COLONIAL BANCGROUP INC
Form 10-K405
March 11, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(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, 2001

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 #0-07945

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

Delaware (State of Incorporation)	63-0661573 (IRS Employer Identification No.)
One Commerce Street Suite 800 Montgomery, AL 36104 (Address of principal executive offices)	(334) 240-5000 (Telephone No.)

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

Common Stock, Par Value $2.50 Registered on the New York Stock Exchange

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

7 1/2% Convertible Subordinated Debentures, due 2011
(Title of Class)

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 the Form 10-K. [X]

The aggregate market value of the voting stock of the registrant held by non-affiliates as of February 20, 2002 based on the closing price of $14.15 per share for Common Stock was $1,504,858,952. (For purposes of calculating this amount, all directors, officers and principal shareholders of the registrant are treated as affiliates).

Shares of Common Stock outstanding at February 20, 2002 were 115,395,315.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Part of Form 10-K
Portions of Definitive Proxy Statement for 2001 Annual Meeting as specifically referred to herein.	Part III

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.

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

As of December 31, 2001 Colonial Bank had a total of 261 branches, with 123 branches in Alabama, 98 branches in Florida, 23 branches in Georgia, three branches in Tennessee, three branches in Texas and 11 branches in Nevada (as of March 28, 2002 BancGroup is expected to have 263 branches). Colonial Bank conducts a general commercial banking business in its respective service areas. Colonial Bank 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 and the sales of various types of investment products such as mutual funds, annuities, stocks, municipal bonds and U.S. government securities. Colonial Bank exited the mortgage servicing business in December 2000.

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 issuers of commercial paper and other securities, which are not banks. 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, 2001, Colonial Bank accounted for approximately 99.9% of BancGroup's consolidated assets.

The competitive environment for both Colonial Bank and BancGroup has been affected by the enactment of the Gramm-Leach-Bliley Financial Services Modernization Act ("Gramm-Leach") in 1999. This law, which became effective on March 11, 2000, eliminated many barriers between investment banking, commercial banking and insurance underwriting and sales. (See "Certain Regulatory Matters.") Elimination of these barriers has created the potential for greater competition for BancGroup and its subsidiaries, including Colonial Bank, by increasing the number and type of competitors and by encouraging increased consolidation within the financial services industry.

Nonbanking Subsidiaries

BancGroup has the following directly and wholly owned nonbanking subsidiaries that are currently active. 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 business trust, issued $70 million in trust preferred securities in 1997, which are guaranteed by BancGroup. Colonial Brokerage, Inc., a Delaware Corporation, provides broker/dealer services and investment advice and became a member of the National Association of Securities Dealers ("NASD") in September 2001.

Colonial Bank controls the following significant subsidiaries: CBG, Inc., a Nevada corporation, owns certain trade names and trademarks which it licenses to BancGroup and Colonial Bank for use in their businesses. CBG Investments, Inc., a Nevada corporation, owns and manages investment securities. Colonial Investment Services, Inc., an Alabama corporation; Colonial Investments Services of Florida, Inc., a Florida corporation; Colonial Investment Services of Tennessee, Inc., a Tennessee corporation and Colonial Investment Services of Georgia, Inc., a Georgia corporation; Colonial Investment Services of Nevada, Inc., a Nevada corporation, all of which offer various insurance products and annuities for sale to the public. Colonial Asset Management, Inc., an Alabama corporation, is an investment advisor registered under the Investment Advisors Act of 1940.

At December 31, 2001, BancGroup and its subsidiaries employed 3,296 persons. BancGroup's principal offices are located at and its mailing address is: One Commerce Street, Post Office Box 1108, Montgomery, Alabama 36101. Its telephone number is (334) 240-5000.

Certain Regulatory Considerations

BancGroup is a registered bank 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.

Colonial Bank, an Alabama state chartered bank that is a member of the

Federal Reserve System, is subject to supervision and examination by the Federal Reserve and the Alabama State Banking Department (the "Department"). The deposits of Colonial Bank are insured by the 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. Both the Federal Reserve and the Department have jurisdiction over a number of the same matters, including lending decisions, branching and mergers.

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. BancGroup may not engage in "non-banking" activities unless it demonstrates to the Federal Reserve's satisfaction that the activity in question is closely related to banking and a proper incident thereto. 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 approval of the Federal Reserve. Similarly, under certain circumstances, persons seeking to acquire between 10% and 25% also may be required to obtain prior Federal Reserve approval.

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 or require that the bank be sold to, or merged with, another financial institution.

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.

The officers and directors of BancGroup and Colonial Bank are subject to numerous insider transaction restrictions, including limits on the amount and terms of transactions involving Colonial Bank. There are a number of other 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.

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. The Federal Reserve has broad enforcement powers over bank holding companies, including the power to impose substantial fines and civil penalties.

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.

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.

Other Subsidiary Regulation

Certain subsidiaries of Colonial Bank currently sell insurance products in Alabama, Georgia, Florida, Tennessee, Texas, and Nevada. The sale of insurance products is conducted in Colonial Bank branches, but, in accordance with applicable law, are segregated from banking activities. Those states where products are currently being sold allow the sale of insurance products by bank subsidiaries, subject to regulation by each state's Department of Insurance and/or each state's Banking Department. The extent of regulation varies materially from state to state. However, the enactment of Gramm-Leach requires all states to allow the sale of insurance by financial institutions.

Colonial Asset Management, Inc., a Colonial Bank subsidiary, is a registered investment adviser under the Investment Advisers Act of 1940. It is regulated by the Securities Exchange Commission (SEC).

Colonial Brokerage, Inc., a BancGroup subsidiary, was awarded membership with the National Association of Securities Dealers (NASD) in September 2001 and operates as a securities broker dealer. It is regulated by the SEC and NASD.

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, which were effective November 13, 2000 but were not mandatory until July 1, 2001, limit the disclosure by financial institutions such as Colonial Bank 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.

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 effective date of these regulations was July 1, 2001. The regulations, applicable to state member banks, like Colonial Bank, and certain of their nonbank subsidiaries, and to bank holding companies, like BancGroup, and certain of their nonbank subsidiaries or affiliates, 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; and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer.

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 federal and state law on the payment of dividends by banks. The relevant regulatory agencies also have authority to prohibit 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 Colonial Bank, be deemed to constitute such an unsafe or unsound practice.

In addition, Colonial Bank and its subsidiaries are subject to limitations under Section 23A 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.

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, 2001, BancGroup's total risk-based capital ratio was 10.91%, including 7.39% of Tier 1 capital. The minimum required leverage capital ratio (Tier 1 capital to average total assets) is 3% for banking organizations that meet certain specified criteria, including that they have the highest regulatory rating. A minimum leverage ratio of an additional 100 to 200 basis points is required for banking organizations not meeting these criteria. As of December 31, 2001, BancGroup's leverage capital ratio was 6.24%. Failure to meet capital guidelines can subject a banking organization to a variety of enforcement remedies, including restrictions on its operations and activities.

As regards depository institutions, 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, 2001, 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 a 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 BIF and the 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). Well capitalized and adequately capitalized institutions are defined in the same manner as the regulations establishing the prompt corrective action system, as discussed previously. Undercapitalized institutions are those that do not qualify as either well capitalized or adequately capitalized. 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 funds ratio of reserves to insured deposits at 1.25%. During 2001 and for the first semiannual assessment period of 2002, assessment rates for BIF-insured institutions ranged from 0% of insured deposits for well-capitalized institutions with minor supervisory concerns to .27% of insured 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 ("AFICO") to service FICO debt incurred in the 1980s. The FICO assessment rate is adjusted quarterly. The average annual assessment rate in 2001 was 1.90 cents per $100 for BIF-insured deposits. For the first quarter of 2002, the FICO assessment rate for such deposits will be 1.82 cents per $100.

The Bank's assessment expense for the year ended December 31, 2001 equaled $1,586,000.

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.

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 2001-2000" 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 operation centers in Birmingham and Orlando and maintains regional executive offices in Alabama, Florida, Georgia, Nevada, and Texas.

As of December 31, 2001, Colonial Bank owned 184 and leased 77 of their 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

Not Applicable

PART II

Item 5. Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters

BancGroup's Common Stock is traded on the New York Stock Exchange under the symbol "CNB." This trading commenced on February 24, 1995. As of March 1, 2002, BancGroup had outstanding 115,398,654 shares of Common Stock, with 9,731 shareholders of record.

The following table indicated the high and low closing prices for and dividends paid on Common Stock during 2001 and 2000.

	Sale Price of Common Stock High	Sale Price of Common Stock Low	Dividends Declared On Common Stock (per share)
2001			
1st Quarter	$ 13.12	$10.75	$.12
2nd Quarter	14.75	12.05	.12
3rd Quarter	14.94	12.02	.12
4th Quarter	14.98	12.07	.12
2000			
1st Quarter	10.750	8.625	.11
2nd Quarter	11.250	9.000	.11
3rd Quarter	10.750	9.688	.11
4th Quarter	11.125	8.313	.11

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".

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Item 6. Selected Financial Data

The following table sets forth selected financial data for the last five years:

	2001	2000	1999	19
	(In thousands, except per shar			
Statement of Income				
Interest Income..	$902,167	$918,076	$766,038	$676
Interest expense...	480,238	517,754	384,891	339
Net interest income..	421,929	400,322	381,147	336
Provision for loan losses/(4)/.............................	39,573	29,775	29,177	27
Net interest income after provision for loan losses........	382,356	370,547	351,970	309
Noninterest income...	93,709	77,885	75,341	60
Noninterest expense/(4)/...................................	281,119	258,691	238,048	237
Merger related and Y2K expense/(1)/........................	3,049	--	1,867	26
Income from continuing operations before income taxes..	191,897	189,741	187,396	105
Applicable income taxes....................................	69,181	69,556	69,360	38
Income from continuing operations..........................	122,716	120,185	118,036	66
Discontinued Operations:/(2)/				
Income/(Loss) from discontinued operations, net of income taxes of ($371), ($450), $2,134, ($6,384), and $6,698 for the year ended December 31, 2001, 2000, 1999, 1998, and 1997, respectively..	(613)	(743)	3,527	(10
Loss on disposal of discontinued operations (net of income tax				

benefit of ($2,616)	--	(4,322)	--	
Net Income	$122,103	$115,120	$121,563	$ 56
Income from continuing operations excluding merger related and certain other nonrecurring items*/(1) (2) (3) (4)/	$125,728	$120,185	$112,872	$ 84
Earnings Per Common Share:				
Income from Continuing Operations excluding merger related expenses and certain other nonrecurring items*:				
Basic	$ 1.10	$ 1.05	$ 0.98	$
Diluted	1.09	1.04	0.96	
Income from continuing operations:/(2)/				
Basic	$ 1.07	$ 1.05	$ 1.02	$
Diluted	$ 1.06	1.04	1.01	
Average shares outstanding:				
Basic	114,811	114,760	115,579	113
Diluted	115,881	115,653	117,393	116
Cash dividends per common share	$ 0.48	$ 0.44	$ 0.38	$

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(1) Merger related expenses include external costs associated with various business combinations and restructuring charges of $8,800,000 ($5,632,000 net of income taxes). Y2k expenses of $560,000, $4,617,000 and $432,000 ($353,000, $2,955,000 and $276,000 net of income taxes) were incurred in 1999, 1998 and 1997.

(2) 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.

(3) Gain on the sale of certain branches and other one time miscellaneous income of $10,167,000 before tax and $6,405,000 after tax has been excluded from 1999.

(4) 2001 includes a merger related expense of $1,000,000 ($640,000 net of income taxes) in additional provision for loan losses to align provisions of an acquired bank with company standards and $658,000 ($421,000 net of income taxes) in personnel costs to complete the mergers which is included in noninterest expense.

* Income from continuing operations excluding merger related and certain other nonrecurring items is a non-GAAP measurement that is provided to enhance the understanding of BancGroup's results of operations. This additional disclosure is not provided as an alternative to or as being more meaningful information than GAAP measurements, but rather as supplement to them. Our definition of income from continuing operations excluding merger related and certain other nonrecurring items may not be the same as that of other companies.

	2001	2000	1999	1
	(In thousands, except per share			
Statement of Condition Data				
At year end:				
Total assets	$13,185,103	$11,999,621	$11,097,823	$10,
Loans, net of unearned income	10,367,665	9,642,954	8,419,225	7,
Mortgage loans held for sale	35,453	9,866	33,150	
Deposits	8,322,979	8,355,849	8,172,810	7,
Long-term debt	1,786,140	862,247	911,071	

Shareholders' equity............................	864,774	775,100	711,625	
Average balances:				
Total assets....................................	12,592,300	11,591,168	10,788,691	9,
Interest-earning assets.........................	11,881,184	10,723,803	9,793,524	8,
Loans, net of unearned income...................	10,119,185	9,030,529	7,771,884	6,
Mortgage loans held for sale....................	22,941	14,711	341,692	
Deposits..	8,432,980	8,252,352	7,747,414	6,
Shareholders' equity............................	826,081	727,495	688,474	
Book value per share..............................	7.50	6.93	6.26	
Tangible book value per share.....................	6.52	7.59	6.96	
Selected Ratios				
Income from continuing operations excluding merger related and certain other nonrecurring items to:/*(1)(2)(3) (4)/..............................				
Average assets..................................	1.00%	1.04%	1.05%	
Average shareholders' equity....................	15.22	16.52	16.39	
Efficiency ratio from continuing operations excluding merger related and certain other nonrecurring items*/(1)(2)(3)(4)/..................	55.03	53.85	52.92	
Dividend payout ratio.............................	45.28	44.00	36.19	
Average equity to average total assets............	6.56	6.28	6.38	
Total nonperforming assets to net loans, other real estate and repossessions/(5)/......................	0.64	0.53	0.54	
Net charge-offs to average loans..................	0.28	0.21	0.22	
Allowance for loan losses to total loans (net of unearned income).................................	1.18	1.14	1.18	
Allowance for loan losses to nonperforming loans/(5)/	239%	258%	275%	

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(1) Merger related expenses include external costs associated with various business combinations and restructuring charges of $8,800,000 ($5,632,000 net of income tax) in 1988. Y2k expenses of $560,000, $4,617,000 and $432,000 ($353,000, $2,955,000 and $276,000 net of income taxes) were incurred in 1999, 1998 and 1997.

(2) Gain on the sale of certain branches and other one time miscellaneous income of $10,167,000 before tax and $6,405,000 after tax have been excluded from 1999.

(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.

(4) 2001 includes a merger related expense of $1,000,000 ($640,000 net of income taxes), in additional provision for loan losses to align provisions of an acquired bank with company standards and $658,000 ($421,000 net of income taxes) in personnel costs to complete the mergers which is included in noninterest expense

(5) Non-performing loans and nonperforming assets are shown as defined in Management's Discussion and Analysis of Financial condition and Results of Operations -- Nonperforming Assets.

* Income from continuing operations excluding merger related and certain other nonrecurring items is a non-GAAP measurement that is provided to enhance the understanding of BancGroup's results of operations. This additional disclosure is not provided as an alternative to or as being more meaningful information than GAAP measurements, but rather as supplement to them. Our definition of income from continuing operations excluding merger related and certain other nonrecurring items may not be the same as that of other companies.

Selected Quarterly Financial Data 2001-2000

	2001				2000		
	Dec. 31	Sept. 30	June 30	March 31	Dec. 31	Sept. 30	J
	(In thousands, except per share amounts)						
Interest income....................	$207,937	$ 221,041	$232,886	$ 240,303	$240,858	$ 235,599	$2
Interest expense...................	98,597	115,972	127,969	137,700	141,106	136,814	1
Net interest income................	109,340	105,069	104,917	102,603	99,752	98,785	1
Provision for loan losses..........	14,730	7,901	7,478	9,464	7,857	8,886	
Net interest income after provision for loan loss.....................	94,610	97,168	97,439	93,139	91,895	89,899	
Income from continuing operations..	31,919	31,067	30,534	29,196	29,277	29,103	
Discontinued operations/(1)/.......	--	(613)	--	--	(366)	--	
Net Income (loss)..................	$ 31,919	$ 30,454	$ 30,534	$ 29,196	$ 28,911	$ 29,103	$
Earnings Per Share:							
Income from continuing operations excluding merger related and certain other nonrecurring items*/(1)/:							
Basic...........................	$ .30	$ .27	$ .27	$ .26	$ .26	$ .25	$
Diluted.........................	$ .30	$ .27	$ .26	$ .25	$ .26	$ .25	$
Income from continuing operations: /(1)/							
Basic...........................	$ .28	$ .27	$ .27	$ .26	$ .26	$ .25	$
Diluted.........................	$ .28	$ .26	$ .26	$ .25	$ .26	$ .25	$
Net Income.........................							
Basic...........................	$ .28	$ .27	$ .27	$ .26	$ .25	$ .25	$
Diluted.........................	$ .28	$ .26	$ .26	$ .25	$ .25	$ .25	$

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(1) 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.

* Income from continuing operations excluding merger related and certain other nonrecurring items is a non-GAAP measurement that is provided to enhance the understanding of BancGroup's results of operations. This additional disclosure is not provided as an alternative to or as being more meaningful information than GAAP measurements, but rather as supplement to them. Our definition of income from continuing operations excluding merger related and certain other nonrecurring items may not be the same as that of other companies.

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

INTRODUCTION

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" or the "Company"). Among other things, this discussion provides commentary on BancGroup's history, operating philosophies, the components of net interest margin and balance sheet strength as measured by the quality of assets, the composition of the loan portfolio and capital adequacy.

STRATEGY

Colonial was organized in 1981 as a holding company with one bank and $166 million in assets. Over the last 20 years, Colonial has followed a systematic, evolutionary process which has produced one of the top 50 banks in asset size in the nation with $13.2 billion in assets and 263 branch sales offices in 11 operating regions in six states. These operating regions are sometimes referred to in this discussion as "regional banks".

Colonial's success continues to evolve through the achievement of several key strategies. These strategies include:

- Building a strong foundation based on a community banking philosophy which provides local responsibility for customer relationships and a focus on sound asset quality;

- Establishing and expanding our presence in high growth markets with this same philosophy;

- Streamlining our operational structure to produce corporate synergies and efficiencies;

- Forming a sales culture in our branches that focuses on providing the best in customer service through the sales of appropriate products and services to meet customer needs;

- Continuing expansion of consistent and competitive product offerings;

- Providing tools to employees to allow them to further the sales culture and enhance customer service through efficient operations;

- Continuing to build upon our foundation by expanding our established philosophy and structure in markets that provide the best opportunities for increasing shareholder value.

Building a strong foundation. Colonial's foundation is built upon a community banking philosophy that promotes local responsibility for customer relationships. This operating philosophy has been important in developing a strong customer base, particularly with respect to lending relationships, retaining skilled and highly motivated local management teams, involving local boards of directors and in making acquisitions. Colonial's community banking philosophy requires a fundamental understanding of the marketplace it serves and the very best in customer service.

Attention to creating personal relationships with quality borrowers while maintaining sound and conservative underwriting standards is the backbone of our philosophy, and has allowed Colonial to effectively manage its asset quality throughout its history. Local expertise with established customer relationships combined with independent oversight of credit decisions and conservative underwriting standards are keys to the maintenance of high asset quality. The senior credit administration function provides the primary oversight of the credit review process. This administration function reviews large credits prior to approval and also provides an independent review of credits on a continual basis. In addition, the Company has established regional bank loan committees made up of local officers and directors that approve loans up to certain levels. These committees provide local business and market expertise while Colonial's senior management provides independent oversight through their participation in the state loan committees. By involving many individuals in the decision-making process, including the regional directors, management is able to stay on top of market trends. Maintaining high asset quality will always be a primary focus. Colonial's asset quality is demonstrated by its charge-off history and nonperforming asset levels, which for the past ten years have been among the lowest for southeastern regional banks. Nonperforming assets as a percentage of loans and other real estate were 0.64% at December 31, 2001. Net charge-offs were 0.28% of average loans in 2001 and 0.21% in 2000, which compares favorably to the southern regional banks as defined by Keefe, Bruyette and Woods, which were 0.35% in 2001 and 0.32% in 2000, respectively.

Establishing and expanding our presence in high growth markets. Colonial's growth market expansion has been concentrated in Florida, Georgia, Texas and Nevada. These areas represent four of the seven highest population growth states in the country. As of December 31, 2001, Colonial has a well-established presence in these areas through seven of its regional banks as reflected in the following table.

	Asset Size ($000)	Number of Branches
Florida:		
Central FL (Orlando)	$1,512,834	43
South FL (Miami, West Palm Beach)	1,593,112	20
Bay Area (Tampa, St. Petersburg)	758,167	20
Southwest FL (Naples, Ft. Myers)	418,059	14
Total Florida	4,282,172	97
Georgia (Atlanta, Macon, Columbus)	1,112,950	23
Texas (Dallas) pro forma with Mercantile*	641,496	8
Nevada (Las Vegas, Reno)	533,081	11

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* assumes the consummation of a merger with Mercantile Bancorp, Inc. which is expected to close on March 28, 2002.

Colonial has continued its expansion by selectively filling in these high growth markets through strategic placement of new branch locations and branch acquisitions that expanded our ability to provide additional customer service in the market. This growth was accomplished through opening nine new sales offices and the acquisition of 11 sales offices. In addition to the branch acquisitions, in October 2001 Colonial completed the acquisition of a community bank headquartered in Tampa with four branches and expects to acquire another community bank headquartered in Dallas with five branches in late first quarter 2002.

As Colonial enters new markets, it sets its foundation in its strong lending strategy. To promote its community banking philosophy, Colonial establishes regional banks with local responsibility for customer relationships through the hiring and retention of skilled and highly motivated management teams. Loan and deposit growth is emphasized in each market area through these regional banks. Because markets and communities differ widely, customers require different answers and solutions to their financial needs. As a result, our local lending strategy includes direct involvement by local management and directors. We believe customers appreciate the knowledge of their business needs and the local environment that local banking officers can provide. This strategy has proven successful in competing for loans against other larger institutions. Colonial's goal is to meet these needs of retail and commercial banking customers in each market area through its regional bank structure.

Due to the success of these efforts Colonial's geographic mix of loans and deposits has significantly changed. Loans in Alabama represented 84% of total loans in 1996 while in 2001 the percentage is 32%. During the same time, Florida loans represented 5% of total loans in 1996 and 35% in 2001. Regional bank deposits in Alabama represented 82% of total regional bank deposits in 1996 while in 2001 the percentage is 43%. Florida regional bank deposits represented 8% of total regional bank deposits in 1996 and 43% in 2001. Internal loan growth from these high growth areas was 10% and 15% for 2001 and 2000, respectively, while average deposits from these areas grew 12% in 2001 and 9% in 2000. Colonial expects to continue its successful growth by building on these local relationships.

The following table illustrates the loan contribution of each state and reflects the significant impact of the high growth markets on consolidated loans.

	% to Total At December 31,	
	2001	1996
Loans by state:		
Alabama..................	32%	84%
Florida..................	35	5
Georgia..................	12	11
Texas....................	3	--
Nevada...................	4	--
Mortgage warehouse lending	14	--
	100%	100%

The following table illustrates the deposit contribution of each state and reflects the significant impact of the high growth markets on consolidated regional bank deposits.

% to Total

	At December 31, 2001	At December 31, 1996
Regional bank deposits by state:		
Alabama........................	43%	82%
Florida........................	43	8
Georgia........................	8	10
Texas..........................	3	--
Nevada.........................	3	--
	100%	100%

Streamlining the operational structure. With acquisitions in place establishing a geographic footprint and primary regional bank structure, the next logical step was to support the expertise in each local market with centralized operations and credit review functions. Part of the process of each acquisition is to fold the acquired institution or branch completely into Colonial's established regional bank reporting structure and processes. By centralizing these functions the local banking officers have been allowed to concentrate on the customer and service their needs.

This structure of local customer relationship responsibility and centralized operations gives the local banks decision making capability and an effective operational structure to service the customer in the most cost effective and efficient manner. Centralized operations provide an advantage in servicing the customer base across our enterprise. It allows for continuity in operational processes and enhances product-offering capability.

Forming a sales culture. Over the last two years we have taken several steps to promote a more sales-focused environment. We redefined branch personnel roles and responsibilities to align our organization for more efficient sales management. We streamlined branch sales office operational tasks to allow sales office personnel to focus on selling customer services. To continue forging our proactive, sales and service culture, we implemented and enhanced SCORE (Selling Customer on Relationships Effectively), our ongoing retail banking sales and relationship-building training program. Management has established measurements to evaluate results and has tied compensation to those results. One of the measurements is a customer service rating through the use of an independent company to "shop" the sales offices to test their level of product knowledge and customer service. Loan officers also participate in production oriented incentive compensation programs. We believe that all of these efforts have contributed to growth in loans, deposits and noninterest income as well as the effective containment of noninterest expenses. In addition, we expect these efforts to enhance cross selling of products and services.

Expanding consistent and competitive product offerings. Colonial's goal is to be our customers' number-one provider of financial services -- from demand, savings, time deposit, and investment products to consumer, commercial, or mortgage loans. The regional banks have additional growth opportunities through the development of customer relationships by cross selling a variety of bank products and services. As market demographics change, products and services are structured to meet the needs of particular regions or customers. These products and services include various deposit products as well as other services such as wealth management, cash management, electronic banking, credit card and merchant services.

Strong regional bank management supported by Colonial's asset/liability and product and services management teams provide Colonial with the resources to remain competitive in its deposit markets by identifying and implementing products and services with attractive pricing to meet customer needs. Colonial has established a strategy to grow and retain its deposit base while remaining competitive in deposit pricing and meeting funding and liquidity goals through the monitoring of both our markets and customer needs and the expansion of sales efforts in the local branch sales office network.

Because of our markets and the customers we serve, we expect wealth management products and services to play a major role in future growth. Income from wealth management services has increased 56.4% in the last two years. Through Colonial's investment services, we offer discount brokerage, investment sales, asset management, trust services and insurance including term, universal, whole life and long-term care. In 2001 Colonial took many steps to enhance our wealth management services. First, we established Colonial Brokerage, Inc. which is a member of the NASD. This membership will allow Colonial to perform additional broker/dealer activities in order to better service our customers. Second, we implemented free financial planning services that should provide in-depth financial plans for customers who might benefit from a complete review of their financial objectives. This financial profile has been an excellent starting point in helping customers implement their agreed-upon financial strategy. Third, we affiliated with two highly respected trust companies. Fiduciary Trust International, through its Miami office, promotes and solicits trust business in our four Florida regional banks and international markets. Founders Trust Company, in Birmingham, Alabama, focuses on our customers in the other regional banks. Finally, during 2001 we launched the Colonial Premier account. This account is a combined checking, money market and brokerage account which enables us to provide our high net-worth customers with a robust financial services product that enables them to effectively manage their funds in a combined account. Management continuously monitors these services to ensure that our product offerings remain competitive in our markets.

Colonial offers a complete package of cash management services, which include lock box services, sweep accounts, zero balance accounts, electronic data interchange, automated clearinghouse, and Business Banker Plus(TM), an online tool for bank account reporting services. Revenue from cash management services increased 87.2% in the last two years. Colonial expects continued growth in cash management services by expanding these services to existing customers through cross sell opportunities and enhanced sales efforts in our growth markets. In 2002, the cash management sales force expects to begin offering an updated wire service to its cash management customer base. This new service is designed to provide a more expedient solution to the time- sensitive transactions of wire customers.

In the Miami office of our South Florida regional bank Colonial has in place an experienced management team with expertise in international banking. Through the efforts of this management team, international banking revenues have increased 36.9% in the last three years. The Company provides letters of credit to top tier institutions, pre-export financing, import financing, funds transfer and check clearing services, trade syndication, merchant banking services and other miscellaneous services. The Company also services international customers through its private and executive banking group in Miami.

To meet customers' demands for banking when and where they want it, Colonial continues to expand its electronic banking services. In 2001, we introduced the Colonial Business Check Card, which like the personal check card, allows business customers to make purchases directly from their business checking accounts, track business spending and save time. Colonial plans to continue to install ATMs strategically in the most convenient

and high traffic locations in order to provide better customer service and complement Colonial's retail branch sales office network. In 2002, as part of the Eagle project discussed below, Colonial has plans to implement a new internet banking solution. Several new features, including recurring and future-dated transfers, certain loan payment capability and enhanced account inquiry are expected to be offered to the customer, which should provide them more flexibility to manage their finances in a real time environment. Revenue generated by electronic banking services has increased 39.1% in the last two years.

Colonial plans to continue to expand resources to ensure that all products and services are among the most competitive in our markets. As we expand our offerings throughout our six-state organization, it is our objective that our customers, regardless of where they live, recognize the single Colonial brand as a symbol of trustworthiness and service-mindedness. It is our goal that the power of our brand plainly invites and encourages customers to choose us for their banking and investment needs.

Providing tools to employees. Colonial continues to expand and enhance the tools available to our employees to further our sales culture, improve customer service and enhance operational efficiencies. Many of these are tools are being utilized but continue to change as a result of technology, regulation or customer demand.

In July of 2001, Colonial launched the Eagle project. The objective of the Eagle project is to implement retail delivery solutions that should enhance our ability to produce sales, provide exceptional service and promote profitable customer relationships while gaining operational efficiencies. Eagle epitomizes our philosophy that banking is a people business. We recognize that while investing in technology is important, it matters most how you deploy that technology to better enable our people to serve our customers. We expect to implement this project throughout 2002 and 2003. It includes additional Internet banking capabilities, an enhanced call center, as well as new branch service delivery and loan delivery systems. Eagle combines the advances in technology with the reengineering of processes to eliminate nonvalue added procedures while improving customer service through enhanced product and service delivery.

Continuing to build. By taking advantage of population growth trends, we have established and bolstered our presence in key markets with strategic acquisitions. Our overall strategy of operating in fast-growing, economically vibrant markets underscores our acquisition philosophy. We plan to continue to seek opportunities that add either mass in our existing markets or market share in similar markets that expand our current geographic footprint in Florida, Georgia, Texas and Nevada.

We feel our strategy has positioned us in the best markets for growth both internally and with additional strategic acquisitions. We expect to deepen our market coverage internally by benefiting from the population growth in these markets, differentiating ourselves by providing excellent customer service and through competitive product offerings. Since these are growing markets, we believe we have the ability to establish a strong customer base by continuing our successful community banking strategy. This strategy consists of providing strong lending expertise in the local markets, accompanied by competitive deposit products and other financial services such as wealth management, cash management and electronic banking. By focusing on sales and customer service, these locally developed and maintained customer relationships should continue to grow.

Colonial cannot guarantee its success in implementing the initiatives or reaching the goals outlined in this discussion. The following analysis of financial condition and results of operations provides details with respect to this summary material and identifies trends concerning the initiatives taken in 2001.

BUSINESS COMBINATIONS

BancGroup continued its expansion into high growth areas by selectively filling in existing markets with three acquisitions in 2001.

In January 2001, BancGroup acquired two branches in Nevada from First Security Bank in a branch divestiture resulting from their merger with Wells Fargo. Through this acquisition, BancGroup purchased certain assets, approximately $50 million in loans, and assumed certain liabilities, approximately $103 million in deposits.

In October 2001, BancGroup purchased certain assets, approximately $68 million in loans and assumed certain liabilities, primarily deposits of approximately $302 million in the acquisition of 13 branches from Union Planters Bank. Nine of the branches are located in Tampa and Naples area of Florida and four in the central part of Alabama.

The acquisition of Manufacturers Bancshares, Inc ("Manufacturers") was consummated on October 25, 2001. Manufacturers operated four branches in the Tampa, Florida area and had $297.4 million in total assets, $253.7 million in total loans, and $212.9 million in total deposits at the date of consummation. BancGroup issued 4,458,437 shares of its common stock to shareholders of Manufacturers, including shares issued pursuant to the exercise of Manufacturers stock options. This transaction was accounted for as a pooling of interests and all periods prior to 2001 have been restated to include results on a combined basis.

BancGroup has one pending acquisition of Mercantile Bancorp, Inc. ("Mercantile") and its wholly owned subsidiary bank, First Mercantile Bank, N.A. ("Mercantile Bank"), which is expected to close on March 28, 2002. Mercantile Bank operates four branch offices in Dallas, Texas and one in Austin, Texas. At December 31, 2001 Mercantile had $360 million in assets, $265 million in loans and mortgage loans held for sale and $313 million in deposits. BancGroup expects to issue approximately 5,500,000 shares of its common stock to shareholders of Mercantile.

REVIEW OF RESULTS OF OPERATIONS

Overview

BancGroup's primary line of business is commercial banking through its wholly owned subsidiary Colonial Bank. The following summary of BancGroup's results of operations discusses the related impact of this line of business on the earnings of the Company.

Line of Business Results

	Continuing Operations			Discontinued Operations	
	Commercial Banking	Corporate/ Other*	Total	Mortgage Banking/(1)/	Consol BancG
	(In thousands)				
Year Ended December 31, 2001					
Net interest income	$429,350	$ (7,421)	$421,929		$421
Provision for loan losses	39,573	--	39,573		39
Noninterest income	93,739	(30)	93,709		93
Amortization and depreciation	32,825	(439)	32,386		32
Noninterest expense	245,724	6,058	251,782		251
Income from continuing operations before income taxes	204,967	(13,070)	191,897		191
Income taxes	72,639	(3,458)	69,181		69
Income from continuing operations	132,328	(9,612)	122,716		122
Income (loss) from discontinued operations (net of taxes)	--	--	--	(613)	
Net Income (loss)	$132,328	$ (9,612)	$122,716	$ (613)	$122
Year Ended December 31, 2000					
Net interest income	$407,343	$ (7,021)	$400,322		$400
Provision for loan losses	29,775	--	29,775		29
Noninterest income	77,849	36	77,885		77
Amortization and depreciation	31,483	(418)	31,065		31
Noninterest expense	223,325	4,301	227,626		227
Income from continuing operations before income taxes	200,609	(10,868)	189,741		189
Income taxes	72,420	(2,864)	69,556		69
Income from continuing operations	128,189	(8,004)	120,185		120
Income (loss) from discontinued operations and loss on disposal (net of taxes)	--	--	--	(5,065)	(5
Net Income (loss)	$128,189	$ (8,004)	$120,185	$(5,065)	$115
Year Ended December 31, 1999					
Net interest income	$388,412	$ (7,265)	$381,147		$381
Provision for loan losses	29,177	--	29,177		29
Noninterest income	75,128	213	75,341		75
Amortization and depreciation	27,928	(408)	27,520		27
Noninterest expense	209,041	3,354	212,395		212
Income from continuing operations before income taxes	197,394	(9,998)	187,396		187
Income taxes	73,041	(3,681)	69,360		69
Income from continuing operations	124,353	(6,317)	118,036		118
Income (loss) from discontinued operations (net of taxes)	--	--	--	3,527	3

Net Income (loss).....................	$124,353	$ (6,317)	$118,036	$ 3,527	$121
	========	========	========	=======	====

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* Includes elimination of certain intercompany transactions.

(1) 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.

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The most significant factors affecting income for 2001, 2000 and 1999 are highlighted below and discussed in greater detail in subsequent sections. All results discussed are in reference to continuing operations, unless otherwise noted.

- An increase of 10.8% in average earning assets in 2001. This follows an increase of 9.5% in 2000 and 16.0% in 1999.

- Internal loan growth of 9.8% from December 31, 2000 to December 31, 2001, following an increase of 15.0% from December 31, 1999 to December 31, 2000.

- Maintenance of high asset quality and reserve coverage ratios. Net charge-offs were $28.7 million or 0.28% of average net loans in 2001 and $18.7 million or 0.21% of average net loans in 2000.

- Increase in loan loss reserve percent to total loans to 1.18% at December 31, 2001 as compared to 1.14% at December 30, 2000.

- Net interest margin decreased to 3.57% in 2001 from 3.76% in 2000 primarily due to repricing as a result of rapidly decreasing interest rates and balance sheet mix changes.

- Average retail deposit growth was 12% from December 31, 2000 to December 31, 2001 and 9% from December 31, 1999 to December 31, 2000.

- An increase of $7.7 million or 10% and $12.7 million or 20% in non-interest income in 2001 and 2000, respectively (excluding gain on sale of securities, gain on sale of certain branches, and other one time miscellaneous income from 1999).

- Non-interest expense, excluding merger related expenses, remained 2.23% of average assets for both 2001 and 2000.

- In 2000, the Company exited the mortgage servicing business. The financial results for this line of business have been separately reported as Discontinued Operations.

NET INTEREST INCOME:

Net interest income is the difference between interest and fees earned on loans, securities and other interest earning assets and interest paid on deposits and borrowed funds (interest expense). Three-year comparisons of net interest income in dollars and yields on a tax equivalent basis are reflected on the average volume and rates table. This schedule is presented on a consolidated basis that includes the now discontinued mortgage operations. Net interest income on a tax equivalent basis increased 5% or $21.6 million to $424.7 million for the year ended December 31, 2001 from $403.1 million for the year ended December 31, 2000. The principal factors affecting the Company's yields and net interest income are discussed on the following pages.

Level of Interest Rates

The Federal Reserve lowered the target fed funds rate 11 times in 2001, a total of 475 basis points, to 1.75% at year-end, its lowest level in over 40 years. Such a series of rate cuts by the Federal Reserve has not been observed since the last recession which occurred in 1991. The average targeted fed funds rate was 3.90% in 2001 versus 6.37% in 2000 and 5.21% in 1999. Although at December 31, 2000 BancGroup appeared positioned to benefit from declining rates, the position presented assumed an immediate rate shock with the opportunity for the balance sheet to reprice to the lower levels. Because the rate changes were so frequent over the course of the year, BancGroup's balance sheet has not yet fully repriced all liabilities to the lower levels.

The outlook for rates in 2002 is once again much different than for the previous year. The Federal Reserve did not lower rates at their meeting in January and signaled that rate declines may be finished as there are signs the economy may be moving out of the recession that officially began in March 2001. The market is expecting rates to increase in the second half of 2002.

Growth in Earning Assets

One of the most significant factors in the Company's increase in income has been the 10.8%, 9.5% and 16.0% increase in average interest-earning assets in 2001, 2000, and 1999, respectively. This strong growth in earning assets in 2001 was due in large part to the loan growth in the mortgage warehouse lending division, spurred by low mortgage rates. The growth in loans in this division contributed 49% of the $1.2 billion overall increase in earning assets in 2001. The division also contributed $10.3 million or 48% of the increase in net interest income in 2001. Earning assets as a percentage of total average assets were 94.4%, 92.5% and 90.8% in 2001, 2000 and 1999, respectively. However, the impact on net interest income from the growth in average earning assets was reduced by the compression in the net interest margin as discussed below.

Net Interest Margin

The net interest margin declined from 3.76% in 2000 to 3.57% in 2001 due to a change in the balance sheet mix, as well as the impact of significant and rapid rate declines. Mortgage warehouse loans are 100% secured by newly created residential mortgage loans and therefore have a lower spread then other types of lending. Excluding the mortgage warehouse loans, the net interest margin for 2001 would have been 13 basis points higher at 3.70% versus 3.57% and in 2000 would have been 3.80%, four basis points above the 3.76% reported. Therefore, growth in this division accounted for nine of the 19 basis points decline in the net interest margin.

The other significant shift in the balance sheet was the $565.6 million increase in long term debt. As rates declined BancGroup extended the term of its borrowings to take advantage of the lower rates. It is estimated that the addition of this long-term debt lowered the 2001 net interest margin by as much as 6 basis points in 2001. However this extension of the term of liabilities will serve to improve net interest income in future periods if rates were to increase.

Loan Mix

At December 31, 2001, the Company's mix of loans reflected an increase in construction loans to 22.1% of the total portfolio from 17.6%, at December 31, 2000. The increase in the construction loans is primarily the result of loan growth in the Georgia, Florida, Nevada and Texas regions. Residential real estate loans decreased to 18.7% of the total portfolio at December 31, 2001 compared to 28.0%, at December 31, 2000. The residential real estate loans are predominantly adjustable rate first mortgages that have a low level of credit risk and accordingly have lower yields than other types of loans. Demand for this type of loan has declined as more borrowers are looking for fixed rate loans, which the Company originates but sells in the secondary market. This decrease was also due to the second quarter 2001 securitization of $307 million single-family real estate loans.

Mortgage warehouse lending is a self-contained lending division that funds mortgage loans held for sale in the secondary market by various independent mortgage companies. The significant drop in mortgage rates between August and November 2001 resulted in large increases in funding of mortgage warehouse lines. Mortgage warehouse lending represented 12.4% of the Company's total loan portfolio at December 31, 2001 compared to 3.9% at December 31, 2000.

The average rate on loans was 7.84% for 2001, a decline of 110 basis points compared to 8.94% for 2000.

Mortgage Loans Held for Sale

Mortgage loans held for sale represent single family residential mortgage loans originated or acquired then packaged and sold. The level and direction of long-term interest rates have a dramatic impact on the volume of mortgage loan originations from new construction and refinancings. As a result of decreasing mortgage interest rates, average mortgage loans held for sale increased to $22.9 million in 2001 from $14.7 million in 2000. In 1999 the average volume of $341.7 million included volume generated by the wholesale production unit prior to its sale in the fourth quarter. Also as a result of the sale of the wholesale production unit, the Company has entered into a third party correspondent relationship for the sale of its retail production of fixed rate mortgage loans, which substantially eliminates the need to hedge interest rate risk associated with new production.

Noninterest earning assets

The decline in average noninterest-earning assets of $ 156.2 million from 2000 to 2001 is primarily due to the sale of the mortgage servicing rights as a result of the Company's exit from that line of business and more efficient cash management. Average cash balances declined by $9.8 million in 2001 and $27.0 million in 2000, as a result of specific programs aimed at improving the Company's cash management efficiency.

Cost of Funds

The average cost of funds decreased to 4.61% in 2001, compared to 5.48% in 2000 and 4.71% in 1999. The lower average cost of funds in 2001 is primarily the result of the previously discussed decrease in interest rates that began January 2001 and continued throughout the year. BancGroup funds loan growth primarily with customer deposits.

The average rate on interest bearing deposits, excluding time deposits dropped 108 basis points to 2.34% for 2001 compared to 3.42% for 2000. Time deposits reprice much slower than other interest bearing deposits resulting in a decline of just 36 basis points in 2001 to an average of 5.64% versus 6.00%

for 2000. As of December 31, 2001 time deposit balances totaled $4.7 billion at an average rate of 5.64% and an average remaining term to maturity of 8 months. Posted CD rates as of year-end for 6 to 12 month terms ranged from 1.85%-2.75%. Competitive pressures on new time deposits and variable interest deposits remained strong. Due to these pressures, the Company's funding mix has shifted during the past two years to a higher concentration of borrowings, primarily through credit facilities with the Federal Home Loan Bank. The percentage of average total borrowings to total assets is 26% for 2001, 22% for 2000, and 21% for 1999. These borrowings are an excellent funding source since they are at rates lower than or comparable to what the market rates are for new time deposit funds. In addition to these sources, the Company has initiated strategies to increase deposits through its retail branch network. As discussed under Liquidity, BancGroup's management considers these sources of funds to be adequate to fund future loan growth.

Noninterest-Bearing Deposits

Average noninterest-bearing deposits increased by $120.7 million from 2000 to 2001 excluding the transfer of mortgage custodial deposits linked to the mortgage servicing rights sold during late 1999 and 2000 as part of the Company's decision to exit the mortgage servicing business. This increase was due to the Company's continuing effort to increase low cost or no cost deposits throughout its regions.

Average Volume and Rates

	2001			2000		
	Average Volume	Interest	Average Rate	Average Volume	Interest	Averag Rate
				(In thousands)		
ASSETS:						
Interest-earning assets:						
Loans, net of unearned income/(1)/...................	$ 9,303,798	$746,274	8.02%	$ 8,779,877	$786,675	8.94%
Mortgage warehouse lending......	815,387	46,858	5.75%	250,652	20,866	8.32%
Total Loans.....................	10,119,185	793,132	7.84%	9,030,529	807,541	8.94%
Mortgage loans held for sale....	22,941	1,439	6.27%	14,711	1,168	7.94%
Investment securities and securities available for sale:						
Taxable.......................	1,481,671	94,291	6.36%	1,443,077	95,540	6.62%
Nontaxable/(2)/................	110,316	7,992	7.24%	110,639	8,221	7.43%
Equity securities.............	90,639	5,903	6.51%	77,960	5,647	7.24%
Total securities...........	1,682,626	108,186	6.43%	1,631,676	109,408	6.71%
Federal funds sold, securities purchased under resale agreements and other short-term investments................	56,432	2,620	4.64%	46,887	3,657	7.80%
Total interest-earning assets.....	11,881,184	$905,377	7.62%	10,723,803	$921,774	8.60%
Allowance for loan losses.........	(117,536)			(104,824)		

Cash and due from banks..........	282,500			292,287		
Premises and equipment, net.......	193,793			196,211		
Other assets.....................	352,359			483,691		
Total Assets.....................	$12,592,300			$11,591,168		
LIABILITIES AND SHAREHOLDERS' EQUITY:						
Interest-bearing liabilities:						
Interest-bearing demand deposits......................	$ 2,024,000	$ 48,581	2.40%	$ 1,737,129	$ 59,785	3.44%
Savings deposits...............	470,509	9,894	2.10%	515,728	17,329	3.36%
Time deposits..................	4,700,236	265,024	5.64%	4,705,950	282,346	6.00%
Short-term borrowings..........	1,695,628	66,471	3.92%	1,534,283	97,002	6.32%
Long-term debt.................	1,538,027	90,729	5.90%	972,426	62,259	6.40%
Total interest-bearing liabilities..................	10,428,400	480,699	4.61%	9,465,516	518,721	5.48%
Noninterest-bearing demand deposits......................	1,237,272			1,116,535		
Mortgage Custodial Deposits.....	963			177,010		
Other liabilities..............	99,584			104,612		
Total liabilities..............	11,766,219			10,863,673		
Shareholders' equity...........	826,081			727,495		
Total liabilities and shareholders' equity............	$12,592,300			$11,591,168		
Rate differential................			3.01%			3.12%
Net interest income and net yield on interest-earning assets/(3)/..		$424,678	3.57%		$403,053	3.76%

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(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.

An Analysis of Interest Increases (Decreases)

	2001 Change From 2000			2000 Change From 1999		
		Attributed To/(1)/			Attributed To/(1	
	Amount	Volume	Rate	Amount	Volume	Rate
	(In thousands)					
Interest income:						

Taxable securities....................	$ (1,249)	$ 2,515	$ (3,764)	$ 5,726	$ 306	$ 5,4
Nontaxable securities/(2)/............	(229)	(24)	(205)	1,492	1,358	1
Equity securities.....................	256	861	(605)	(23)	(402)	3
Total securities......................	(1,222)	3,352	(4,574)	7,195	1,262	5,9
Total loans (net of unearned income)...	(40,401)	45,198	(85,599)	131,466	99,731	31,7
Mortgage warehouse lending............	25,992	34,189	(8,197)	12,456	11,019	1,4
Mortgage loans held for sale..........	271	553	(282)	(24,061)	(25,828)	1,7
Federal funds sold and securities purchased under resale agreements and Other short-term investments.........	(1,037)	643	(1,680)	405	(1,110)	1,5
Total..........................	(16,397)	83,935	(100,332)	127,461	85,074	42,3
Interest expense:						
Interest-bearing demand deposits.......	(11,204)	8,818	(20,022)	15,440	3,419	12,0
Savings deposits......................	(7,435)	(1,411)	(6,024)	(339)	(2,135)	1,7
Time deposits.........................	(17,322)	(343)	(16,979)	65,193	32,533	32,6
Short-term borrowings.................	(30,531)	9,361	(39,892)	30,237	12,827	17,4
Long-term debt........................	28,470	33,704	(5,234)	3,714	1,092	2,6
Total..........................	(38,022)	50,129	(88,151)	114,245	47,736	66,5
Net interest income.............	$ 21,625	$33,806	$ (12,181)	$ 13,216	$ 37,338	$(24,1

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(1) Increases (decreases) are attributed to volume changes and rate changes on the following basis: Volume Change = change in volume times old rate. Rate Change = change in rate times old volume. The Rate/Volume change = change in volume times change in rate, and it is allocated between Volume Change and Rate Change at the ratio that the absolute value of each of those components bear to the absolute value of their total.

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

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Noninterest Income

One of BancGroup's primary strategies has been to expand its noninterest income. The Company continues to emphasize growth in wealth management services, international banking, electronic banking services and cash management services. These services provide a broad base of revenue generation capabilities. Noninterest income increased $15.8 million or 20.3% from 2000 to 2001 and $2.5 million or 3.4% from 1999 to 2000. Non-interest income from continuing operations excluding nonrecurring income from the gain on sale of certain branches, securities gains and other miscellaneous items increased 10% in 2001 and 20% in 2000.

Years Ended December 31,			Increase (Decrease)			
			2001 Compared		2000 Compared	
2001	2000	1999	to 2000	%	to 1999	%

(In thousands)

Noninterest income:							
Service charges on deposit accounts	$42,032	$38,596	$39,305	$ 3,436	8.9%	$ (709)	(1.8)%
Wealth Management..................	8,670	8,530	5,544	140	1.6	2,986	53.9
Electronic Banking.................	6,918	5,639	4,973	1,279	22.7	666	13.4
Mortgage Origination...............	8,287	5,892	340	2,395	40.6	5,552	1632.9
Securities Gains, net..............	8,701	538	497	8,163	--	41	8.2
Other Income.......................	19,101	18,690	24,682	411	2.2	(5,992)	(24.3)
Total noninterest income.........	$93,709	$77,885	$75,341	$15,824	20.3%	$ 2,544	3.4%

Non-interest income from service charges on deposit accounts is significantly affected by competitive pricing on these services and the volume of non-interest bearing accounts. The average non-interest bearing retail deposits increased 10.8% in 2001 and .3% in 2000, while service charges on the accounts increased 8.9% in 2001 and decreased 1.8% in 2000. The increase of 8.9% in 2001 is primarily the result of increased service fee rates and the acquisitions completed in 2001. The decrease of 1.8% in 2000 was due to competitive pressures and increasing interest rates resulting in a shift to other deposit products.

Service charges on deposit accounts through account analysis fees include income from the sale of cash management products. These products include lock box services, sweep accounts, zero balance accounts, electronic data interchange, automated clearing house and Business Banker Plus (TM), an online tool for bank account reporting services. Cash management revenues increased 32.7% and 41% in 2001 and 2000, respectively. Colonial continues to enhance and actively promote these products in its regional banks through a dedicated sales force. Colonial expects continued growth in cash management services by expanding these services to existing customers through cross-sell opportunities.

Wealth management services include discount brokerage, investment sales, asset management, trust services and insurance including term, universal, whole life and long-term care. Sales of these products are directly affected by changes in the economy and the stock market as well as the perception of investors of the future impact of these changes. 2001 presented many unique situations including the terrorist attack of September 11, multiple, rapid drops in interest rates and a recession that impacted the stock market. As a result income from wealth management services was $8.7 million in 2001 as compared to $8.5 million in 2000, a 1.6% increase during a very tough year in the market.

Electronic banking services continue to expand to meet customer demands for banking when and where they want it. These services are provided through our ATM network, business and personal check cards and our internet banking product. In 2001 Colonial increased the number of customers it serviced in ATM, check card and internet banking products. It also introduced its business check card product. As a result, electronic banking fees increased 22.7% in 2001 when compared to 2000.

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Mortgage origination is available in all of Colonial's regional banks. A central mortgage-processing unit that facilitates the production and sale of mortgage products supports each region except Texas. With the acquisition of Mercantile Bank in Dallas, TX, the Texas region will obtain an established mortgage production unit. Colonial offers both adjustable and fixed rate products. Adjustable rate products are generally retained in Colonial's loan portfolio while fixed rate products are sold in the secondary market. Income from loans originated and subsequently sold in the secondary market are reflected in noninterest income. Mortgage origination volume and product mix is directly affected by changes in mortgage interest rates. Mortgage origination income from secondary market loans increased 40.6% to $8.3 million in 2001 as compared to $5.9 million in 2000 due to the decrease in mortgage rates in late 2000 and throughout 2001. This decrease in rates created increased demand for fixed rate products due to an increase in home purchases and refinancing activity.

As shown in the table above, securities gains in each of the three years were $8,701,000, $538,000, and $497,000, respectively. In 2001 sales of securities were undertaken in a realignment of the Company's mix of earnings assets.

Other income of $10 million was recorded in 1999 as a result of gains on the sales of five supermarket branches in Florida and the company's Dalton, Georgia branches as well as other one-time miscellaneous income. Excluding these nonrecurring items, other income in 2000 increased approximately $4.0 million primarily due to increases in bank owned life insurance income, merchant services income, and check commissions.

Non-interest Expense

Non-interest expense to average assets was 2.23%, 2.23%, and 2.21% in 2001, 2000, and 1999 respectively (from continuing operations excluding merger related expenses).

The company completed the conversion of branches purchased in Nevada during the first quarter of 2001, and branches purchased in Alabama and Florida during the fourth quarter of 2001. BancGroup also completed the conversion of Manufacturers Bank during the fourth quarter of 2001. In July 2000, the company announced definitive plans to exit the mortgage servicing business. As a result of the sale, 13 retail mortgage offices were merged into the regional bank structure of Colonial Bank. The company completed the conversion of an acquired bank in Texas in the first quarter of 2000, and conversions of banks acquired in Nevada in the second quarter of 2000. The company completed the sale of five supermarket branches in the first quarter of 1999, closed several unprofitable branches in the second quarter of 1999, completed the sale of its Dalton, Georgia branches in the third quarter of 1999, and sold the wholesale mortgage production unit in the fourth quarter of 1999. The expenses related to discontinued operations are not reflected in the following table. Each of these initiatives resulted in a reduction in operating expenses after its completion.

	Years Ended December 31,			Increase (Decrease)			
	2001	2000	1999	2001 Compared to 2000	%	2000 Compared to 1999	%
	(In thousands)						
Noninterest expense:							
Salaries and employee benefits.....	$151,319	$137,311	$117,815	$ 14,008	10%	$ 19,496	17

Occupancy expense, net............	35,036	31,572	29,484	3,464	11	2,088	7
Furniture and equipment expenses...	29,289	29,493	25,633	(204)	(1)	3,860	15
Amortization of intangible assets..	6,251	5,226	5,241	1,025	20	(15)	--
Merger related expenses...........	3,049	--	1,307	3,049	--	(1,307)	--
FDIC and state assessments.........	2,150	2,005	1,677	145	7	328	20
Advertising and public relations...	6,093	7,908	7,863	(1,815)	(23)	45	1
Stationery, printing and supplies..	4,602	4,974	5,730	(372)	(7)	(756)	(13
Telephone.........................	6,920	6,554	6,221	366	6	333	5
Legal fees........................	5,749	4,707	4,634	1,042	22	73	2
Postage and courier...............	7,052	6,867	6,795	185	3	72	1
Insurance.........................	1,594	1,451	1,507	143	10	(56)	(4
Professional services.............	6,863	6,309	7,058	554	9	(749)	(11
Travel............................	3,787	3,575	3,636	212	6	(61)	(2
Other.............................	14,414	10,739	15,314	3,675	34	(4,575)	(30
Total noninterest expense......	$284,168	$258,691	$239,915	$ 25,477	10%	$ 18,776	8
Noninterest expense, from continuing operations excluding, merger related expenses to average assets...........................	2.23%	2.23%	2.21%				

In support of the Company's sales culture, BancGroup continues to make strategic investments in its product and service offerings, technology systems, incentives and branch network to enhance the Company's competitive presence in existing markets. BancGroup's philosophy is to make strategic investments in the tools employees need to optimize its customers' financial success. Accordingly, noninterest expense increased 10% in 2001 as compared to 2000.

Salaries and benefits increased by $14.0 million in 2001 and $19.5 million in 2000. These salary increases are due to additional employees resulting from branch and bank acquisitions, additional branch openings, normal salary increases, additional incentive related compensation and increased pension cost.

Net occupancy expense increased $3.5 and $2.1 million for 2001 and 2000, respectively, primarily due to new branch construction, improvements to existing branch locations, the purchase of additional branches and the relocation of certain branches and regional headquarters for better market presence.

Furniture and equipment expense remained flat during 2001 when compared to 2000, this follows a 15% increase in 2000 over 1999 primarily due to improvements to the Company's computer and communication equipment and the conversions completed in 2000 discussed above.

Amortization of intangible assets increased 20% over 2000 due to additional goodwill and core deposit intangibles resulting from branch purchases during 2001. With the implementation of SFAS No. 142, goodwill and indefinite lived intangible assets will no longer be amortized. Instead, impairment testing will be performed at least annually on all goodwill and indefinite lived intangible assets. See "Financial Accounting Standards Board Releases" located in the management discussion and analysis section of this report for more detailed information.

FDIC assessments increased slightly in 2001 due to an increase in BancGroup's deposits. The 20% increase in 2000 was due to a waiver of the state assessment in the first and second quarters of 1999.

The $1.8 million decrease in advertising and public relations in 2001 was due to the expense reduction strategy initiated in the last half of the year as a result of economic conditions. Decreases in supplies were primarily due to operating efficiencies gained through technological advancements specifically related to the imaging of internal reports in 2000 and to the expense reduction initiative in 2001. The increase in 2001 of professional services and travel was primarily the result of the completion of the conversion process in 2001.

The increase in legal expenses in 2001 was primarily the result of additional activities related to asset quality as well as other normal business issues. The increases in other expenses were due to normal expenses resulting from the Company's growth.

Merger Related Expenses

In 2001, BancGroup completed the acquisition of two branches in Nevada from First Security Bank, 13 branches from Union Planters in Alabama and Florida, and the merger with Manufacturers Bank of Florida in Tampa, Florida. The results for 2001 include pretax costs associated with these mergers and acquisitions totaling $4.7 million. These costs are composed of a $1.0 million additional loan loss provision to align Manufacturer's loan provisions with Company standards, $658,000 in personnel costs to complete the mergers, and transaction costs of $3.0 million such as legal and accounting fees, brokerage commissions, and incremental charges related to the integration of acquired banks, such as system conversions (including contract buy-outs and write offs of equipment) and employee severance.

Income Taxes

The provision for income taxes is as follows:

	2001	2000	1999
	(In thousands)		
Continuing operations.......	$69,181	$69,556	$69,360
Discontinued operations.....	(371)	(3,066)	2,134
Total................	$68,810	$66,490	$71,494

BancGroup is subject to federal and state taxes at combined rates of approximately 36% for regular tax purposes and 23% for alternative minimum tax purposes. These rates are reduced or increased for certain nontaxable income or nondeductible expenses, primarily consisting of tax exempt interest income, partially taxable dividend income, nondeductible amortization of goodwill, and certain nondeductible acquisition expenses.

Discontinued Operations

In July 2000 BancGroup announced its definitive plans to exit the mortgage servicing business and discontinue the operations of mortgage servicing as a separate business unit and recorded a loss on disposal of discontinued operations of $4.3 million after tax in 2000. As of December 31, 2000, all loan servicing transfers were completed and the mortgage servicing rights removed from the Company's balance sheet. In addition, the escrow and custodial deposits related to those servicing rights have been transferred out of Colonial Bank resulting in a $176 million reduction in average noninterest bearing deposits from December 31, 2000 to December 31, 2001. At December 31, 2001, the balance sheet of the Company includes approximately $3.6 million in receivables and other advances, which represent the expected recoverable amounts once all documentation supporting the transferred loans is provided to the new servicer. Due to the volume of loans transferred and the costs and complexity in providing certain documentation, the Company revised its estimate of the cost to complete the disposition of this business resulting in a $613,000, net of tax expense in 2001. The loss from discontinued operations for the year ended December 31, 2000 was $743,000, net of tax.

REVIEW OF FINANCIAL CONDITION

Overview

Changes in ending asset balances of the company's segments and changes in selected components of the Company's balance sheet from December 31, 2000 to December 31, 2001 are as follows:

	Increase (Decrease) Amount	Increase (Decrease) %
	(In thousands)	
Assets:		
Commercial Banking	$1,214,464	10.2%
Mortgage Banking/(1)/	(29,050)	(82.9)
Corporate/Other/(2)/	68	.1
Total Assets	$1,185,482	9.9%
Other Balance Sheet Components:		
Securities available for sale and investment securities	$ 365,762	24.1
Mortgage loans held for sale	25,587	259.3
Loans, net of unearned income	724,711	7.5
Deposits	(20,443)	(.2)
Mortgage custodial deposits	(12,427)	(99.9)
Short-term borrowings	230,575	12.2
Long-term debt	$ 923,893	107.2%

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(1) The mortgage banking segment was discontinued in 2000.
(2) Includes eliminations of certain intercompany transactions.

Management continually monitors the financial condition of BancGroup in order to protect depositors, increase shareholder value and protect current and future earnings. The most significant factors affecting BancGroup's financial condition from 2000 through 2001 have been:

- Internal loan growth of 9.8% in 2001 following 15.0% growth in 2000.

- Loan mix changed to reflect a decrease in residential real estate loans to 18.7% of the total loan portfolio from 28.0% in 2000 and an increase in mortgage warehouse lending to 12.4% of the total loan portfolio in 2001 from 3.9% in 2000.

- The mortgage warehouse lending division experienced loan growth of 241.5%, increasing loans outstanding to $1.3 billion at December 31, 2001 from $376.6 million at December 31, 2000.

- Maintenance of high asset quality and reserve coverage of nonperforming assets. Nonperforming assets were 0.64% and 0.53% of related assets at December 31, 2001 and 2000, respectively. Net charge-offs were 0.28% of average loans during 2001 and 0.21% in 2000. The allowance for loan losses was 1.18% of loans at December 31, 2001, providing a 239% coverage of nonperforming loans (nonaccrual and renegotiated).

- A loan to deposit ratio of 124.6% and 115.4% at December 31, 2001 and 2000, respectively. Federal Home Loan Bank borrowings, correspondent fed funds lines and brokered CD's continue to be a source of funding allowing the Company funding flexibility.

- Increase of $25.6 million in mortgage loans held for sale during 2001 due primarily to the decline in mortgage rates throughout 2001, which increased new home purchases and refinancing activities.

- Issuance of $150 million subordinated notes in 2001, which qualifies as Tier II Capital.

These items, as well as a more detailed analysis of BancGroup's financial condition, are discussed in the following sections.

Loans

Growth in loans and maintenance of high asset quality are the principal ingredients for improved earnings. Management's emphasis, within all of BancGroup's banking regions, is on loan growth in accordance with local market demands and in reliance upon the lending experience and expertise in the regional banks and our specialized lending division such as mortgage warehouse. Management believes that its strategy of meeting local demands and utilizing local lending expertise has proved successful. This success is evident in internal loan growth of 9.8% in 2001, 15.0% in 2000, 16.0% in 1999 and 15.1% in 1998, excluding acquisitions. Internal loan growth continues to be a major factor in BancGroup's increasing earnings. This local customer relationship responsibility combined with independent oversight of credit decisions and conservative underwriting standards are key to the maintenance of the Company's high asset quality.

BancGroup has a significant concentration of commercial real estate and construction loans representing 33.0% and 22.1% of total loans, respectively. BancGroup's commercial real estate and construction loans are spread geographically throughout Alabama and Florida and other areas including metropolitan Atlanta, Georgia, Dallas, Texas and Reno and Las Vegas, Nevada with no more than 18% of total loans in any one of these geographic regions. The Alabama economy experiences a generally slow but steady rate of growth, while Georgia, Florida, Texas and Nevada are experiencing higher rates of growth. Real estate in BancGroup's lending areas has not experienced significantly inflated values due to excessive speculation or inflationary pressures. The collateral held in the commercial real estate and construction portfolios consists of various property types with no one property type constituting a concentration. For BancGroup, these property types are primarily multi-family housing, lodging, office buildings, warehouses, shopping centers, amusement/recreational facilities, one-to-four family residential housing developments, and health service facilities. The relatively small average loan size and the application of conservative underwriting guidelines further reduce risk. BancGroup's commercial real estate and construction loans continue to perform at acceptable levels. Net charge-offs to average loans for the commercial real estate portfolio were 0.26% and 0.09% for 2001 and 2000, respectively. Net charge-offs to average loans for the construction portfolio were 0.01% and 0.03% for 2001 and 2000, respectively.

Residential real estate loans represent 18.7% of total loans in 2001 compared to 28% in 2000. A portion of this decline is due to the second quarter 2001 securitization of approximately $307 million in single-family real estate loans which were 100% received back into BancGroup's securities portfolio as mortgage backed securities. Also, demand for this type of loan has declined as more borrowers are looking for fixed rate loans, which the Company originates, but sells in the secondary market. Substantially all of these loans are adjustable rate first

mortgages on single-family, owner-occupied properties, and therefore, have minimal credit risk and lower interest rate sensitivity. BancGroup has a history of successfully lending in the residential real estate market and its quality ratios remain favorable in this portfolio segment. Net charge-offs to average loans for the residential real estate portfolio was 0.11% for both 2001 and 2000.

Loans classified as commercial, financial, and agricultural, representing 11.1% of total loans, consist of secured and unsecured credit lines and equipment loans for various industrial, agricultural, commercial, financial, retail, or service businesses. The risk associated with loans in the category are generally related to earnings capacity of, and the cash flows generated from, the individual business activities of the borrowers.

Consumer loans, representing 2.3% of total loans, are loans to individuals for various purposes. Automobile loans and unsecured loans makeup the majority of these loans. The principle source of repayment is the earning capacity of the individual borrower, as well as the value of the collateral for secured loans.

Outstanding loans in our international division, located in our South Florida Region, represent 0.72% of our total outstanding loans at December 31, 2001. This exposure is spread among approximately 30 banking institutions in ten Latin American / Caribbean countries. The banks are primarily top tier institutions. These transactions are trade related involving letters of credit as well as participations in commercial paper back up lines.

BancGroup established a mortgage warehouse lending division in 1998. This department provides lines of credit collateralized by residential mortgage loans to top tier mortgage companies, predominantly in the southeast. Loans outstanding at December 31, 2001 and 2000 were $1.3 billion and $376.6 million, respectively, with unfunded commitments of $497 million and $213 million at December 31, 2001 and 2000, respectively.

BancGroup does not have a syndicated lending department; however, the Company has 29 credits with commitments (funded and unfunded) of $554 million that fall within the bank regulatory definition of a "Shared National Credit" (generally defined as a total loan commitment in excess of $20 million that is shared by three or more lenders). The largest outstanding amount to any single borrower is under $75 million (which is a mortgage warehouse facility), with the smallest credit being approximately $190,000. Total fundings under these commitments total $278 million. Substantially all of the increase in these loans was attributed to the growth within our mortgage warehouse lending division.

Although by definition these commitments are considered Shared National Credits, BancGroup's loan officers have established long-term relationships with each of these borrowers. These commitments are comprised of the following:

- 25%--commercial real estate projects located within existing markets
- 13%--international credits which are primarily unfunded short-term commitments to tier one correspondent banks
- 56%--mortgage warehouse lines to eight large institutions (the mortgage warehouse lending department conducts its own audits of these borrowers)
- 6%--operating facilities to two large national corporations headquartered in the Florida markets

Management believes that these are sound participations involving credits that fit within Colonial's lending philosophy and meet its conservative underwriting guidelines.

As discussed more fully in subsequent sections, management has established policies and procedures to ensure maintenance of adequate liquidity and liquidity sources. BancGroup has arranged funding sources in addition to customer deposits that provide the company the capability to exceed a 100% loan to deposit ratio and maintain adequate liquidity.

Gross Loans by Category

	December 31,				
	2001	2000	1999	1998	1997
	(In thousands)				
Commercial, financial and agricultural	$ 1,145,409	$1,264,281	$1,171,157	$1,049,397	$ 839,944
Real estate -- commercial............	3,417,517	3,208,911	2,543,532	2,300,483	1,945,768
Real estate -- construction..........	2,295,675	1,700,281	1,435,783	1,273,751	1,111,868
Real estate -- residential...........	1,942,821	2,697,934	2,658,922	2,149,456	1,746,357
Installment and consumer.............	240,836	278,739	306,593	275,015	253,796
Mortgage warehouse lending...........	1,286,399	376,638	172,425	84,894	--
Other................................	39,019	116,518	131,223	104,228	145,026
Total loans..................	$10,367,676	$9,643,302	$8,419,635	$7,237,224	$6,042,759

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

Construction Commercial Real Estate

	(In thousands)	
Average Loan Size...	$ 445	$ 488
Geographic Diversity		
Alabama...........	$ 383,168	$ 892,191
Georgia...........	419,695	445,676
Florida...........	1,052,080	1,546,139
Texas.............	224,299	100,750
Nevada............	136,744	138,140
Other.............	79,689	294,621
Total........	$2,295,675	$3,417,517

Industry Distribution	% of Industry Distribution to Construction Portfolio	Total Portfolio		% of Industry Distribut Commercial Real Estate Portfolio	T Por
Development..............	23%	5%	Retail..........	18%	
1-4 Family Residential...	22%	5%	Office..........	16%	
Land Only................	17%	4%	Multi-Family....	12%	
Multi-Family.............	8%	2%	Lodging.........	11%	
Condominium..............	8%	2%	Office/Warehouse	11%	
Retail...................	5%	1%	Nursing Home....	5%	
Other (13 types).........	17%	3%	Other (9 types).	27%	
Total Construction......	100%	22%	Total Commercial Real Estate.....	100%	

Characteristics of the 75 Largest Construction and Commercial Real Estate Loans

(In thousands)	Construction	Commercial Real Estate
75 Largest Loans Total	$801,079	$733,872
% of 75 largest loans to category total.......	34.9%	21.5%
Average Loan to Value Ratio (75 largest loans)	68%	71%
Debt Coverage Ratio (75 largest loans)........	N/A	1.34x

Allocation of Allowance for Loan Losses

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

Allocation of the Allowance for Loan Losses

	December 31, 2001 Amount	2001 Percent of Loans to Total Loans	2000 Amount	2000 Percent of Loans to Total Loans	1999 Amount	1999 Percent of Loans to Total Loans	Amount
	(In thousands)						
Balance at end of period							
Applicable to:							
Commercial, financial, and agricultural............	$ 33,326	11.1%	$ 28,411	13.1%	$23,629	13.9%	$19,357
Real estate commercial....	50,393	33.0%	45,017	33.3%	35,961	30.2%	30,998
Real estate construction..	17,256	22.1%	16,089	17.6%	17,096	17.1%	14,775
Real estate -- residential	9,714	18.7%	13,705	28.0%	13,577	31.6%	12,659
Installment and consumer..	2,390	2.3%	3,021	2.9%	4,091	3.6%	4,979
Other....................	9,121	12.8%	3,812	5.1%	4,673	3.6%	2,311
Total................	$122,200	100.0%	$110,055	100.0%	$99,027	100.0%	$85,079

Loan Maturity/Rate Sensitivity

As discussed in a subsequent section, BancGroup seeks to maintain adequate liquidity and minimize exposure to interest rate volatility. The goals of BancGroup with respect to loan maturities and rate sensitivity continue to focus on shorter-term maturities and floating or adjustable rate loans. At December 31, 2001, approximately 62.2% of loans were floating rate loans.

Contractual maturities may vary significantly from actual maturities due to loan extensions, early payoffs due to refinancing and other factors. Fluctuations in interest rates are also a major factor in early loan pay-offs. The uncertainties of future events, particularly with respect to interest rates, make it difficult to predict the actual maturities. The following table represents the contractual maturity at December 31, 2001.

Loan Maturity/Rate Sensitivity

-	December 31, 2001 Maturing: Within 1 Year	Maturing: 1-5 Years	Maturing: Over 5 Years	Rate Sensitivity: Fixed	Rate Sensitivity: Floating	Ra M

(In thousands)

Commercial, financial, and agricultural	$ 635,758	$ 394,912	$ 156,053	$ 484,466	$ 702,257	$
Real estate -- commercial.............	780,027	1,908,732	728,758	2,093,968	1,323,549	1
Real estate -- construction............	1,387,819	859,967	47,889	289,338	2,006,337	
Real estate -- residential.............	260,041	522,790	1,159,990	787,508	1,155,313	
Installment and consumer...............	124,379	105,355	11,102	216,619	24,217	
Other..................................	1,232,106	34,764	17,234	49,237	1,234,867	
Totals..........................	$4,420,130	$3,826,520	$2,121,026	$3,921,136	$6,446,540	$2

Loan Quality

A major key to long-term earnings growth is maintenance of a high quality loan portfolio. BancGroup's directive in this regard is carried out through its policies and procedures for the underwriting and ongoing review of loans and through a company wide senior credit administration function. This function reviews larger credits prior to approval and also provides an independent review of credits on a continual basis. In addition, the Company has established regional bank loan committees made up of local officers and directors that approve loans up to certain levels. These committees provide local business and market expertise while BancGroup's senior management provides independent oversight by participating in the state loan committees.

BancGroup has standard policies and procedures for the evaluation of new credits, including debt service evaluations and collateral guidelines. Collateral guidelines vary with the credit worthiness of the borrower, but generally require maximum loan-to-value ratios of 85% for commercial real estate and 90% for residential real estate. Commercial non-real estate, financial and agricultural loans are generally collateralized by business inventory, accounts receivables or new business equipment at 50%, 80% and 90% of estimated value, respectively. Installment and consumer loan collateral, where required, is based on 90% or lower loan to value ratios. Collateral values referenced above are monitored and estimated by loan officers through inspections, reference to broad measures of market values, and current experience with similar properties or collateral. Loans with loan-to-value ratios in excess of 80% have potentially higher risks which are offset by other factors including the borrowers or guarantors' credit worthiness, the borrowers' other banking relationships, the bank's lending experience with the borrower, and any other potential sources of repayment.

Based on the credit review process and loan grading system, BancGroup determines its allowance for loan losses and the amount of provision for loan losses. The allowance for loan losses is maintained at a level which, in management's opinion, is adequate to absorb probable losses on loans present in the loan portfolio. The amount of the allowance is affected by: (1) loan charge-offs, which decrease the allowance; (2) recoveries on loans previously charged-off, which increase the allowance; (3) the provision for loan losses charged to income, which increases the allowance, and (4) the allowance for loan losses of acquired banks. In determining the provision for loan losses, it is necessary for management to monitor fluctuations in the allowance resulting from actual charge-offs and recoveries and to periodically review the size and composition of the loan portfolio in light of historical loss experience and current economic conditions.

The overall goal and result of these policies and procedures is to provide a sound basis for new credit extensions and an early recognition of problem assets to allow increased flexibility in their timely disposition.

Loan Loss Experience

The ratio of net charge-offs to average loans was 0.28%, 0.21%, and 0.22% in 2001, 2000, and 1999, respectively. As a result of the Company's localized lending strategies and early identification of potential problem loans, BancGroup's net charge-offs have been consistently low.

The following schedule reflects greater than 100% coverage of nonperforming loans (nonaccrual and renegotiated) by the allowance for loan losses. Management has not targeted any specific coverage ratio in excess of 100%, and the coverage ratio may fluctuate significantly as larger loans are placed into or removed from nonperforming status. Management's focus has been on establishing reserves related to an early identification of potential problem loans. Management is committed to maintaining adequate reserve levels to absorb losses present in the loan portfolio.

Summary of Loan Loss Experience

	Years Ended December 31,				
	2001	2000	1999	1998	1
	(In thousands)				
Allowance for loan losses --					
January 1	$ 110,055	$ 99,027	$ 85,079	$ 73,047	$
Charge-offs:					
Commercial, financial and agricultural	14,731	10,650	10,162	6,543	
Real estate -- commercial	9,354	3,399	3,348	3,355	
Real estate -- construction	292	529	1,190	1,744	
Real estate -- residential	3,148	3,260	2,673	3,443	
Installment and consumer	4,049	4,492	5,351	6,882	
Other	1,155	1,117	1,711	1,468	
Total charge-offs	32,729	23,447	24,435	23,435	
Recoveries:					
Commercial, financial and agricultural	698	1,272	2,519	1,278	
Real estate -- commercial	404	745	633	1,456	
Real estate -- construction	9	62	59	52	
Real estate -- residential	565	440	873	589	
Installment and consumer	1,999	1,898	2,702	1,953	
Other	330	283	385	788	
Total recoveries	4,005	4,700	7,171	6,116	
Net charge-offs	28,724	18,747	17,264	17,319	
Addition to allowance charged to operating expense	39,573	29,775	29,177	27,511	
Allowance added from bank acquisitions	1,296	--	2,035	1,840	

Allowance for loan losses -- December 31	$ 122,200	$ 110,055	$ 99,027	$ 85,079	$
Loans (net of unearned income) December 31	$10,367,665	$9,642,954	$8,419,225	$7,235,057	$6,0
Ratio of ending allowance to ending loans (net of unearned income)	1.18%	1.14%	1.18%	1.18%	
Average loans (net of unearned income)	$10,119,185	$9,030,529	$7,771,884	$6,561,770	$5,5
Ratio of net charge-offs to average loans (net of unearned income)	0.28%	0.21%	0.22%	0.26%	
Allowance for loan losses as a percent of nonperforming loans (nonaccrual and renegotiated)	239%	258%	275%	248%	

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Nonperforming Assets

BancGroup classifies problem loans into four categories: nonaccrual, past due, renegotiated and other potential problems. When management determines that a loan no longer meets the criteria for a performing loan and collection of interest appears doubtful, the loan is placed on nonaccrual status. Loans are generally placed on nonaccrual if full collection of principal and interest becomes unlikely (even if all payments are current) or if the loan is delinquent in principal or interest payments for 90 days or more, unless the loan is well secured and in the process of collection. BancGroup's policy is also to charge off consumer installment loans 120 days past due unless they are in the process of foreclosure and are adequately collateralized. Management closely monitors all loans that are contractually 90 days past due, renegotiated or nonaccrual. These loans are summarized as follows:

Nonperforming Assets

	December 31,				
	2001	2000	1999	1998	199
	(In thousands)				
Aggregate loans for which interest is not being accrued	$49,675	$41,419	$34,765	$32,911	$28,
Aggregate loans renegotiated to provide a reduction or deferral of interest or principal because of deterioration in the financial condition of the borrower	1,507	1,161	1,265	1,334	1,
Total nonperforming loans*	51,182	42,580	36,030	34,245	29,
Other real estate and in-substance foreclosure	15,198	8,680	9,009	8,164	14,
Repossessions	355	298	206	564	
Total nonperforming assets*	$66,735	$51,558	$45,245	$42,973	$44,
Aggregate loans contractually past due 90 days for which interest is being accrued	$28,249	$ 9,842	$11,204	$ 9,015	$ 7,
Total nonperforming loans as a percent of net					

loans	0.49%	0.44%	0.43%	0.47%	0
Total nonperforming assets as a percent of net loans, other real estate and repossessions	0.64%	0.53%	0.54%	0.59%	0
Total nonperforming loans and 90 day past due loans for which interest is being accrued as a percent of net loans	0.77%	0.54%	0.56%	0.60%	0
Allowance for loan loss as a percent of nonperforming loans (nonaccrual and renegotiated)	239%	258%	275%	248%	

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* Total does not include loans contractually past due 90 days or more which are still accruing interest

Fluctuations from year to year in the balances of nonperforming assets are attributable to several factors including changing economic conditions in various markets, nonperforming assets obtained in various acquisitions and the disproportionate impact of larger (over $500,000) individual credits.

Management, through its loan officers, internal credit review staff and external examinations by regulatory agencies, has identified approximately $258 million of loans, which have been placed, on a "watch list". The status of these loans is reviewed at least monthly by loan officers and annually by BancGroup's centralized credit review function and by regulatory agencies. In connection with such reviews, collateral values are updated where considered necessary. If collateral values are judged insufficient or other sources of repayment inadequate, the loans are reduced to estimated recoverable amounts through increases in reserves allocated to the loans or charge-offs. As of December 31, 2001, substantially all of these loans are current with their existing repayment terms. Management believes that classification of such loans as "watch list" well in advance of their reaching a

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delinquent status allows the Company the greatest flexibility in correcting problems and providing adequate reserves. Given the reserves and the ability of the borrowers to comply with the existing repayment terms, management believes any exposure from these loans has been adequately addressed at the present time.

The above nonperforming loans represent all material credits for which management has serious doubts as to the ability of the borrowers to comply with the loan repayment terms. Management also expects that the resolution of these problem credits as well as other performing loans will not materially impact future operating results, liquidity or capital resources.

Interest income recognized and interest income foregone on nonaccrual loans was not significant for the years ended December 31, 2001, 2000, 1999, 1998, and 1997.

A loan is considered impaired, based on current information and events, if it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement The recorded investment in impaired loans at December 31, 2001 and 2000 was $46.2 million and $29.5 million, respectively and these loans had a corresponding valuation allowance of $19.7 million and $14.5 million, respectively. The average investment in impaired loans during 2001 and 2000 totaled $47.7 million and $29.1 million, respectively.

Securities

On a daily basis, Colonial BancGroup determines the funds available for short-term investment while funds available for long-term investment are projected based upon anticipated loan and deposit growth, liquidity needs, pledging requirements and maturities of securities, as well as other factors. Based on these factors, the Company's interest rate risk position and management's interest rate and income tax forecasts, an investment strategy is determined.

All securities are either classified as held to maturity or available for sale. Held to maturity securities are those securities which management has the ability and intent to hold until maturity. The carrying value of held to maturity investments was $30.1 million at the end of 2001 compared to $47 million at year end 2000. The aforementioned decline was due to maturities and calls in the portfolio. Securities classified as held to maturity consisted primarily of U.S. Treasury bonds, agency mortgage backed securities and state, county and municipal obligations. Overall, the stated maturity of these securities was 5.13 years with an average life of 3.5 years.

Securities available for sale represent those securities that the company intends to hold for an indefinite period of time or that may be sold in response to changes in interest rates, prepayment risk or other similar factors. These securities are recorded at market value with unrealized gains or losses, net of any tax effect, added or deducted from shareholders' equity. At December 31, 2001, available-for-sale securities totaled $1.9 billion or 98% of the total portfolio versus $1.5 billion or 97% at the end of 2000. The increase of $400 million in 2001 resulted from the investment of excess liquidity during a period of slowing loan growth and the $307 million securitization of single-family real estate loans in the second quarter of 2001 of which $96 million remains in the securities portfolio at December 31, 2001. Securities available for sale at year-end 2001 consisted of U.S. Treasury and federal agency notes (3%), variable and fixed rate agency mortgage-backed securities (79%), state, county and municipal securities (5%), other private issuer mortgage-backed and trust preferred securities (8%), and equities (5%) which consist primarily of Federal Home Loan Bank stock and Federal Reserve Bank stock. Overall, the stated maturity of these securities was 20.92 years with an average life of 3.25 years. Stated maturities differ from average lives because borrowers have the right to call or prepay obligations with or without call or prepayment penalties. BancGroup's mortgage-backed security portfolio as of December 31, 2001 does not include any interest-only strip securities and the amount of unamortized premium on mortgage-backed securities is approximately $7,400,000.

Colonial's policy requires all securities purchased for the securities portfolio, except state, county and local municipal obligations, to be rated investment grade or better. The purchase of non-rated municipal securities is limited by policy to those bonds in the general market served by BancGroup which provide opportunities for additional banking business. Securities backed by the U.S. Government and its agencies, both on a direct and indirect basis, represented approximately 82% of the total portfolio at December 31, 2001.

At December 31, 2001, there was no single issuer, with the exception of the U.S. government and U.S. government agencies, where the aggregate book value of these securities exceeded 10% of shareholders equity ($86.5 million).

The changes noted above are reflected in the following table.

Securities by Category

	Carrying Value at December		
	2001	2000	19
	(In thousands)		
Investment securities:			
U.S. Treasury securities and obligations of U.S. government agencies	$ 500	$ 3,138	$
Mortgage-backed securities	6,584	15,132	2
Obligations of state and political subdivisions	21,846	27,143	3
Other	1,125	1,635	
Total	$ 30,055	$ 47,048	$ 6
Securities available for sale:			
U.S. Treasury securities and obligations of U.S. government agencies	$ 59,332	$ 244,974	$ 18
Mortgage-backed securities	1,470,533	902,204	1,09
Obligations of state and political subdivisions	89,497	93,435	7
Other	233,077	229,071	16
Total	$1,852,439	$1,469,684	$1,50

The carrying value of securities at December 31, 2001 mature as follows:

Maturity Distribution of Securities/(3)/

	Within 1 Year		1-5 Years		5-10 Years		Over 10 Yea	
	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate	Amount	Aver Rat
	(In thousands)							
Investment securities:								
U.S. Treasury securities	$ --	--%	$ --	--%	$ --	--%	$ 500	7.2
Obligations of U.S. government agencies and mortgage backed securities	521	6.95%	1,671	6.86%	2,058	7.46%	2,334	7.2
Obligations of state and political subdivisions/(1)/	4,735	8.14%	11,350	8.02%	4,353	7.88%	1,408	8.4
Other	100	2.50%	1,025	4.15%	--	--%	--	-
Total	$ 5,356	7.92%	$14,046	7.60%	$6,411	7.75%	$4,242	7.6
Securities available for sale/(2):/								
U.S. Treasury securities and obligations of U.S. government agencies	$ 59,332	5.80%						
Mortgage-backed securities	1,470,533	6.05%						
obligations of state and political subdivisions/(1)/	89,497	7.46%						
Other	233,077	5.91%						
Total	$1,852,439	6.09%						

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(1) The weighted average yields are calculated on the basis of the cost and effective yield weighted for the scheduled maturity of each security. The taxable equivalent adjustment represents the annual amounts of income from tax exempt obligations multiplied by 145%.

(2) Securities available for sale are shown as maturing within one year although BancGroup intends to hold these securities for an indefinite period of time. (See Contractual Maturities in Note 3 to the consolidated financial statements.) This category excludes all corporate common and preferred stock since these instruments have no maturity date.

(3) Expected and actual maturities could differ from contractual maturities because borrowers may have the right to call or pre-pay obligations without call or pre-payment penalties.

Mortgage Servicing Rights and Servicing Hedge

In July 2000, the Company announced definitive plans to exit the mortgage servicing business. As of December 31, 2000, all sales of the servicing rights and transfers of underlying loans were completed. For this reason, MSR's were $0 at December 31, 2001 and 2000 compared to $238 million at December 31, 1999. (See Note 6 to the Consolidated Financial Statements for details on discontinued operations)

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

Deposits

BancGroup's deposit structure consists of the following:

	December 31,		% of Total	
	2001	2000	2001	2000
	(In thousands)			
Noninterest-bearing demand deposits............	$1,439,200	$1,205,267	17.3%	14.4%
Mortgage Custodial Deposits....................	17	12,444	--	0.2
Interest-bearing demand deposits...............	2,231,166	1,883,509	26.8	22.5
Savings deposits...............................	443,666	464,489	5.3	5.6
Certificates of deposits less than $100,000.....	2,363,607	2,976,997	28.4	35.6
Certificates of deposits more than $100,000.....	1,456,684	1,442,978	17.5	17.3
IRA's..	334,380	318,479	4.0	3.8
Open time deposits.............................	54,259	51,686	0.7	0.6
Total deposits.........................	$8,322,979	$8,355,849	100.0%	100.0%

BancGroup, through its acquisitions and branch expansion programs, has increased its market presence into high growth areas in the country. The principal goal is to provide the Company's retail customer base with convenient access to branch locations while enhancing the Company's potential for future increases in profitability. The growth of deposits continues to be a primary strategic initiative of BancGroup, although competition for deposits remains strong within the banking industry as well as increased competition from other business sectors.

BancGroup is continuing initiatives to grow deposits throughout its market. The high growth areas of Florida are a primary focus due to the lower cost of funds in that market. Average retail deposits (excluding mortgage custodial and brokered deposits) increased $553.1 million in 2001 which represents a 7% growth over 2000's average. BancGroup's retail deposit base is currently 43% in Alabama, 43% in Florida, 8% in Georgia, 3% in Texas and 3% in Nevada. As market demographics change, products and services are structured to meet the needs of a particular region or customer base. Strong regional management supported by BancGroup's asset/liability and product and services management teams provide the Company with resources to remain competitive in its deposit markets.

The growth in retail deposits in 2001 provided funds which allowed for the reduction in the brokered deposits of $313 million as well as off-setting the reduction in mortgage custodial deposits of $12 million. The reduction in mortgage custodial deposits is a result of the Company's exit from the mortgage servicing business as discussed previously. The Company's brokered Certificate of Deposit (CD) program offers CD's in increments of $1,000 to $99,000 to out of market customers at competitive rates and maturities. At December 31, 2001 and 2000, $112 million and $425 million, respectively were outstanding under this program. The Company has a brokered money market program that attracts deposits from out-of-market customers. At December 31, 2001 and 2000, $74 million and $66 million were outstanding, respectively.

Interest Rate Sensitivity

The Federal Reserve has lowered the target fed funds rate 11 times in 2001, a total of 475 basis points, to 1.75% at year-end, its lowest level in over 40 years. Such a series of rate cuts by the Federal Reserve has not been observed since the last recession which occurred in 1991. Despite the significant and rapid decline in rates, BancGroup's net interest margin when adjusted for the significant growth in low margin mortgage warehouse loan declined just 9 basis points.

BancGroup has an Asset/Liability Management Committee ("ALMCO"), the objective of which is to optimize the net interest margin while assuming reasonable business risks. ALMCO annually establishes operating constraints for critical elements of BancGroup's business, including interest rate sensitivity. The goal of ALMCO is to minimize the volatility in the net interest margin caused by changes in interest rates, by taking an active role in managing the level, mix, repricing characteristics and maturities of assets and liabilities and by analyzing and taking action to manage mismatch and basis risk. One of the actions taken by ALMCO in 2001 was to extend the duration of its liabilities to take advantage of lower long-term rates and to provide protection from rates eventually rising.

ALMCO monitors the impact of changes in interest rates on net interest income using several tools, including static rate sensitivity reports, or Gap reports, and income simulations modeling under multiple rate scenarios.

The following table represents the output from the Company's simulation model based on the starting balance sheet as of December 31,2001, when the Fed Funds Rate was 1.75%. The table measures the impact on net interest income of an immediate and sustained change in interest rates in 100 basis point increments for the 12 calendar months following the date of the change. This twelve-month projection of Net Interest Income under these scenarios is compared to both the twelve month Net Interest Income projection with rates unchanged and fourth quarter 2001 Net Interest Income annualized.

		Percentage Change in 12 Month Projected Net Interest Income/ (1)/:	
Basis Points change	Fed Funds Rate	Versus Projected Net Interest Income Under No Rate Change	Versus 4th Qtr. 2001 Net Interest Income Annualized
+200..........	3.75	(1)%	7%
+100..........	2.75	(1)%	7%
No change.....	1.75	--	8%
-100..........	0.75	0%	8%

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

This table shows that under all rate shock scenarios, net interest income is expected to improve 7% to 8% versus recent results. The improvements in net interest income is due largely to the downward repricing of the CD portfolio. As of December 31, 2001, $2.7 billion of BancGroup's CD portfolio will mature and reprice within the next six months at rates that are expected to be approximately 2% below their current cost.

The following table represents the output of the simulation model for the net portfolio value (NPV), which is defined as the net present value of interest rate sensitive assets, interest rate sensitive liabilities and off-balance sheet contracts. The table represents the percentage change in the NPV under 100 basis point rate shocks versus the NPV assuming rates as of December 31, 2001.

Basis Points Change	Fed Funds Rates	% Change in Net Portfolio Value vs. NPV under No Rate Change
+200...............	3.75	1.5%
+100...............	2.75	1.0%
No Change in Rates.	1.75	0.0%
-100...............	0.75	(3.9)%

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

	At December 31, 2001					
	Interest Sensitive Within					
	Total Balance	0-90 Days	91-180 Days	181-365 Days	1-5 Years	Ove Yea
	(In thousands)					
Rate Sensitive Assets:						
Federal Funds sold and resale Agreements...........	$ 15,084	$ 15,084	$ --	$ --	$ --	$
Investment securities.........	30,055	1,216	681	3,563	13,050	
Securities available for sale.	1,852,439	237,445	79,744	204,486	901,475	4
Mortgage loans held for sale........................	35,453	35,453	--	--	--	
Loans, net of unearned income......................	10,367,665	6,107,767	412,353	688,295	2,476,054	6
Allowances for loan losses....	(122,200)	(71,579)	(4,900)	(8,179)	(29,423)	
Net loans.....................	10,245,465	6,036,188	407,453	680,116	2,446,631	6
Nonearning assets.............	1,006,607	--	--	--	--	1,0
Total Assets............	$13,185,103	$6,325,386	$ 487,878	$888,165	$3,361,156	$ 2,1
Rate Sensitive Liabilities:						
Interest-bearing demand deposits....................	$ 2,231,166	$ 647,648	$ 439,179	$ --	$1,126,919	$
Savings deposits.............	443,666	136,434	88,733	--	197,149	
Certificates of deposits less than $100,000...............	2,363,607	929,901	565,809	490,819	377,012	
Certificates of deposits more than $100,000..........	1,456,684	645,826	348,400	287,015	174,538	
IRAs.........................	334,380	103,674	64,087	64,435	101,968	
Open time deposits...........	54,259	49,164	477	4,618	--	
Short-term borrowings.........	2,128,133	2,113,871	14,262	--	--	
Long-term debt................	1,786,140	161,247	--	--	859,375	7
Noncosting liabilities & equity......................	2,387,068	--	--	--	--	2,3
Total Liabilities & Equity................	$13,185,103	$4,787,765	$ 1,520,947	$846,887	$2,836,961	$ 3,1
Gap...........................	$ --	$1,537,621	$(1,033,069)	$ 41,278	$ 524,195	$(1,0
Cumulative Gap................	$ --	$1,537,621	$ 504,552	$545,830	$1,070,025	$

The last two lines of the preceding table represents the interest rate sensitivity gap which is the difference between rate sensitive assets and rate sensitive liabilities. The interest rate sensitivity gap schedule reflects a 4.14% positive gap at 12 months; therefore as of December 31, 2001 BancGroup generally has a greater exposure to net income if interest rates decrease.

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In reviewing the table, it should be noted that the balances are shown for a specific point in time and, because the interest sensitivity position is dynamic, it can change significantly over time. For all interest earning assets and interest bearing liabilities, variable rate assets and liabilities are reflected in the time interval of the assets or liabilities' earliest repricing date. Fixed rate assets and liabilities have been allocated to various time intervals based on contractual repayment and prepayment assumptions. Furthermore, the balances reflect contractual repricing of the deposits and management's position on repricing certain deposits where management discretion is permitted. Certain demand deposit accounts and regular savings accounts have been classified as repricing beyond one year in accordance with regulatory guidelines. While these accounts are subject to immediate withdrawal, experience and analysis have shown them to be relatively rate insensitive. If these accounts were included in the 0-90 day category, the gap in that time frame would be a negative $353 million with a corresponding cumulative gap at one year of $1.0 billion.

Liquidity

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

Core deposit growth is a primary focus of BancGroup's funding and liquidity strategy. Average retail deposits excluding broker and time deposits grew at rate of 11% in 2001 versus 2000. Core deposit growth continues to be a primary strategic objective of the Company.

In November 2001, BancGroup introduced the Colonial Premier account, a combined checking, money market and brokerage account that offers an FDIC insured money market option to our private banking clients and brokerage customers. At February 28, 2002 the balances in the FDIC insured money market account had reached $80 million.

In addition to funding growth through core deposits, BancGroup has worked to expand the availability of long and short term wholesale funding sources. The most significant expansion of wholesale funding availability came from the FHLB's expansion of acceptable collateral to include commercial real estate loans. As of December 31, 2001 commercial real estate collateral accounted for 44% of the $2.3 billion in lendable collateral value pledged to the FHLB. Overall BancGroup utilized 57% of the total wholesale funding sources estimated to be available to them as of December 31, 2001. Management believes its liquidity sources and funding strategies are adequate given the nature of its asset base and current loan demand.

Borrowings

BancGroup utilizes a variety of funding sources to assist in meeting its needs of funding loan growth, securities acquisition and deposit fluctuations. Fed Funds lines and repurchase agreements are sources for short-term borrowings and credit facilities with the FHLB are used for both short and long term borrowings. Additionally, BancGroup has a $25 million revolving credit facility with nothing outstanding at year end with an unaffiliated financial institution. BancGroup has from time-to-time, issued subordinated debentures, subordinated notes and trust preferred securities to provide both capital and funding.

Over the course of 2001, BancGroup increased long-term borrowings from the FHLB to fund long-term assets and increased short-term Fed Funds purchased and repurchase agreements to fund the increase in mortgage warehouse loans that reprice daily. The FHLB credit facility availability increased significantly in 2001 as commercial real estate loans and securities were pledged in addition to the previously pledged 1 to 4 family residential loans.

FHLB borrowings increased by $188 million to $1.4 billion as of December 31, 2001, compared to the previous year-end. Net availability from FHLB at December 31, 2001 was $813 million an increase of $629 million versus the prior year end, despite the $213 million increase in outstanding.

Similarly, Fed Funds purchased increased by $564 million to $1.4 billion as of December 31, 2001 compared to the previous year-end. Fed Funds purchased lines increased by $745 million during the year resulting in a $198 million net increase in availability from Fed Funds at year-end. Subsequent to December 31, 2001 mortgage warehouse loans and the related funding source, Fed Funds purchased both dropped back to September 30, 2001 levels as the surge in mortgage refinancing receded.

On May 23, 2001, Colonial Bank issued $150 million in subordinated notes at 9.375% due June 1, 2011 for general corporate and banking purposes in the ordinary course of business. This debt qualifies as Tier II capital. In connection with this issuance, BancGroup executed an interest rate swap whereby BancGroup will receive a fixed rate and pay a floating rate, effectively converting the fixed rate notes to floating. The result of this interest rate swap created an effective floating rate on the notes of 3 month LIBOR + 3.28%. As of December 31, 2001, the net effective floating rate was 5.39%.

Short-term borrowings were comprised of the following at December 31, 2001, 2000, and 1999:

	2001	2000	1999
	(In thousands)		
FHLB borrowings	$ 50,534	$ 650,527	$ 590,521
Federal funds purchased	1,393,521	829,386	210,032
Repurchase Agreements (Retail)	569,816	325,031	242,500
Repurchase Agreements (Wholesale)	114,262	89,144	150,571
Other short-term borrowings	--	3,470	225
Total Short Term Borrowings	$2,128,133	$1,897,558	$1,193,849

Long-term borrowings were comprised of the following at December 31, 2001, 2000, and 1999:

	2001	2000	1999
	(In thousands)		
FHLB borrowings	$1,361,938	$574,022	$591,549
Repurchase Agreements (Wholesale)	88,064	102,325	132,325
Subordinated Notes	254,305	100,000	100,000
Trust Preferred Securities	70,000	73,000	72,500
Variable Rate Subordinated Debentures	7,725	7,725	7,725
Convertible Subordinated Debentures	3,520	4,175	4,323

Other....................................	588	1,000	2,649
Total Long Term Borrowings.........	$1,786,140	$862,247	$911,071

Contractual Obligations and Commercial Commitments

At December 31, 2001, BancGroup had contractual obligations maturing as follows:

Contractual Obligations	Total	Payments Due by Period: Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
		(in thousands)			
Long-Term Debt*..............	$1,868,906	$ 2,110	$631,961	$203,605	$1,031,230
Operating Leases.............	101,063	17,320	33,734	7,818	42,191
Total Contractual Obligations	$1,969,969	$19,430	$665,695	$211,423	$1,073,421

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* Includes current maturity of long-term debt reported in short-term borrowings.

Convertible subordinated debentures totaling approximately $3.5 million are convertible at any time into shares of BancGroup common stock. Trust Preferred Securities in the amount of $70 million are subject to redemption by BancGroup, in whole or part any time after January 29, 2007 until maturity in January 2017.

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BancGroup is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers. These financial instruments include loan commitments, standby letters of credit and obligations to deliver and sell mortgage loans. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

BancGroup's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments, standby letters of credit and obligations to deliver and sell mortgage loans is represented by the contractual amount of those instruments. BancGroup uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. BancGroup has no significant concentrations of credit risk with any individual counter-party to originate loans. The total amounts of financial instruments with off-balance sheet risk as of December 31, 2001 are as follows:

Other Commercial Commitments	Total	Amount of Commitment Expiration Per Period: Less than 1 Year	Over 1 Year

	(in thousands)		
Loan Commitments..........	$2,939,904	$1,965,734	$974,170
Standby letters of credit..	$ 243,873	$ 243,873	$ --

The $974 million in loan commitments with maturities over one year is 9.4% of total outstanding loans. Less than 8% of these commitments (.7% of total loans) are unsecured.

Since many of the loan commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The credit risk involved in issuing letters of credit and funding loan commitments is essentially the same as that involved in extending loan facilities to customers.

Capital Adequacy and Resources

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

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

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

The Federal Reserve Board has issued guidelines identifying minimum Tier I leverage ratios relative to total assets and minimum capital ratios relative to risk-adjusted assets. The minimum leverage ratio is 3% but is increased from 100 to 200 basis points based on a review of individual banks by the Federal Reserve. The minimum risk adjusted capital ratios established by the Federal Reserve are 4% for Tier I and 8% for total

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capital. BancGroup's actual capital ratios and the components of capital and risk adjusted asset information (subject to regulatory review) as of December 31, 2001 are stated below:

Capital (thousands)
Tier I Capital:
Shareholders' equity (excluding unrealized gain on securities available for sale, and intangible
plus Trust Preferred Securities)...
Tier II Capital:

Allowable loan loss reserve	
Subordinated debt	
45% of net unrealized gains on available for sale equity securities	
Total Capital	
Risk Adjusted Assets (thousands)	
Total Assets (thousands)	

	2001	2000
Tier I leverage ratio	6.24%	6.66%
Risk Adjusted Capital Ratios:		
Tier I Capital Ratio	7.39%	8.24%
Total Capital Ratio	10.91%	10.59%

BancGroup has increased capital gradually through normal earnings retention as well as through stock registrations to capitalize acquisitions. The decreases in the risk adjusted tier one ratios shown above are primarily due to asset growth. The increase in the total capital ratio is a result of the issuance of $150 million in subordinated notes discussed previously, partially offset by growth in assets.

Regulatory Restrictions

As noted previously, dividends payable by national and state banks in any year, without prior approval of the appropriate regulatory authorities, are limited.

Colonial Bank is also required by law to maintain noninterest-bearing deposits with the Federal Reserve Bank to meet regulatory reserve requirements. At December 31, 2001, these deposits were not material to BancGroup's funding requirements.

Financial Accounting Standards Board Releases

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

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

On September 23, 1999, the Financial Accounting Standards Board issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133," and amendment to delay the effective date of SFAS No. 133. The effective date for this statement was delayed from fiscal years beginning after June 15, 1999 to fiscal years beginning after June 15, 2000. BancGroup adopted SFAS No. 133 and SFAS No. 137 on January 1, 2001, and as of that date and at December 31, 2001 BancGroup's derivative instruments qualified for hedge accounting treatment per these statements. The effect of adopting these statements is immaterial to the financial statements presented.

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

On June 29, 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations". This statement is effective for all business combinations initiated after June 30, 2001. This statement supercedes Accounting Principles Board Opinion No. 16, "Business Combinations". SFAS No. 141 requires the purchase method of accounting be used for all business combinations initiated after June 30, 2001, establishes specific criteria for the recognition of intangible assets separately from goodwill, and requires unallocated negative goodwill to be written off immediately as an extraordinary gain instead of being deferred and amortized.

On June 29, 2001, the Financial Accounting Standards Board issued SFAS No. 142, "Intangible Assets". This statement is effective for fiscal years beginning after December 15, 2001. SFAS No. 142 requires that goodwill and indefinite lived intangible assets no longer be amortized, that goodwill will be tested for impairment at least annually, that intangible assets deemed to have an indefinite life will be tested for impairment at least annually, and that amortization period of intangible assets with finite lives will no longer be limited to forty years. Based on amortization expense recorded in 2001, BancGroup estimates that the elimination of goodwill amortization expense will increase net income by approximately $3.6 million after tax or $.03 per share.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations". This Statement is effective for fiscal years beginning after June 15, 2002, with early adoption permitted. SFAS No. 143 addresses the recognition and measurement of obligations associated with the retirement of tangible long-lived assets resulting from acquisition, construction, development, or the normal operation of a long-lived asset. SFAS No. 143 requires that the fair value of an asset retirement obligation be recognized as a liability in the period in which it is incurred. The asset retirement obligation is to be capitalized as part of the carrying amount of the long-lived asset and the expense is to be recognized over the useful life of the long-lived asset. Management is currently evaluating the impact that SFAS No. 143 will have on BancGroup's financials, but does not expect the adoption of the pronouncement to have a material effect.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The effective date for this statement is January 1, 2002 and supersedes SFAS No.

121. SFAS No. 144 carries forward from SFAS No. 121 the fundamental guidance related to the recognition and measurement of an impairment loss related to assets to be held and used and provides guidance related to the disposal of long-lived assets to be abandoned or disposal by sale. BancGroup has determined that SFAS No. 144 will have no material effect.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data required by Regulation S-X and by Item 302 of Regulation S-K are set forth in the pages listed below.

REPORT OF INDEPENDENT ACCOUNTANTS

To The Board of Directors and Shareholders
The Colonial BancGroup, Inc.

In our opinion, the accompanying consolidated statements of condition and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of The Colonial BancGroup, Inc. and its subsidiaries at December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Montgomery, Alabama

February 28, 2002

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THE COLONIAL BANCGROUP, INC.

CONSOLIDATED STATEMENTS OF CONDITION

	December 31, 2001	200
	(Dollars in thousa	
ASSETS		
Cash and due from banks	$ 373,024	$ 35
Interest-bearing deposits in banks and federal funds sold	15,084	2
Securities available for sale	1,852,439	1,46
Investment securities (market value: 2001, $31,064; 2000, $47,871)	30,055	4
Mortgage loans held for sale	35,453	
Loans, net of unearned income	10,367,665	9,64
Less:		
Allowance for loan losses	(122,200)	(11
Loans, net	10,245,465	9,53
Premises and equipment, net	198,983	19
Excess of cost over tangible and identified intangible assets acquired, net	113,898	7
Other real estate owned	15,553	
Accrued interest and other assets	305,149	28
Total	$13,185,103	$11,99
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing demand	$ 1,439,217	$ 1,21
Interest-bearing demand	2,231,166	1,88
Savings	443,666	46
Time	4,208,930	4,79
Total deposits	8,322,979	8,35
FHLB short-term borrowings	50,534	42
Other short-term borrowings	2,077,599	1,47
Subordinated debt	265,550	11
Trust preferred securities	70,000	7
FHLB long-term debt	1,361,938	57
Other long-term debt	88,652	10
Other liabilities	83,077	10
Total liabilities	12,320,329	11,22
Commitments and contingencies (Notes 8, 14, 17)		
Shareholders' equity		
Common Stock, $2.50 par value; 200,000,000 shares authorized; 115,244,185 and 114,668,279 shares issued at December 31, 2001 and December 31, 2000, respectively	288,110	28
Treasury Stock (2,773,782 shares at December 31, 2000)	--	(2
Additional paid in capital	102,980	12
Retained earnings	467,163	39
Unearned compensation	(3,159)	(

Accumulated other comprehensive income (loss), net of taxes	9,680	(
Total shareholders' equity	864,774	77
Total	$13,185,103	$11,99

See Notes to Consolidated Financial Statements

THE COLONIAL BANCGROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,		
	2001	2000	1999
	(In thousands, except per share Amounts)		
Interest Income:			
Interest and fees on loans	$793,841	$807,598	$662,749
Interest and dividends on securities:			
Taxable	94,291	95,540	89,814
Nontaxable	5,512	5,669	4,631
Dividends	5,903	5,647	5,670
Interest on federal funds sold and securities purchased under resale agreements	2,172	2,891	2,464
Other Interest	448	731	710
Total interest income	902,167	918,076	766,038
Interest Expense:			
Interest on deposits	323,499	359,460	279,166
Interest on short-term borrowings	66,471	97,002	51,386
Interest on long-term debt	90,268	61,292	54,339
Total interest expense	480,238	517,754	384,891
Net Interest Income	421,929	400,322	381,147
Provisions for loan losses	39,573	29,775	29,177
Net Interest Income After Provision for Loan Losses	382,356	370,547	351,970
Noninterest Income:			
Service charges on deposit accounts	42,032	38,596	39,305
Wealth Management	8,670	8,530	5,544
Electronic Banking	6,918	5,639	4,973
Mortgage Origination	8,287	5,892	340
Securities gains, net	8,701	538	497
Other income	19,101	18,690	24,682
Total noninterest income	93,709	77,885	75,341
Noninterest Expense:			

Salaries and employee benefits	151,319	137,311	117,815
Occupancy expense of bank premises, net	35,036	31,572	29,484
Furniture and equipment expenses	29,289	29,493	25,633
Amortization of intangible assets	6,251	5,226	5,241
Merger related expenses	3,049	--	1,307
Other expenses	59,224	55,089	60,435
Total noninterest expense	284,168	258,691	239,915
Income from continuing operations before income taxes	191,897	189,741	187,396
Applicable income taxes (Note 22)	69,181	69,556	69,360
Income from Continuing Operations	122,716	120,185	118,036
Discontinued Operations:			
Income/(Loss) from discontinued operations, net of income taxes of $(371), $(450) and $2,134 for the year ended December 31, 2001, 2000, and 1999, respectively	(613)	(743)	3,527
Loss on disposal of discontinued operations, net of income tax benefit of ($2,616)	--	(4,322)	--
Net Income	$122,103	$115,120	$121,563
Earnings per share -- Income from continuing operations:			
Basic	$ 1.07	$ 1.05	$ 1.02
Diluted	1.06	1.04	1.01
Earnings per share -- Net Income:			
Basic	$ 1.06	$ 1.00	$ 1.05
Diluted	1.06	1.00	1.04
Average number of shares outstanding:			
Basic	114,811	114,760	115,579
Diluted	115,881	115,653	117,393

See Notes to Consolidated Financial Statements.

THE COLONIAL BANCGROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended Dece	
	2001	2000
	(In thousan	
Net income	$122,103	$115,120
Other comprehensive income, net of taxes:		
Unrealized gains (losses) on securities available for sale arising during the period, net of taxes	21,056	23,190
Less: reclassification adjustment for net (gains) included in net income, net of taxes	(5,569)	(18
Comprehensive income	$137,590	$138,292

See Notes to Consolidated Financial Statements

THE COLONIAL BANCGROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2001, 2000, and 1999

	Common Stock Shares	Common Stock Amount	Additional Paid In Capital	Treasury Stock	Retained Earnings
			(In thousands, except per share		
Balance, December 31, 1998	112,392,646.	$280,982.	$117,266.	$ (355)	$255,669.
Shares issued under:					
Directors Plan	60,435	151	860		
Stock Option Plans	774,878	1,937	1,791	355	
Stock Bonus Plan	(380)	(1)	20		
Employee Stock Purchase Plan	57,519	144	551		
401k Plan	118,359	296	1,137		
Dividend Reinvestment Plan	62,923	158	582		
Issuance of common stock by pooled banks prior to merger	135,520	339	853		
Net income					121,563
Cash dividends ($.38 per share)					(42,316)
Cash dividends by pooled banks prior to merger					(250)
Conversion of 71/2% convertible debt	70,564	176	318		
Change in unrealized gain (loss) on securities available for sale, net of taxes					
Balance, December 31, 1999	113,672,464	284,182	123,378	--	334,666
Shares issued under:					
Directors Plan	88,643	222	838	19	
Stock Option Plans	760,755	1,902	(1,810)	5,192	
Stock Bonus Plan	75,400	188	543	19	
Employee Stock Purchase Plan	28,601	71	206	237	
Issuance of common stock by pooled banks prior to merger	21,280	53	22		
Purchase of treasury stock				(31,934)	
Net income					115,120
Cash dividends ($.44 per share)					(48,867)
Cash dividends by pooled banks prior to merger					(947)
Conversion of 71/2% convertible debt	21,136	53	95		
Change in unrealized gain (loss) on securities available for sale, net of taxes					
Balance, December 31, 2000	114,668,279	286,671	123,272	(26,467)	399,972
Shares issued under:					
Directors Plan			41	1,167	

Stock Option Plans.................	167,597	419	737	1,526	
Stock Bonus Plan...................	(21,975)	(55)	975	1,545	
Employee Stock Purchase Plan........	6,879	17	163	248	
Issuance of common stock by pooled banks prior to merger...............	334,440	836	761		
Purchase of treasury stock...........				(8,773)	
Sale of treasury stock...............			2,010	5,342	
Issuance of shares for business combination..........................			(25,412)	25,412	
Net income..........................					122,103
Cash dividends ($.48 per share).......					(53,634)
Cash dividends by pooled banks prior to merger..........................					(1,278)
Conversion of 71/2% convertible debt..	88,965	222	433		
Change in unrealized gain (loss) on securities available for sale, net of taxes..............................					
Balance, December 31, 2001...........	115,244,185	$288,110	$102,980	$ --	$467,163

	Total Shareholders' Equity
Balance, December 31, 1998...........	$653,552..
Shares issued under:	
Directors Plan.....................	1,011
Stock Option Plans.................	4,083
Stock Bonus Plan...................	745
Employee Stock Purchase Plan........	695
401k Plan..........................	1,433
Dividend Reinvestment Plan..........	740
Issuance of common stock by pooled banks prior to merger...............	1,192
Net income..........................	121,563
Cash dividends ($.38 per share).......	(42,316)
Cash dividends by pooled banks prior to merger..........................	(250)
Conversion of 71/2% convertible debt..	494
Change in unrealized gain (loss) on securities available for sale, net of taxes..............................	(31,317)
Balance, December 31, 1999...........	711,625
Shares issued under:	
Directors Plan.....................	1,079
Stock Option Plans.................	5,284
Stock Bonus Plan...................	(169)
Employee Stock Purchase Plan........	514
Issuance of common stock by pooled banks prior to merger...............	75
Purchase of treasury stock...........	(31,934)
Net income..........................	115,120
Cash dividends ($.44 per share).......	(48,867)
Cash dividends by pooled banks prior	

to merger..........................	(947)
Conversion of 71/2% convertible debt..	148
Change in unrealized gain (loss) on securities available for sale, net of taxes..............................	23,172
Balance, December 31, 2000...........	775,100
Shares issued under:	
Directors Plan.....................	1,208
Stock Option Plans.................	2,682
Stock Bonus Plan...................	1,847
Employee Stock Purchase Plan........	428
Issuance of common stock by pooled banks prior to merger...............	1,597
Purchase of treasury stock...........	(8,773)
Sale of treasury stock...............	7,352
Issuance of shares for business combination........................	0
Net income..........................	122,103
Cash dividends ($.48 per share).......	(53,634)
Cash dividends by pooled banks prior to merger..........................	(1,278)
Conversion of 71/2% convertible debt..	655
Change in unrealized gain (loss) on securities available for sale, net of taxes..............................	15,487
Balance, December 31, 2001...........	$864,774

See Notes to Consolidated Financial Statements

THE COLONIAL BANCGROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2001	2000	199
		(In thousands)	
Cash flows from operating activities:			
Net income..	$ 122,103	$ 115,120	$ 12
Adjustments to reconcile net income:			
Loss on disposal of discontinued operations, net of taxes......	--	4,322	
Depreciation, amortization and accretion......................	27,853	29,495	2
Amortization and impairment of mortgage servicing rights.......	--	13,432	3
Provision for loan loss.....................................	39,573	29,775	2
Deferred taxes..	531	(4,128)	
Gain on sale of securities, net.............................	(8,701)	(538)	
(Gain) on sale and disposal of other assets...................	--	(1,492)	(
Decrease (increase) in mortgage servicing rights, net..........	--	224,973	(8
Net (increase) decrease in mortgage loans held for sale........	(25,587)	23,284	65

Decrease (increase) in interest receivable	822	(15,522)	(1
Decrease (increase) in prepaids and other receivables	2,163	1,765	(
Decrease in accrued expenses & accounts payable	(6,878)	(7,354)	(
(Decrease) in accrued income taxes	(83)	(23)	(
(Decrease) increase in interest payable	(18,830)	7,805	1
Other, net	(2,912)	(537)	(
Total adjustments	7,951	305,257	62
Net cash provided by operating activities	130,054	420,377	74
Cash flows from investing activities:			
Proceeds from maturities of securities available for sale	541,185	214,235	33
Proceeds from sales of securities available for sale	521,756	209,429	20
Purchase of securities available for sale	(1,416,558)	(346,384)	(65
Proceeds from maturities of investment securities	23,418	17,333	10
Purchase of investment securities	--	--	
Net increase in loans	(656,931)	(1,248,350)	(1,19
Purchase of bank owned life insurance	(23,200)	(33,218)	(
Cash received in bank acquisitions	249,240	--	
Capital expenditures	(29,056)	(22,077)	(4
Proceeds from sale of other real estate owned	7,223	10,951	1
Other, net	3,742	2,153	
Net cash used in investing activities	(779,181)	(1,195,928)	(1,22
Cash flows from financing activities:			
Net (decrease) increase in demand, savings, and time deposits	(439,513)	183,039	55
Net increase (decrease) in federal funds purchased, repurchase agreements and other short- term borrowings	485,568	578,703	(36
Proceeds from issuance of long-term debt	787,916	259,000	41
Repayment of long-term debt	(272,667)	(183,171)	(21
Proceeds from issuance of subordinated debt	150,000	--	
Purchase of treasury stock for issuance in a business combination	(8,773)	--	
Purchase of treasury stock	--	(31,934)	
Proceeds from issuance of common stock	4,707	6,084	
Proceeds from sale of treasury stock	7,352	--	
Dividends paid	(54,912)	(49,347)	(4
Net cash provided by financing activities	659,678	762,374	35
Net increase (decrease) in cash and cash equivalents	10,551	(13,177)	(12
Cash and cash equivalents at beginning of year	377,556	390,733	51
Cash and cash equivalents at December 31	$ 388,107	$ 377,556	$ 39
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$ 499,527	$ 510,341	$ 38
Income taxes	69,181	71,728	7
Non-cash investing activities:			
Transfer of loans to other real estate	$ 8,399	$ 10,959	$ 1
Securitization of residential real estate loans	307,000	--	
Non-cash financing activities:			
Conversion of subordinated debentures to common stock	$ 643	$ 148	$
Assets (non-cash) acquired in business combinations	159,801	--	
Liabilities assumed in business combinations	409,041	--	
Reissuance of treasury stock for business combinations	25,412		
Reissuance of treasury stock for stock plans	3,319	5,448	

See Notes to Consolidated Financial Statements

THE COLONIAL BANCGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting and Reporting Policies

The Colonial BancGroup, Inc. ("BancGroup" or the "Company") and its subsidiaries operate predominantly in the domestic commercial banking industry. The accounting and reporting policies of BancGroup and its subsidiaries conform to generally accepted accounting principles in the United States of America and to general practice within the banking industry. The following summarizes the most significant of these policies.

Basis of Presentation. The consolidated financial statements of BancGroup for 2000 and 1999 have been previously restated to give retroactive effect to the pooling-of-interests method business combination with Manufacturers Bancshares, Inc. ("Manufacturers") on October 25, 2001 (See Note 2).

The consolidated financial statements and notes to consolidated financial statements include the accounts of BancGroup and its subsidiaries, all of which are wholly owned. All significant intercompany balances and transactions have been eliminated.

Use of Estimates in the Preparation of Financial Statements. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents. BancGroup considers cash and highly liquid investments with maturities of three months or less when purchased as cash and cash equivalents. Cash and cash equivalents consist primarily of cash and due from banks, interest-bearing deposits in banks and Federal funds sold.

Investment Securities and Securities Available for Sale. Securities are classified as either held to maturity, available for sale, or trading.

Held to maturity or investment securities are securities for which management has the ability and intent to hold on a long-term basis or until maturity. These securities are carried at amortized cost, adjusted for amortization of premiums, and accretion of discount to the earlier of the maturity or call date.

Securities available for sale represent those securities intended to be held for an indefinite period of time, including securities that management intends to use as part of its asset/liability strategy, or that may be sold in response to changes in interest rates, changes in prepayment risk, the need to increase regulatory capital or other similar factors. Securities available for sale are recorded at market value with unrealized gains and losses net of any tax effect, added or deducted directly from shareholders' equity.

Securities carried in trading accounts are carried at market value with unrealized gains and losses reflected in income.

Realized and unrealized gains and losses are based on the specific identification method.

Mortgage Loans Held For Sale. Mortgage loans held for sale are carried at the lower of aggregate cost or market. The cost of mortgage loans held for sale is the mortgage note amount plus certain net origination costs less discounts collected. Gains and losses resulting from changes in the market value of the inventory are netted. Any net gain that results is deferred; any net loss that results is recognized when incurred. The aggregate cost of mortgage loans held for sale at December 31, 2001 and 2000 is less than their aggregate net realizable value. Gains or losses on the sale of mortgage loans held for sale are included in other income.

Loans. Loans are stated at face value, net of unearned income. Interest income on loans is recognized under the "interest" method except for certain installment loans where interest income is recognized under the "Rule of 78's" (sum-of-the-months digits) method, which does not produce results significantly different from the "interest" method. Nonrefundable fees and costs associated with originating or acquiring loans are recognized under the interest method as a yield adjustment over the life of the corresponding loan.

Allowance for Loan Losses. A loan is considered impaired, based on current information and events, if it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Uncollateralized loans are measured for impairment based on the present value of expected future cash flows discounted at the historical effective interest rate, while all collateral-dependent loans are measured for impairment based on the fair value of the collateral. Smaller balance homogeneous loans that consist of residential mortgages and consumer loans are evaluated collectively and reserves are established based on historical loss experience.

The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. Increases and decreases in the allowance due to changes in the measurement of the impaired loans are included in the provision for loan losses. Loans continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable. When a loan or portion of a loan is determined to be uncollectible, the portion deemed uncollectible is charged against the allowance and subsequent recoveries, if any, are credited to the allowance.

Management's ongoing evaluation of the adequacy of the allowance also considers 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 established the allowance in accordance with generally accepted accounting principles and has taken into account the views of its regulators and the current economic environment, there can be no assurance that in the future the Bank's regulators or its economic environment will not require further increases in the allowance.

Income Recognition on Impaired and Nonaccrual Loans. Loans, including impaired loans, are generally classified as nonaccrual if they are past due as to maturity or payment of principal or interest for a period of more than 90 days, unless such loans are well collateralized and in the process of collection. If a loan or a portion of a loan is classified as doubtful or is partially charged off, the loan is generally classified as nonaccrual. At management's discretion, loans that are on a current payment status or past due less than 90 days may also be classified as nonaccrual if repayment in full of principal and/or interest is in doubt.

Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance (generally a minimum of six months) by the borrower, in accordance with the contractual terms of interest and principal.

While a loan is classified as nonaccrual and the future collectibility of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to principal outstanding, except in the case of loans with scheduled amortizations where the payment is generally applied to the oldest payment due. When the future collectibility of the recorded loan balance is expected, interest income may be recognized on a cash basis. In the case where a nonaccrual loan has been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge offs have been fully recovered. Interest income recognized on a cash basis was immaterial for the years ended December 31, 2001, 2000 and 1999.

Premises and Equipment. Bank premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed generally using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Estimated useful lives range from five to forty years for bank buildings and leasehold improvements and three to ten years for furniture and equipment.

Expenditures for maintenance and repairs are charged against earnings as incurred. Costs of major additions and improvements are capitalized. Upon disposition or retirement of property, the asset account is relieved of the cost of the item and the allowance for depreciation is charged with accumulated depreciation. Any resulting gain or loss is reflected in current income.

Other Real Estate Owned. Other real estate owned includes real estate acquired through foreclosure or deed taken in lieu of foreclosure. These amounts are recorded at the lower of the loan balance prior to foreclosure, plus certain costs incurred for improvements to the property ("cost") or market value less estimated costs to sell the property. Any write-down from the cost to market value required at the time of foreclosure is charged to the allowance for loan losses. Subsequent write-downs and gains or losses recognized on the sale of these properties are included in noninterest income or expense.

Intangible Assets. Intangible assets acquired in acquisitions of banks are stated at cost, net of accumulated amortization. Amortization is provided over a period up to twenty-five years for the excess of cost over tangible and identified intangible assets acquired using the straight-line method or an accelerated method, as applicable, and eight to ten years for deposit core base intangibles using the straight-line method. The recoverability of intangible assets is reviewed periodically based on the current earnings of acquired entities. If warranted, analyses, including undiscounted income projections, are made to determine if adjustments to carrying value or amortization periods are necessary.

Mortgage Servicing Rights, Amortization and Impairment. Prior to the discontinuation of mortgage servicing activities in 2000, BancGroup recognized as separate assets the rights to service mortgage loans for others, whether the servicing rights are acquired through a separate purchase or through loan origination activities. The total cost of mortgage loans held for sale were allocated to mortgage loans held for sale and mortgage servicing rights, based on their relative fair values at date of sale. Amortization of mortgage servicing rights ("MSR") was based on the ratio of net servicing income received in the current period to total net servicing income projected to be realized from the MSR. The carrying value of MSR was evaluated for impairment, which was recognized in the statement of income during the period in which impairment occurred as an adjustment to a valuation allowance.

Hedging of MSR. Prior to discontinuation of mortgage servicing activities in 2000, BancGroup utilized derivative contacts that were expected to change in value inversely to the movement of interest rates ("Servicing Hedges"). These derivatives included Treasury options, futures, CMT floors, CMS floors, PO strips and interest rate swaps. The Servicing Hedges were designed to protect the value of the hedged MSR from the effects of increased prepayment activity that generally resulted from declining interest rates. The value of the hedging instruments and options was derived from underlying instruments; however, the notional or contractual amount was not recognized in the balance sheet. The carrying value of the MSR was adjusted for realized and unrealized gains and losses in the derivative financial instruments that qualify for hedge accounting. To qualify for hedge accounting, changes in net value of the Servicing Hedges were expected to be highly correlated with changes in the value of the hedged MSR throughout the hedge period. The Company measured initial and ongoing correlation by statistical analysis and dollar value offset comparison of the relative movements of the Servicing Hedges and related MSR.

Long Lived Assets. BancGroup reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the future undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than the carrying amounts of the asset, an impairment loss is recognized. Long-lived assets and certain intangibles to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

Income Taxes. BancGroup uses the asset and liability method of accounting for income taxes (See Note 21). Under the asset and liability method, deferred tax assets and liabilities are recorded at currently enacted tax rates applicable to the period in which assets or liabilities are expected to be realized or settled. Deferred tax assets and liabilities are adjusted to reflect changes in statutory tax rates resulting in income adjustments in the period such changes are enacted.

Stock-Based Compensation. SFAS No. 123, "Accounting for Stock-Based Compensation," defines a fair value based method of accounting for an employee stock option or similar equity instrument. However, SFAS No. 123 allows an entity to continue to measure compensation costs for those plans using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees. Entities electing to remain with the accounting in Opinion No. 25 must make pro forma disclosures of net income and earnings per share as if the fair value based method of accounting defined in SFAS No. 123 had been applied. Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock. BancGroup has elected to continue to measure compensation cost for its stock option plans under the provisions in APB Opinion 25.

Derivative Instruments and Hedging Activities. The goal of BancGroup's interest rate risk process is to minimize the volatility in the net interest margin caused by changes in interest rates. Derivative instruments are occasionally used to hedge specific assets or liabilities as a part of this overall process. As a result of interest-rate fluctuations, hedged assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation will generally be offset by income or loss on the derivative instruments that are linked to the hedged assets and liabilities. BancGroup views this strategy as a prudent management of interest-rate sensitivity, such that earning are not exposed to undue risk presented by changes in interest rates.

Derivative instruments that are used as part of BancGroup's interest-rate risk-management strategy consist primarily of interest-rate swaps. Interest-rate swaps generally involve the exchange of fixed- and variable-rate interest payments between two parties, based on a notional principal amount and maturity date.

BancGroup is exposed to credit and market risk by using derivative instruments. If the counterparty fails to perform, credit risk is equal to the extent of the fair-value gain in a derivative. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes BancGroup, and, therefore, creates a repayment risk for BancGroup. When the fair value of a derivative contract is negative, BancGroup owes the counterparty and, therefore, it has no repayment risk. The Company minimizes the credit (or repayment) risk in derivative instruments by entering into transactions with high quality counterparties that are approved by ALCMCO.

Market risk is the adverse effect that a change in interest rates, or implied volatility rates has on the value of a financial instrument. BancGroup manages the market risk by using derivatives chiefly for hedging purposes, and then monitoring the effectiveness of the hedges.

BancGroup's derivatives activities are monitored by ALMCO as part of that committee's oversight of BancGroup's asset/liability and treasury functions. ALMCO is responsible for implementing various hedging strategies that are developed through its analysis of data from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into BancGroup's overall interest-rate risk-management and strategies.

Advertising Costs. Advertising costs are expensed as incurred.

Reclassifications. Certain reclassifications have been made to the 2000 financial statements to conform to the 2001 presentations.

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

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

On September 23, 1999, the Financial Accounting Standards Board issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133," and amendment to delay the effective date of SFAS No. 133. The effective date for this statement was delayed from fiscal years beginning after June 15, 1999 to fiscal years beginning after June 15, 2000. BancGroup adopted SFAS No. 133 and SFAS No. 137 on January 1, 2001 and as of that date and at December 31, 2001, all of BancGroup's derivative instruments qualified for hedge accounting treatment per these statements. The effect of adopting these statements is immaterial to the financial statements presented.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

On June 29, 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations". This Statement is effective for all business combinations initiated after June 30, 2001. This statement supercedes Accounting Principles Board Opinion No. 16, "Business Combinations". SFAS No. 141 requires the purchase method of accounting be used for all business combinations initiated after June 30, 2001, establishes specific criteria for the recognition of intangible assets separately from goodwill, and requires unallocated negative goodwill to be written off immediately as an extraordinary gain instead of being deferred and amortized.

On June 29, 2001, the Financial Accounting Standards Board issued SFAS No. 142, "Intangible Assets". This Statement is effective for fiscal years beginning after December 15, 2001. SFAS No. 142 requires that goodwill and indefinite lived intangible assets no longer be amortized, that goodwill will be tested for impairment at least annually, that intangible assets deemed to have an indefinite life will be tested for impairment at least annually, and that amortization period of intangible assets with finite lives will no longer be limited to forty years. Based on amortization expense recorded in 2001, BancGroup estimates that the elimination of goodwill amortization expense will increase net income by approximately $3.6 million after tax or $.03 per share.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations". This Statement is effective for fiscal years beginning after June 15, 2002, with early adoption permitted. SFAS No. 143 addresses the recognition and measurement of obligations associated with the retirement of tangible long-lived assets resulting from acquisition, construction, development, or the normal operation of a long-lived asset. SFAS No. 143 requires that the fair value of an asset retirement obligation be recognized as a liability in the period in which it is incurred. The asset retirement obligation is to be capitalized as part of the carrying amount of the long-lived asset and the expense is to be recognized over the useful life of the long-lived asset. Management is currently evaluating the impact that SFAS No. 143 will have on BancGroup's financials, but does not expect the adoption of the pronouncement to have a material effect.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The effective date for this statement is January 1, 2002 and supersedes SFAS No. 121. SFAS No. 144 carries forward from SFAS No. 121 the fundamental guidance related to the recognition and measurement of an impairment loss related to assets to be held and used and provides guidance related to the disposal of long-lived assets to be abandoned or disposal by sale. Management is currently evaluating the impact that SFAS No. 144 will have on BancGroup's financials, but does not expect the adoption of the pronouncement to have material effect.

2. Business Combinations

In January 2001, BancGroup acquired two branches in Nevada from First Security Bank in a branch divestiture resulting from their merger with Wells Fargo. Through this acquisition, BancGroup purchased certain assets, approximately $50 million in loans, and assumed certain liabilities, primarily deposits of approximately $103 million.As a result of this transaction BancGroup recognized approximately $20 million of intangible assets.

In October 2001, BancGroup purchased certain assets, approximately $68 million in loans, and assumed certain liabilities, primarily deposits of approximately $302 million in the acquisition of 13 branches from Union Planters Bank. Nine of the branches are located in Tampa and Naples area of

Florida and four in the central part of Alabama. As a result of this transaction BancGroup recognized approximately $25.3 million of total intangibles including $4.1 million core deposit premium.

The acquisition of Manufacturers Bancshares, Inc ("Manufacturers") was consummated on October 25, 2001. Manufacturers operated four branches in the Tampa, Florida area and had $297.4 million in total assets, $253.7 million in total loans, and $212.9 million in total deposits at the date of consummation. BancGroup issued 4,458,437 shares of its common stock to shareholders of Manufacturers, including shares issued pursuant to the exercise of Manufacturers stock options. This transaction was accounted for as a pooling of interests and all periods prior to 2001 have been restated to include results on a combined basis.

The following is a summary of operating information for BancGroup showing the effect of the pooling of interests business combination described in the preceding paragraph (years prior to consummation).

	As Originally Reported	Effect of Poolings	Currently Reported
	(In Thousands)		
2000:			
Net interest income	$389,891	$10,431	$400,322
Noninterest income.	75,299	2,586	77,885
Net Income.........	$112,731	$ 2,389	$115,120
1999:			
Net interest income	$372,422	$ 8,725	$381,147
Noninterest income.	74,087	1,254	75,341
Net Income.........	$119,597	$ 1,966	$121,563

3. Securities

The carrying and market values of investment securities are summarized as follows:

Investment Securities

	2001				2000		
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value	Amortized Cost	Unrealized Gains	Unrealized Losses
				(In thousands)			
U.S. Treasury securities and obligations of U.S.							

Government agencies....	$ 500	$ 79	$--	$ 579	$ 3,138	$122	$ --
Mortgage-backed securities............	6,584	230	(8)	6,806	15,132	147	(26)
Obligations of state and political subdivisions.	21,846	707	--	22,553	27,143	587	(2)
Other..................	1,125	1	--	1,126	1,635	--	(5)
Total............	$30,055	$1,017	$(8)	$31,064	$47,048	$856	$(33)

THE COLONIAL BANCGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

The carrying and market values of securities available for sale are summarized as follows:

Securities Available For Sale

	2001				2000		
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value	Amortized Cost	Unrealized Gains	Unrealized Losses
	(In thousands)						
U.S. Treasury securities and obligations of U.S. government agencies...........	$ 57,563	$ 1,769	$ --	$ 59,332	$ 241,411	$3,957	$ (394)
Mortgage-backed securities.........	1,455,493	17,846	(2,806)	1,470,533	909,223	2,672	(9,691)
Obligations of state and political subdivisions.......	87,083	2,467	(53)	89,497	91,929	1,675	(169)
Other...............	237,426	1,798	(6,147)	233,077	236,096	3	(7,028)
Total.........	$1,837,565	$23,880	$(9,006)	$1,852,439	$1,478,659	$8,307	$(17,282)

The majority of the above securities are traded on national exchanges and as such, the market values are based upon quotes from those exchanges. The market values of certain obligations of states and political subdivisions were established with the assistance of an independent pricing service. They were based on available market data reflecting transactions of relatively small size and not necessarily indicative of the prices at which large amounts of particular issues could be readily sold or purchased.

Included within securities available for sale is $87,250,500 and $76,020,500 in Federal Home Loan Bank stock at December 31, 2001 and 2000, respectively. Securities with a carrying value of approximately $1,299,748,000 and $1,204,804,000 at December 31, 2001 and 2000 respectively, were pledged for various purposes as required or permitted by law.

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