

COLONIAL BANGROUP INC

Form PRE 14A

March 09, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**SCHEDULE 14A**

**(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities**

**Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

**The Colonial BancGroup, Inc.**

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(Name of Registrant as specified in Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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TO OUR STOCKHOLDERS:

We cordially invite you to attend the annual meeting of the stockholders of The Colonial BancGroup, Inc. to be held at 10:00 a.m., central time, Wednesday, April 18, 2007, at the Colonial Corporate Campus, 100 Colonial Bank Boulevard, Montgomery, Alabama.

Enclosed is a Notice of the meeting, a Proxy Statement, a proxy card and the Annual Report to Stockholders for 2006. At the meeting, we will also report on matters of current interest to our stockholders.

We hope that you will be able to join us for the annual meeting in our new Corporate and Bank Headquarters. Whether you plan to attend the meeting or not, please sign and date the enclosed proxy card and return it in the accompanying envelope as promptly as possible. Alternatively, you may submit your vote by telephone or via the internet. The proxy may be revoked by your vote in person at the meeting, by submission of a later dated proxy, or by you giving written notice of revocation to the Secretary of The Colonial BancGroup, Inc., at any time prior to the voting thereof.

Thank you for your support of Colonial BancGroup.

Sincerely,

Robert E. Lowder

*Chairman of the Board,*

*Chief Executive Officer and President*

March 20, 2007

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**NOTICE**  
**of the**  
**ANNUAL MEETING OF STOCKHOLDERS**  
**of**  
**THE COLONIAL BANCGROUP, INC.**

**To Be Held April 18, 2007**

NOTICE IS GIVEN that the annual meeting of stockholders of The Colonial BancGroup, Inc. ( BancGroup ), a Delaware corporation, will be held at the Colonial Corporate Campus, 100 Colonial Bank Boulevard, Montgomery, Alabama, on Wednesday, April 18, 2007 at 10:00 a.m., central time, for the following purposes:

1. To elect the nominees named in the Proxy Statement as directors to serve terms of three years;
2. To approve the 2007 Stock Plan for Directors;
3. To approve the Management Incentive Plan;
4. To ratify the appointment of PricewaterhouseCoopers, LLP as BancGroup s independent auditors for 2007;
5. To transact such other business as may properly come before the meeting or any adjournments thereof, but which is not now anticipated.

Details respecting these matters are set forth in the accompanying Proxy Statement. Only stockholders of record at the close of business on February 20, 2007 will be entitled to notice of, and to vote at, the meeting. A complete list of the stockholders of record entitled to vote at the meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder, shall be open to examination by any stockholder at BancGroup s principal office at 100 Colonial Bank Boulevard, Montgomery, Alabama, during ordinary business hours for any purpose germane to the meeting. Such list will be open for a period of at least ten days prior to the meeting.

All stockholders of BancGroup are cordially invited to attend the meeting in person. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, PLEASE SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT IN THE ACCOMPANYING ENVELOPE AS PROMPTLY AS POSSIBLE. ALTERNATIVELY, YOU MAY VOTE YOUR PROXY VIA TELEPHONE OR THE INTERNET. THE PROXY MAY BE REVOKED BY YOUR VOTE IN PERSON AT THE MEETING, BY YOUR EXECUTION AND SUBMISSION OF A LATER DATED PROXY BEFORE THE MEETING, OR IF YOU VOTE ELECTRONICALLY, THEN BEFORE 11:59 P.M. EASTERN TIME ON APRIL 17, 2007, OR BY YOU GIVING WRITTEN NOTICE OF REVOCATION TO THE SECRETARY OF BANCGROUP AT ANY TIME PRIOR TO THE VOTING THEREOF.

By Order of the Board of Directors

Robert E. Lowder

*Chairman of the Board,*

*Chief Executive Officer and President*

March 20, 2007

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**THE COLONIAL BANCGROUP, INC.**

**100 Colonial Bank Boulevard**

**Post Office Box 241148**

**Montgomery, Alabama 36124**

**Telephone: 334-676-5000**

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**PROXY STATEMENT**

**FOR 2007 ANNUAL MEETING OF STOCKHOLDERS**

**OVERVIEW**

This Proxy Statement and the accompanying proxy card are furnished on or about March 20, 2007, by The Colonial BancGroup, Inc. ( BancGroup ) to the holders of record of Common Stock as of February 20, 2007 in connection with BancGroup s annual meeting of stockholders (the Annual Meeting ), and any adjournments thereof, to be held on Wednesday, April 18, 2007, at 10:00 a.m., central time, at the Colonial Corporate Campus, 100 Colonial Bank Boulevard, Montgomery, Alabama. The matters to be considered and acted upon, including the election of directors, are described herein.

BancGroup s Nominating and Corporate Governance Committee and the Board of Directors of BancGroup (the Board ) recommend (i) the election of each of the six director-nominees named in this Proxy Statement for a term of three years, (ii) the approval of the 2007 Stock Plan for Directors, (iii) the approval of the Management Incentive Plan in order that payments made under this plan will continue to be afforded beneficial tax treatment under Section 162(m) of the Internal Revenue Code of 1986, and (iv) the ratification of PricewaterhouseCoopers, LLP as BancGroup s independent auditors for 2007.

Your proxy is solicited on behalf of the Board and is revocable at any time prior to the voting of such proxy by giving written notice of revocation to the Secretary of BancGroup, by submitting a later-dated proxy, or by voting in person at the Annual Meeting. Mere attendance at the Annual Meeting without voting in person will not be sufficient to revoke a previously submitted proxy. All properly submitted proxies delivered pursuant to this solicitation will be voted at the Annual Meeting in accordance with instructions, if any. If no instructions are given, the proxies will be voted FOR election of the director-nominees named herein, FOR Proposals 2, 3, and 4 and in accordance with the instructions of management as to any other matters that may come before the Annual Meeting.

The cost of soliciting proxies will be borne by BancGroup. In addition to mailing, proxies may be solicited by personal interview, telephone, facsimile, e-mail or other electronic means. Banks, brokers, nominees or fiduciaries should forward the soliciting material to the principals to obtain authorization for the execution of proxies, as required by law. BancGroup also will allow proxies to be delivered by telephone or via the internet. BancGroup may, upon request, reimburse banks, brokers and other institutions, nominees and fiduciaries for their expenses in forwarding proxy material to the principals. BancGroup has retained the firm of Georgeson Shareholder Communications, Inc. to solicit proxies

and will pay that firm a fee of \$7,000, plus out of pocket expenses.

**STOCKHOLDERS ELIGIBLE TO VOTE**

This Proxy Statement is furnished to the holders of Common Stock who were holders of record as of the close of business on February 20, 2007. Only those holders are eligible to vote at the Annual Meeting.

Votes will be tabulated and counted by one or more inspectors of election appointed by the Chairman of the Board. Proxies marked as abstentions and shares held in street names which have been designated by brokers on

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proxy cards as not voted will not be counted as votes cast. Such proxies will be counted for purposes of determining a quorum at the Annual Meeting. A quorum consists of a majority of the shares of Common Stock outstanding.

## **CORPORATE GOVERNANCE**

### **Director Independence**

The Board has determined that the majority of BancGroup's directors are independent. Throughout this Proxy Statement, a reference to being independent means independent as that term is defined by Section 303A.02 of the listing standards of the New York Stock Exchange (the NYSE). In determining director independence, the Board broadly considers relevant facts and circumstances, including each director's personal independence and the manner in which each director's affiliations, both corporate and personal, might impair his or her independence. An independent director must be free of any relationship with BancGroup or its management that may impair the director's ability to make independent judgments. Particular attention is paid to certain relationships between each director and management of BancGroup and Colonial Bank, N.A. (Colonial Bank) and any credit relationships that may exist between Colonial Bank and a director or a director's related interest. Generally, credit relationships with directors and their affiliates will not impair independence so long as the terms of the credit relationship are similar to terms extended to other comparable borrowers. Additionally, unpaid co-membership with another BancGroup director or executive officer on the board or council of any religious, educational, governmental, public-service or non-profit institution is not deemed to adversely impact independence. A director who is an executive officer or principal stockholder of a company that makes payments to or receives payments from BancGroup for property or services in an amount which, in any one of the last three fiscal years, is more than the greater of \$1 million or 2% of the consolidated gross revenues of either BancGroup or such director's company will not be considered independent. Applying these standards, which are intended to comply with the NYSE corporate governance rules, and all other applicable laws, rules and regulations, the Board has determined that each of the following directors presently in office is independent: Lewis E. Beville, Augustus K. Clements, III, Robert S. Craft, Hubert L. Harris, Jr., Clinton O. Holdbrooks, Deborah L. Linden, Milton E. McGregor, Joe D. Mussafer, William E. Powell, III, James W. Rane, Simuel Sippial, Jr. and Edward V. Welch.

The Board of Directors conducts an annual self-assessment led by the Nominating and Corporate Governance Committee. In addition, the Nominating and Corporate Governance Committee, the Compensation Committee and the Audit Committee undergo an annual assessment of their performance in accordance with their respective charters. The non-employee directors of the Board (which currently are all the directors except the Chairman) meet in executive session at each regularly scheduled meeting, and such meetings are presided over by Mr. Craft, the Chairman of the Nominating and Corporate Governance Committee. Once a year, an executive session comprised solely of independent directors is held in place of the meeting of non-employee directors. The Board intends that non-employee directors make decisions on matters of corporate governance. As additional corporate governance standards are adopted, they will be disclosed on an ongoing basis on either BancGroup's website or in its public filings, as appropriate.

### **Code of Ethics**

Colonial BancGroup has adopted a Code of Ethics for Principal Financial Officers that applies to BancGroup's chief executive officer, chief financial officer and chief accounting officer. This code of ethics was attached as Exhibit 14 to BancGroup's Annual Report on Form 10-K for the year ended December 31, 2003. Each year, the Board of Directors also reviews, amends if necessary or desirable, and readopts a code of ethics that applies to all employees, officers and directors of BancGroup and its subsidiaries. This more general code of ethics is posted on BancGroup's website at [www.colonialbank.com](http://www.colonialbank.com). In addition, copies of the codes of ethics and the committee charters referenced above are available in print to any stockholder who requests them by contacting David Byrne, Jr., Secretary, at 334-676-5000.



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### **Corporate Governance Guidelines**

In compliance with NYSE listing standards, BancGroup has adopted Corporate Governance Guidelines. These guidelines are posted on BancGroup's website at [www.colonialbank.com](http://www.colonialbank.com).

### **STOCKHOLDER COMMUNICATIONS WITH DIRECTORS**

The Company has a process to facilitate written communications by stockholders or other interested parties to the Board. Persons wishing to write to the Board of Directors of BancGroup or a specific director or committee of the Board should send correspondence to Lewis E. Beville, Chairman, Audit Committee, P.O. Box 241148, Montgomery, Alabama 36124-1148.

All appropriately designated communications received from stockholders or other interested parties will be forwarded to the applicable director or committee of the Board of Directors. Anyone who wishes to communicate with a specific Board member or committee should send instructions asking that the material be forwarded to the director or to the appropriate committee chairman.

BancGroup encourages its directors to attend its annual meeting of stockholders. Last year, all of BancGroup's directors currently in office attended the annual meeting.

### **VOTING SECURITIES AND PRINCIPAL STOCKHOLDERS**

As of February 20, 2007, BancGroup had 152,810,673 shares of Common Stock outstanding with approximately 9,288 stockholders of record. Each such share is entitled to one vote. In addition, as of that date, 2,069,254 shares of Common Stock were subject to issuance upon the exercise of options pursuant to BancGroup's stock option plans. There are currently 400,000,000 shares of Common Stock authorized. BancGroup is not aware of any material change in the ownership of Common Stock since February 20, 2007.

**Table of Contents****Beneficial Security Ownership of Management and Directors**

The following table indicates for each director, director-nominee, executive officer, and all executive officers and directors of BancGroup as a group the number of shares of Common Stock beneficially owned on February 20, 2007.

Name	Shares of BancGroup	
	Beneficially Owned	
	Common Stock	Percentage of Class Outstanding
<b>DIRECTORS</b>		
Lewis E. Beville	19,801(1)	*
Augustus K. Clements, III	53,172	*
Robert S. Craft	46,959(2)	*
Patrick F. Dye	29,950	*
Hubert L. Harris, Jr.	5,465	*
Clinton O. Holdbrooks	375,000(3)	*
Deborah L. Linden	7,783	*
Robert E. Lowder	6,685,369(4)	4.37%
John Ed Mathison	49,919(5)	*
Milton E. McGregor	100,000	*
John C. H. Miller, Jr.	41,220(6)	*
Joseph D. Mussafer	50,747	*
William E. Powell, III	33,320	*
James W. Rane	106,569	*
Simuel Sippial, Jr.	42,233(7)	*
Edward V. Welch	53,182(8)	*
<b>EXECUTIVE OFFICERS WHO ARE NOT ALSO DIRECTORS</b>		
Sarah H. Moore	191,692(9)	*
Caryn D. Cope	163,143(9)	*
Patti G. Hill	157,412(9)	*
David B. Byrne, Jr.	22,590(9)	*
All Executive Officers, and Directors as a group	8,235,526	5.39%

\* Represents less than 1%.

- (1) Includes 455 shares owned by Mr. Beville's son.
- (2) Includes 2,808 shares held by the IRA of Mr. Craft's wife. Mr. Craft disclaims beneficial ownership of the shares.
- (3) Includes 40,000 shares held by Mr. Holdbrooks as trustee.
- (4) Includes 440,000 shares of Common Stock subject to options that are exercisable within 60 days of February 20, 2007. In addition, the total includes 25,960 shares owned by Mr. Lowder's wife. Mr. Lowder disclaims beneficial ownership of these shares.
- (5) Includes 2,000 shares owned by Dr. Mathison's wife. Dr. Mathison disclaims beneficial ownership of these shares.
- (6) Includes 20,363 shares owned by Mr. Miller's wife. Mr. Miller disclaims beneficial ownership of these shares.
- (7) Includes 500 shares owned by Mr. Sippial's son.
- (8) Includes 20,000 shares which are pledged as collateral for borrowings.
- (9) Includes all shares subject to options that are exercisable within 60 days of February 20, 2007 by the following BancGroup officers: Ms. Moore (106,276), Ms. Cope (74,076), Ms. Hill (63,276) and Mr. Byrne (6,344). Ms. Moore's amount includes 4,649 shares owned by her son. Mr. Byrne's amount includes 500 shares owned by his wife. Mr. Byrne disclaims beneficial ownership of these shares.



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**PROPOSAL 1**

**ELECTION OF DIRECTORS**

**The Nominees**

The Board recommends that the stockholders elect the six persons named below to hold office for terms of three years, or until their successors are elected. BancGroup's Amended and Restated Certificate of Incorporation provides that the number of directors which shall constitute the entire Board shall be fixed from time to time by resolutions adopted by the Board, but shall not be less than three persons. If the stockholders elect directors as recommended by the Board, then the Board shall consist of 16 members. By resolution, the Board has currently fixed the maximum number of directors at 23.

BancGroup's Amended and Restated Certificate of Incorporation provides for the election of directors by classes to terms of three years, with one class of approximately one-third of the total number of directors to be elected each year. Six nominees are proposed for election to the class of directors whose terms expire in 2010. At the Annual Meeting, proxies cannot be voted for more than six directors or for a person who has not been properly nominated.

**Nomination Process**

The nominees listed below were selected by BancGroup's Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is comprised solely of independent directors and is responsible for identifying individuals qualified to become Board members and recommending to the Board director nominees. The Nominating and Corporate Governance Committee will periodically review the size and composition of the Board and determine whether it is necessary or advisable to change the size of the Board, or to add or replace directors.

Nominees for director are selected on the basis of outstanding career achievement; broad business experience; independence; financial expertise; integrity; ability to make independent, analytical inquiries; understanding of the business environment; and willingness and ability to devote adequate time to Board duties. The Board believes that each director should have, and nominees are expected to have the capacity to obtain, a basic understanding of (i) the principal operational and financial objectives and plans and strategies of BancGroup, (ii) the results of operations and financial condition of BancGroup and of any significant subsidiaries or business segments, and (iii) the relative standing of BancGroup and its business segments in relation to its competitors. The Nominating and Corporate Governance Committee also considers it essential that the Audit Committee have at least one member who qualifies as an Audit Committee Financial Expert as that term is defined by the Securities and Exchange Commission (the "SEC") and the NYSE.

The Nominating and Corporate Governance Committee considers a variety of sources when evaluating individuals as potential Board members. BancGroup does not typically retain a search firm to assist in the selection of directors. Historically, most of BancGroup's director nominees have served on one of Colonial Bank's regional boards or the board of a company acquired by BancGroup, and have had a leadership position with a business or institution that is located in a community served by Colonial Bank. The Nominating and Corporate Governance Committee and the Board consider Colonial Bank regional board members to be an excellent source for nominees because service on a regional Colonial Bank board gives an individual an opportunity to better understand Colonial Bank and BancGroup, and the individual's prior service enables the



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Nominating and Corporate Governance Committee to evaluate the level of contribution that individual can make to BancGroup and its constituents. The Nominating and Corporate Governance Committee and Board also take into consideration the diversity of the Board when selecting nominees. The Nominating and Corporate Governance Committee will review this process from time to time and may alter the process at its discretion.

If, prior to the voting at the Annual Meeting, any person proposed for election as a director is unavailable to serve or for good cause cannot serve, the shares represented by all valid proxies may be voted for the election of

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such substitute as the Nominating and Corporate Governance Committee and the members of the Board may recommend. The management of BancGroup knows of no reason why any nominated person would be unavailable to serve as a director.

**Vote Required**

Assuming a quorum is present at the Annual Meeting, a plurality of the votes cast will be sufficient to elect the directors. Voting for directors is Proposal 1 on the proxy card.

The bylaws of BancGroup contain certain limitations on stockholder nominations of candidates for election as directors at the Annual Meeting. See Bylaw Provisions Regarding Conduct of Stockholders Meetings for a description of such limitations.

The following table provides certain biographical information about each nominee to be proposed on behalf of the Board and continuing directors whose terms will expire in 2008 and 2009. Unless otherwise indicated, each person has been engaged in the principal occupation shown for at least the last five years. The Board recommends that stockholders vote FOR the approval of the following Director nominees.

**NOMINEES FOR A TERM EXPIRING IN 2010:**

Name, Age and Year	Position and Office	Present and Principal
Became Director	Held with BancGroup And Colonial Bank	Occupation for Last Five Years
Robert S. Craft 55, 1992	Director, BancGroup; Chairman, Nominating and Corporate Governance Committee; Member, Executive Committee	President, Craft Development Corp. (golf course ownership and development company); Managing Officer, Pinehurst Development (real estate development company); Managing Member, Craft Turf Farms LLC (turf grass production and sales company); President, Wingo Trucking Inc. (trucking company); Managing Member, Woodlands Management Co. LLC (golf course management company); Managing Member, Bright s Creek Development Co. LLC (golf course ownership company); Managing Member, TRI-TEL, LLC (hotel ownership company); President, Cotton Creek Condominium Development Corp. (condominium development company); President, Craft Realty, Inc.; Member, Craft Properties, Ltd. (a family limited partnership); Managing Member, Turf Properties, LLC and Turf Properties #2, LLC (turf grass production and sales company), Craft Farms Land Development Company, LLC.; Member, Robert Craft Ventures LLC; Member, Turf Properties #3,



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Name, Age and Year Became Director	Position and Office	
	Held with BancGroup And Colonial Bank	Present and Principal Occupation for Last Five Years
Hubert L. Harris, Jr. 63, 2004	Director, BancGroup; Member, Audit Committee; Member, Asset/Liability Committee	Chief Executive Officer of INVESCO North America from August 2003 to December 2005, Atlanta, GA Retired; Chief Executive Officer of AMVESCAP Retirement from January 1998, to August 2003, Atlanta, GA
Clinton O. Holdbrooks 68, 1986	Director, BancGroup; Chairman, Asset/Liability Committee	Chairman of the Board, East Central Area of the Alabama Region since July, 2002 Retired July 2006; Chairman of the Board, Central Alabama Region June 2000 to July 2002, Birmingham, AL
Robert E. Lowder* 64, 1981	Chairman of the Board, Chief Executive Officer and President, BancGroup; Chairman, Executive Committee, BancGroup; Chairman of the Board, Chief Executive Officer and President, Colonial Bank, N.A.	Chairman of the Board and Chief Executive Officer, BancGroup and Colonial Bank since 1981; also President of BancGroup and Colonial Bank from 1981 to 2003 and since 2005, Montgomery, AL
John C. H. Miller, Jr. 63, 1981	Director, BancGroup; Member, Executive Committee	Member, Miller, Hamilton, Snider & Odom, L.L.C. (law firm); Vice President, The Pilot Group (consulting firm), until 2001, Mobile, AL
James W. Rane 60, 1997	Director, BancGroup; Member, Asset/Liability Committee	President, Great Southern Wood Preserving, Inc., Great Southern Wood of Florida, Inc., Great Southern Wood of North Alabama, Inc. and Great Southern Wood Statesboro, Inc.; Manager, Texas, Great Southern Wood, LLC, (lumber companies); President, Global Fibers USA, Inc., Abbeville, AL

\* Indicates that the director is also an executive officer.

**Table of Contents****CONTINUING DIRECTORS WHOSE TERMS EXPIRE IN 2009:**

<b>Name, Age and Year Became Director</b>	<b>Position and Office</b>	
	<b>Held with BancGroup And Colonial Bank</b>	<b>Present and Principal Occupation for Last Five Years</b>
Lewis E. Beville 54, 1997	Director, BancGroup; Chairman, Audit Committee; Member, Nominating and Corporate Governance Committee	Vice President of T&B Ltd. d/b/a Thames, Batre, Mattei, Beville and Ison (insurance agency), Mobile, AL
Deborah L. Linden 51, 2006	Director, BancGroup; Member, Compensation Committee, Advisory Board Director for Central Florida Region; Member-Loan Committee Central Florida Region.	Chief Executive Officer of Island One Resorts and Club Navigo (time share companies); Chairman of the Board of Island One Resorts Management Corporation (management company) Orlando, FL
John Ed Mathison 68, 1987	Director, BancGroup	Senior Minister, Frazer Memorial United Methodist Church, Montgomery, AL
Joseph D. Mussafer 67, 1981	Director, BancGroup; Member, Asset/Liability Committee; Member, Compensation Committee	President, MBC United Wholesale, LLC, Montgomery, AL
Edward V. Welch 74, 1981	Director, BancGroup; Member, Asset/Liability Committee	Chairman of the Board, Welch, Hornsby & Welch, Inc. (investment advisory firm) and Trinity Investments, Inc., (investment holding company); Part Owner, The Timberlands, LLC (real estate development company); Part Owner, The Waters at Waugh (real estate development company), LLC, Montgomery, AL

**Table of Contents****CONTINUING DIRECTORS WHOSE TERMS EXPIRE IN 2008:**

Name, Age and Year Became Director	Position and Office	
	Held with BancGroup And Colonial Bank	Present and Principal Occupation for Last Five Years
Augustus K. Clements, III 64, 1997	Director, BancGroup; Member, Executive Committee; Director, Colonial Bank, N.A.	Managing Partner, Clements Financial Group, LLC, from 2001 through 2004; Managing Partner, The Clements Agency, prior to 2001; Financial Representative, Clements Financial Group, LLC since January 2005, Montgomery, AL.
Patrick F. Dye 67, 1981	Director, BancGroup; Member, Asset/Liability Committee	Special Advisor, Auburn University; Part Owner, Craftmasters Printing, since 2001; Assistant to the President, Auburn University Foundation, since 2002; Former Host of Pat Dye Outdoors (Radio Show); Owner, Crooked Oaks Hunting Preserve; Former Owner, Wildlife Information, LLC, (sold in 2006) Auburn, AL.
Milton E. McGregor 67, 1993	Director, BancGroup; Member, Compensation Committee	Chief Executive Officer and President, Macon County Greyhound Park d/b/a Victoryland; Chief Executive Officer and President, Jefferson County Racing Association (greyhound racing facility); Part Owner, Southern Springs Nursing Home; Part Owner, Union Street Partners, Montgomery, AL
William E. Powell, III 62, 1987	Director, BancGroup; Member, Audit Committee; Member, Nominating and Corporate Governance Committee; Member, Colonial Bank Fiduciary Committee, Director, Colonial Bank, N.A.	Executive Vice President, Alabama Cattlemen's Association (trade association representing the beef cattle industry), Montgomery, AL
Simuel Sippial, Jr. 64, 1997	Director, BancGroup; Chairman, Compensation Committee; Member, Executive Committee; Member, Audit Committee; Member, Nominating and Corporate Governance Committee; Director, Colonial Bank, N.A.; Chairman, Colonial Bank Fiduciary Audit Committee; Member, Colonial Bank CRA Committee	President, Sippial Enterprises, Inc. (real estate investment company), Montgomery, AL

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### **Meetings of the Board of Directors and Committees**

BancGroup's Amended and Restated Certificate of Incorporation provides that there shall be an Audit Committee of the Board composed of not less than three directors appointed by the Board at least annually, none of whom shall be active officers of BancGroup. Pursuant to its charter, the Audit Committee shall meet at least four times each year, review BancGroup's quarterly and annual financial reports, and report the results of its examinations in writing to the Board at its next regular meeting. The Audit Committee may make recommendations to the Board and, with the approval of the Board, employ an independent firm of certified public accountants. The Board has determined that all members of the Audit Committee are independent, and that each member of the Audit Committee satisfies the experience and financial literacy requirements established by the NYSE. In addition, the Board has determined that two of its members, Lewis E. Beville and Hubert L. Harris, Jr., qualify as audit committee financial experts as defined by the NYSE and the SEC. The Audit Committee met eight times in 2006 (See Audit Committee Report ). The Audit Committee Charter, as amended, is available on BancGroup's website at [www.colonialbank.com](http://www.colonialbank.com).

BancGroup's Compensation Committee discharges the Board's responsibilities in matters relating to executive compensation, administers BancGroup's incentive compensation and equity-based plans, and produces annually a report on executive compensation for inclusion in BancGroup's proxy statement. The Compensation Committee met nine times in 2006 (See the Compensation Committee Report ). All current members of the Compensation Committee have been determined by the Board to be independent. The Compensation Committee's charter is available on BancGroup's website at [www.colonialbank.com](http://www.colonialbank.com).

BancGroup's Nominating and Corporate Governance Committee nominates individuals to stand for election as directors of BancGroup and evaluates BancGroup's standards of corporate governance. After a full discussion of qualifications of the nominees, this committee recommended the nomination of the individuals listed on pages 6 and 7, who will stand for election at the 2007 annual meeting of stockholders. This committee met four times in 2006. The Board has determined that all members of the Nominating and Corporate Governance Committee are independent. The Nominating and Corporate Governance Committee has adopted a charter which is available on BancGroup's website at [www.colonialbank.com](http://www.colonialbank.com). The Nominating and Corporate Governance Committee will consider a nomination recommended by BancGroup stockholders, but only if the nomination is submitted in accordance with its charter.

BancGroup's Executive Committee performs certain actions in lieu of the Board at times when a meeting of the full Board is not feasible or practicable. This committee met two times in 2006. Actions taken by the Executive Committee at those meetings were later ratified by the full board of directors.

BancGroup's Asset/Liability Committee (ALCO) establishes a framework of procedures, responsibilities and policies regarding the management of BancGroup's assets and liabilities in order to optimize net interest margin and net income under a range of interest rate scenarios while assuming reasonable business risks. Management provides to this committee detailed reports on the company's interest rate risk and liquidity position along with current strategies. This committee met four times in 2006.

During 2006, the Board met four times. All incumbent BancGroup directors attended 75% or more of the Board meetings and the respective committee meetings on which they served.

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The following table shows the current membership of each committee.

<u>Director</u>	<u>Executive</u>	<u>Audit</u>	<u>Compensation</u>	<u>Nominating and Corporate Governance</u>	<u>ALCO</u>
Lewis E. Beville		Chair		X	
Augustus K. Clements, III	X				
Robert S. Craft	X			Chair	
Patrick F. Dye					X
Hubert L. Harris, Jr.		X			X
Clinton O. Holdbrooks					Chair
Deborah L. Linden(1)			X		
Robert E. Lowder	Chair				
Milton E. McGregor			X		
John C. H. Miller, Jr.	X				
Joe D. Mussafer			X		X
William E. Powell, III		X		X	
James W. Rane					X
Simuel Sippial, Jr.	X	X	Chair	X	
Edward V. Welch					X

(1) Ms. Linden was added to the Compensation Committee on January 17, 2007.

**PROPOSAL 2****Approval of the 2007 Stock Plan for Directors****Introduction**

On February 20, 2007, the Compensation Committee of the Board approved the 2007 Stock Plan for Directors ( 2007 Plan ). The Board recommends that the stockholders approve this Plan, attached herein as Appendix A. One of the key differences between the 2007 Plan and the current Restricted Stock Plan for Directors is that the 2007 Plan will require the directors of BancGroup and Colonial Bank to be paid in company stock for a minimum of 25% of their total fees earned during a year. The remaining 75% may be paid in stock or cash based upon their election. The current Plan does not have such a requirement. In addition to the Regular and Supplemental Fees, the Compensation Committee may approve an annual grant of BancGroup restricted stock. For 2007, the Compensation Committee approved a grant of \$15,000 of restricted stock for each BancGroup director.

**Plan Summary**

The 2007 Plan provides a means whereby directors of BancGroup, Colonial Bank, as well as Colonial Bank's regional and local advisory boards, may receive shares of BancGroup common stock in lieu of cash fees for service as directors. Directors of Colonial Bank and its regional and local advisory boards who are also employees are not eligible to participate in the current Plan or the 2007 Plan. Up to 500,000 shares of



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BancGroup common stock may be issued under the 2007 Plan.

Upon election as a BancGroup or Colonial Bank director, each director may receive, at the option of the director, in lieu of cash fees, that number of whole shares of common stock of BancGroup, rounded to the nearest whole number, determined by dividing the fees the director would have received during the director's current term of office by the average of the closing prices of the common stock as reported by the NYSE for the period of 5 trading days prior to the end of the quarter in which services were rendered. Shares issued in lieu of fees will be issued in restricted form until the end of the plan year. Under the terms of the 2007 Plan, the BancGroup directors plan year begins on the day of BancGroup's annual meeting of stockholders and ends the day before the following year's annual meeting. The plan year for Colonial Bank and its regional and local advisory boards begins on the first day of the calendar year and ends on the last day of the same calendar year.

In the case of BancGroup directors as well as Colonial Bank directors, they will be required to be paid in company stock for a minimum of 25% of their total fees earned during a year. There is no such requirement for the regional and local advisory board directors.

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No director may receive more than 5,000 shares of Common Stock during any one year, except for shares which may be received through stock splits, stock dividends, or certain other events specified in the 2007 Plan.

Directors to whom shares of Common Stock have been issued under the 2007 Plan have all rights of stockholders with respect to shares of Common Stock so awarded, subject to certain provisions regarding forfeiture, which means, among other things, that directors may receive dividends upon and vote the shares of Common Stock received.

The 2007 Plan does not directly impact the level of payments to be made to directors for their service to BancGroup. It does, however, require that at least 25% of total director fees (for BancGroup and Colonial Bank Directors) be received in BancGroup stock. It is not possible to determine the actual amount of cash or stock compensation that will be earned under the 2007 Plan for 2007 or in future years since actual amounts will depend on the frequency of future meetings as well as the per annum and per meeting amounts established by the Compensation Committee under the Plan. However, amounts earned for 2006 are included in the following Director Compensation Table (see page 30) and totaled \$31,500 to Mr. Lowder and \$626,250 for BancGroup Directors other than Mr. Lowder. Additionally, if the 2007 Plan had been in place for 2006, an additional \$96,625 of BancGroup stock (approximately 3,850 shares) would have been issued in lieu of cash. Approximately 206 individuals will be eligible to participate in the 2007 Plan.

## **Vote Required**

Voting to approve the 2007 Stock Plan for Directors is Proposal 2 on the proxy card. To approve the 2007 Stock Plan for Directors, a majority of the shares represented at the Annual Meeting must be voted in favor of Proposal 2. Abstentions and broker non-votes will not be counted as votes FOR the Proposal, but will be counted as being present at the Annual Meeting. The Board recommends that stockholders vote FOR the approval of the 2007 Stock Plan for Directors.

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### **Compensation Discussion & Analysis**

#### **Compensation Discussion Introduction**

BancGroup achieved significant growth in earnings per share to \$1.72 for 2006, an increase of 13.2% over 2005, while maintaining its traditionally high levels of top quality assets and loans, with correspondingly low levels of non-performing assets. During 2006, stockholders received total returns of about 11.1%, representing an increase in share price from \$23.82 to \$25.74, plus the payment of \$0.68 in dividends.

As a result, under BancGroup's *Pay for Performance* philosophy, the named executive officers received total compensation for 2006 at above target levels, driven primarily by annual incentive payouts at above target levels. In addition, the value of equity incentives held by named executive officers, such as Stock Options, Service Based Restricted Stock and Performance Based Restricted Stock also increased, reflecting the gains to stockholders in share price.

#### **Role of the Compensation Committee**

##### **General**

BancGroup's Compensation Committee (the Committee) of the Board discharges the Board's responsibilities in executive compensation matters and oversees incentive compensation and equity-based plans. The Committee is comprised of at least three members of the Board of Directors, each of whom is an independent director under the NYSE listing requirements. To fulfill its responsibilities, the Committee meets throughout the year and also takes action by written consent. During 2006, the Committee met nine times. The Chairman of the Committee reports on Committee actions at meetings of the Board.

The Committee's function is more fully described in its charter, which has been approved by the Board, and can be viewed on BancGroup's website at [www.colonialbank.com](http://www.colonialbank.com).

#### **Interaction with Compensation Consultants**

In 2006, both the Committee and management used the services of the law firm of Miller, Hamilton, Snider & Odom, L.L.C. (Miller Hamilton) and Mercer Human Resources Consulting (Mercer) to provide advice on decisions regarding executive compensation programs for the named executive officers. During the course of 2006, the Committee retained its own executive compensation consultant, Pearl Meyer & Partners (Pearl Meyer), to assist with its review of the compensation programs for the executive officers. In addition, Pearl Meyer was retained to assist the Committee with several special projects, including research, analysis, advice and assistance with the disclosures contained in this proxy statement.

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While the Committee retains Pearl Meyer directly in carrying out assignments, Pearl Meyer also interacted with BancGroup management by conducting interviews with each named executive officer and relying on BancGroup's Human Resources and Accounting Departments to provide input on compensation and performance data for the executives and BancGroup.

The Committee may also request senior executives, including the named executive officers, to be present at Committee meetings when executive compensation, BancGroup performance, and individual performance may be discussed and evaluated. While executives may provide insight, suggestions or recommendations regarding executive compensation, only the Committee members vote on executive compensation decisions.

In early 2006, the Committee considered information provided by and advice from Miller Hamilton in making its determinations with respect to the Chief Executive Officer's compensation. Compensation decisions regarding other executives were made by the Committee after considering recommendations from the CEO and Mercer and information provided by Miller Hamilton.

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### **Compensation Discussion & Analysis**

#### **Compensation Philosophy, Objectives and Determinations**

##### **Compensation Philosophy**

The Committee believes the compensation provided to its executives should be aligned with BancGroup's financial performance and the creation of long-term stockholder value. The overall guiding principle for executive compensation at BancGroup is to provide *Pay for Performance*. It accomplishes this principle by paying total compensation at or near market median levels for delivering similar financial and stockholder performance with the opportunity for higher total compensation as performance moves above median providing for levels of compensation that are commensurate with overall performance.

The Committee uses both quantitative and qualitative performance measures to achieve this compensation philosophy, with incentive compensation plans aligned with performance using quantitative factors such as earnings per share (EPS), revenue, non-performing assets ratio, net charge-off ratio and share price. The Committee believes these measures drive the success and growth of BancGroup and provide enhanced stockholder returns. Individual performance measures are also used along with the corporate measures mentioned previously. For the executive officers, all of the individual performance measures are objective and are related to the executive's duties and responsibilities.

##### **Compensation Objectives**

Overall, BancGroup seeks to maintain a *Pay for Performance* culture through its executive compensation programs. The following are the specific objectives of BancGroup's compensation programs:

*Attraction* Provide pay levels sufficient to attract highly qualified, experienced executives who can further BancGroup's interests and enhance long-term stockholder value.

*Retention* Retain the services of key executives who deliver significant value to BancGroup.

*Motivation* Motivate executive performance by providing annual and long-term incentives that are contingent upon achieving BancGroup and individual performance goals.

*Stockholder Value Creation* Create a stockholder value-oriented culture by providing significant compensation opportunities comprised of equity-based incentives coupled with an encouragement toward executive stock ownership.

##### **Compensation Determinations**

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The Committee considers each of the following factors in determining the appropriate mix and level of compensation for each executive officer:

BancGroup's financial performance, including both annual and long-term.

Individual performance of executive officers.

The importance of share ownership by executive officers, which places emphasis on equity-based incentives.

Competitive pay levels commensurate with BancGroup's peers.

Compensation summaries compiled for each of the executive officers.

The Committee also takes into account the recommendations of BancGroup's Chief Executive Officer when considering the pay programs, pay levels, objectives and individual performance of the executive officers, but ultimately makes decisions based primarily on its consideration of the factors discussed above.

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### **Compensation Discussion & Analysis**

#### **Compensation Structure**

#### **Pay Elements Overview**

BancGroup maintains three main components of compensation:

*Salary* fixed pay that takes into account an individual's role and responsibilities, experience, expertise and individual performance.

*Annual Incentives* variable pay designed to reward attainment of annual financial and operational goals along with individual performance objectives, with award opportunities expressed as a percent of salary.

*Long-Term Incentives* equity-based awards including Stock Options (designed to reward for achievement of higher stock prices), Performance Based Restricted Stock (designed to reward for achievement of long-term financial performance goals), and Service Based Restricted Stock (designed primarily for retention purposes).

In addition, BancGroup provides certain executive perquisites and retirement benefits, as described in the accompanying tables. Each major compensation component is discussed below in more detail.

#### **Pay Levels and Benchmarking**

The Committee assesses competitive pay levels through the use of information publicly disclosed by a peer group of similarly-sized financial institutions. The peer group used for 2006 was developed in 2005 with assistance from Miller Hamilton (the 2005 Peer Group) and included 42 financial institutions with total assets ranging from approximately \$10.1 billion to \$84.1 billion as of December 31, 2004. At December 31, 2005, BancGroup's total assets were approximately \$21.4 billion. With the exception of two large institutions which were direct regional competitors of BancGroup, each peer institution's assets were within approximately 50% to 200% of those of BancGroup.

#### **Pay Mix**

BancGroup uses the pay elements described above in a portfolio approach, which provides a well-proportioned mix of retention value, equity interest and at-risk compensation. The mix of metrics also balances annual and long-term compensation by gauging portions of compensation on both short-term financial performance and long-term financial and stock performance. In general:

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The more senior an executive, the larger the portion of his or her total compensation will be at-risk .

Incentive compensation is weighted toward long-term equity incentives rather than short-term cash incentives.

For 2006, the targeted pay mix for each named executive officer was as follows:

<u>Executive</u>	<u>Title</u>	<u>Salary as % of Total Compensation</u>	<u>Target Annual Incentives as % of Total Compensation</u>	<u>Long-Term Incentive as % of Total Compensation</u>
Robert E. Lowder	Chairman, CEO and President	33%	34%(1)	33%(2)
Sarah H. Moore	SEVP Chief Financial Officer	40%	20%	40%
Caryn D. Cope	SEVP Chief Credit Officer	40%	20%	40%
Patti G. Hill	SEVP Chief Operating Officer	40%	20%	40%
David B. Byrne, Jr.	EVP Secretary and General Counsel	48%	14%	38%

- (1) Percentage is maximum for Mr. Lowder as his annual incentive plan does not have a defined target payout similar to the other named executive officers.
- (2) To illustrate the pay mix concept, we have included the December 22, 2005 Stock Option grant value for Mr. Lowder, as he did not receive a long-term incentive grant during 2006.



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### **Compensation Discussion & Analysis**

In any given year, the Committee may make decisions to rebalance the overall program and address different objectives than those for 2006.

#### **Pay Elements Programs**

##### **Salary**

Salary decisions foster the *Retention* objective, and in the case of a new hire, the *Attraction* objective. The Committee reviews salaries annually and met in February 2006 to consider and approve salaries for the 2006 fiscal year for the named executive officers. The Committee does not approve salary changes based on a formula. After considering recommendations from the Chief Executive Officer, the Committee established salaries for 2006 that, in its subjective judgment, were appropriate in terms of BancGroup's performance in comparison with the peer group, the responsibilities of the BancGroup executives, and the level of compensation paid to comparable executives within the peer group companies.

Based on analyses of competitive market data furnished by Mercer and Miller Hamilton as well as the recommendations of the Chief Executive Officer, the Committee increased the salaries of Ms. Moore, Ms. Cope and Ms. Hill to \$414,000, representing increases from \$400,000, \$350,000 and \$300,000 respectively. These changes represented an assessment of the personal growth and performance of each executive officer and the value of their contribution to BancGroup. These increases placed each of these executives within the range of the market median data from the 2005 Peer Group Analysis. Mr. Byrne was hired on January 3<sup>rd</sup>, 2006 and his salary of \$250,000 was a function of negotiations between BancGroup, the Committee and the Chief Executive Officer as well as his prior compensation as a law firm partner.

The Committee evaluated the Chief Executive Officer's salary on the same basis and determined that Mr. Lowder's salary for 2006 should be increased to \$1,117,800, an increase of 3.5%, from \$1,080,000 in 2005. The resulting salary reflects Mr. Lowder's long tenure and high performance. Mr. Lowder's salary was above the market median for Chief Executive Officers in the 2005 Peer Group, while his total compensation remained below the median of that group.

##### **Annual Incentives**

Annual incentives foster the *Motivation* objective by creating performance-based compensation that is focused on BancGroup's annual financial results. For fiscal 2006, BancGroup's annual incentive programs were structured as follows:

The Management Incentive Plan ( MIP ) provides an annual incentive opportunity to Mr. Lowder. The MIP provides for the Committee to decrease the resulting payout (negative discretion) but not to increase the resulting payout (positive discretion).

A separate, but similar plan, the Management Team Incentive Plan ( MTIP ), provides annual incentive opportunities to the remaining executive officers that allows for discretion, both positive and negative, on the Committee's part in determining annual incentive

payouts.

Both plans focus on providing rewards for BancGroup's annual financial performance; the MTIP may also take into consideration individual performance. In keeping with BancGroup's compensation philosophy for annual cash compensation, target annual incentive opportunities are set at levels consistent with market median data compared to the 2005 Peer Group. The annual cash incentive opportunity for Mr. Lowder is a sliding scale based upon various performance components with no specific payout level defined as Target, although the maximum payout is set at 105% of salary. Target payout levels for each of the other executive officers are as follows:

Ms. Moore, Ms. Cope and Ms. Hill 50% of salary.

Mr. Byrne 30% of salary.

**Table of Contents****Compensation Discussion & Analysis**

The table below illustrates the performance measures used for each executive officer and their respective weightings:

Executive	Title	EPS	Revenue	NPA %(1)	NCO %(2)	Stock Price	Legal Expense Management
Robert E. Lowder	Chairman, Chief Executive Officer & President	60%	0%	20%	0%	20%	0%
Sarah H. Moore	SEVP Chief Financial Officer	50%	50%	0%	0%	0%	0%
Caryn D. Cope	SEVP Chief Credit Officer	37.5%	37.5%	0%	25%	0%	0%
Patti G. Hill	SEVP Chief Operating Officer	50%	50%	0%	0%	0%	0%
David B. Byrne, Jr.	EVP Secretary and General Counsel	25%	25%	10%	15%	0%	25%

(1) Non-performing assets as a % of total assets.

(2) Net charge offs as a % of average loans.

The Committee believes these are appropriate objective measures by which to determine annual incentive compensation ultimately paid to BancGroup's executive officers for the following reasons:

Achievement of the EPS growth and revenue growth objectives is expected to enhance stockholder value.

The NPA % and NCO % are reflective of BancGroup's longstanding tradition and culture of making high quality loans which have a lower chance of resulting in losses. Management and the Committee believe this cultural trait has served BancGroup well in the context of the banking industry's cyclicity by providing earnings protection in a downturn.

Mr. Lowder's stock price performance goal arises from the Committee's belief that he has the most significant impact on BancGroup's stock price.

Mr. Byrne's legal expense goal is intended to encourage conservation of company resources.

The Committee works with Mr. Lowder and management to establish performance levels for BancGroup's financial objectives, and reviews and approves the individual performance criteria for the executive officers. The goals under the MTIP are generally established at three separate levels: Threshold, Target and Superior. If the Threshold level is not achieved for a particular performance objective, executives will not be entitled to an award for that objective under the MTIP, unless the Committee exercises its discretion. Threshold annual incentive payments are 50% of Target while Superior levels are defined as 200% of Target.

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The Committee and management believe the Target performance objectives associated with each of the performance measures were stretch goals, requiring significant performance beyond that of the prior year and is reflective of a growth-oriented culture. Achievement at Superior represents an outstanding outcome fully deserving of a Superior annual incentive payout. The Committee and management believe that the Threshold level performance criteria represent acceptable financial performance. Management believes that disclosures of the specific financial goals contained within the MIP and MTIP would cause competitive harm to the Company.

At a meeting in January 2007, the Committee reviewed BancGroup's 2006 performance with respect to the performance measures chosen for both the MIP and MTIP and the individual performance of each of the executive officers, and certified that the executive officers, including Mr. Lowder, were eligible for the following payouts with respect to 2006 and payable in February 2007:

Mr. Lowder \$659,502, or 65% of salary. This amount was the result of the following achievements:

Non-performing assets ratio 0.16%, a payout of 100% of the maximum level.

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### **Compensation Discussion & Analysis**

EPS \$1.72, a payout of 50% of the maximum level.

Stock price \$25.74, a payout of 45% of the maximum level.

Ms. Moore and Ms. Hill \$275,000, or 66% of salary, a payout at the MTIP's Superior level for EPS, no payout for revenue, and \$68,000 which represented a discretionary payment for superior individual performance, the resulting financial accomplishments and was based on the recommendation of the Chief Executive Officer as well as the observations of the Committee.

Ms. Cope \$258,750, or 62.5% of salary, a payout at the MTIP's Superior level for EPS and for net charge-offs ratio and no payout for revenue.

Mr. Byrne \$112,500, or 45% of salary, a payout at the MTIP's Superior level for EPS, legal expense management, net charge-off ratio, nonperforming assets, and no payout for revenue.

### **Long-Term Incentives**

Long-term incentives were awarded to executive officers in 2006 from BancGroup's 2001 Long-Term Incentive Plan ( LTIP ) and serve to meet the following objectives:

*Motivation* Performance Based Restricted Stock is earned based on the achievement of long-term financial performance.

*Retention* Service Based Restricted Stock which vests based on the passage of time and continued employment.

*Stockholder Value Creation* Stock Options gain value based on increases in BancGroup's share price.

In addition, the LTIP grants provide the opportunity for each executive officer to achieve and maintain an equity interest in BancGroup.

The executive officers other than Mr. Lowder received a mix of long-term incentives that included Performance Based Restricted Stock, Service Based Restricted Stock and Stock Options. Three of the executive officers did not receive Service Based Restricted Stock during 2006 because they had received relatively large grants of Service Based Restricted Stock in 2005. Going forward, the Committee expects that the estimated grant values for Performance Based Restricted Stock, Service Based Restricted Stock and Stock Options will represent an even 1/3 split between the three instruments, designed to place an equal emphasis on long-term financial performance, executive retention, and stock price performance. The Committee believes this is an appropriate split, providing for a significant financial performance incentive (meeting the compensation philosophy's *Motivation* objective), which if achieved, is expected to create significant stockholder value (meeting both the *Motivation* and *Stockholder Value Creation* objectives). The Committee expects to make annual grants of such equity incentives going forward and may vary the mix depending on the specific facts and circumstances at the time.

Mr. Byrne received a grant of Service-Based Restricted Stock which will vest fully at the end of five years so long as he continues to be employed by BancGroup.

The Performance Based Restricted Stock grants are earned based on the achievement of earnings per share growth targets over a three-year performance period covering fiscal 2006-2008, with certain Threshold, Target and Superior performance levels correlating to performance outcomes. Shares of Performance Based Restricted Stock will be forfeited if Threshold performance levels are not achieved.

The Committee believes the Target EPS growth objectives for the three-year period represent significant year-over-year improvement of EPS and, if achieved, will enhance stockholder value. The Superior

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### **Compensation Discussion & Analysis**

performance levels represent significant performance beyond Target, which if achieved will lead to even more significant enhancement of stockholder value.

Mr. Lowder did not receive any long-term incentives in 2006 for his services as an executive officer of BancGroup. However, he did receive \$31,500 worth of stock for his service on the Board of Directors as well as a Stock Option grant for 200,000 shares in December 2005.

### **Retirement Benefits and Perquisites**

BancGroup maintains the Colonial Retirement Plan ( Retirement Plan ), a defined benefit pension plan that covers employees who have met certain age and length of service requirements. The Retirement Plan was frozen as of December 31, 2005, and no employees hired since that time can participate in the Retirement Plan. The amounts shown in the Pension Benefits Table represent these frozen amounts and these will not change other than to take into account the change in present values caused by the passage of time. Mr. Byrne is not a participant in the Retirement Plan because he began employment after December 31, 2005.

BancGroup does not maintain any supplemental retirement plans for executive officers, but does provide for participation in the Colonial BancGroup 401(k) Plan (the 401(k) Plan ) for substantially all employees including executive officers.

BancGroup implemented the 2006 Nonqualified Deferred Compensation Plan (the Deferred Compensation Plan ) at the beginning of 2006. The Deferred Compensation Plan allows for elective deferrals by each participant and was developed to provide tax and retirement planning opportunities to eligible participants. BancGroup **does not** provide a match on deferrals, and all deferrals are of amounts already reported in the Summary Compensation Table.

Other compensation for Mr. Lowder includes his personal use of the Company's aircraft. Such amount was determined based upon actual incremental operating costs incurred for personal travel.

Because of Ms. Hill's frequent travel to Montgomery for BancGroup business, during 2006, the Company provided Ms. Hill with access to a temporary housing facility in Montgomery. This facility is not Ms. Hill's primary residence. Ms. Hill's Other Compensation includes \$17,400 as the amount paid by BancGroup for the house. Ms. Hill personally paid all other expenses relative to the maintenance of the rental house.

### **Committee Discretion**

The Committee retains the discretion to decrease all forms of calculated incentive payouts (annual and long-term) based on significant individual or BancGroup performance shortfalls. For executive officers other than Mr. Lowder, the Committee may increase annual incentive payouts

and/or consider special awards for significant achievements, including but not limited to superior asset management, investment or strategic accomplishments and/or consummation of mergers, acquisitions or dispositions. During 2006 the Committee exercised discretion to increase the annual incentive for Ms. Moore and Ms. Hill to recognize superior individual performance.

For long-term incentive awards, the Committee does not have the discretion to increase payouts without losing certain taxation protection (see Impact of Tax and Accounting Considerations section on page 21), but can exercise negative discretion. In 2006, the Committee did not exercise discretion either to increase or decrease any long-term payouts for the named executive officers.

**Conclusion**

Pay opportunities for specific executive officers may vary based on a number of factors such as scope of duties, tenure, institutional knowledge and/or difficulty in recruiting a new executive. Actual total compensation



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### **Compensation Discussion & Analysis**

in a given year will vary above or below the target compensation levels based primarily on the attainment of short and long term financial goals and the enhancement of stockholder value. In some instances, the amount and structure of compensation results from arm's-length negotiations with executives, which reflect an increasingly competitive market for quality, proven managerial talent.

The level and mix of compensation that is finally decided upon is considered within the context of both the objective data from the competitive assessment of compensation and performance, as well as the subjective factors outlined above. The Committee believes that each of the compensation programs for the executive officers is within the competitive range of practices when compared to the objective comparative data even where subjective factors may have influenced the compensation decisions.

### **Timing of Equity Grants**

The Committee grants Stock Options to BancGroup's executive officers and other employees on the same day the Committee meets and approves such awards. Grants of other equity-based awards are determined by the Committee and have generally been made throughout each calendar year following review by the Committee of BancGroup's prior year performance, as well as the performance of individual executive officers. Generally for 2006, all grants of Stock Options, Performance Based Restricted Stock and Service Based Restricted Stock were made on April 18, 2006, which was the date the Committee conducted a regularly scheduled meeting. In addition, Stock Options may also be granted at other times of the year in the event of a new hire or promotion.

The 2006 Stock Options were granted with an exercise price equal to the average of the high and low price of BancGroup's stock on the date of grant, which is how Fair Market Value was defined in the LTIP at the time. The closing share price was different from the average of the high and low prices for the day as noted in the Grants of Plan-Based Awards table.

On October 17, 2006, the Committee approved a resolution to change the definition of Fair Market Value in the LTIP to the closing share price on the date of grant. This change was made to conform to the Securities & Exchange Commission's concept of fair market value as promulgated in the new regulations covering the reporting of pay for named executive officers in proxy statements.

Mr. Lowder and the other executive officers did not play a role in the Committee's decision as to the timing of the grants of Stock Options. Following Committee approval, Human Resources and Accounting are charged with ongoing administration of LTIP grants.

### **Adjustment or Recovery of Awards**

Under Section 304 of The Sarbanes-Oxley Act of 2002, if BancGroup is required to restate its financial statements due to material noncompliance with any financial reporting requirements based upon a judicial determination of misconduct, the Chief Executive Officer and Chief Financial Officer must reimburse BancGroup for:

Any bonus or other incentive-based or equity-based compensation received during the 12 months following the first public issuance of the non-complying document.

Any profits realized from the sale of securities of BancGroup during those 12 months.

**Consideration of Prior Amounts Realized**

In furtherance of BancGroup's philosophy to reward executive officers for future superior performance, prior compensation outcomes, including stock compensation gains, are not generally considered in setting future compensation levels.

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**Compensation Discussion & Analysis**

**Post-Termination Payments**

BancGroup has not historically utilized employment, severance or change-in-control agreements for executive officers. Management and the Committee are aware that such agreements are in place at a significant majority of the 2005 Peer Group and the implementation of such agreements may positively affect BancGroup's ability to attract and retain key executives in the future. During the first quarter of 2007, the Committee approved change in control agreements for certain executive officers and a limited number of other employees.

**Stock Ownership Guidelines and Pledging Policies**

BancGroup does not currently have formal stock ownership guidelines in place, but does encourage executive officers to own shares by providing significant equity opportunities through Stock Options, Performance Based Restricted Stock, Service Based Restricted Stock, Employee Stock Purchase Plan, 401(k) Plan, and Dividend Reinvestment Plan. The Committee has not mandated stock ownership guidelines.

BancGroup also maintains a policy that prohibits executive officers from holding BancGroup securities in a margin account or pledging BancGroup securities as collateral for a loan. An exception exists if the executive requests prior approval from BancGroup to pledge securities as collateral for a loan (but not for margin accounts) and the executive can demonstrate the financial capacity to repay the loan without reliance on the pledged securities.

**Impact of Tax and Accounting Considerations**

As a general matter, the Committee always takes into the account the various tax and accounting implications of the compensation vehicles utilized by BancGroup. The Committee examines the accounting cost associated with long-term incentive grants when determining the amounts of such grants made to executive officers and employees.

Section 162(m) of the Internal Revenue Code generally prohibits any publicly held corporation from taking a federal income tax deduction for compensation paid in excess of \$1 million in any taxable year to the Chief Executive Officer and the next four highest compensated officers. Exceptions are made for qualified performance-based compensation, among other things. While maintaining competitive compensation levels, it is the Committee's goal to maximize the deductibility of our executive compensation.

Instruments which are considered performance-oriented and tax deductible under Section 162(m) include Stock Options, Performance Based Restricted Stock and MIP annual incentive amounts. Salaries, Service Based Restricted Stock and MTIP annual incentives are generally tax deductible to the extent that they total less than \$1 million for each named executive officer. For 2006, there was a portion of the compensation for the Chief Executive Officer which BancGroup was not able to deduct for income tax purposes. All other compensation for the named executive officers was deductible because the total was less than \$1 million for each executive.



**Table of Contents****Compensation Discussion & Analysis****SUMMARY COMPENSATION TABLE**

The following table provides information concerning total compensation earned or paid to the Chief Executive Officer, the Chief Financial Officer and the three other most highly compensated executive officers of the Company during the fiscal year ended December 31, 2006.

Name and Principal Position	Year	Salary	Bonus	Stock awards compensation expense	Option awards compensation expenses	Non-equity incentive plan compensation	Change in pension value and nonqualified deferred compensation earnings	All other compensation	Total Compensation
		(\$)(1)	(\$)(2)	(\$)(3)	(\$)(3)	(\$)(2)	(\$)(4)	(\$)(5)	(\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Robert E. Lowder, Chairman, CEO and President	2006	\$ 1,117,800		\$ 346	\$ 215,882	\$ 659,502		\$ 625,870	\$ 2,619,400
Sarah H. Moore, SEVP and Chief Financial Officer	2006	\$ 414,000	\$ 68,000	\$ 179,743	\$ 51,577	\$ 207,000		\$ 12,100	\$ 932,420
Caryn D. Cope, SEVP and Chief Credit Officer	2006	\$ 414,000		\$ 179,743	\$ 56,568	\$ 258,750		\$ 12,600	\$ 921,661
Patti G. Hill, SEVP and Chief Operating Officer	2006	\$ 414,000	\$ 68,000	\$ 176,942	\$ 47,711	\$ 207,000		\$ 29,500	\$ 943,153
David B. Byrne, Jr., EVP, Secretary and General Counsel(6)	2006	\$ 250,000		\$ 26,728	\$ 28,694	\$ 112,500		\$ 6,365	\$ 424,287

- (1) Salaries reflected herein were effective as of January 1, 2006. Mr. Lowder's salary changed from \$1,080,000 in 2005 to \$1,117,800 in 2006. Ms. Moore, Ms. Cope and Ms. Hill's salaries changed from \$400,000, \$350,000, and \$300,000 respectively in 2005 to \$414,000 each in 2006. Mr. Byrne began employment with BancGroup on January 3, 2006 with a salary of \$250,000.
- (2) The amount shown was earned for performance during 2006 and paid in February 2007.
- (3) Columns (e) and (f) include amounts recognized as expense by BancGroup during 2006 without considering estimated forfeitures. Expense is recognized in years during which service or performance are required for the employee to vest in the award or option. Because of the vesting features of the awards and options, the 2006 expense includes grants from 2001 through 2006. Valuation assumptions for the purposes of calculating the expense are included in BancGroup's Annual Report on Form 10-K for 2006.
- (4) No amounts are reportable for 2006. See following discussion of pension and nonqualified deferred compensation plans.
- (5) All other compensation in Column (i) includes the following amounts:

**401(k) Match****Totals**

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	_____	Profit Sharing Match	Other Compensation(7)	_____
Robert E. Lowder, Chairman, CEO and President	\$ 6,600	\$ 5,500	\$ 613,770	\$ 625,870
Sarah H. Moore, SEVP and Chief Financial Officer	\$ 6,600	\$ 5,500	\$ 0	\$ 12,100
Caryn D. Cope, SEVP and Chief Credit Officer	\$ 6,600	\$ 5,500	\$ 500	\$ 12,600
Patti G. Hill, SEVP and Chief Operating Officer	\$ 6,600	\$ 5,500	\$ 17,400	\$ 29,500
David B. Byrne, Jr., EVP, Secretary and General Counsel	\$ 865	\$ 5,500	\$ 0	\$ 6,365

- (6) Mr. Byrne began employment with BancGroup on January 3, the first business day of 2006.  
(7) See page 23 for itemization.

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**Compensation Discussion & Analysis**

During 2006, each executive officer earned at or above the target, but less than the maximum annual incentive, based primarily on BancGroup's financial performance. Each annual incentive payout shown above in Column (g) represents the outcome of a predetermined formula based on several different performance measures approved in advance by the Committee and discussed more fully in the Compensation Discussion & Analysis. The performance measures include EPS, Stock Price, Net Charge-Offs, Nonperforming Assets, expense control and revenue growth. The amounts included in Column (d) for Ms. Moore and Ms. Hill represent subjective bonuses granted by the Committee for superior individual performance and the resulting financial results.

No amounts are included in Column (h). The 2006 annual change in the present value of accumulated pension benefit for each executive officer as provided under the Colonial Retirement Plan was a decrease in value. This Plan was closed to new employees on December 31, 2005. Relevant compensation amounts and years of service for future benefit calculations were also frozen at that time. The change in present value, which represents the present time value of money for one year (i.e., the executives are one year closer to retirement and the amounts are one year closer to probable payout) was more than offset by an increase in the discount rate used to calculate the present value amounts (as determined by increased market rates). BancGroup does not maintain any supplemental retirement plans for the executive officers. The Deferred Compensation Plan does not provide for any match from BancGroup or for above market returns on the deferred balances.

The amounts in Column (i) are detailed in the chart included below the Table. BancGroup maintains a 401(k)/Profit Sharing Plan whereby BancGroup matched 401(k) deferrals for all employees (up to a total of 3% of pay) and contributed 2.5% as profit sharing. Both components were available to substantially all employees and are subject to IRS limits. Other compensation for Mr. Lowder also includes \$508,431 for the personal use of the company's aircraft. Such amount was determined based upon actual incremental operating costs incurred for personal travel. Mr. Lowder's Other Compensation also includes \$73,839 for executive security and other services rendered during 2006 as well as \$31,500 in stock which represents payment for his service as a BancGroup Director.

Because of Ms. Hill's frequent travel to Montgomery for BancGroup business, during 2006, the Company provided Ms. Hill with access to a temporary housing facility in Montgomery. This facility is not Ms. Hill's primary residence. Ms. Hill's Other Compensation includes \$17,400 as the amount paid by BancGroup for the house. Ms. Hill personally paid all other expenses relative to the maintenance of the rental house.

**Table of Contents****Compensation Discussion & Analysis****GRANTS OF PLAN-BASED AWARDS**

The following table details the plan-based incentive grants made to the executive officers during fiscal 2006.

Name	Possible future payouts under non-equity incentive plan awards(1)				Estimated future payouts under equity incentive plan awards(2)			All other stock awards: number of shares of stock (#)	All other option awards: number of securities under- lying options awards	Exercise or base price of option grant	Closing price on the date of grant	Total fair market value on grant date (\$)
	Grant date	Threshold (\$)	Target (\$)	Maximum (\$)	Threshold #(3)(4)	Target #(3)(4)	Maximum #(3)(4)	(3)(5)	(#)(6)(7)	(\$/Sh)(8)	(\$/Sh)	(l)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
Robert E. Lowder	na			\$ 1,173,690								
Sarah H. Moore	4/18/2006				4,075	8,150	12,225					\$ 207,010
Sarah H. Moore	4/18/2006								36,380	\$ 25.40	\$ 25.72	\$ 203,728
Sarah H. Moore	na	\$ 103,500	\$ 207,000	\$ 414,000								
Caryn D. Cope	4/18/2006				4,075	8,150	12,225					\$ 207,010
Caryn D. Cope	4/18/2006								36,380	\$ 25.40	\$ 25.72	\$ 203,728
Caryn D. Cope	na	\$ 103,500	\$ 207,000	\$ 414,000								
Patti G. Hill	4/18/2006				4,075	8,150	12,225					\$ 207,010
Patti G. Hill	4/18/2006								36,380	\$ 25.40	\$ 25.72	\$ 203,728
Patti G. Hill	na	\$ 103,500	\$ 207,000	\$ 414,000								
David B. Byrne, Jr.	1/18/2006								20,000	\$ 23.89	\$ 23.83	\$ 102,400
David B. Byrne, Jr.	4/18/2006				1,313	2,625	3,938					\$ 66,675
David B. Byrne, Jr.	4/18/2006							2,625				\$ 66,675
David B. Byrne, Jr.	4/18/2006								11,716	\$ 25.40	\$ 25.72	\$ 65,609
David B. Byrne, Jr.	na	\$ 37,500	\$ 75,000	\$ 150,000								

- (1) Amounts represent MIP and MTIP definitions for 2006 and are based upon the salaries of the executive officers as of December 31, 2006. The actual amounts paid under these plans are included in the Summary Compensation Table columns (d) and (g). For Mr. Lowder, the 2006 MIP goals did not define target or threshold amounts.
- (2) Performance Based Restricted Stock vests based upon BancGroup's earnings per share growth over the years 2006 through 2008 and can result in four possible vesting alternatives as follows: none, Threshold, Target and Superior which are 0%, 50%, 100% and 150%, respectively, of the shares granted.
- (3) These awards are also included in the amounts in the Summary Compensation Table (column e) and The Outstanding Equity Awards at Year End Table (column g and h).
- (4) These awards are Performance Based Restricted Stock and will vest only upon the attainment of earnings per share targets for the years 2006 through 2008.
- (5) Mr. Byrne was granted Service Based Restricted Stock that will vest on April 18, 2011 provided he remains employed by BancGroup until that date.
- (6) These options vest at the rate of 20% per year beginning on the first anniversary of the date of grant.
- (7) These awards are also discussed in the Summary Compensation Table (column f) and The Outstanding Equity Awards at Year End Table (column c)
- (8) Market value as defined by BancGroup's 2001 Long Term Incentive Plan was the average of the high and low price of BancGroup's stock on the date of grant. This definition was changed by Committee resolution on October 17, 2006 to be the closing price of BancGroup stock on the date of grant.

Performance Based Restricted Stock was granted to each executive officer other than Mr. Lowder with the following characteristics:



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Shares will vest based on the achievement of EPS growth targets over a three-year performance period covering 2006 through 2008. The Committee expects to certify the level of EPS growth performance achieved at the beginning of the 2009 fiscal year and vest the Performance Based Restricted Stock grants as appropriate.

Below threshold, Threshold, Target and Superior performance levels are defined and will determine if zero, 50%, 100% or 150%, respectively, of the Performance Based Restricted Stock will vest and be earned by the participants.

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**Compensation Discussion & Analysis**

No shares of Performance Based Restricted Stock will vest if Threshold performance levels are not achieved.  
The Performance Based Restricted Stock was valued at \$25.40 per share.

A Service Based Restricted Stock grant was made to Mr. Byrne on April 18, 2006 which vests 100% on the fifth anniversary of the date of grant.

Most Stock Options were granted on April 18, 2006 and have the following terms:

A grant price of \$25.40 per share, which represents the average of the high and low price as of that date.

A Black-Scholes value of \$5.60 per share

A ten year term.

A vesting schedule at the rate of 20% per year beginning on the first anniversary of the date of grant.

The grants were a mix of incentive stock options (tax-favored stock options to the participant) and nonqualified stock options. The mix of options was different for each executive officer, driven by Internal Revenue Code requirements limiting the face value of incentive stock options that can vest in any calendar year. The specific mix of options for each executive officer is detailed in Footnote 3 to the *Outstanding Equity Awards at Year End Table*.

Mr. Byrne also received a grant of 20,000 Stock Options on January 18, 2006 with the following terms:

A grant price of \$23.89 per share, which represents the average of the high and low price as of that date.

A Black-Scholes value of \$5.12 per share

A ten year term.

A vesting schedule at the rate of 20% per year beginning on the first anniversary of the date of grant.

All options were incentive stock options.

**Table of Contents****Compensation Discussion & Analysis****OUTSTANDING EQUITY AWARDS AT YEAR-END**

The following table details all outstanding equity grants for the executive officers as of December 31, 2006.

Name	Option Awards				Stock Awards				
	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Equity incentive plan awards: number of securities underlying unexercised unearned options (#)	Option exercise price (\$)	Option expiration date	Number of shares that have not vested (#)(1)	Market value of shares that have not vested (\$)(2)	Equity incentive plan awards: number of unearned shares that have not vested (#)(1)	Equity incentive plan awards: market or payout value of unearned shares that have not vested (\$)(2)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Robert E. Lowder	100,000			\$ 11.5313	12/30/2008				
Robert E. Lowder	100,000			\$ 10.50	12/30/2009				
Robert E. Lowder	200,000			\$ 10.38	3/29/2010				
Robert E. Lowder	40,000	160,000		\$ 24.09	12/22/2015				
Sarah H. Moore	10,000			\$ 11.5313	12/30/2008				
Sarah H. Moore	10,000			\$ 10.50	12/30/2009				
Sarah H. Moore	50,000			\$ 9.50	5/16/2010				
Sarah H. Moore	10,000			\$ 12.54	6/18/2011				
Sarah H. Moore	5,000			\$ 14.81	12/28/2011				
Sarah H. Moore								400	\$ 10,296
Sarah H. Moore	4,000	1,000		\$ 11.75	12/30/2012				
Sarah H. Moore	6,000	4,000		\$ 17.28	12/23/2013				
Sarah H. Moore	4,000	6,000		\$ 21.45	12/28/2014				
Sarah H. Moore						30,000	\$ 772,200		
Sarah H. Moore		36,380		\$ 25.40	4/18/2016				
Sarah H. Moore								8,150	\$ 209,781
Caryn D. Cope	15,000			\$ 11.5313	12/30/2008				
Caryn D. Cope	20,000			\$ 10.50	12/30/2009				
Caryn D. Cope	4,000			\$ 12.54	6/18/2011				
Caryn D. Cope	5,000			\$ 14.81	12/28/2011				
Caryn D. Cope								400	\$ 10,296
Caryn D. Cope	12,800	3,200		\$ 11.75	12/30/2012				
Caryn D. Cope	6,000	4,000		\$ 17.28	12/23/2013				
Caryn D. Cope	4,000	6,000		\$ 21.45	12/28/2014				
Caryn D. Cope						30,000	\$ 772,200		
Caryn D. Cope		36,380		\$ 25.40	4/18/2016				
Caryn D. Cope								8,150	\$ 209,781
Patti G. Hill	20,000			\$ 10.50	12/30/2009				
Patti G. Hill	20,000			\$ 12.54	6/18/2011				
Patti G. Hill	5,000			\$ 14.81	12/28/2011				
Patti G. Hill								200	\$ 5,148
Patti G. Hill	4,000	1,000		\$ 11.75	12/30/2012				
Patti G. Hill	3,000	2,000		\$ 17.28	12/23/2013				

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Patti G. Hill	4,000	6,000	\$ 21.41	12/30/2014		
Patti G. Hill					30,000	\$ 772,200
Patti G. Hill		36,380	\$ 25.40	4/18/2016		
Patti G. Hill					8,150	\$ 209,781
David B. Byrne, Jr.	4,000	16,000	\$ 23.89	1/18/2016		
David B. Byrne, Jr.		11,716	\$ 25.40	4/18/2016		
David B. Byrne, Jr.					2,625	\$ 67,568
David B. Byrne, Jr.		&nbs				