup s consolidated financial statements or results of operations.

Item 4. ***Submission of Matters to a Vote of Security Holders***

None.

PART II

Item 5. ***Market for Registrant s Common Equity and Related Stockholder Matters***

BancGroup s Common Stock is traded on the New York Stock Exchange under the symbol CNB. As of February 28, 2005, BancGroup had outstanding 145,546,391 shares of Common Stock, with 9,506 registered shareholders.

The following table indicates the high and low closing prices for and dividends paid on Common Stock during 2004 and 2003.

	Sale Price of Common Stock		Dividends Declared On Common Stock
	High	**Low**	**(per share)**
2004			
1st Quarter	**$ 18.58**	**$ 16.52**	**$ .145**
2nd Quarter	**18.28**	**16.78**	**.145**
3rd Quarter	**20.66**	**17.81**	**.145**
4th Quarter	**22.45**	**20.53**	**.145**
2003			
1st Quarter	12.77	10.75	.14
2nd Quarter	14.24	11.30	.14
3rd Quarter	15.03	14.13	.14
4th Quarter	17.47	14.65	.14

BancGroup has historically paid dividends each quarter. The restrictions imposed upon Colonial Bank in regard to its ability to pay dividends to BancGroup, which in turn limit BancGroup s ability to pay dividends, are described herein. See Payments of Dividends and Other Restrictions .

Equity Compensation Plans

The following table summarizes BancGroup s equity compensation plans as of December 31, 2004:

Plan Category	**Number of Shares to be Issued upon the Exercise of Outstanding Options, Warrants and Rights**	**Weighted Average Exercise Price of Outstanding Options, Warrants and Rights**	**Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans**
Equity Compensation Plans approved by the shareholders	3,866,949	$ 13.8514	7,822,350

There were no equity compensation plans not approved by the shareholders.

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Item 6. ***Selected Financial Data***

The selected financial data in the following tables have been restated to reflect adjustments to the Company s consolidated financial statements and other information contained in Form 10-K for the year ended December 31, 2004, originally filed with the Securities and Exchange Commission on March 11, 2005. The following selected financial data should be read in conjunction with our restated financial statements and the related notes.

	2004 (Restated)	2003 (Restated)	2002 (Restated)	2001	2000
	(In thousands, except per share amounts)				
Statement of Income					
Interest income	**$ 848,017**	$ 780,808	$ 783,431	$ 902,167	$ 918,076
Interest expense	**280,769**	285,660	328,222	480,238	517,754
Net interest income	**567,248**	495,148	455,209	421,929	400,322
Provision for loan losses	**26,994**	37,378	35,980	39,573	29,775
Net interest income after provision for loan losses	**540,254**	457,770	419,229	382,356	370,547
Noninterest income(1)	**153,201**	138,627	131,769	93,709	77,885
Noninterest expense(2)	**431,649**	376,001	318,287	284,168	258,691
Income from continuing operations before income taxes	**261,806**	220,396	232,711	191,897	189,741
Applicable income taxes	**88,929**	74,785	80,377	69,181	69,556
Income from continuing operations	**172,877**	145,611	152,334	122,716	120,185
Discontinued Operations:(3)					
Loss from discontinued operations, net of income taxes of ($445), ($371), and ($450) for the years ended December 31, 2002, 2001, and 2000, respectively			(846)	(613)	(743)
Loss on disposal of discontinued operations (net of income tax benefit of $2,616)					(4,322)
Net Income	**$ 172,877**	$ 145,611	$ 151,488	$ 122,103	$ 115,120
Earnings Per Common Share:					
Income from continuing operations:(3)					
Basic	**$ 1.32**	$ 1.17	$ 1.27	$ 1.07	$ 1.05
Diluted	**1.31**	1.16	1.26	1.06	1.04
Net income:					
Basic	**$ 1.32**	$ 1.17	$ 1.27	$ 1.06	$ 1.00
Diluted	**1.31**	1.16	1.26	1.06	1.00
Average shares outstanding:					
Basic	**131,144**	124,615	119,583	114,811	114,760
Diluted	**132,315**	125,289	120,648	115,881	115,653
Cash dividends per common share	**$ 0.58**	$ 0.56	$ 0.52	$ 0.48	$ 0.44

(1) Included in noninterest income are securities gains of $7.5 million, $4.8 million, $5.7 million, $8.7 million and $538,000 for years ended 2004, 2003, 2002, 2001 and 2000, respectively.

(2) Included in noninterest expense are merger related expenses of $2 million, $0.27 million, $0.87 million and $3 million for years ended 2004, 2003, 2002 and 2001, respectively. Also included in noninterest expense in 2004 is $7.4 million for loss on early extinguishment of debt.

(3) In December 2000, the company exited the mortgage servicing business. The financial results for this line of business have been separately reported as Discontinued Operations in all periods presented.

	2004 (Restated)	2003 (Restated)	2002 (Restated)	2001	2000
	(In thousands, except per share amounts)				
Statement of Condition data at year end:					
Total assets	**$ 18,896,610**	$ 16,267,979	$ 15,814,857	$ 13,185,103	$ 11,999,621
Total loans, net of unearned income:					
Mortgage warehouse loans	**1,114,923**	982,488	1,671,149	1,259,870	376,638
All other loans, net of unearned income	**11,742,888**	10,606,407	10,021,281	9,107,795	9,266,316
Loans held for sale	**678,496**	378,324	347,101	35,453	9,866
Non-time deposits	**7,546,038**	6,017,435	5,041,262	4,114,049	3,565,709
Total deposits	**11,863,695**	9,918,434	9,410,554	8,322,979	8,355,849
Long-term debt	**2,260,957**	2,442,235	2,114,624	1,786,140	862,247
Shareholders equity	**1,398,291**	1,185,452	1,082,899	864,774	775,100
Average balances:					
Total assets	**17,433,571**	15,842,491	13,812,032	12,592,300	11,591,168
Interest-earning assets	**16,173,539**	14,736,974	12,909,926	11,881,184	10,723,803
Total loans, net of unearned income:					
Mortgage warehouse loans	**1,033,238**	1,457,716	1,093,061	815,387	250,652
All other loans, net of unearned income	**11,115,275**	10,093,214	9,427,710	9,303,798	8,779,877
Loans held for sale	**497,315**	373,226	89,566	22,941	14,711
Non-time deposits	**6,847,334**	5,419,445	4,426,020	3,732,744	3,546,402
Total deposits	**10,862,040**	9,418,926	8,734,296	8,432,980	8,252,352
Shareholders equity	**1,285,772**	1,125,296	975,352	826,081	727,495
Selected Financial Measures:					
Net income to:					
Average assets	**0.99%**	0.92%	1.10%	0.97%	0.99%
Average shareholders equity	**13.45**	12.94	15.53	14.78	15.82
Noninterest income/average assets(2)	**0.88**	0.88	0.95	0.74	0.67
Noninterest expense/average assets(3)	**2.48**	2.37	2.30	2.26	2.23
Efficiency ratio	**59.76**	59.11	53.96	54.82	53.79
Dividend payout ratio	**44.27**	48.28	41.27	45.28	44.00
Shareholders equity to assets	**7.40**	7.29	6.85	6.56	6.46
Tangible capital ratio	**5.43**	5.65	5.31	5.74	5.87
Book value per share	**$ 10.45**	$ 9.34	$ 8.75	$ 7.50	$ 6.93
Tangible book value per share	**$ 7.50**	$ 7.11	$ 6.68	$ 6.52	$ 6.26
Risk-based capital:(4)					
Tier 1	**8.80%**	9.41%	7.86%	7.39%	8.24%
Total Capital	**11.39**	12.55	11.03	10.91	10.59
Tier 1 leverage(4)	**7.16**	7.55	6.57	6.24	6.66
Total nonperforming assets to net loans, other real estate and repossessions(1)	**0.29**	0.65	0.78	0.64	0.53
Net charge-offs to average loans	**0.19**	0.31	0.29	0.28	0.21
Allowance for loan losses to total loans (net of unearned income)	**1.16**	1.20	1.16	1.18	1.14
Allowance for loan losses to nonperforming loans(1)	**548%**	240%	191%	239%	258%

(1) Non-performing loans and nonperforming assets are shown as defined in Management s Discussion and Analysis of Risk Management.
(2) Included in noninterest income are securities gains of $7.5 million, $4.8 million, $5.7 million, $8.7 million and $538,000 for years ended 2004, 2003, 2002, 2001 and 2000, respectively.
(3) Included in noninterest expense are merger related expenses of $2 million, $0.27 million, $0.87 million, and $3 million for years ended 2004, 2003, 2002 and 2001, respectively. Also included in noninterest expense in 2004 is $7.4 million for loss on early extinguishment of debt.
(4) See Note 17 (Regulatory Matters and Restrictions) to the Consolidated Financial Statements for additional information.

Selected Quarterly Financial Data 2004-2003

	2004							
	Dec. 31		Sept. 30		June 30		March 31	
	As Previously Reported	As Restated	As Previously Reported	As Restated	As Previously Reported	As Restated	As Previously Reported	As Restated
	(In thousands, except per share amounts)							
Interest income	$ 234,146	$ 234,146	$ 215,911	$ 215,911	$ 204,206	$ 204,206	$ 193,754	$ 193,754
Interest expense	76,207	80,201	66,076	70,469	60,571	64,861	60,647	65,238
Net interest income	157,939	153,945	149,835	145,442	143,635	139,345	133,107	128,516
Provision for loan losses	5,388	5,388	7,153	7,153	6,519	6,519	7,934	7,934
Net interest income after provision for loan loss	152,551	148,557	142,682	138,289	137,116	132,826	125,173	120,582
Noninterest income	34,020	36,844	33,060	45,142	33,244	22,557	37,703	48,658
Noninterest expense	115,015	115,225	106,541	107,079	104,702	105,234	103,612	104,111
Applicable income taxes	24,329	23,829	23,528	26,117	22,324	16,710	20,150	22,273
Net income	$ 47,227	$ 46,347	$ 45,673	$ 50,235	$ 43,334	$ 33,439	$ 39,114	$ 42,856
Earnings Per Share:								
Net income								
Basic	$ 0.35	$ 0.35	$ 0.34	$ 0.38	$ 0.33	$ 0.26	$ 0.31	$ 0.34
Diluted	$ 0.35	$ 0.34	$ 0.34	$ 0.38	$ 0.33	$ 0.25	$ 0.31	$ 0.34

	2003							
	Dec. 31		Sept. 30		June 30		March 31	
	As Previously Reported	As Restated	As Previously Reported	As Restated	As Previously Reported	As Restated	As Previously Reported	As Restated
	(In thousands, except per share amounts)							
Interest income	$ 194,815	$ 194,815	$ 195,342	$ 195,342	$ 196,032	$ 196,032	$ 194,619	$ 194,619
Interest expense	63,999	68,419	65,766	68,223	70,883	73,223	73,517	75,795
Net interest income	130,816	126,396	129,576	127,119	125,149	122,809	121,102	118,824
Provision for loan losses	9,202	9,202	9,306	9,306	10,810	10,810	8,060	8,060
Net interest income after provision for loan loss	121,614	117,194	120,270	117,813	114,339	111,999	113,042	110,764
Noninterest income	32,928	32,977	33,768	40,881	35,443	33,437	30,883	31,332
Noninterest expense	97,363	89,697	95,232	92,830	92,589	95,486	89,940	97,988
Applicable income taxes	19,441	17,037	19,994	18,893	19,446	20,479	18,355	18,376
Net income	$ 37,738	$ 43,437	$ 38,812	$ 46,971	$ 37,747	$ 29,471	$ 35,630	$ 25,732

Earnings Per Share:								
Net income								
Basic	$ 0.30	$ 0.27	$ 0.31	$ 0.30	$ 0.30	$ 0.32	$ 0.29	$ 0.29
Diluted	$ 0.30	$ 0.26	$ 0.31	$ 0.29	$ 0.30	$ 0.32	$ 0.29	$ 0.29

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

As discussed in Note 1, Restatement, in the Notes to Consolidated Financial Statements, the Company is restating financial statements and other financial information for the years ended December 31, 2004, 2003 and 2002.

In 2005 and prior years, the Company entered into interest rate swap agreements on brokered certificates of deposit (CD swaps) and junior subordinated debt (junior subordinated debt swaps) that were accounted for as fair value hedges under SFAS No. 133. The Company elected a method of fair value hedge accounting, commonly

referred to as the abbreviated method of hedge accounting described in paragraph 65 of SFAS No. 133, which allowed the Company to assume no ineffectiveness in these transactions as long as critical terms did not change. The Company recently concluded that the CD swaps and junior subordinated debt swaps did not qualify for these methods in the periods covered by this restatement. In retrospect, the CD swaps did not comply due to the death puts contained in the brokered CDs, which allow the estate of the CD holder to require the bank to redeem the CD in the event of the CD holder s death. In addition, the junior subordinated debt swaps did not comply due to interest deferral features present in the junior subordinated debt. Hedge accounting under SFAS No. 133 is not allowed retrospectively because the hedge documentation required for the long-haul method was not in place at the inception of the hedge. Eliminating the application of fair value hedge accounting reverses the fair value adjustments that have been made to the brokered certificates of deposit and junior subordinated debt and results in all fair value changes for the interest rate swaps being recognized in noninterest income. Additionally, the net cash settlement payments received during each of the affected periods for these interest rate swaps were reclassified from interest expense on brokered certificates of deposit and junior subordinated debt to noninterest income. Adjustments were also made for other non-significant items.

For additional information on the restatement see Note 1, Restatement, in the Notes to the Consolidated Financial Statements.

This Annual Report on Form 10-K/A, contains forward-looking statements about the Company. Broadly speaking, forward-looking statements include forecasts of future financial results and condition, expectations for future operations and business, and any assumptions underlying those forecasts and expectations. Do not unduly rely on forward-looking statements. Actual outcomes and results might differ significantly from forecasts and expectations. Please refer to Factors that May Affect Future Results for a discussion of some of the factors that may cause results to differ.

Management s Discussion and Analysis of Financial Condition and Results of Operations is presented on the following pages. The principal purpose of this review is to provide the reader of the attached financial statements and accompanying footnotes with a detailed analysis of the financial results of The Colonial BancGroup, Inc. and subsidiaries (for the purposes of this Item 7, BancGroup , Colonial , or the Company).

EXECUTIVE OVERVIEW

The Colonial BancGroup, Inc. is a $18.9 billion financial services company providing diversified services including retail and commercial banking, wealth management services, mortgage banking and insurance through its branch network, private banking offices or officers, ATMs and the internet as well as other distribution channels to consumers and businesses. At December 31, 2004, BancGroup s branch network consisted of 292 offices in Florida, Alabama, Georgia, Nevada, Tennessee and Texas.

BancGroup is primarily a Florida bank with more of its assets in Florida than in any other state. The following chart includes the approximate assets, deposits and branches as of December 31, 2004 on a pro forma basis with the Union Bank acquisition which closed on February 10, 2005.

	Assets (Restated)		Deposits (Restated)		Branches	
	Amount	%	Amount	%	Number	%
	(Dollars in millions)					
Florida	$ 9,796	49%	$ 6,696	54%	144	47%

Alabama	3,896	20%	3,701	30%	115	37%
Georgia	1,303	7%	768	6%	22	7%
Texas	1,056	5%	508	4%	12	4%
Nevada	787	4%	517	4%	13	4%
Corporate/Other	3,070	15%	305	2%	3	1%
Total	$ 19,908	100%	$ 12,495	100%	309	100%

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Strategy

BancGroup is built upon the foundation of a community banking philosophy that emphasizes local responsibility for customer relationships. This operating philosophy has been important in making acquisitions, retaining skilled and highly motivated local management teams, and developing a strong customer base, particularly with respect to lending relationships.

The expertise in each local market is supported by centralized operations, which allow the local banking officers to concentrate on the customer. Through this structure of local customer relationship responsibility and centralized operations, the local banks have decision making capability while at the same time having an effective operational structure at their disposal to service the customer in the most cost effective and efficient manner.

We are continuing to expand our geographic footprint through internal growth and acquisitions. Our internal growth strategies include seeking quality loan growth in each regional market, generating deposit growth through the development of customer relationships and competitive product offerings, growth in noninterest income through continued expansion of fee based products and services and the ongoing development of a sales oriented business culture with an emphasis on customer service. Our acquisition strategies focus on finding strong banks in growth markets that fit into our strategic plans and desired market areas.

Earnings Overview

Colonial reported record net income of $173 million for the year ended 2004, a 19% increase over 2003. The Company also earned record earnings per share of $1.31 for the year ended 2004, a 13% increase over 2003.

Net interest income for the year increased 15% over 2003 due to 10% growth in average earning assets and a 14 basis point expansion in net interest margin. The fourth quarter of 2004 was the fifth consecutive quarter that Colonial expanded its net interest margin.

Average earning assets increased $1.4 billion over 2003 primarily from growth of $598 million in loans and $633 million in securities. Average earning assets grew $357 million from the acquisition of P.C.B. Bancorp, which closed in May 2004. Average loan balances, excluding mortgage warehouse loans, grew internally $717 million, or 7%, during 2004. Average mortgage warehouse loans however, decreased $424 million, or 29%, during 2004.

The net interest margin increased to 3.52% in 2004 compared to 3.38% in 2003. The increase in the net interest margin was primarily due to the lower cost of interest bearing liabilities, which more than offset the decline in yield on earning assets. The cost of interest bearing liabilities declined 21 basis points to 2.03% compared to 2.24% in 2003, while the yield on earning assets fell six basis points in 2004 to 5.25% compared to 5.31% in 2003.

Colonial s average non-time interest bearing deposits grew $1.1 billion, or 30% (24% excluding the PCB acquisition), from 2003 to 2004. The cost of average non-time interest bearing deposits increased only 9 basis points during 2004. Total average deposits increased $1.4 billion, or 15% (12% excluding the PCB acquisition), from December 31, 2003.

Noninterest income for the year ended 2004 was $153 million, an increase of $15 million, or 11%, over 2003. Increases in service charges, fees from electronic banking services, gains on sales of securities, bank-owned life insurance, net cash settlements of swap derivatives and changes in fair value of swap derivatives were offset by decreases in mortgage banking income and wealth management revenue. Mortgage banking income

is directly affected by changes in mortgage rates while wealth management revenues are dependent upon customer perception of the financial and equity markets.

Noninterest expense for 2004 was $432 million, which included $7.4 million in net losses on the early extinguishment of debt. Excluding the losses on early extinguishment of debt, noninterest expense increased 13%

over 2003. Colonial enhanced its franchise by adding 30 new locations, including 16 through an acquisition during 2004. These new locations and acquisition related expenses accounted for approximately one-third of the total increase in noninterest expense. The remaining increases included additional expenses from salaries and benefits, legal costs, occupancy expenses related to branch closures (seven in 2004), technology initiatives and professional fees associated with Sarbanes-Oxley Section 404 compliance.

Colonial improved upon its already excellent credit quality by ending 2004 with a new record low nonperforming assets ratio of 0.29%. Nonperforming assets decreased by 51% from December 31, 2003. Net charge-offs as a percent of average net loans for 2004 were 0.19%. Colonial s net charge-offs have consistently been lower than the average net charge-off ratio for southern regional banks as well as all FDIC banks. The allowance for loan losses as a percentage of net loans at December 31, 2004, was 1.16% compared to 1.20% at December 31, 2003 as a result of improving credit quality trends. The Company will continue to monitor trends in the economy and asset quality to assess the adequacy of its allowance for loan losses.

The Company s total risk-based capital ratio at December 31, 2004 was 11.39% (restated) and its Tier I risk-based capital ratio was 8.80% (restated), exceeding the minimum regulatory guidelines of 8% and 4%, respectively, for bank holding companies. The Company s total and Tier I risk-based capital ratios at December 31, 2003 were 12.55% (restated) and 9.41% (restated), respectively. The Company s Tier I leverage ratios were 7.16% (restated) and 7.55% (restated) at December 31, 2004 and 2003, respectively, exceeding the minimum regulatory guideline of 3% for bank holding companies.

In 2004, the Company paid its stockholders dividends of $75.6 million, or $0.58 per share, compared to $69.8 million or $0.56 per share in 2003. The Company declared a $0.1525 per share dividend payable on February 11, 2005 to holders of record as of January 28, 2005.

Business Combinations

Colonial continues its expansion into high growth areas by selectively expanding its existing markets through acquisitions. As a result of recent business combinations in those markets and strong internal growth, a majority of Colonial s total assets and total deposits are located in Florida.

On February 10, 2005, Colonial completed the acquisition of Union Bank of Florida (Union), headquartered in Sunrise, Florida (Broward County). Union had approximately $1 billion in assets, $631 million in deposits and $643 million in loans at February 10, 2005. The acquisition of Union added 17 full-service offices in Miami-Dade, Broward and Palm Beach counties to Colonial s franchise. Total consideration for the transaction was approximately $233.5 million and consisted of approximately 75% cash and 25% stock.

On January 18, 2005, Colonial announced the signing of a definitive agreement to acquire First Federal Savings Bank of Lake County (FFLC). FFLC, headquartered in Leesburg, Florida, had assets of $1 billion, deposits of $795 million and loans of $884 million at December 31, 2004. FFLC currently operates 16 full-service offices in Lake, Sumter, Citrus and Marion counties in Central Florida. Total consideration for the transaction is approximately $232 million. Under the terms of the agreement, FFLC shareholders will elect to receive either two shares of Colonial stock or $42 in cash for each FFLC share they own. The cash consideration will be capped at approximately 35% of the transaction. This transaction is expected to be completed by the end of the second quarter of 2005.

In May 2004, BancGroup acquired P.C.B. Bancorp, Inc. (PCB) and its four subsidiary banks, Premier Community Bank of Florida, Premier Community Bank, Premier Community Bank of Southwest Florida, and Premier Community Bank of South Florida. PCB had 16 full service offices on the east and west coasts of southern Florida. At the time of acquisition, PCB had approximately $688 million in total assets, $494 million in loans, and $547 million in deposits. Total consideration for the transaction was approximately $143.2 million and consisted of approximately 75% stock and 25% cash. BancGroup issued 6,030,434 shares of its common stock to shareholders of PCB.

In October 2003, BancGroup acquired Sarasota BanCorporation (Sarasota) and its wholly owned subsidiary bank, Sarasota Bank. Sarasota Bank operated one branch office in Sarasota, Florida. At the time of acquisition, Sarasota had approximately $161 million in assets, $129 million in loans, and $128 million in deposits. Total consideration for the transaction was approximately $36.6 million and consisted entirely of stock. BancGroup issued 2,399,852 shares of its common stock to shareholders of Sarasota.

Opportunities

The Company is poised to take advantage of growth opportunities because of its strategic locations in attractive markets in the United States, including Florida, Georgia, Texas and Nevada. During the past few years, Colonial has made a concerted effort to build a solid infrastructure and transform its culture to focus on sales and service. The Company is now reaping the benefits of these strategic initiatives. Colonial continues to find more opportunity to grow relationships within its existing customer base and to expand its presence in chosen markets in the fastest-growing areas of the country. New branches placed in the growth areas of Colonial s existing markets strengthen our ability to serve and grow customers by improving customer convenience, sales opportunities and branch profitability.

Recent Accounting Standards

In December 2003, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. This SOP addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor s initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. It includes such loans acquired in purchase business combinations and applies to all nongovernmental entities, including not-for-profit organizations. This SOP does not apply to loans originated by the entity. This SOP limits the yield that may be accreted (accretable yield) to the excess of the investor s estimate of undiscounted expected principal, interest, and other cash flows (cash flows expected at acquisition to be collected) over the investor s initial investment in the loan. This SOP requires that the excess of contractual cash flows over cash flows expected to be collected (nonaccretable difference) not be recognized as an adjustment of yield, loss accrual, or valuation allowance. This SOP prohibits investors from displaying accretable yield and nonaccretable difference in the balance sheet. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan s yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as impairment. This SOP prohibits carrying over or creation of valuation allowances in the initial accounting of all loans acquired in a transfer that are within the scope of this SOP. The prohibition of the valuation allowance carryover applies to the purchase of an individual loan, a pool of loans, a group of loans, and loans acquired in a purchase business combination. This SOP is effective for loans acquired in fiscal years beginning after December 15, 2004. The changes required by this SOP are not expected to have a material impact on the Company s financial statements.

In March 2004, the Emerging Issues Task Force (EITF) reached a final consensus on Issue 03-1, *The Meaning of Other-Than-Temporary and Its Application to Certain Investments*. The Issue applies to debt and equity securities within the scope of Statement of Financial Accounting Standards (SFAS) 115, certain debt and equity securities within the scope of SFAS 124, and equity securities that are not subject to the scope of SFAS 115 and not accounted for under the equity method of accounting (i.e., cost method investments). Issue 03-1 outlines a three-step model for assessing other-than-temporary impairment. The model involves first determining whether an investment is impaired, then evaluating whether the impairment is other-than-temporary, and if it is, recognizing an impairment loss equal to the difference between the investment s cost and its fair value. The model was to be applied prospectively to all current and future investments in interim or annual reporting periods beginning after June 15, 2004. However, in September 2004 the Financial Accounting Standards Board (FASB) staff issued FASB Staff Position (FSP) EITF Issue 03-1-1 which delayed the effective date for the measurement and recognition guidance contained in Issue 03-1. The guidance for analyzing securities for impairment will be effective with the final issuance of FSP EITF Issue 03-1-a. The disclosure

guidance of Issue 03-1 remains effective and requires quantitative and qualitative disclosures for investments accounted for under SFAS 115 and SFAS 124 for the first annual reporting period ending after December 15, 2003. In addition, disclosures related to cost method investments are effective for annual reporting periods ending after June 15, 2004. Comparative information for the periods prior to the period of initial application is not required. See Note 4, *Securities*, in the Notes to the Consolidated Financial Statements for BancGroup s disclosures under Issue 03-1. The changes required by this EITF Issue are not expected to have a material impact on the Company s financial statements.

On December 16, 2004, the FASB issued SFAS 123(R), *Share-Based Payment*, which is a revision of SFAS 123, *Accounting for Stock-Based Compensation*. SFAS 123(R) supersedes APB Opinion 25, *Accounting for Stock Issued to Employees*, and amends SFAS 95, *Statement of Cash Flows*. Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. SFAS 123(R) must be adopted no later than July 1, 2005. Early adoption will be permitted in periods in which financial statements have not yet been issued. SFAS 123(R) permits public companies to adopt its requirements using one of two methods:

A modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date.

A modified retrospective method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company plans to adopt SFAS 123(R) on July 1, 2005 using the modified-prospective method.

As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using Opinion 25 s intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS 123(R) s fair value method will have an impact on the Company s results of operations, although it will have no material impact on its overall financial position. The impact of adopting SFAS 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS 123(R) in prior periods, the impact of that standard would likely have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share included in the *Stock-Based Compensation* section of Note 2, *Summary of Significant Accounting and Reporting Policies*, in the Notes to the Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES

BancGroup s significant accounting policies are presented in Note 2 to the Consolidated Financial Statements. These policies, along with the disclosures presented in the other footnotes, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Those accounting policies involving significant estimates and assumptions by management, which have, or could have, a material impact on the carrying value of certain assets and impact comprehensive income, are considered critical accounting policies. BancGroup recognizes the following as critical accounting policies: Allowance for Loan Losses and Goodwill Impairment Analysis.

Allowance for Loan Losses

Management s ongoing evaluation of the adequacy and allocation of the allowance considers both impaired and unimpaired loans and takes into consideration the Bank s past loan loss experience, known and inherent risks

in the portfolio, adverse situations that may affect the borrowers ability to repay, estimated value of any underlying collateral and an analysis of current economic conditions. While management believes that it has exercised prudent judgment and applied reasonable assumptions which have resulted in an allowance presented in accordance with generally accepted accounting principles, there can be no assurance that in the future, adverse economic conditions, increased nonperforming loans, regulatory concerns, or other factors will not require further increases in, or re-allocation, of the allowance. A more detailed discussion of BancGroup s allowance for loan losses is included in the Risk Management section and Note 2 to the Consolidated Financial Statements.

The table below illustrates BancGroup s sensitivity to changes in certain factors used in the determination of the allowance for loan losses.

	Estimated Effect on 2005 Provision Expense Assuming the Following Changes in Each Determining Factor(2)	
Factors	**+ 10%**	**10%**
	(In thousands)	
Loan portfolio Size	$ 11,905	$ (11,905)
Net charge-offs	236	(236)
Criticized loans(1)	1,002	(996)

(1) Criticized loans include all loans rated special mention or worse (includes all nonperforming assets and severely past due loans).
(2) These computations do not contemplate any action BancGroup could undertake in response to changes in each of these risk factors.

Goodwill Impairment Analysis

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. BancGroup tests goodwill for impairment on an annual basis, or more often if events or circumstances indicate that there may be impairment. The Company has elected to perform its annual testing as of September 30 each year. The goodwill impairment test is a two-step process, which requires management to make judgments in determining the assumptions used in the calculations. The first step involves estimating the fair value of each reporting unit and comparing it to the reporting unit s carrying value, which includes the allocated goodwill. If the estimated fair value is less than the carrying value, then a second step is performed to measure the actual amount of goodwill impairment. The second step initially involves determining the implied fair value of goodwill. This requires the Company to allocate the estimated fair value to all the assets and liabilities of the reporting unit. Any unallocated fair value represents the implied fair value of goodwill which is compared to its corresponding carrying value. If the carrying value exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess.

Fair values of reporting units were estimated using discounted cash flow models derived from internal earnings forecasts. The key assumptions used to estimate the fair value of each reporting unit included earnings forecasts for five years, terminal values based on future growth rates and discount rates based on the Company s weighted average cost of capital adjusted for the risks associated with the operations of each reporting unit.

The goodwill impairment analysis for 2004 indicated that no impairment write-offs were required. The table below illustrates BancGroup s sensitivity to changes in the rates used in discounting the estimated future cash flows. The sensitivity analysis was based on information available as of the annual test date of September 30, 2004. Further discussion regarding BancGroup s accounting for goodwill is included at Note 2 to the Consolidated Financial Statements.

	Sensitivity of Goodwill Impairment Analysis Results Assuming the Following Changes in Discount Rates(1)		
	No Change	+ 20%	20%
		(In thousands)	
Total excess of estimated fair value versus carrying value for all reporting units	$ 2,188,736	$ 1,381,932	$ 4,029,647

(1) These computations do not take into account changes in the forecasted cash flows and future annual growth rates. Further, the computations do not contemplate any action BancGroup could undertake in response to changes in the risks associated with the operations of each reporting unit.

REVIEW OF RESULTS OF OPERATIONS

Net Interest Income

Net interest income represents the difference, or spread, 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.

Net interest income on a tax equivalent basis increased 14.4% or $71.6 million to $569.1 million for the year ended December 31, 2004, from $497.4 million for the year ended December 31, 2003. The principal factors affecting net interest income in 2004 were growth in average earning assets of 9.7% along with a 14 basis point improvement in the net interest margin.

The net interest margin increased to 3.52% in 2004 compared to 3.38% in 2003. The increase in the net interest margin was primarily due to the lower cost of interest bearing liabilities, which more than offset the decline in yield on earning assets. The cost of interest bearing liabilities declined 21 basis points to 2.03% compared to 2.24% in 2003, while the yield on earning assets fell six basis points in 2004 to 5.25% compared to 5.31% in 2003.

The Average Volume and Rates and Analysis of Interest Increases (Decreases) tables present the individual components of net interest income and the net interest margin. An analysis and discussion of the changes in these components is provided following the tables.

Average Volume and Rates

	2004			2003			2002		
	Average Volume	Interest	Average Rate	Average Volume	Interest	Average Rate	Average Volume	Interest	Average Rate
	(In thousands, restated)								
ASSETS:									
Interest earning assets:									
Mortgage warehouse loans	**$ 1,033,238**	**$ 42,749**	**4.14%**	$ 1,457,716	$ 57,990	3.98%	$ 1,093,061	$ 45,299	4.14%
All other loans, net of unearned income(1)(4)	**11,115,275**	**625,455**	**5.63%**	10,093,214	591,060	5.86%	9,427,710	621,089	6.59%
Total loans, net of unearned income(5)	**12,148,513**	**668,204**	**5.50%**	11,550,930	649,050	5.62%	10,520,771	666,388	6.33%
Loans held for sale	**497,315**	**23,972**	**4.82%**	373,226	19,134	5.13%	89,566	4,503	5.03%
Investment securities and securities available for sale:									
Taxable	**3,196,804**	**144,299**	**4.51%**	2,550,549	103,027	4.04%	2,050,026	102,281	4.99%
Nontaxable(2)	**65,827**	**4,633**	**7.04%**	80,173	5,796	7.23%	99,965	7,203	7.21%
Equity securities	**134,369**	**5,278**	**3.93%**	132,945	5,460	4.11%	94,386	5,004	5.30%
Total securities	**3,397,000**	**154,210**	**4.54%**	2,763,667	114,283	4.14%	2,244,377	114,488	5.10%
Federal funds sold and other short-term investments	**130,711**	**3,442**	**2.63%**	49,151	633	1.29%	55,212	960	1.74%
Total interest earning assets	**16,173,539**	**$ 849,828**	**5.25%**	14,736,974	$ 783,100	5.31%	12,909,926	$ 786,339	6.09%
Allowance for loan losses	**(148,208)**			(138,925)			(133,302)		
Cash and due from banks	**328,713**			339,337			289,196		
Premises and equipment, net	**263,134**			237,281			225,925		
Unrealized (loss) gain on available for sale securities	**(12,783)**			8,290			25,463		
Other assets(4)	**829,176**			659,534			494,824		
Total Assets	**$ 17,433,571**			$ 15,842,491			$ 13,812,032		
Liabilities and Shareholders Equity:									
Interest bearing liabilities:									
Interest bearing demand deposits	**$ 4,092,590**	**$ 40,217**	**0.98%**	$ 3,033,408	$ 26,595	0.88%	$ 2,501,049	$ 32,155	1.29%
Savings deposits	**547,359**	**2,497**	**0.46%**	537,865	3,031	0.56%	464,871	4,311	0.93%
Time deposits	**4,014,706**	**105,422**	**2.63%**	3,999,481	112,685	2.82%	4,308,276	149,936	3.48%
Short-term borrowings	**2,906,035**	**38,303**	**1.32%**	2,977,391	35,557	1.19%	2,059,151	36,548	1.77%
Long-term debt(4)	**2,264,698**	**94,331**	**4.17%**	2,216,861	107,792	4.86%	1,952,020	105,272	5.39%
Total interest bearing liabilities	**13,825,388**	**$ 280,770**	**2.03%**	12,765,006	$ 285,660	2.24%	11,285,367	$ 328,222	2.91%
Noninterest bearing demand deposits	**2,207,385**			1,848,172			1,460,100		
Other liabilities(4)	**115,026**			104,017			91,213		
Total liabilities	**16,147,799**			14,717,195			12,836,680		
Shareholders equity	**1,285,772**			1,125,296			975,352		

Total liabilities and shareholders equity	**$ 17,433,571**			$ 15,842,491			$ 13,812,032		
Rate differential			**3.22%**			3.07%			3.18%
Net yield on interest earning assets(3)		**$ 569,058**	**3.52%**		$ 497,440	3.38%		$ 458,117	3.55%

(1) Loans classified as non-accruing are included in the average volume calculation. Interest earned and average rates on non-taxable loans are reflected on a tax equivalent basis. This interest is included in the total interest earned for loans. Tax equivalent interest earned is actual interest earned times 145%.

(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.

(3) Net interest income divided by average total interest-earning assets.

(4) The mark to market valuations on hedged assets and liabilities are included in either other assets or other liabilities, respectively.

(5) Interest income on loans includes loan fees of $42,788, $38,134 and $35,357 for 2004, 2003 and 2002, respectively.

An Analysis of Interest Increases (Decreases)

	2004 Change From 2003			2003 Change From 2002		
		Attributed To(1)			Attributed To(1)	
	Amount	Volume	Rate	Amount	Volume	Rate
			(In thousands, restated)			
Interest income:						
Total loans, net of unearned income:						
Mortgage warehouse loans	**$ (15,241)**	**$ (17,481)**	**$ 2,240**	$ 12,691	$ 14,570	$ (1,879)
All other loans, net of unearned income	**34,395**	**58,163**	**(23,768)**	(30,029)	41,950	(71,979)
Loans held for sale	**4,838**	**6,039**	**(1,201)**	14,631	14,540	91
Taxable securities	**41,272**	**28,200**	**13,072**	746	22,301	(21,555)
Nontaxable securities(2)	**(1,163)**	**(1,013)**	**(150)**	(1,407)	(1,430)	23
Equity securities	**(182)**	**58**	**(240)**	456	1,744	(1,288)
Total securities	**39,927**	**27,245**	**12,682**	(205)	22,615	(22,820)
Federal funds sold and other short-term investments	**2,809**	**1,724**	**1,085**	(327)	(97)	(230)
Total	**66,728**	**75,690**	**(8,962)**	(3,239)	93,578	(96,817)
Interest expense:						
Interest bearing demand deposits	**13,622**	**10,120**	**3,502**	(5,560)	5,972	(11,532)
Savings deposits	**(534)**	**53**	**(587)**	(1,280)	601	(1,881)
Time deposits	**(7,263)**	**427**	**(7,690)**	(37,251)	(10,187)	(27,064)
Short-term borrowings	**2,746**	**(869)**	**3,615**	(991)	13,219	(14,210)
Long-term debt	**(13,461)**	**2,282**	**(15,743)**	2,520	13,468	(10,948)
Total	**(4,890)**	**12,013**	**(16,903)**	(42,562)	23,073	(65,635)
Net interest income	**$ 71,618**	**$ 63,677**	**$ 7,941**	$ 39,323	$ 70,505	$ (31,182)

(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: actual interest earned times 145%. Tax equivalent average rate is: tax equivalent interest earned divided by average volume.

Average Interest Earning Assets

Average interest earning assets grew $1.4 billion or 10% in 2004. The average yield on earning assets declined six basis points in 2004 due to market rate declines in 2003. These declines encouraged a significant number of early loan payoffs and repositioned the loan portfolio in a lower rate environment. The decline in the average yield on earning assets was lessened by the increases in market rates that occurred in the second half of 2004. During this period, the Federal Reserve raised the target federal funds rate 125 basis points, and BancGroup raised its prime rate in conjunction with those increases. Approximately 80% of BancGroup s loan portfolio is variable or adjustable rate and therefore is directly impacted by changes in market rates. The composition of the earning asset growth is detailed in the sections below.

Loans. Average total loans grew $598 million or 5.2% in 2004 over 2003. The average mortgage warehouse lending portfolio decreased $424 million in 2004. Mortgage warehouse lending is a centralized division that provides lines of credit collateralized by residential mortgage loans to

mortgage origination companies. The record low mortgage rates available in 2002 and 2003 resulted in large increases in average loans for this division, as overall mortgage activity, both refinancings and purchases, reached record levels. As mortgage rates

increased the first half of 2004, these volumes declined. Consequently, average mortgage warehouse loans as a percentage of average total loans was 13% in 2003 compared to 9% in 2004. The average yield in mortgage warehouse loans increased 16 basis points in 2004 after declining 16 basis points in 2003. The pricing of these loans is affected by changes in market rates and customer demand.

The average balance of loans, excluding mortgage warehouse lending, showed solid growth in 2004 and increased $1 billion, or 10% (7% excluding the PCB acquisitions). The average yield on the loan portfolio, excluding the mortgage warehouse division, was 5.63% for 2004, compared to 5.86% for 2003. As a result of changes in market rates, the yield on loans, excluding mortgage warehouse lending, increased in the last two quarters of 2004, but for the year was 23 basis points below the average yield for 2003.

Loans held for sale. Loans held for sale represent single family residential mortgage loans either directly originated, or acquired as short-term participations in mortgage loans. It is the Company s policy to enter into forward sales commitments at the same time these mortgage loans are originated or acquired. Average loans held for sale increased to $497 million in 2004 from $373 million in 2003. The average yield on the Company s loans held for sale decreased 31 basis points to 4.82% in 2004 versus 5.13% in 2003.

Securities. On average, the securities portfolio increased to $3.4 billion in 2004 from $2.8 billion in 2003. Securities comprised 21% of average earning assets in 2004 compared to 19% in 2003. The average yield increased to 4.54% in 2004 from 4.14% in 2003. The 40 basis point increase in 2004 was primarily due to lower premium amortization on mortgage backed securities, as prepayments slowed during the fourth quarter of 2003 and remained slower throughout 2004. BancGroup also executed several transactions to improve the structure and yield of the securities portfolio, such as selling $710 million in securities yielding 4.37% and reinvesting those proceeds into securities yielding 4.59% in the first quarter of 2004. The duration of the portfolio (excluding equities) declined during 2004 from an estimated duration of 4.2 years at December 31, 2003 to 3.64 years at December 31, 2004.

Average Interest Bearing Liabilities

Average interest bearing liabilities increased 8%, primarily from 14% growth in interest bearing deposits. The average cost of interest bearing liabilities decreased 21 basis points to 2.03% in 2004, compared to 2.24% in 2003. The lower average cost of funds in 2004 was primarily the result of a shift in deposit mix to non-time deposits from time deposits, continued repricing of deposits in a lower rate environment and lower rates on long term debt as a result of prepaying certain long-term advances and entering into interest rate swaps to convert fixed rates to floating rates. The percentage of average non-time deposits to total average deposits has improved with the ratio increasing to 63% in 2004 compared to 58% in 2003.

Interest bearing deposits. Average non-time interest bearing deposits grew $1.1 billion, or 30% in 2004 (24% excluding the PCB acquisition). This growth was primarily from sales efforts to emphasize relationship deposit growth, particularly in the money market product during 2004. Average time deposits remained relatively unchanged from 2003 (decreased 2% excluding the PCB acquisition).

The average rate on non-time interest bearing deposits increased nine basis points to 0.92% for 2004 compared to 0.83% for 2003, while the rate on time deposits declined 19 basis points to an average of 2.63% in 2004 compared to 2.82% for 2003.

BancGroup s growth in low cost deposits has decreased its dependence on borrowings whereby total average deposits comprise 67.8% of the Company s total funding for the year ended 2004 compared to 64.5% in 2003. The shift in funding mix contributes favorably to BancGroup s interest rate risk profile and is expected to assist in containing funding costs in a rising interest rate environment.

Borrowings. Average borrowings decreased less than 1% from 2003 due to strong deposit growth in 2004 which decreased the Company s reliance on wholesale funding sources. Due to the previously discussed growth in deposits, average total borrowings were 30% of average total assets for 2004 compared to 33% for 2003. Short term borrowings decreased $71 million in 2004. The average rate on short term borrowings increased 13 basis points to 1.32% in 2004 versus 1.19% in 2003 in conjunction with increases in the target federal funds rate. The average balance of long term debt increased $47.8 million in 2004. Rates on long-term debt declined 69 basis points from 2003 due to BancGroup s prepayment of $512 million in long term FHLB advances which had an average rate of 4.49%, and entrance into interest rate swaps to convert the interest rates on $575 million of long-term FHLB advances from fixed to floating rates.

Average Noninterest Earning Assets

Average noninterest earning assets increased $155 million to $1.3 billion from 2003 to 2004. The 2004 increase was due largely to an increase in bank-owned life insurance (BOLI) and noninterest earning assets obtained through acquisitions, such as goodwill and fixed assets.

Average Noninterest Bearing Liabilities

Average noninterest bearing liabilities increased by $370 million from 2003 to 2004, a 19% increase. This change primarily relates to the increase in average noninterest bearing deposits of $359 million from 2003 to 2004, a 19% increase (17% excluding the PCB acquisition). The noninterest bearing deposit mix remained constant at 20% of total deposits in both 2004 and 2003.

Loan Loss Provision

The provision for loan losses for the year ended December 31, 2004 was $27.0 million compared to $37.4 million for 2003. Net charge-offs were 0.19% and 0.31% of average loans for the years ended December 31, 2004 and 2003, respectively.

At December 31, 2004 BancGroup had a 548% reserve coverage of nonperforming loans compared to 240% at December 31, 2003. The reduction in loan loss provision was the result of improved credit quality in the loan portfolio. See management s discussion of nonperforming assets and summary of loan loss experience presented in the Review of Financial Condition section of this report.

Noninterest Income

Noninterest income, excluding gains/losses on securities, derivatives, net cash settlement of derivatives and other nonrecurring items, increased $274 thousand, or 0.2%, from 2003 to 2004.

	Years Ended December 31,			Increase (Decrease)			
	2004	2003	2002	2004 Compared to 2003	%	2003 Compared to 2002	%
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
				(In thousands)			