COLONIAL BANCGROUP INC
Form 10-Q
May 15, 2002

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

FORM 10-Q

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

FOR THE QUARTER ENDED MARCH 31, 2002 COMMISSION FILE NUMBER 1-13508

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

DELAWARE	63-0661573
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Commerce Street
Montgomery, Alabama 36104
(Address of principle executive offices)

(334) 240-5000
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to the filing requirements for at least the past 90 days.

YES [X] NO [ ]

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

Class	Outstanding at April 30, 2002
Common Stock, $2.50 Par Value	120,166,673

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

This report contains "forward-looking statements" within the meaning of the federal securities laws. The forward-looking statements in this report are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by the statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among other things, the following possibilities: (i) an inability of the company to realize elements of its strategic plans for 2002 and beyond; (ii) increases in competitive pressure in the banking industry; (iii) general economic conditions, either nationally or regionally, that are less favorable than expected; and (iv) changes which may occur in the regulatory environment. When used in this report, the words "believes," "estimates," "plans," "expects," "should," "may," "might," "outlook," and "anticipates," and similar expressions as they relate to BancGroup (including its subsidiaries) or its management are intended to identify forward-looking statements. Forward-looking statements speak only as to the date they are made. BancGroup does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

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

	March 31, 2002	December 31, 2001	March 3 2001
ASSETS:			

Cash and due from banks	$ 288,950	$ 373,024	$ 297,
Interest-bearing deposits in banks and federal funds sold	25,312	15,084	25,
Securities available for sale	1,977,148	1,852,439	1,479,
Investment securities	27,519	30,055	43,
Mortgage loans held for sale	23,653	35,453	20,
Loans, net of unearned income	10,236,272	10,367,665	10,114,
Less: Allowance for loan losses	(128,782)	(122,200)	(116,
Loans, net	10,107,490	10,245,465	9,998,
Premises and equipment, net	226,870	198,983	191,
Intangible assets, net	190,912	113,898	93,
Other real estate owned	21,408	15,553	9,
Accrued interest and other assets	295,032	305,149	278,
TOTAL ASSETS:	$13,184,294	$13,185,103	$12,439,
LIABILITIES AND SHAREHOLDERS EQUITY:			
Deposits	$ 8,598,167	$ 8,322,979	$ 8,486,
Short term borrowings	1,644,251	2,128,133	1,913,
Subordinated debt	264,925	265,550	111,
Trust preferred securities	176,866	70,000	73,
FHLB long term debt	1,396,521	1,361,938	833,
Other long term debt	57,013	88,652	103,
Other liabilities	95,565	83,077	108,
Total liabilities	12,233,308	12,320,329	11,631,
SHAREHOLDERS' EQUITY:			
Common Stock, $2.50 par value; 200,000,000 shares authorized; 120,105,813, 115,244,185, and 113,071,817 shares issued at March 31, 2002, December 31, 2001, and March 31, 2001, respectively	300,265	288,110	286,
Treasury stock (2,419,251 at March 31, 2001)	--	--	(22,
Additional paid in capital	162,684	102,980	124,
Retained earnings	486,359	467,163	415,
Unearned compensation	(3,557)	(3,159)	(4,
Accumulated other comprehensive income, net of taxes	5,235	9,680	9,
Total shareholders' equity	950,986	864,774	808,
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$13,184,294	$13,185,103	$12,439,

See Notes to the Unaudited Condensed Consolidated Financial Statements

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

Three Months Ended
March 31,

	2002	2001
INTEREST INCOME:		
Interest and fees on loans	$162,849	$213,477
Interest and dividends on securities	26,725	25,891
Other interest	222	936
Total interest income	189,796	240,304
INTEREST EXPENSE:		
Interest on deposits	48,347	95,526
Interest on short-term borrowings	7,714	23,450
Interest on long-term debt	24,079	18,725
Total interest expense	80,140	137,701
NET INTEREST INCOME	109,656	102,603
Provision for loan losses	9,478	9,464
Net Interest Income After Provision for Loan Losses	100,178	93,139
NONINTEREST INCOME:		
Service charges on deposit accounts	10,603	9,497
Wealth management	2,660	2,242
Electronic banking	1,873	1,555
Mortgage origination	2,155	1,456
Securities gains (losses), net	(1)	1,189
Other income	5,637	4,902
Total noninterest income	22,927	20,841
NONINTEREST EXPENSE:		
Salaries and employee benefits	37,367	34,921
Occupancy expense of bank premises, net	9,350	8,301
Furniture and equipment expenses	7,122	7,322
Amortization of intangible assets	162	1,640
Other expenses	16,506	16,178
Total noninterest expense	70,507	68,362
INCOME BEFORE INCOME TAXES	52,598	45,618
Applicable income taxes	18,420	16,422
NET INCOME	$ 34,178	$ 29,196
EARNINGS PER SHARE:		
NET INCOME		
Basic	$ 0.30	$ 0.26
Diluted	$ 0.29	$ 0.25

See Notes to the Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
NET INCOME	$34,178	$29,196
OTHER COMPREHENSIVE INCOME, NET OF TAXES:		
Unrealized (losses) gains on securities available for sale arising during the period, net of taxes	(4,446)	15,778
Less: reclassification adjustment for net losses (gains) included in net income	1	(761)
COMPREHENSIVE INCOME	$29,733	$44,213

See Notes to the Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 64,104	$ 32,382
Cash flows from investing activities:		
Proceeds from maturities and calls of securities available for sale	162,304	109,443
Proceeds from sales of securities available for sale	4,010	26,968
Purchase of securities available for sale	(257,313)	(121,806)
Proceeds from maturities of investment securities	2,542	2,911
Net decrease (increase) in loans	397,493	(427,995)
Cash received in bank acquisitions	13,091	33,298
Capital expenditures	(23,375)	(5,151)
Proceeds from sale of other real estate owned	3,921	1,829
Other, net	657	24
NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES	303,330	(380,479)
Cash flows from financing activities:		
Net (decrease) increase in demand, savings, and time deposits	(27,279)	27,226
Net (decrease) increase in federal funds purchased, repurchase agreements and other short-term borrowings	(486,554)	146,093
Proceeds from issuance of long-term debt	93,096	259,994
Repayment of long-term debt	(105,110)	(130,189)

Proceeds from issuance of trust preferred securities	100,000	--
Proceeds from issuance of common stock	826	3,464
Dividends paid ($0.13 and $0.12 per share for 2002 and 2001, respectively)	(16,259)	(13,242)
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	(441,280)	293,346
Net decrease in cash and cash equivalents	(73,846)	(54,751)
Cash and cash equivalents at beginning of year	388,108	377,556
Cash and cash equivalents at March 31,	$ 314,262	$ 322,805

See Notes to the Unaudited Condensed Consolidated Financial Statements

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

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	Three Months Ended March 31,	
	2002	2001
Cash paid during the year for:		
Interest	$ 89,116	$147,899
Income taxes	18,400	16,419
Non-cash investing activities:		
Transfer of loans to other real estate	$ 398	$ 10,909
Assets (non-cash) acquired in business combination	342,855	70,450
Liabilities assumed in business combination	331,094	104,523
Origination of loans for the sale of other real estate	--	169
Non-cash financing activities:		
Reissuance of treasury stock for stock plans	$ --	$ 3,003
Conversion of subordinated debentures	63	35

See Notes to the Unaudited Condensed Consolidated Financial Statements.

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

NOTE A: ACCOUNTING POLICIES

The Colonial BancGroup, Inc. and its subsidiaries ("BancGroup" or the "Company") have not changed their accounting and reporting policies from those stated in the 2001 annual report on Form 10-K. These unaudited interim financial statements should be read in conjunction with the audited financial statements and footnotes included in BancGroup's 2001 annual report on Form 10-K.

In the opinion of BancGroup, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position as of

March 31, 2002 and 2001 and the results of operations and cash flows for the interim periods ended March 31, 2002 and 2001. All 2002 interim amounts are subject to year-end audit, and the results of operations for the interim period herein are not necessarily indicative of the results of operations to be expected for the year.

NOTE B: CONTINGENCIES

BancGroup and its subsidiaries are from time to time defendants in legal actions from normal business activities. Management does not anticipate that the ultimate liability arising from litigation outstanding at March 31, 2002 will have a materially adverse effect on BancGroup's financial statements.

NOTE C: BUSINESS COMBINATIONS

BancGroup completed the acquisition of Mercantile Bancorp, Inc. ("Mercantile") and its wholly owned subsidiary bank, First Mercantile Bank, N.A. ("Mercantile Bank"), on March 28, 2002. Mercantile Bank operated four branch offices in Dallas, Texas and one in Austin, Texas. At March 28, 2002, Mercantile had $354 million in assets, $284 million in loans and mortgage loans held for sale, and $302 million in deposits. BancGroup issued 4,652,809 shares of its common stock to shareholders of Mercantile. As a result of this transaction, BancGroup recorded $69.9 million of total intangibles including $11.4 million in core deposit premium.

NOTE D: RECENT ACCOUNTING PRONOUNCEMENTS

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. Colonial adopted SFAS 142 on January 1, 2002. At the date of adoption, Colonial had unamortized goodwill in the amount of $109.7 million and unamortized identifiable intangible assets in the amount of $4.2 million. Based on the current level of identifiable intangible assets, amortization was $162,000 in the first quarter of 2002 and with the consummation of the Mercantile acquisition, amortization expense is expected to total approximately $1.8 million for this year and $2.0 million annually for the next five years. The full impact of adopting SFAS No. 142 is expected to result in an increase in annual net income of approximately $3.6 million after tax or $.03 per share based on amortization expense recorded in 2001. Reported net income for the first quarter of 2001 would have been $1.0 million greater, exclusive of the goodwill amortization recognized in that period; increasing diluted earnings per share by $0.01 from $0.25 to $0.26.

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 will 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. Colonial adopted SFAS No. 144 on January 1, 2002. The implementation of SFAS No. 144 did not have a material impact on BancGroup's financials.

NOTE E: EARNINGS PER SHARE

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

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(Dollars in thousands, except per share amounts)

	Three Months Ended March 31,		
2002	Income	Shares	Per Share Amount
Basic EPS			
Net Income	$34,178	115,382	$0.30
Effect of dilutive securities:			
Options		651	
Convertible debentures	35	497	
Diluted EPS	$34,213	116,530	$0.29
2001			
Basic EPS			
Net income	$29,196	114,502	$0.26
Effect of dilutive securities			
Options		594	
Convertible debentures	48	585	
Diluted EPS	$29,244	115,681	$0.25

NOTE F: SEGMENT INFORMATION

Through its wholly owned subsidiary, Colonial Bank, BancGroup has one distinct line of business: Commercial Banking.

Colonial Bank provides general banking services in 261 branches throughout 6 states.

NOTE G: LONG TERM BORROWINGS

During March 2002, Colonial Bank issued $100 million in trust preferred securities. These securities bear interest of 8.32% and are subject to redemption by BancGroup, in whole or in part, at any time after March 2007, until maturity in April 2032. In connetion 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 +1.40%. As of March 31, 2002, the net effective floating rate was 3.41%. The proceeds from this issuance will be used for general corporate purposes.

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

FINANCIAL CONDITION:

Ending balances of total assets, securities, mortgage loans held for sale, net loans, deposits, and long and short term debt changed for the three months and twelve months ended March 31, 2002, respectively, as follows:

(Dollars in thousands)	December 31, 2001 to March 31, 2002 Increase (Decrease)		March 31, 2001 To March 31, 2002 Increase (Decrease)	
	Amount	%	Amount	%
Assets:				
Total Assets	(809)	--%	744,561	6.0%
Securities	122,173	6.5%	480,785	31.6%
Mortgage loans held for sale	(11,800)	(33.3%)	2,842	13.7%
Loans, net of unearned income	(131,393)	(1.3%)	121,308	1.2%
Total Deposits	275,188	3.3%	111,176	1.3%
Short-term debt	(483,882)	(22.7%)	(269,402)	(14.1%)
Long-term debt	109,185	6.1%	773,310	68.9%

Assets:

BancGroup's assets have increased 6.0% since March 31, 2001 but have remained relatively unchanged since December 31, 2001. The growth from March 31, 2001 is primarily the result of increases in investment securities, internal loan growth throughout BancGroup's banking regions, the purchase of 13 branches from Union Planters, and the acquisition of Mercantile Bancorp in Texas. The slight decrease from December 31, 2001 is largely due to a decrease in Mortgage Warehouse Lending loans offset by an increase in investment securities and growth in regional bank loans.

Securities:

Investment securities and securities available for sale have increased $480.8

million (31.6%) and $122.2 million (6.5%) from March 31, 2001 and December 31, 2001, respectively. These increases are the result of normal business activities and $43 million in securities received with the Mercantile acquisition.

Loans and Mortgage Loans Held for Sale:

Loans, net of unearned income, have increased $121.3 million (1.2%) and decreased $131.4 million (-1.3%) from March 31, 2001 and December 31, 2001, respectively. Loan growth from March 31, 2001

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was partially offset by the securitization of $307 million of single-family real estate loans that were transferred to securities in the investment portfolio as mortgage backed securities during the second quarter of 2001. The decrease in loans from December 31, 2001 was primarily due to a $413 million decline in mortgage warehouse loans partially offset by $284 million in loans acquired in an acquisition. Volume in the mortgage warehouse lending unit had been abnormally high at December 31, 2001 due to increases in mortgage refinancing activity occasioned by all time lows in mortgage rates for a period during the fourth quarter of 2001. The remaining change from December 31, 2001 consisted of an increase of $93 million in regional bank loans offset by a decrease of $96 million in the single family real estate portfolio consisting substantially of adjustable rate mortgage loans.

GROSS LOANS BY CATEGORY (Dollars in thousands)	March 31, 2002	December 31, 2001	March 31, 2001
Commercial, financial, and agricultural	$ 1,087,974	$ 1,145,409	$ 1,297,773
Real estate-commercial	3,489,361	3,417,517	3,393,322
Real estate-construction	2,519,447	2,295,675	1,821,412
Real estate-residential	1,930,654	1,942,821	2,592,564
Installment and consumer	246,557	240,836	269,126
Mortgage warehouse lending	874,911	1,286,399	644,484
Other	87,513	39,019	96,314
Total Loans	$10,236,417	$10,367,676	$10,114,995

Residential real estate loans represent 18.9% of total loans at March 31, 2002 compared to 18.7% at December 31, 2001 and 25.6% at March 31, 2001. 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 originally received back into BancGroup's securities portfolio as mortgage backed securities. Also, demand for adjustable rate mortgages has declined as more borrowers are looking for long-term 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. Annualized net charge-offs to average loans for the residential real estate portfolio was 0.06% at March 31, 2002 compared to 0.11% for all of 2001.

Commercial loans collaterialized by real estate and construction loans increased approximately $71.8 million and $223.8 million, respectively from December 31, 2001 and $96.0 million and $698.0 million, respectively, from March 31, 2001.

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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. Our diversity, in addition to our emphasis on quality underwriting, serve to reduce the risk of losses. The following chart reflects the geographic diversity and industry distribution of Construction and Commercial Real Estate loans as of March 31, 2002.

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CONSTRUCTION & COMMERCIAL REAL ESTATE
GEOGRAPHIC DIVERSITY AND INDUSTRY DISTRIBUTION
MARCH 31, 2002

(Dollars in thousands)	Construction	Commercial Real Estate
Average Loan Size	$ 508	$ 515
Geographic Diversity		
Alabama	$ 378,965	$ 897,386
Georgia	429,710	457,691
Florida	1,212,296	1,552,163
Texas	276,480	142,668
Nevada	151,018	159,087
Other	70,978	280,366
Total	$2,519,447	$3,489,361

Industry Distribution	% of Industry Distribution to Construction Portfolio	% of Industry Distribution to Total Portfolio		% of In Commerc Estate P
Development	22%	5%	Retail	18%
1-4 Family Residential	21%	5%	Office	16%
Land Only	18%	4%	Multi-Family	11%
Condominium	12%	3%	Lodging	11%
Multi-Family	9%	2%	Office/Warehouse	6%
Retail	5%	1%	Nursing Home	5%
Other (13 types)	13%	5%	Other (11 types)	33%
Total Construction	100%	25%	Total Commercial Real Estate	100%

Characteristics of the 75 Largest Construction and Commercial Real Estate Loans

	Construction	Commercial Real Estate
75 Largest Loans Total	$966,585	$720,613
% of 75 largest loans to category total	38.4%	20.7%
Average Loan to Value Ratio (75 largest loans)	68%	71%
Debt Coverage Ratio (75 largest loans)	N/A	1.28x

Substantially all Construction and Commercial Real Estate loans have personal guarantees of the principals involved. Owner occupied Commercial Real Estate portfolio totals represented 22% of the total Commercial Real Estate portfolio at March 31, 2002.

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BancGroup does not have a syndicated lending department; however, the Company has 28 credits with commitments (funded and unfunded) of $551 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 $56 million (which is a mortgage warehouse facility), with the smallest credit being approximately $142,000. As of March 31, 2002, $317 million of these commitments were funded.

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:

- 26% - 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)
- 5% - 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.

ALLOCATION OF THE 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.

(Dollars in thousands) Balance at end of period Applicable to:	March 31, 2002	Percent of Loans to Total Loans	December 31, 2001	Percent of Loans to Total Loans	March 3 2001
Commercial, financial, and agricultural	$ 30,415	10.6%	$ 33,326	11.1%	$ 33,
Real estate-commercial	55,128	34.1%	50,393	33.0%	46,
Real estate-construction	21,589	24.6%	17,256	22.1%	15,
Real estate-residential	9,653	18.9%	9,714	18.7%	12,
Installment and consumer	2,898	2.4%	2,390	2.3%	2,
Mortgage warehouse lending	2,187	8.5%	3,216	12.4%	1,
Other	6,912	0.9%	5,905	0.4%	4,
TOTAL	$128,782	100.0%	$122,200	100.0%	$116,

The ratio of annualized net charge-offs to average loans was 0.25%, 0.34%, and 0.14% for the first quarter of 2002, the fourth quarter of 2001, and the first quarter of 2001. 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, compared to industry and peer data.

The following schedule reflects BancGroup's coverage of nonperforming loans (nonaccrual and renegotiated) by the allowance for loan losses of 281%, while management has not targeted any specific coverage ratio in excess of 100%. Management is committed to maintaining adequate reserve levels to absorb losses present in the loan portfolio.

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SUMMARY OF LOAN LOSS EXPERIENCE

(Dollars in thousands)	March 31, 2002	December 31, 2001	March 31, 2001
Allowance for loan losses - January 1	$122,200	$110,055	$110,055
Charge-offs:			
Commercial, financial, and agricultural	2,907	14,731	2,738
Real estate-commercial	2,839	9,354	201
Real estate-construction	108	292	45
Real estate-residential	527	3,148	652
Installment and consumer	1,038	4,049	908
Other	223	1,155	173
Total charge-offs	7,642	32,729	4,717
Recoveries:			
Commercial, financial, and agricultural	273	698	208
Real estate-commercial	419	404	191
Real estate-construction	18	9	7
Real estate-residential	238	565	194
Installment and consumer	266	1,999	502
Other	95	330	59
Total recoveries	1,309	4,005	1,161

Net charge-offs	6,333	28,724	3,556
Allowance added from bank acquisitions	3,437	1,296	569
Addition to allowance charged to operating expense	9,478	39,573	9,464
Allowance for loan losses-end of period	$128,782	$122,200	$116,532
Net charge-offs as a percent of average net loans - (annualized basis):			
Quarter to date	0.25%	0.34%	0.14%

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NONPERFORMING ASSETS ARE SUMMARIZED BELOW

(Dollars in thousands)	March 31, 2002	December 31, 2001	Mar 2
Aggregate loans for which interest is not being accrued	$44,646	$49,675	$41
Aggregate loans renegotiated to provide a reduction or deferral of interest or principle because of deterioration in the financial condition of the borrower	1,233	1,507	1
Total nonperforming loans *	45,879	51,182	42
Other real estate owned and repossessions	21,408	15,553	9
Total nonperforming assets *	$67,287	$66,735	$52
Aggregate loans contractually past due 90 days for which interest is being accrued	$19,033	$28,249	$16
Net charge-offs quarter-to-date	$ 6,333	$ 8,602	$ 3
Total nonperforming assets as a percent of net loans and other real estate	0.66%	0.64%	
Allowance as a percent of net loans	1.26%	1.18%	
Allowance as a percent of nonperforming assets *	191%	183%	
Allowance as a percent of nonperforming loans *	281%	239%	

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

Nonperforming assets increased to 0.66% of net loans and other real estate at March 31, 2002. Nonperforming assets have remained relatively stable at $67.3 million compared to $66.7 million at December 31, 2001. Management continuously monitors and evaluates recoverability of problem assets and adjusts loan loss reserves accordingly. Loan loss reserve was 1.26% of loans at March 31, 2002 compared to 1.18% at December 31, 2001 and 1.15% at March 31, 2001. 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, regularly monitors selected loans for which general economic conditions or changes within a particular industry could cause the borrowers financial difficulties. This continuous monitoring of the loan portfolio and the related identification of loans with a high degree of credit risk are essential parts of the BancGroup's credit management. 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.

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. The recorded investment in impaired loans at March 31, 2002 was $40.1 million and these loans had a corresponding valuation allowance of $16.2 million.

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LIQUIDITY:

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

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

Core deposit growth is a primary focus of BancGroup's funding and liquidity strategy. Average retail deposits excluding broker and time deposits grew at an annualized rate of 12% for the three months ended March 31, 2002. Core deposit growth continues to be a primary strategic objective of the Company.

In addition to funding growth through core deposits, BancGroup has worked to expand the availability of long and short term wholesale funding sources. As of March 31, 2002 the Bank utilized only 54% of the total wholesale funding sources estimated to be available. Management believes its liquidity sources and funding strategies are adequate given the nature of its asset base and current loan demand.

INTEREST RATE SENSITIVITY:

ALMCO's goal is to minimize volatility in the net interest margin from 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. 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 most recent simulation model, when the Fed Funds Rate was 1.75%, and measures the impact on net interest income of an immediate and sustained change in interest rates in 100 basis point increments for the 12 calendar months following the date of the change. 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 first quarter 2002 net interest income annualized.

		Percentage Change in 12 Month Projected (1):	
Basis Points change	Fed Funds Rate	Net Interest Income	Net Interest Income Versus 1st Qtr 2002 Net Interest Income Annualized
+200	3.75%	3%	9%
+100	2.75	1	7
No Change	1.75	--	6
- 100	0.75	(1)	5

(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 these rate shock scenarios, net interest income would be expected to improve versus recent results, and would benefit most from rising rates.

The following table summarizes BancGroup's Maturity / Rate Sensitivity or Gap at March 31, 2002.

(Dollars in millions)

	0-90 days	0-365 days
Rate Sensitive Assets (RSA)	$6,434	$7,811
Rate Sensitive Liabilities (RSL)	4,359	6,622
Cumulative Gap (RSA-RSL)	2,075	1,189
Cumulative Gap Ratio (Cum. Gap / Total Assets)	16%	9%

The last two lines of the proceeding table represents interest rate sensitivity gap which is the difference between rate sensitive assets and rate sensitive liabilities. Therefore, BancGroup's net interest income would again generally benefit from a rising rate environment.

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.

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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 capital. BancGroup's actual capital ratios and the components of capital and risk adjusted asset information (subject to regulatory review) as of March 31, 2002 are stated below:

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Capital (in thousands):	
Tier I Capital:	
Shareholders' equity (excluding unrealized gain on securities available for sale and intangibles, plus Trust Preferred Securities)	$ 932,838
Tier II Capital:	
Allowable loan loss reserve	128,782
Subordinated debt	261,182
45% of net unrealized gains on available for sale equity securities	209

Total Capital	$ 1,323,011
Risk Adjusted Assets (in thousands)	$10,858,243
Total Assets (in thousands)	$13,184,294

	March 31, 2002	December 31, 2001
Tier I leverage ratio	7.45%	6.24%
Risk Adjusted Capital Ratios:		
Tier I Capital Ratio	8.59%	7.39%
Total Capital Ratio	12.18%	10.91%

BancGroup has increased capital gradually through normal earnings retention as well as through stock registrations to capitalize acquisitions. The increase in the Tier I Capital Ratio and Total Capital Ratio is primarily due to the issuance of $100 million of Trust Preferred Securities during the first quarter of 2002. These securities provide additional flexibility for liquidity, capital management, and growth.

Management continuously monitors its capital levels in order to ensure it is taking the necessary steps to support future internally generated growth and fund the quarterly dividend rates that are currently $0.13 per share each quarter.

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

	Three Months Ended Marc			
	2002			
	Average Volume	Interest	Rate	Average Volume
ASSETS				
Loans, net (1)	$ 9,094,471	$153,270	6.82%	$ 9,384,8
Mortgage warehouse lending	871,239	9,381	4.31%	503,2
Mortgage loans held for sale	20,624	352	6.83%	11,9
Investment securities and securities available for sale and other interest-earning assets (2)	1,956,832	27,527	5.63%	1,593,0
Total interest-earning assets(1)	11,943,166	$190,530	6.44%	11,493,1
Nonearning assets	764,648			718,7
Total assets	$12,707,814			$12,211,8
LIABILITIES AND SHAREHOLDERS' EQUITY:				
Interest-bearing non-time deposits	$ 2,682,864	$ 8,506	1.29%	$ 2,431,6
Time deposits	4,169,579	39,840	3.87%	4,866,7

Short-term borrowings	1,703,851	7,716	1.84%	1,638,2
Long-term debt	1,803,559	24,100	5.40%	1,247,3
Total interest-bearing liabilities	10,359,853	$ 80,162	3.14%	10,183,9
Noninterest-bearing demand deposits	1,377,733			1,130,1
Other liabilities	94,592			109,3
Total liabilities	11,832,178			11,423,4
Shareholders' equity	875,636			788,4
Total liabilities and shareholders' equity	$12,707,814			$12,211,8
RATE DIFFERENTIAL			3.30%	
NET INTEREST INCOME AND NET YIELD ON INTEREST-EARNING ASSETS (3)		$110,368	3.72%	

(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 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 equal to 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

NET INTEREST INCOME:

Net interest income on a tax equivalent basis increased $7.2 million to $110.4 million for the quarter ended March 31, 2002 from $103.2 million for the quarter ended March 31, 2001. The net interest margin improved 10 basis points to 3.72% for the first quarter of 2002 versus 3.62% for the first quarter of 2001. This reflects the margin's adjustment to a more stable rate environment after the rapid rate declines in 2001, when the Federal Reserve cut the funds rate 11 times by a total of 475 basis points. The last reduction in the fed funds rate by the Federal Reserve was on December 11, 2001 to 1.75%. The Company's average loan yields for the quarter declined 200 basis points while interest bearing liabilities declined 235 basis points as compared to the first quarter of 2001. The decline in interest bearing liabilities was driven by a 243 basis point decline in the average rate on time deposits to 3.87% from 6.30% in the first quarter of 2001. The stability of rates in the first quarter has allowed the repricing of the time deposit portfolio to catch up with the repeated and rapid rate declines experienced in 2001. Total time deposits stood at $4.2 billion at March 31, 2002, with an average rate of 3.71% and a weighted average remaining term of 10 months. Currently posted rates on 1 year time deposits are 3.00% but range as high as 5.25% for 5 years.

ANALYSIS OF INTEREST INCREASES/(DECREASES)
(UNAUDITED)
(Dollars in thousands)

	Three Months Ended March 31, 2002 Change from 2001	Attributed to (1)	
	Total	Volume	Rate
INTEREST INCOME:			
Loans, net	$(51,203)	$ (6,146)	$(45,057)
Mortgage Warehouse Lending	409	4,870	(4,461)
Mortgage loans held for sale	157	147	10
Investment securities and securities for sale and other interest-earning assets	54	5,631	(5,577)
Total interest income(2)	(50,583)	4,502	(55,085)
INTEREST EXPENSE:			
Interest-bearing deposits	$(47,181)	$ 4,937	$(52,118)
Short-term borrowings	(15,734)	929	(16,663)
Long-term debt	5,187	7,687	(2,500)
Total interest expense	(57,728)	13,553	(71,281)
Net interest income	$ 7,145	$ (9,051)	$ 16,196

(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.

LOAN LOSS PROVISION:

The provision for possible loan losses for the quarter ended March 31, 2002 was $9,478,000 compared to $9,464,000 for the same period in 2001. The Company continues to focus its efforts on relationship based lending to known customers in its local market areas.

The current allowance for possible loan losses provides a 281% coverage of nonperforming loans compared to 239% at December 31, 2001 and 272% at March 31, 2001. See management's discussion on loan quality and the allowance for possible loan losses presented in the Financial Condition section of this report.

NONINTEREST INCOME:

Noninterest income excluding securities gains increased $3.3 million (17%) for the three months ended March 31, 2002 compared to the same period in 2001. This increase is primarily attributable to wealth management services, electronic banking services, mortgage origination income, and cash management services included in service charges on deposit accounts.

Wealth management experienced a $418,000 increase (18.6%) in fee income during the three months ended March 31, 2002 over the same period in 2001. As a result of investor uncertainty in the economy, the Company experienced a decline in securities sales; however, this decline was offset by an increase in fixed rate annuity sales.

BancGroup continues to expand electronic banking services through its ATM network, business and personal check card services, and internet banking. Non-interest income from electronic banking services increased $318,000 (20.5%) for the three months ended March 31, 2002 when compared to the same period in 2001 through increased customer use and the introduction of the Colonial Bank Business Check Card.

Mortgage origination fees increased $699,000 (48.0%) for the three months ended March 31, 2002 compared to the three months ended March 31, 2001. This increase is the result of additional production of one-to-four family mortgage loans sold in the secondary market and due to the refinancing activity during the fourth quarter of 2001 that carried into the first quarter of 2002.

Service charges on deposit accounts increased $1.1 million (11.6%) for the three months ended March 31, 2002 over the same period in 2001. This increase is the result of normal deposit account related fees, an increase in cash management fees of approximately $183,000 (28.7%), and additional branches in operation for the three months ended March 31, 2002 when compared to the first quarter of 2001.

NONINTEREST EXPENSES:

In support of the Company's sales culture, BancGroup continues to make strategic investments in its product and service offerings, technology systems, sales incentives and branch network to enhance the Company's competitive presence in existing markets. Some of these investments include improved automation of branch delivery systems, enhanced internet banking and wire transfer systems, and an image processing system. BancGroup's philosophy is to make strategic investments in the tools employees need to optimize its customers' financial success. Accordingly, noninterest expense increased 3.1% for the quarter ended March 31, 2002 as compared to the same period last year.

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BancGroup's net overhead (total noninterest expense less noninterest income, excluding security gains) was $47.6 million for the three months ended March 31, 2002 compared to $48.7 million for the three months ended March 31, 2001, respectively.

Noninterest expense increased $2.1 million for the first quarter of 2002 compared to the first quarter of 2001. Noninterest expense to average assets decreased to 2.22% for three months ended March 31, 2002 from 2.24% at March 31, 2001.

The increase in bank related expenses is primarily due to an increase of approximately $2.4 million for the three months ended March 31, 2002 over the same period in 2001 in salaries and employee benefits. These salary increases are due to additional employees from acquisitions completed during the previous year, additional branches opened, normal salary increases, additional incentive related compensation, and increased pension costs.

In order to improve the Company's market presence, three of its regional headquarters were relocated in 2001. The Company also acquired 13 branches from Union Planters in October 2001 and has opened six new branches since March 2001. Primarily as a result of these efforts, occupancy and equipment expense for the three months ended March 31, 2002 increased $849,000 when compared to the same period in 2001.

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. We expect to begin implementation of new retail delivery systems in late third quarter 2002 with additional Internet banking capabilities and an enhanced call center, followed in late fourth quarter by new branch service delivery and loan delivery systems. The new retail delivery system will be fully implemented by the end of 2003.

Intangible asset amortization decreased $1.5 million for the three months ended March 31, 2002 over the same period in 2001 due to implementation of SFAS No. 142 discussed in Note D - Recent Accounting Pronouncements.

PROVISION FOR INCOME TAXES:

BancGroup's provision for income taxes is based on an approximate 35.0% and 36.0%, estimated annual effective tax rate for the years 2002 and 2001, respectively. The provision for income taxes for the three months ended March 31, 2002 and 2001 was $18,420,000 and $16,422,000, respectively.

Item III Quantitative and Qualitative Disclosures About Market Risk

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

Part II Other Information

ITEM 1: Legal Proceedings - See Note B - COMMITMENTS AND CONTINGENCIES AT PART 1

ITEM 2: Changes in Securities - N/A

ITEM 3: Defaults Upon Senior Securities - N/A

ITEM 4: Submission of Matters to a Vote of Security Holders - N/A

On April 17, 2002, the annual meeting of the shareholders of Colonial BancGroup was held. The following are the results of the votes cast by shareholders present at such meeting, by proxy or in person, for such proposals.

1) Election of the following directors:

For a Term Expiring in 2005.

	For	Withhold	Percent For
William Britton	94,555,847	843,692	99.1

Augustus K. Clements, III	94,566,287	833,252	99.1
Patrick F. Dye	93,972,804	1,474,735	98.5
Milton E. McGregor	94,295,971	1,103,568	98.8
William E. Powell, III	94,570,547	828,992	99.1
Simuel Sippial	94,516,040	883,499	99.1

In addition to the foregoing the following directors will continue to serve:

Term Expiring in 2004	Term Expiring in 2003
Robert S. Craft	Lewis E. Beville
Clinton O. Holdbrooks	Jerry J. Chesser
Harold D. King	John Ed Mathison
Robert E. Lowder	Joe D. Mussafer
John C. H. Miller, Jr.	Frances E. Roper
James W. Rane	Edward V. Welch

ITEM 5: Other Information - None

ITEM 6: Exhibits and Reports on Form 8-K

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

(b) Reports on Form 8-K

1. Form 8-K - Was furnished on April 29, 2002 as Regulation F-D Disclosure in regard to a presentation made by management at the Gulf South Banking Conference on second quarter 2001 earnings.

2. Form 8-K - Was furnished on April 16, 2002 as Regulation F-D Disclosure in regard to first quarter 2002 earnings.

3. Form 8-K - Was furnished on January 25, 2002 as Regulation F-D Disclosure in regard to restated financials with the pooling of interest with Manufacturers Bancshares.

4. Form 8-K - Was furnished on January 17, 2002 as Regulation F-D Disclosure in regard to fourth quarter 2001 and fiscal year 2001 earnings.

SIGNATURE

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

THE COLONIAL BANCGROUP, INC.

Date: May 14, 2002

By: /s/ W. Flake Oakley, IV

W. Flake Oakley, IV
Its Chief Financial Officer