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GOVERNMENT PROPERTIES TRUST INC  
Form 8-K  
June 18, 2004

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) June 18, 2004  
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GOVERNMENT PROPERTIES TRUST, INC.  
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(Exact name of registrant as specified in its charter)

Maryland	1-31962	20-0611663
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(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

10250 Regency Circle, Suite 100, Omaha, Nebraska	68114
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(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (402) 391-0010  
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None  
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(Former name or former address, if changed since last report)

ITEM 2. ACQUISITION OF ASSETS

On June 14, 2004, Government Properties Trust, Inc. (GPT) completed its previously announced acquisition of the Food and Drug Administration (FDA) district headquarters complex in Lenexa, KS for approximately \$10.5 million. The purchase price was determined through arms-length negotiations between GPT and the seller, an unrelated party. GPT funded the purchase price with cash on hand.

The Lenexa property, completed in 1991, is fully leased by the federal government under a modified gross lease. The property is occupied by the FDA and consists of two buildings on 5.05 acres of land. The primary building consists

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of office/lab space and totals over 48,000 leasable square feet. A secondary annex building consists of over 5,000 leasable square feet. The current lease for the primary building expires in June 2012 and the lease for the annex building expires in September 2012.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial statements of business acquired.

To be filed by amendment as soon as practicable, but not later than August 16, 2004.

(b) Pro forma financial information

To be filed by amendment as soon as practicable, but not later than August 16, 2004.

(c) Exhibits

- 2.1 Purchase and Sale Agreement by and between TST Lenexa, L.P. and Government Properties Trust, Inc., dated as of April 26, 2004.
- 2.2 First Amendment to Purchase and Sale Agreement by and between TST Lenexa, L.P. and Government Properties Trust, Inc., dated as of May 28, 2004.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

GOVERNMENT PROPERTIES TRUST, INC.

Date: June 18, 2004

By: /s/ Nancy D. Olson

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Nancy D. Olson  
Chief Financial Officer and Treasurer

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
2.1	Purchase and Sale Agreement by and between TST Lenexa, L.P. and Government Properties Trust, Inc., dated as of April 26, 2004.
2.2	First Amendment to Purchase and Sale Agreement by and between TST Lenexa, L.P. and Government Properties Trust, Inc., dated as of May 28, 2004.

">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 shareholders. 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 shareholders, 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 shareholders 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 shareholders 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 shareholders 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 shareholders 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, shareholders 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 shareholders 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 shareholder 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 shareholder 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 shareholder 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 shareholder 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.

*Shareholder Value Creation* Create a shareholder 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 shareholder 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.

*Shareholder 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 shareholder value (meeting both the *Motivation* and *Shareholder 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 shareholder 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 shareholder 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

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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 shareholder 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	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.					2,625	\$ 67,568

\* As of 12/29/2006

- (1) The 8,150 restricted stock awards for Ms. Moore, Ms. Cope, and Ms. Hill, as well as both awards to Mr. Byrne for 2,625 are also discussed in the Summary Compensation Table column(e) and the Grants of Plan Based Awards Table columns (g) and (i).
- (2) Market value as of December 29, 2006 based on BancGroup's closing share price of \$25.74.

Stock Options are shown in Columns (b), (c) and (d), and vest at the rate of 20% per year beginning on the first anniversary of the date of grant.



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Performance Based Restricted Stock grants are shown in Columns (i) and (j) and represent target values. These values may increase or decrease in future years based on future performance.

Service Based Restricted Stock, shown in Columns (g) and (h), vest based on the passage of time (generally five years after the date of grant) and continued service to BancGroup.

During 2006, BancGroup granted incentive stock options to the extent permitted by Internal Revenue Code regulations with the remainder being nonqualified stock options. Beginning in 2007, BancGroup no longer intends to grant incentive stock options.

All year-end stock values are based on a closing stock price of \$25.74 as of December 29, 2006.

**OPTION EXERCISES AND STOCK VESTED**

The following table provides information with respect to option exercises and restricted stock vesting during 2006 by each of the named executive officers.

Name	Option awards		Stock awards	
	Number of shares acquired on exercise (#)	Value realized upon exercise (\$)(1)	Number of shares acquired on vesting (#)	Value realized on vesting (\$)(2)
(a)	(b)	(c)	(d)	(e)
Robert E. Lowder	100,000	\$ 1,537,250	1,496	\$ 37,101
Sarah H. Moore	3,500	\$ 59,234	400	\$ 9,528
Caryn D. Cope			400	\$ 9,528
Patti G. Hill	20,000	\$ 256,374	200	\$ 4,764
David B. Byrne, Jr.				

- (1) Value realized is the difference between the fair market value of the securities underlying the options and the exercise price on the date of exercise.
- (2) Value realized is the closing price of the stock on the day prior to the vesting date multiplied by the number of shares that vested.

The above table reflects options that were exercised (Columns (b) and (c)) and restricted stock that vested (Columns (d) and (e)) during 2006. The stock award of 1,496 shares for Mr. Lowder that vested during 2006 was a Performance Based Restricted Stock award that was originally granted in 2001. The vesting of the shares was contingent on the outcome of four performance measures, as follows: earnings per share, return on equity, return on assets and non-performing asset ratio. The Committee certified the results at its February 2, 2006 meeting and vested the shares on that date. 7,307 shares of the original grant were forfeited during 2006, pursuant to the terms of the award agreement because the performance criteria were not met.

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The stock awards which vested for Ms. Moore, Ms. Cope, and Ms. Hill were originally granted in 2002 and were Service Based Restricted Stock. The stock awards vest 20% annually beginning on the first anniversary of the grant.

Mr. Lowder, Ms. Moore and Ms. Hill also exercised stock options during 2006. Although Column (c) reflects value realized upon the option exercises, the executive officers continue to own these shares.

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

BancGroup and subsidiaries maintain 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 uses the projected unit credit method for benefit calculations. Participants must have five years of employment to be eligible for benefits. The amounts reflected below represent the calculated present value of each executive officer's benefits under the plan as of December 31, 2006.

Name	Plan name	Number of years credited service	Present value of accumulated benefit	Payments during last fiscal year
(a)	(b)	(c)	(d)	(e)
Robert E. Lowder	The Colonial Retirement Plan	34	\$ 771,842	\$ 0
Sarah H. Moore	The Colonial Retirement Plan	8	\$ 71,044	\$ 0
Caryn D. Cope	The Colonial Retirement Plan	20	\$ 200,770	\$ 0
Patti G. Hill	The Colonial Retirement Plan	11	\$ 135,347	\$ 0
David B. Byrne, Jr.	The Colonial Retirement Plan	0	\$ 0	\$ 0

- (1) During the third quarter of 2006, BancGroup contributed \$1.9 million to the plan. No payments were made from the Retirement Plan to any of the executive officers during 2006.

The Retirement Plan provides benefits based on:

The number of years of service, up to a maximum of 25 years. A participant receives credit for a year of service for every year in which 1,000 hours are completed in the employment of BancGroup. No credit will be granted for years of service after December 31, 2005.

The participant's final average earnings (through December 31, 2005), defined as all compensation except compensation which relates to director fees.

The amount of Social Security Covered Compensation, subject to statutory limitations.

Benefits under the Retirement Plan are also limited by current statutory regulations, which restrict the amount of benefits that can be paid from a qualified retirement plan. The statutory limit on compensation that may be recognized in calculating benefits is \$220,000. This limitation is scheduled to increase periodically based on cost of living increases. Benefit payouts prior to age 65 result in an actuarial reduction of benefits.

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On December 31, 2005, BancGroup closed the Retirement Plan to new employees and froze the compensation amounts and years of service for the benefit calculation for participants. As a result of this action, any future annual changes in the present value of accumulated benefit will be a function of (1) the time value of money, as each participant will be a year closer to the assumed payment point, age 65 and (2) changes to the interest rate used to discount those future payouts to the current rate. As noted, no values have been shown in the Summary Compensation Table because the result of these changes for each executive officer from the end of 2005 to the end of 2006 was a decrease in present value.

BancGroup does not maintain any supplemental executive retirement plans for its executive officers. Such officers are participants in the 401(k) Plan, a defined contribution plan which is a deferred arrangement under Section 401(k) of the Internal Revenue Code and which covers all employees. BancGroup provided a 50% match to any contributions made by participants in 2006, subject to a maximum of 3% of cash compensation and certain IRS limits. BancGroup also provided a profit sharing component in 2006 equal to 2.5% of cash compensation, but also subject to certain IRS limits. Profit sharing was discontinued for all employees at the end of 2006 and the 401(k) match was increased to 100% of participant contributions up to 6% of cash compensation. The match and profit sharing amounts contributed by BancGroup to each executive officer's account for 2006 are shown in the Summary Compensation Table.

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## Compensation Discussion &amp; Analysis

## NONQUALIFIED DEFERRED COMPENSATION PLANS

Name	Executive contributions during 2006	BancGroup contributions during 2006	Aggregate	Aggregate	Aggregate
			earnings during 2006	withdrawals/distributions	balance at December 31, 2006
	(\$)	(\$)	(\$)	(\$)	(\$)
(a)	(b)	(c)	(d)	(e)	(f)
Robert E. Lowder					
Sarah H. Moore	\$ 41,346		\$ 1,734		\$ 43,080
Caryn D. Cope					
Patti G. Hill	\$ 81,923		\$ 3,818		\$ 85,741
David B. Byrne, Jr.					

BancGroup implemented the 2006 Nonqualified Deferred Compensation Plan (the Deferred Compensation Plan) at the beginning of 2006. The Deferred Compensation Plan allows for the elective deferral of up to 100% of salary and 100% of annual incentives by executive officers and other highly compensated employees (as defined by the IRS) into a nonqualified arrangement in which the participant can designate investments in certain funds consistent with the 401(k) Plan. BancGroup **does not** provide a match on deferrals. Withdrawals are only allowed based on elections made prior to deferral by each executive officer, with a minimum deferral period of five years. The earnings on the deferred balances are actual market returns from the investment option(s) chosen by the executive officer and are **not supplemented or guaranteed** in any way by BancGroup. The Deferred Compensation Plan balances are subject to the claims of the general creditors of BancGroup.

Two executive officers elected to defer portions of their salary into the Deferred Compensation Plan. Ms. Moore and Ms. Hill deferred \$41,346 and \$81,923, respectively. These amounts were **not** deducted from the compensation shown in the Summary Compensation Table. Resulting from the market returns of their investment elections, the balances for Ms. Moore and Ms. Hill earned \$1,734 and \$3,818, respectively, during 2006. Because the 2006 incentives were not paid prior to December 31, 2006, no incentive deferrals are included in the Deferred Compensation Plan as of that date.

**Table of Contents****Compensation Discussion & Analysis****DIRECTOR COMPENSATION<sup>(1)</sup>**

The Company uses a combination of cash and stock-based incentive compensation to attract and retain qualified candidates to serve on the Board. The following table provides information concerning compensation earned by the Board of Directors during fiscal 2006.

Name	BancGroup Fees earned				Colonial Bank, N.A.		Total Fees Paid (\$)	All other compensation (\$)(5)	Grand Total (\$)
	Regular fees(2)		Supplemental fees(3)		Fees earned(4)				
	Cash	Stock	Cash	Stock	Cash	Stock			
	(b)	(c)	(d)	(e)	(f)	(g)			
Lewis E. Beville(6)	\$ 28,000		\$ 18,500			\$ 9,350	\$ 55,850		\$ 55,850
Augustus K. Clements, III	\$ 20,000		\$ 10,500				\$ 30,500		\$ 30,500
Robert S. Craft	\$ 20,000		\$ 15,000				\$ 35,000		\$ 35,000
Patrick F. Dye	\$ 20,000		\$ 12,500				\$ 32,500	\$ 39,600	\$ 72,100
Hubert L. Harris Jr.	\$ 20,000		\$ 20,500			\$ 1,500	\$ 42,000		\$ 42,000
Clinton O. Holdbrooks	\$ 20,000		\$ 14,500		\$ 9,200		\$ 43,700		\$ 43,700
Deborah L. Linden		\$ 20,000		\$ 4,000		\$ 9,000	\$ 33,000		\$ 33,000
Robert E. Lowder		\$ 20,000		\$ 11,500			\$ 31,500		\$ 31,500
Milton E. McGregor	\$ 20,000		\$ 9,000				\$ 29,000		\$ 29,000
John Ed Mathison	\$ 20,000		\$ 8,500		\$ 1,500		\$ 30,000	\$ 18,000	\$ 48,000
John C. H. Miller Jr.	\$ 20,000		\$ 9,500		\$ 2,000		\$ 31,500	\$ 64,152	\$ 95,652
Joesph D. Mussafer	\$ 20,000		\$ 21,500		\$ 2,000		\$ 43,500		\$ 43,500
William E. Powell, III	\$ 20,000		\$ 18,500		\$ 12,000	\$ 8,200	\$ 58,700		\$ 58,700
James W. Rane		\$ 20,000		\$ 8,000			\$ 28,000		\$ 28,000
Simuel Sippial, Jr.	\$ 20,000		\$ 35,000		\$ 17,250	\$ 12,750	\$ 85,000		\$ 85,000
Edward V. Welch	\$ 20,000		\$ 12,500			\$ 1,500	\$ 34,000		\$ 34,000
Frances E. Roper (7)		\$ 5,000					\$ 5,000		\$ 5,000
Jerry J. Chesser(7)		\$ 5,000		\$ 2,000		\$ 2,000	\$ 9,000		\$ 9,000
<b>Totals:</b>	<b>\$ 228,000</b>	<b>\$ 110,000</b>	<b>\$ 158,500</b>	<b>\$ 73,000</b>	<b>\$ 43,950</b>	<b>\$ 44,300</b>	<b>\$ 657,750</b>	<b>\$ 121,752</b>	<b>\$ 779,502</b>

- (1) Fees paid to BancGroup directors under the Directors' Plan for service as directors of BancGroup and its subsidiaries in cash and stock in 2006 totaled \$657,750.
- (2) Regular fees represent an annual retainer, paid quarterly, payable in either cash or BancGroup common stock based on each Director's annual election.
- (3) Supplemental fees are paid to a Director for attendance at Board meetings, special meetings of the Board or Committee meetings. Each Director elects on an annual basis to receive such fees in either cash or BancGroup common stock.
- (4) Includes regional and local advisory board fees.
- (5) John C. H. Miller, Jr., Patrick F. Dye, and John Ed Mathison received other compensation during 2006 of \$64,152, \$39,600, and \$18,000, respectively.
- (6) These amounts also include \$8,000 paid to Mr. Beville as Audit Committee Chairman.
- (7) Mr. Chesser and Ms. Roper served on the Board of Directors until April 17, 2006.

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During 2006, Directors of BancGroup received fees as follows:

Annual retainer paid as \$5,000 per quarter.

\$2,000 for each Board meeting attended.

Members of committees received fees of \$1,000 for each BancGroup committee meeting attended.

The Chairman of the Audit Committee received \$2,000 per quarter and \$1,000 per Audit Committee meeting attended.

Chairmen of any committee other than the Audit Committee received \$1,500 per meeting.

From time to time, BancGroup may form one or more special litigation committees. Fees paid to such special litigation committee members are \$1,000 per meeting attended, provided, however, that in the event a

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**Compensation Discussion & Analysis**

meeting extends beyond four hours in length, then each member shall receive an additional \$500 fee for any additional four hour period or any portion thereof. There were no such special litigation committees during 2006.

Certain directors of BancGroup also serve as directors of Colonial Bank, or its regional advisory boards, and receive fees for services on those boards. Fees paid to BancGroup directors under the Directors' Plan for service as directors of BancGroup and its subsidiaries in cash and stock in 2006 totaled \$657,750. Each director has the opportunity to make an annual election to receive the cash fees outlined above in the form of stock.

Three directors received other compensation from BancGroup during 2006, including:

John C. H. Miller, Jr. \$41,000 for advice provided to BancGroup management and Colonial Bank's Gulf Coast Area of the Alabama Region and South Florida Region that extends beyond the legal work for which Mr. Miller's law firm receives legal fees. Mr. Miller also received personal use of the company aircraft valued at \$23,152 (using the incremental cost methodology).

Patrick F. Dye \$39,600 for consulting, public relations and services provided to Colonial Bank.

John Ed Mathison \$18,000 for consulting, public relations, speaking engagements, and/or customer development services for either BancGroup, Colonial Bank or both.

**COMPENSATION COMMITTEE REPORT**

The Compensation Committee reviewed and discussed the Compensation Discussion and Analysis and related Tables with management. Based on such review and discussion, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

**THE COMPENSATION COMMITTEE**

Simuel Sippial, Jr., Chairman

Milton E. McGregor

Joseph D. Mussafer

Deborah L. Linden



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**COMPENSATION COMMITTEE INTERLOCKS**

**AND INSIDER PARTICIPATION**

The Compensation Committee of BancGroup consists of Simuel Sippial, Jr., Chairman, Milton E. McGregor, Joe D. Mussafer and Deborah L. Linden. Ms. Linden was appointed to the committee effective January 17, 2007.

**Related Party Transactions**

Management recognizes that related party transactions can present unique risks and potential conflicts of interest (in appearance and in fact) while creating the appearance that BancGroup decisions are based upon factors other than the best interests of the Company and shareholders. Therefore, BancGroup maintains stringent written policies around interactions with related parties.

Directors, officers and other related parties are customers of and transact business with BancGroup (more specifically Colonial Bank and Colonial Brokerage, Inc.). All BancGroup transactions with related parties are to be on terms that are no less favorable to BancGroup, including interest rates, collateral and fees, than those of similar transactions with third parties. These transactions also do not involve more than the normal risk of collectibility or present any other unfavorable terms.

Any loan that is to be made or renewed by Colonial Bank to a related party, as specified by the banking regulators (i.e. an individual or an entity that is related to or at least partly owned by that individual), is approved in advance by the board of Colonial Bank. Additionally, as a result of the magnitude of the fees being paid, the BancGroup Board of Directors has approved the terms of the service contact with Miller, Hamilton, Snider & Odom, L.L.C.

BancGroup has retained in the past and proposes to retain in the future on behalf of BancGroup and its subsidiaries the law firm of Miller, Hamilton, Snider & Odom, L.L.C., Mobile, Alabama, of which a director of BancGroup, John C. H. Miller, Jr., is a member. Legal fees paid to this firm by BancGroup and its subsidiaries were approximately \$4,368,000 in 2006. Management of BancGroup believes that this arrangement is at least as favorable to BancGroup as that which might be negotiated with unaffiliated parties for similar arrangements and transactions.

**Loans**

Certain directors and officers of BancGroup and their affiliated interests were customers of and had transactions with Colonial Bank and Colonial Brokerage, Inc. in the ordinary course of their business during the past year. Additional transactions may be expected to take place in the ordinary course of business. Included in such transactions were outstanding loans and commitments from Colonial Bank and Colonial Brokerage, Inc., all of which were made in the ordinary course of business on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectability or present other unfavorable features.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires BancGroup's directors, certain officers and 10% shareholders, if any, to file reports of ownership and changes in ownership of BancGroup common stock with the SEC. Such officers, directors and 10% shareholders, if any, are required by SEC regulations to furnish BancGroup with copies of all Section 16(a) reports they file, including reports on Form 5, which are filed with the SEC annually.

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BancGroup Director Patrick F. Dye inadvertently filed a Form 4 late for a transaction that occurred in August 2006. BancGroup was notified of the transaction on October 24, 2006 and assisted Mr. Dye with the filing on that date. Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons that no reports on Form 5 were required for those persons, BancGroup believes that during 2006, all other filings applicable to its officers, directors and 10% shareholders were made timely.

## **PROPOSAL 3**

### **Approval of the Management Incentive Plan**

#### **Introduction**

On February 20, 2007, the Compensation Committee of the Board approved adopting an amended Management Incentive Plan (the "MIP"), which among other things, contains an amended section 3.2.2. The new section 3.2.2 sets forth various corporate financial performance criteria that may be used by the Committee when establishing performance goals for Executives under the MIP. The performance goals established by the Committee shall be objective performance goals within the meaning of section 162(m) of the Code and Treasury regulations promulgated thereunder.

#### **Plan Summary**

All of the officers that are included within the meaning of Rule 16a-1(f) under the Securities and Exchange Act of 1934, as amended, will be eligible to participate in the MIP if so designated by the Compensation Committee. The MIP provides a means whereby executive officers of BancGroup may receive a cash bonus if certain performance based criteria are met. The Committee, prior to the close of each Plan Year, may designate the executive officers that will participate in the MIP during the next succeeding Plan Year.

The MIP is administered by the Committee, which has full and complete authority, subject to the limitations of the MIP, to determine the terms and conditions under which a participant will receive a cash award. The terms and conditions determined by the Committee (which need not be identical among participants) include the amount of the award that each participant will be eligible to earn during the year, and the performance goals that must be achieved in order for the participants to earn the award. The possible performance goals that will be used as criteria include earnings per share, net income, asset quality, shareholder return, stock price, return on assets, return on equity and other similar measures. No participant may be granted an award that could result in the participant earning an amount under the MIP greater than \$3,000,000 in any Plan Year.

After each Plan Year, the Committee will determine if the terms and conditions of each award granted were met and certify their findings to the participant and to the Board. The awards will be paid in cash as soon as administratively possible after the certification, but in no event later than 75 days following the close of the Plan Year.

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If a participant terminates employment during a Plan Year for any reason other than retirement, disability or death, no award will be payable under the MIP. If the employment terminates as a result of retirement, disability or death or if the participant's employment is terminated for any reason other than willful dishonesty or gross misconduct, the participant or the participant's beneficiary will receive a pro-rata portion of the incentive award determined as of the end of the Plan Year.

The Committee and management believe the Target performance objectives associated with each of the performance measures represent stretch goals requiring significant performance beyond that of the prior year.

It is not possible to determine the actual amount of compensation that will be earned for 2007 or in future years under the MIP since actual awards will depend on future performance measured against performance goals

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and objectives established by the Committee under the Plan. However, awards payable for 2006 under the MIP to Mr. Lowder are included in the preceding Summary Compensation Table. Currently, Mr. Lowder is the sole participant in the MIP.

## **Vote Required**

Approval of the MIP is Proposal 3 on the proxy card. To approve the MIP, a majority of shares represented at the Annual Meeting must be voted in favor of Proposal 3. 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 the shareholders vote FOR this Plan, herein attached as Appendix B.

## **AUDIT COMMITTEE REPORT**

The Audit Committee of the Board consists of Lewis E. Beville, Chairman, Hubert L. Harris, Jr., William E. Powell III, and Simuel Sippial. The Board has determined that the members of the Audit Committee satisfy the independence (as defined by Section 303A.02 of the NYSE's listing standards) and experience requirements of the NYSE and the applicable rules and regulations promulgated by the SEC pursuant to the Sarbanes-Oxley Act of 2002. Mr. Beville and Mr. Harris have been determined to qualify as audit committee financial experts as that term has been defined by SEC rules and regulations.

The Audit Committee has adopted a charter. The Audit Committee reviews its charter for adequacy on an annual basis. The charter is available on BancGroup's website at [www.colonialbank.com](http://www.colonialbank.com). In accordance with its charter, the Audit Committee met eight times in 2006. The Audit Committee has reviewed BancGroup's audited financial statements with management and its independent auditor to determine whether such statements were consistent with BancGroup's audit policy and whether BancGroup's internal controls were adequate for the preparation of the financial statements. The Audit Committee also reviewed with management and BancGroup's independent auditor the quarterly financial statements of BancGroup prior to the filing of BancGroup's Quarterly Reports on Form 10-Q in 2006. The Audit Committee received communications from PricewaterhouseCoopers LLP (PwC) concerning their independence under Independence Standards Board Standard No. 1 and the matters required by Statement on Auditing Standards No. 61, as amended. Based upon the reviews and discussion noted above, the Audit Committee recommended to the Board that BancGroup's audited Financial Statements be included in the Annual Report on Form 10-K.

One of the Audit Committee's responsibilities is to recommend to BancGroup's Board of Directors an independent auditor. In making its recommendation for 2007, the Audit Committee considered the fees paid during 2006 to PwC in relation to the services PwC provided and the compatibility of any non-audit services provided by PwC with their status as BancGroup's independent auditor. The Audit Committee pre-approves all audit and non-audit services to be provided by PwC. The Audit Committee reviews allowable non-audit services that are proposed to be provided by PwC and approves such if it determines that such services are not incompatible with maintaining PwC's independence.

Taking all of these reviews into account, the Audit Committee recommends PricewaterhouseCoopers LLP as BancGroup's independent auditor for 2007.

## **THE AUDIT COMMITTEE**

Lewis E. Beville, Chairman

Hubert L. Harris, Jr.

William E. Powell, III

Simuel Sippial, Jr.

**Table of Contents****RELATIONSHIP WITH INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM****Auditor Fees and Services**

Aggregate fees for professional services rendered to BancGroup by PwC for the years ended December 31, 2006 and 2005, were:

	<u>2006</u>	<u>Percentage</u>	<u>2005</u>	<u>Percentage</u>
Audit	\$ 997,000	65%	\$ 1,113,000	58%
Audit Related	52,000	3%	285,000	15%
Tax	495,000	32%	525,000	27%
All Other	1,400	%	1,400	%
<b>Total</b>	<b>\$ 1,545,400</b>	<b>100%</b>	<b>\$ 1,924,400</b>	<b>100%</b>

*Audit* fees were for professional services rendered for the audits of the consolidated financial statements and internal controls of BancGroup, statutory and subsidiary audits, issuance of comfort letters, consents, income tax provision procedures, and assistance with review of documents filed with the SEC.

*Audit Related* fees were for assurance and related services related to employee benefit plan audits, and consultations concerning financial accounting and reporting standards.

*Tax* fees were for services related to tax compliance, including the preparation of tax returns and claims for refund; and tax planning and tax advice, advice related to mergers and acquisitions, tax services for employee benefit plans, and requests for rulings or technical advice from tax authorities. The aggregate fees for tax compliance were \$90,000 for 2006 and \$89,000 for 2005.

*All Other* fees relate to BancGroup's subscription to an online accounting information service provided by PwC.

The Audit Committee pre-approved 100% of the fees paid to PwC for 2006 and 2005.

**Compatibility of Fees**

BancGroup's Audit Committee has considered the provision of non-audit services by PwC and the fees paid to PwC for such services and believes that the provision of such services and their fees are compatible with maintaining PwC's independence.

**PROPOSAL 4**

**Ratification of Appointment of Independent Auditor**

The Audit Committee has appointed PricewaterhouseCoopers LLP ( PwC ) as the independent auditor to audit the consolidated financial statements of BancGroup and its subsidiaries for the fiscal year ending December 31, 2007 and BancGroup 's internal control over financial reporting as of December 31, 2007. Representatives of PwC will be present at the Annual Meeting with the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions from shareholders present at the meeting. Although shareholder ratification of the appointment of PwC as independent auditor is not required by our bylaws or otherwise, we are submitting the selection of PwC to our shareholders for ratification to permit shareholders to participate in this important corporate decision. If not ratified, the Audit Committee will reconsider the selection, although the Audit Committee will not be required to select a different independent auditor for BancGroup.



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### **Vote Required**

The ratification of PwC as independent auditor of BancGroup is Proposal 4 on the proxy card. To ratify the appointment of PwC as independent auditors for BancGroup, a majority of shares represented at the Annual Meeting must be voted in favor of Proposal 4. 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 shareholders vote FOR the ratification of PwC as BancGroup's independent auditors for 2007.

## **BYLAW PROVISIONS REGARDING CONDUCT OF SHAREHOLDERS' MEETINGS**

BancGroup's bylaws contain two provisions relating to the conduct of shareholders' meetings. The first provision requires that certain procedures be followed by a shareholder of record who wishes to present business at the annual meeting of shareholders, including the nomination of candidates for election as directors. In order to nominate a person for election as a director or to present other business at a meeting, a shareholder must provide written notice thereof to the Secretary of BancGroup not less than 60 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting, provided that, if the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the shareholder to be timely must be delivered not earlier than the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made.

As it relates to director nominations, the written notice must state all information as to each nominee required to be disclosed in solicitations of proxies for election of directors under SEC regulations, including the written consent of each such nominee. As for any other business that the shareholder proposes to bring before the meeting, the written notice must contain a brief description of the business, the reasons for conducting the business at the meeting and any material interest in such business of such shareholder. The notice must also contain the name and address of such shareholder and the class and number of shares of BancGroup owned beneficially and of record, as well as the same information for each beneficial owner who may be nominated for election as a director.

The Board is not required to nominate a person designated by a shareholder or to take up such other business as may be contained in a written notice from a shareholder; however, compliance with this procedure would permit a shareholder to nominate the individual at the shareholders' meeting, and any shareholder may vote shares in person or by proxy for any individual such shareholder desires. The procedures relating to nominating directors and presenting other business at a shareholders' meeting may only be used by a shareholder who is a shareholder of record at the time of the giving of the notice by the shareholder to the secretary of BancGroup. These procedures do not prohibit or apply to shareholder proposals under SEC Rule 14a-8 as described at Proposals of Shareholders.

The second provision of BancGroup's bylaws relates to the conduct of the business at a shareholders' meeting. Under that provision, the Board has the authority to adopt rules for the conduct of meetings, and, unless inconsistent with any such rules, the Chairman of the meeting may prescribe such rules, regulations and procedures as, in his judgment, are appropriate for the proper conduct of the meeting.

## **PROPOSALS OF SHAREHOLDERS**

Subject to certain rules of the SEC, proposals by shareholders intended to be presented at BancGroup's 2008 Annual Meeting of shareholders must be received at BancGroup's principal executive offices not less than 120 calendar days in advance of March 20, 2008 (November 20, 2007),

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for inclusion in the proxy or information statement relating to the 2008 Annual Meeting.

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**OTHER MATTERS**

BancGroup does not know of any matters to be presented for action at the meeting other than those listed in the notice of the meeting and referred to herein.

BancGroup will furnish shareholders, upon written request and payment of a reasonable fee for copying charges, copies of the exhibits to its Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2006. Requests should be made to:

The Colonial BancGroup, Inc.

Attn: David B. Byrne, Jr.

Post Office Box 241148

Montgomery, Alabama 36124-1148

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.

YOU MAY REVOKE THE PROXY BY GIVING WRITTEN NOTICE OF REVOCATION TO THE SECRETARY OF BANCGROUP AT ANY TIME PRIOR TO THE VOTING THEREOF, BY EXECUTING AND SUBMITTING 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 ATTENDING THE MEETING AND VOTING IN PERSON.

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**Appendix A**

**THE COLONIAL BANCGROUP, INC.**

**2007 STOCK PLAN FOR DIRECTORS**

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1. **Purposes of Plan.** The purposes of the Plan are to attract and retain well-qualified persons for service as Directors of the Company and its Subsidiaries and to provide incentives to such persons through the award of Shares of Common Stock of the Company by (i) payment of all or a portion of Directors' fees in Common Stock, and (ii) Restricted Stock Awards, as deemed appropriate by the Compensation Committee of the Company and as allowed by law.

2. **Definitions.** For purposes hereof, the following words and phrases shall have the meanings indicated:

(a) **Award** means a grant under this Plan of Restricted Stock.

(b) **Award Agreement** means an agreement entered into by the Company and a Director setting forth the terms and provisions applicable to Awards granted under this Plan.

(c) **BancGroup Director** means any director of The Colonial BancGroup, Inc.

(d) **Bank Director** means any director of Colonial Bank, N.A., a subsidiary of The Colonial BancGroup, Inc.

(e) **Board** means the board of directors of the Company or any Subsidiary.

(f) **Change in Control** means (i) the occurrence of a transaction with respect to which either a notice or application must be filed with the Federal Reserve Board under the provisions of 12 C.F.R. § 225.41, Code of Federal Regulations, or any successor thereto (concerning the acquisition of control of a bank or bank holding company), or approval must be obtained under 12 C.F.R. § 225.11, Code of Federal Regulations, or any successor thereto (concerning acquisition by a bank holding company of a bank or bank holding company), and as a result of which more than 50% of the outstanding shares of the Company, or any successor thereof, are owned or controlled by any person or entity, or group acting in concert, which, prior to such transaction, owned or controlled less than 50% of the shares of the Company, (ii) individuals who were directors of the Company immediately prior to a Control Transaction (as defined below) shall cease within one year of such Control Transaction, to constitute a majority of the Board of Directors of the Company, or (iii) the Company is merged or consolidated with another corporation and the Company is not the surviving corporation or survives as a subsidiary of another corporation, or the Company sells or

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otherwise disposes of substantially all its assets. **Control Transaction** shall be (i) any tender offer for or acquisition of shares of the Company, (ii) any merger, consolidation, or sale of substantially all the assets of the Company, (iii) any contested election of directors of the Company, or (iv) any combination of the foregoing which results in a change in voting power sufficient to elect a majority of the Board of Directors of the Company.

(g) **Closing Price** means the closing price of the Common Stock of the Company as reported by the New York Stock Exchange ( NYSE ) or such other market value as the Board of Directors of BancGroup shall determine if the Common Stock ceases to be quoted on the NYSE.

(h) **Committee** means the Compensation Committee of the Company.

(i) **Common Stock** means Shares of Common Stock, \$2.50 par value per Share, of the Company.

(j) **Company** means The Colonial BancGroup, Inc.

(k) **Director** means a BancGroup Director, Bank Director, or Regional Director, as applicable under the context.

(l) **Exchange Act** means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

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(m) **Fair Market Value**, for purposes of Section 3(b), shall be determined on the basis of the closing sale price on the principal securities exchange on which the Shares are traded or, if there is no such sale on the relevant date, then on the last previous day on which a sale was reported. In determining the value of shares for purposes of Section 3(a), value shall be determined as specifically provided in Section 3(a).

(n) **Grant Date** means the date the Compensation Committee approves a Restricted Stock Award.

(o) **Grant Price** means the closing price of Colonial BancGroup Inc (CNB) stock on the date a Restricted Stock Award is granted.

(p) **Meeting** means a regular or special meeting of the Board.

(q) **Period of Restriction** means the period during which the transfer of Shares of Restricted Stock is limited in some way (based on the passage of time or the occurrence of other events as determined by the Committee, at its discretion), and the Shares of Restricted Stock are subject to a substantial risk of forfeiture.

(r) **Plan** means The Colonial BancGroup, Inc. 2007 Stock Plan for Directors, as set forth herein and as the same may subsequently be amended or modified.

(s) **Plan Year** means the first day of the calendar year through the last day of the same calendar year.

(t) **Regional Director** means any person who serves as a regional or local director with respect to Colonial Bank, N.A.

(u) **Regular Fees** means that amount of the fees payable to a Director in cash, and without regard to attendance at Meetings, during a Plan Year.

(v) **Restricted Stock** means Common Stock of the Company issued under this Plan to a Director with regard to which restrictions apply as provided herein.

(w) **Restricted Stock Award** means an award of Common Stock made under the Plan not received or vested, but shall become free and clear from all restrictions and encumbrances upon the expiration of the Term or Tenure of such Director as set forth in the Award Agreement evidencing such Award.

(x) **Shares** means shares of Common Stock of the Company as defined herein.

(y) **Section 409A** means Internal Revenue Code Section 409A and the regulations thereunder.

(z) **Subsidiary** means a subsidiary of the Company, or any subsidiary of a Subsidiary.

(aa) **Supplemental Fees** means fees paid to a Director for attendance at Board meetings, special Meetings of the Board, or otherwise, and which are paid only on an ad hoc basis.

(bb) **Term** means a term of one year, commencing on January of each year, in the case of Bank Directors and Regional Directors, and one year of a BancGroup Director s three year term commencing with the annual meeting of shareholders of the Company.

(cc) **1933 Act** means the Securities Act of 1933.

Whenever appropriate, words used herein in the singular may be read as the plural and the plural may be read as the singular. Masculine pronouns used herein shall be deemed to refer both to women and men.

***3. Election or Award of Restricted Shares of Common Stock In Lieu of Cash for Director Fees.***

(a) Subject to the restrictions and risks of forfeiture contained in Section 6 below, each Director may elect to receive that number of whole Shares of Common Stock, rounded to the nearest whole number, determined by dividing the Regular Fees the Director is to receive during the Plan Year by the average of the closing prices of Common Stock for the period as described in A, B or C below, as applicable. A Director must make the election

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to receive a percentage of his or her Director's fees in stock prior to the beginning of the Plan Year. If the Director makes an election and does not change or revoke the election prior to the beginning of a subsequent Plan Year, the election shall remain in effect. An election is irrevocable for the Plan Year. For the purposes of this Plan, "closing price" shall mean the closing price of the Common Stock as reported by the New York Stock Exchange ( "NYSE" ) or such other market value as the Board of Directors of BancGroup shall determine if the Common Stock ceases to be quoted on the NYSE.

When any Director is elected for a Term commencing after the first day of the Plan Year or ending prior to the last day of the Plan Year, the Regular Fees used in calculating the amount subject to this Section 3(a) shall be reduced to reflect the number of Meetings expected to be held during such Plan Year, or the number of months remaining in such Plan Year, as may be appropriate, treating the Meeting on the day of his election as the first Meeting of the Term and the Meeting on the day Directors are elected for a succeeding Term as the last Meeting during the Term. In the event the Regular Fees shall be increased, Directors then in office shall be awarded additional Shares of Common Stock based upon the average of the closing prices of the Common Stock for the applicable period described in A, B or C below, treating only the amount of such increase as the Regular Fees used in the calculation of the additional amount under this Section 3(a). In the event the Regular Fees shall be decreased, the number of Shares of Common Stock subject to this Section 3(a) for Directors then in office shall be decreased based upon such average of the closing prices of the Common Stock prior to their election, treating the amount of such decrease as the amount by which the number of Shares to be awarded shall be decreased.

A Director may also elect to receive Common Stock at the end of the Plan Year based upon the amount of Supplemental Fees such Director would have been entitled to receive during such Plan Year, subject to the restrictions and risks of forfeiture contained in Section 6 below, provided such Director has elected to receive Common Stock in lieu of cash payment prior to the beginning of the Plan Year. The number of Shares to which the Director is entitled shall be calculated at the end of the Plan Year and shall be equal to that number of whole Shares of Common Stock, rounded to the nearest whole number, determined by dividing the Supplemental Fees the Director would have received during the Plan Year by the average of the closing prices of the Common Stock for the period described in A, B or C below, as applicable.

With regard to the election to receive Common Stock in lieu of cash compensation as provided in this Section 3(a):

A. For BancGroup Directors, a minimum of 25% of all fees (Regular Fees and Supplemental Fees) earned during each quarter must be paid in stock. The Director must make an annual election prior to the beginning of the Plan Year to receive 25%, 40%, 50%, 60%, 75% 85% or 100% of his or her fees in stock. The value of stock issued will be the five day average of BancGroup stock closing prices for a five day period with the last day being the last business day of the calendar quarter in which services were rendered. Stock earned during the Plan Year will be accrued and remain restricted through the end of the Plan Year and will be paid on the last day of the month following the end of the Plan Year.

B. For Bank Directors, a minimum of 25% of all fees (Regular Fees and Supplemental Fees) earned during each quarter must be paid in stock. The Director must make an annual election prior to the beginning of the plan year to receive 25%, 40%, 50%, 60%, 75%, 85% or 100% of his or her fees in stock. The value of stock issued will be the five day average of BancGroup stock closing prices for a five day period with the last day being the last business day of the calendar year immediately preceding the Plan Year in which services were rendered. Stock earned during the Plan Year will be accrued and remain restricted through the end of the Plan Year and will be paid on the last day of the month following the end of the Plan Year.

C. Regional Directors will make an annual election to receive fees in cash or stock. The value of stock issued will be the five day average of BancGroup stock closing prices for a five day period with the last day being the last business day of the calendar year immediately preceding the Plan Year in which services were rendered. Stock earned during the Plan Year will be accrued and will remain restricted through the end of the Plan Year and will be paid on the last day of the month following the end of the Plan Year.





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(b) In addition to the elections of Directors to receive payment of fees in stock, the Company may, from time to time, grant Shares of Restricted Stock to Directors in such amounts as the Committee shall determine. Each Restricted Stock grant shall be evidenced by a Restricted Stock Award Agreement that shall specify the Period(s) of Restriction, the number of Shares of Restricted Stock granted, and such other provisions as the Committee shall determine. All Shares of Restricted Stock granted pursuant to this Section 3(b) shall be granted at Fair Market Value (non-discounted). Shares of Restricted Stock granted pursuant to this paragraph may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated until the end of the applicable Period of Restriction established by the Committee and specified in the Restricted Stock Award Agreement, or upon earlier satisfaction of any other conditions, as specified by the Committee in its sole discretion and set forth in the Restricted Stock Award Agreement. All rights with respect to the Restricted Stock granted under this Plan shall be available during the Director's lifetime only to such Director.

The Committee may impose such other conditions and/or restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable including, without limitation, a requirement that Directors pay a stipulated purchase price for each Share of Restricted Stock, and/or restrictions under applicable federal or state securities laws. At the discretion of the Committee, the Company may retain the certificates representing Shares of Restricted Stock in the Company's possession until such time as all conditions and/or restrictions applicable to such Shares have been satisfied. Except as otherwise provided herein, Shares of Restricted Stock granted under the Plan shall become freely transferable by the Director after the last day of the applicable Period of Restriction. During the Period of Restriction, Directors holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares. During the Period of Restriction, Directors holding Shares of Restricted Stock granted hereunder may be credited with regular cash dividends paid with respect to the underlying Shares while they are so held. Such dividends may be paid currently, accrued as contingent cash obligations, or converted into additional Shares of Restricted Stock, upon such terms as the Committee may establish. The Committee may apply any restrictions to the dividends that the Committee deems appropriate. Without limiting the generality of the preceding sentence, if the dividend constitutes a derivative security or an equity security pursuant to Rule 16(a) under the Exchange Act, such dividend shall be subject to a vesting period equal to the remaining vesting period of the Shares of Restricted Stock with respect to which the dividend is paid. Each Restricted Stock Award Agreement shall set forth the extent to which the Director shall have the right to retain unvested Restricted Shares following termination of his or her position as a Director with the Company in all other circumstances. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each Director, need not be uniform among all Shares of Restricted Stock issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination of service.

(c) Notwithstanding any other provision of this Plan except for adjustments for stock splits, stock dividends, and other events specified herein, no Director may elect to receive or be awarded more than 5,000 Shares of Common Stock for any Plan Year as defined in Section 2(bb).

**4. *Terms and Conditions of Award.*** A Restricted Stock Award shall be evidenced by a written Award Agreement in appropriate form between the Company and the Director. Any Director who fails to enter into a valid Award Agreement with the Company shall be ineligible to receive a grant of Restricted Stock as provided herein. Such Award Agreement shall be subject to the provisions of the Plan. The Award of any Common Stock to a Director under the Plan shall not entitle such Director to, or disqualify him from, a further Award of Common Stock under the Plan at a later date. Directors who serve as Directors of the Company and of one or more Subsidiaries are eligible for Awards of Common Stock in all such capacities.

Shares of Common Stock awarded and not vested under the Plan shall be awarded in the name of the Director only. All BancGroup Directors must execute a Special Power of Attorney allowing the Company to file Form 4 and Form 5's on their behalf. No more than 5,000 Shares may be awarded to and/or elected by any Director in a particular Plan Year as determined on a combined basis under Sections 3(a) and (b).

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**5. Securities Laws and Securities Exchange Restrictions on Common Stock Elected or Awarded Under the Plan.** The Company shall have no obligation to issue Shares of Common Stock hereunder until such time as registration of such Shares has become effective with the Securities and Exchange Commission and with the securities authority of any state or other jurisdiction in which such registration is required. In the case of all Shares of Common Stock elected or awarded under the Plan (unless such Shares have been registered under the 1933 Act), the election form and/or written Award Agreement evidencing the Award of such Shares shall contain a representation that such Shares are being acquired not with a view to resale or distribution and will not be sold or otherwise transferred by the Director to whom the election is provided or Award is made, except in compliance with the 1933 Act and rules and regulations thereunder. The election and/or Award Agreement may contain any other restrictions on the Shares of Common Stock that the Company deems advisable, including, without limitation, any restrictions necessary to meet the requirements of the NYSE or quotation system of a national securities association (including the NYSE) under which Shares of Common Stock are then listed or traded, and any Blue Sky or state securities laws applicable to the Shares of Common Stock. Share certificates issued in connection with elections or Awards of Common Stock under the Plan shall bear such legends and statements as the Company shall deem advisable to assure compliance with federal and state securities laws and regulations.

**6. Deferred Vesting of Common Stock.** A Director to whom a Restricted Stock Award has been made under the Plan shall not receive or be vested in the Common Stock awarded by reason of such Award, but shall receive and become vested in such Common Stock only upon the expiration of the Term of such Director as set forth in the written Award Agreement evidencing such Award, or upon such Director's earlier death or removal without cause. Upon the occurrence of such event, payment shall be made to the Director in accordance with the Award on the last day of the month following the end of the Plan Year in which the event occurred. A Director who will receive all or a portion of his or her Director's fees in the form of Common Stock as provided in Section 3(a) shall become vested in such Common Stock as of the last day of the Plan Year or upon such Director's earlier death or removal without cause. Upon the occurrence of such event, payment shall be made to the Director on the last day of the month following the end of the Plan Year.

Any Shares of Common Stock awarded under the Plan pursuant to Section 3(b) or paid in lieu of cash compensation in accordance with Section 3(a) which are not vested (a) shall not be sold, transferred, assigned, pledged, hypothecated, anticipated, alienated, encumbered or charged, whether voluntarily, involuntarily or by operation of law, and (b) shall be forfeited to the Company in the event the Director to whom such Shares were awarded ceases to be a Director for any reason other than death or removal without cause. Certificates for all Shares of Common Stock awarded under the Plan shall remain in the custody of the Company or its designated agent until the Shares represented thereby become vested. A Restricted Stock Award, if granted, will vest five years from the date of grant but will remain restricted until the Director resigns from service with BancGroup or due to death, failure to be nominated for another term by the Corporate governance committee or if nominated for another term and not approved by shareholder vote. Notwithstanding the foregoing, any restricted Shares issued under this Plan shall immediately vest upon the occurrence of a (i) Change in Control of the Company and (ii) upon dissolution of the Board of Directors of the Company.

With regard to a Director's receipt of Shares of Common Stock in lieu of cash payment of Director's fees pursuant to Section 3(a) above, delivery of such Shares shall be made on the last day of the month following the end of the Plan Year. As a result, the Company intends that the arrangement described in Section 3(a) shall be exempt from coverage of Internal Revenue Code Section 409A as a short-term deferral. Further, with regard to the Award of Restricted Stock pursuant to Section 3(b), the Company intends the arrangement to be exempt from coverage of Internal Revenue Code Section 409A as an exempted restricted stock program.

**7. Amendment and Termination of the Plan.** The Plan may be amended at any time by the Board of Directors of the Company; provided, however, that approval of the Company's shareholders shall be obtained for any amendment which (a) materially increases the benefits accruing to Directors under the Plan; (b) materially increases the number of Shares that may be awarded under the Plan, or (c) materially modifies the requirements

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as to eligibility for participation in the Plan. The Plan will continue until discontinued or terminated by the Board. Notwithstanding the foregoing, however, no amendment, discontinuance, or termination of the Plan shall, without the consent of any persons affected thereby, alter or impair any rights or obligations created prior to such amendment, discontinuance, or termination.

8. **Shareholder Rights.** Directors to whom Shares of Common Stock have been awarded in lieu of Regular Fees under Section 3(a) of the Plan shall have all rights of shareholders to vote such Shares and to receive dividends thereon with respect to Shares of Common Stock so awarded, even though the Director's interest in such Shares has not vested under Section 6 hereof, provided that dividends shall be paid and voting rights granted only on a quarterly basis as to that number of Shares a Director would be entitled to receive for the quarter calculated by dividing the number of Shares awarded for the Plan Year and divided by the number of quarters in the Plan Year. If Shares of Common Stock, as a result of a stock split or stock dividend or combination of Shares or any other change, or exchange for other securities, by reclassification, reorganization, redesignation, merger, consolidation, recapitalization or otherwise, shall be increased or decreased or changed into or exchanged for a different number or kind of Shares or other securities of the Company or of another corporation, the number of Shares of Common Stock shall be appropriately adjusted to reflect such action. If any such adjustment shall result in a fractional Share, such fractions shall be disregarded.

9. **No Enlargement of Rights.** An Award under the Plan or right to receive payment in Common Stock in lieu of cash compensation shall not confer upon any Director any right to continue in office and shall not restrict or interfere with any rights to effect his removal from office at any time in accordance with law and the regulations of the Company.

10. **Withholding of Taxes.** The Company may require, as a condition to the election to receive or Award of Common Stock under the Plan or to the delivery of the certificates for Shares when such Shares become vested, that the recipient pay to the Company or to the appropriate Subsidiary, in cash, any federal, state or local taxes of any kind required by law to be withheld with respect to the award or delivery to the Director of Shares of Common Stock. The Company, or the appropriate Subsidiary, to the extent permitted or required by law, shall have the right to deduct from any payment of any kind otherwise due to such Director any federal, state or local taxes of any kind required by law to be withheld with respect to the Award or delivery of Common Stock under the Plan.

11. **Authorization of Shares.** Subject to adjustment as provided herein, the number of Shares available for grants under this Plan is 500,000. Neither (a) Shares that are issued in respect of awards that the Company or a Subsidiary either assumes in, or substitutes for awards that were issued by another party (or its predecessor) in a merger consolidation or acquisition or other transaction involving the Company or a subsidiary nor (b) Awards that are settled in the form of cash, shall be counted against the forgoing number of Shares reserved for issuance under the Plan. Any Shares authorized for use under this Plan which are not used during the existence of the Plan shall be deregistered. In the event of any change in corporate capitalization, such as a stock split, or a corporate transaction, such as a merger, consolidation, separation, split-off or other distribution of stock or property of the Company, any reorganization or partial or complete liquidation of the Company, such adjustment shall be made in the number and class of Shares which may be delivered under this Section as may be determined to be appropriate and equitable by the Committee to prevent dilution or enlargement of rights; provided, however, that the number of Shares subject to any Award shall always be a whole number. If any Award granted under this Plan is cancelled, rescinded, terminates, expires, or lapses for any reason, any Shares subject to such Award again shall be available for the grant of an Award under the Plan.

12. **Expenses.** All expenses and costs in connection with the adoption and administration of the Plan shall be borne by the Company.

13. **Notice.** Any notice or other communication required or permitted hereunder shall be in writing and shall be deemed given when personally delivered to the addressee or deposited in the United States mail, postage prepaid and properly addressed to the addressee's last known address.



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14. **Internal Revenue Code Section 409A.** This Plan is intended to be exempt from Section 409A requirements due to (i) the exemption for short term deferrals with regard to the payment of Director s fees provided in Section 3(a) above, and (ii) the exemption for certain restricted stock plans with regard to the Restricted Stock provided in Section 3(b) above, pursuant to the terms of Section 409A. The Plan shall be amended as determined to be necessary by the Company to remain in compliance with the exemptions from Section 409A or otherwise for legal compliance.

15. **Date.** The effective date of this Plan is January 1, 2007. Notwithstanding the foregoing, with regard to individuals who are BancGroup Directors on January 1, 2007, any election pursuant to Section 3(a) above shall be effective January 29, 2007.

**THE COLONIAL BANCGROUP, INC.**

By: /s/ Robert E. Lowder

Its: Chairman, CEO and President

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ATTEST:

/s/ David B. Byrne, Jr.

Its: EVP, Secretary and General Counsel

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**Appendix B**

**THE COLONIAL BANCGROUP, INC.**

**MANAGEMENT INCENTIVE PLAN**

**1. DEFINITIONS**

1.1. **BancGroup** means The Colonial BancGroup, Inc., a corporation organized and existing under the laws of the State of Delaware, with its principal place of business in Montgomery, Alabama, and any successor thereto, whether by merger, consolidation, sale of assets, liquidation, or otherwise.

1.2. **Board** means the Board of Directors of BancGroup.

1.3. **Code** means the Internal Revenue Code of 1986, as amended.

1.4. **Committee** means the Personnel and Compensation Committee of the Board.

1.5. **Compensation** means the base salary paid to Participants, excluding overtime, commissions, awards from other incentive programs, BancGroup contributions to fringe benefit programs, and other non-salary income.

1.6. **Executive Officer** means those officers of BancGroup within the meaning of Rule 16a-1(f) under the Securities and Exchange Act of 1934, as amended.

1.7. **Participant** means an Executive Officer who has been designated for participation in the Plan by the Committee in accordance with Section 3 of the Plan and who has commenced participation in the Plan.

1.8. **Performance Agreement** means the written notice described in Section 3.2 of the Plan, executed by an Executive Officer of BancGroup and transmitted on behalf of the Committee by BancGroup to each Participant, setting forth the terms and conditions of each Participant's participation in the Plan.

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1.9. **Plan** means the Management Incentive Plan of BancGroup established by this document, as amended from time to time, and any related Performance Agreements.

1.10. **Plan Year** means any performance period which begins on January 1 of a particular year and ends on December 31 of that same year.

### **2. PURPOSE**

The Plan is intended to promote and encourage excellence in the performance of responsibilities by the Executive Officers, to maximize BancGroup's soundness, profitability and growth, and to provide an incentive opportunity that will permit those members of management who are positioned to make significant contributions to BancGroup's success to receive appropriate total cash compensation.

### **3. PARTICIPATION**

3.1. *Selection to Participate.* The Committee, prior to the close of each Plan Year, may designate in writing one or more Executive Officers as persons eligible to participate in the Plan during the next succeeding Plan Year. The Committee shall solicit the recommendation of the Chairman with respect to the participation of an Executive Officer, other than the Chairman, in the Plan. Participation in the Plan is conditional; participation in one Plan Year does not guarantee participation in successive years.

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### *3.2. Designation of Award and Performance Goals.*

3.2.1. Not later than ninety (90) days after the commencement of each Plan Year, the Committee shall approve and establish, and communicate in writing to each Participant in the Plan for such Plan Year, the terms and conditions of each such Participant's participation in the Plan for such Plan Year, including the award that each such Participant will be eligible to earn during such Plan Year (which shall be expressed as a percentage of each such Participant's Compensation as of the first day of such Plan Year and which shall specify a minimum, maximum, and target award for each such Participant) and the performance goals that must be achieved in order for each such Participant to earn such award; provided, however, that in no event shall the Committee grant any Participant under the Plan an award that could result in such Participant earning an amount under the Plan greater than \$3,000,000 with respect to any Plan Year.

3.2.2. The Committee shall establish corporate performance goals of one or more of the following business criteria: (1) earnings per share, (2) net income, (3) asset quality, (4) shareholder return, (5) stock price, (6) return on assets, (7) return on equity, (8) return on revenue, (9) return on capital, (10) changes in working capital, (11) EBITDA (earnings before interest, taxes, depreciation and amortization), (12) EBIT (earnings before interest and taxes), (13) cash flow, (14) net profit before tax, (15) gross profit, (16) operating profit, (17) book value, (18) market capitalization or (19) price-earnings ratio. Performance goals established by the Committee shall be objective performance goals within the meaning of section 162(m) of the Code and Treasury Regulations promulgated thereunder. Furthermore, and notwithstanding any other provision of the Plan to the contrary, once the Committee has established performance goals for a participant, the Committee shall have no discretion to (i) increase the amount of compensation that would otherwise be due upon the attainment of the goals, or (ii) alter the goals for the Plan Year to which they relate. The Committee may, however, decrease the resulting payout in its discretion.

3.2.3. In establishing the award and performance goals of Participants in the Plan, the Committee shall consider the Participant's level of responsibility with BancGroup and the Participant's potential contribution to the performance goals of BancGroup. In establishing the award and performance goals of any Participant other than the Chairman of BancGroup, the Committee shall solicit the recommendation of BancGroup's Chairman.

3.2.4. The Committee shall assign weightings to indicate the relative importance of each business criteria in determining incentive awards earned under the Plan. The sum of weightings assigned to any Participant must equal 100%. These weightings may vary from Plan Year to Plan Year, and, except with respect to the Chairman, shall be based on recommendations by the Chairman subject to approval by the Committee. The Committee shall assign such weightings not later than ninety (90) days after the commencement of each Plan Year, and such weightings shall remain in effect for the remainder of the Plan Year.

## **4. PAYMENT OF AWARDS**

4.1. *Calculation of Award Payments.* Within sixty (60) days following the close of each Plan Year in which a Participant is participating in the Plan, the Committee shall compare the terms and conditions of the award of each Participant and the performance goals assigned to each such Participant. Following such determination, and prior to the payment of awards pursuant to Section 4.2 below, the Committee shall certify in writing to each Participant and to the Board whether each Participant has met the terms and conditions of the award for the Plan Year in question.

4.2. *Payment of Award Amounts.* All awards determined to have been earned pursuant to Section 4.1 of the Plan shall be payable in cash, as soon as administratively possible following the certification described in Section 4.1 above, but in no event later than seventy-five (75) days following the close of the Plan Year to which such award related.



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*4.3. Effect of Termination of Employment on Payment of Award.*

4.3.1. If a Participant terminates employment during a Plan Year for any reason other than retirement, disability, or death, no award will be payable under the Plan.

4.3.2. If a Participant's employment terminates during a Plan Year as a result of retirement, disability, or death, the Participant, his beneficiary, or his estate will receive a pro-rata portion of the incentive award determined as of the end of the Plan Year. The proration will be based on the Participant's year-to-date Compensation for the Plan Year and the achieved levels of performance as of the end of the Plan Year. The pro-rated award will be paid at the same time as awards are paid to active Participants.

4.3.3. If a Participant's employment is terminated during a Plan Year for willful dishonesty or gross misconduct, no award will be payable. If a Participant's employment is terminated other than for willful dishonesty or gross misconduct, the Participant will receive a pro-rata portion of the incentive award determined as of the end of the Plan Year. The proration will be based on the Participant's year-to-date Compensation for the Plan Year and the achieved levels of performance as of the end of the Plan Year. The pro-rated award will be paid at the same time as awards are paid to active Participants.

**5. ADMINISTRATION**

5.1. The Committee, as Plan administrator, is authorized to administer the Plan, subject to and in accordance with the provisions set forth herein, and shall have all powers necessary and appropriate to enable it to properly administer the Plan, including but not limited to the power to:

5.1.1. approve the establishment and range of corporate goals, recommendations regarding participation, the amount of individual award payments, and all matters relating to the day-to-day operation of the Plan;

5.1.2. construe and interpret the Plan, establish rules and regulations, delegate such administrative responsibilities as it deems proper, and to perform all other acts it deems necessary to carry out the intent and purpose of the Plan;

5.1.3. suspend or terminate, in whole or in part, or amend the terms of the Plan, at any time, without the need for obtaining approval of the shareholders, by an instrument in writing; provided, however, that shareholder approval shall be required for any amendment that changes the material terms of the Plan applicable to any Participant;

5.1.4. cancel the participation of any person who conducts himself in a manner which the Committee, in the exercise of reasonable discretion, determines to be inimical to the best interests of BancGroup; and

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5.1.5. correct any defect, supply any omission, or reconcile any inconsistency in the Plan, in the manner and to the extent it shall deem necessary.

5.2. The Committee's determination under the Plan of the persons to participate and receive awards and the terms and conditions of such awards need not be uniformly applicable to all Participants, but may be made by the Committee on a selective basis among persons who receive or are eligible to receive awards under the Plan, whether or not such persons are similarly situated. The Committee shall have final approval authority over the payment of all awards under this Plan, whether individually or collectively.

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**6. PLAN FUNDING AND ACCRUALS OF AWARDS**

The Plan is unfunded and awards hereunder shall be paid from general corporate funds.

**7. NEW PARTICIPANTS, PROMOTIONS, OR TRANSFERS**

All participation in the Plan is subject to approval by the Committee. Newly hired or promoted employees who enter positions which are considered to be eligible for participation in the Plan normally will, upon approval by the Committee, enter the Plan on January 1 next following the date of hire or promotion. The Chairman, however, subject to approval by the Committee, may authorize immediate participation upon hire or promotion.

**8. MISCELLANEOUS**

8.1. *Construction of Plan.* Except as provided under federal law, the provisions of the Plan shall be governed by and construed in accordance with the laws of the State of Delaware, and shall be binding on and inure to the benefit of any successor or successors to BancGroup.

8.2. *Right to Employment.* Participation in this Plan shall not be construed as giving any Participant the right to be retained in the employ of BancGroup. Further, BancGroup expressly reserves the right at any time to dismiss any Participant with or without cause, such dismissal to be free from any liability or any claim under the Plan, except as provided herein.

8.3. *Nonalienation of Benefit.* No benefit under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge, and any attempt to do so shall be void.

8.4. *Withholding of Taxes.* BancGroup shall have the right to deduct from any award payable under this Plan all applicable withholding and employment taxes at such times as they are due.

8.5. *Plan Expenses.* Any expenses incurred in the administration of this Plan shall be borne by BancGroup.

8.6. *Entire Agreement.* This Plan, as completed and executed by BancGroup, the Performance Agreements, and all amendments thereto, will constitute the entire agreement between BancGroup and Participants regarding the Plan.

8.7. *Captions.* The captions or headings in this Plan are made for convenience and general reference only and shall not be construed to describe, define, or limit the scope or intent of the provisions of this Plan.

8.8. *Number and Gender.* The masculine pronoun used shall include the feminine pronoun and the singular number shall include the plural number unless the context of the Plan requires otherwise.

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**IN WITNESS WHEREOF**, The Colonial BancGroup, Inc. has caused this Management Incentive Plan to be executed as of the 19th day of March, 2007.

**THE COLONIAL BANCGROUP, INC.**

By: /s/ Simuel Sippial, Jr.

\_\_\_\_\_  
Its: Compensation Committee Chairman  
\_\_\_\_\_

ATTEST:

/s/ David B. Byrne, Jr.

\_\_\_\_\_  
Its: EVP, Secretary and General Counsel  
\_\_\_\_\_

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**PROXY**

**SOLICITED BY THE BOARD OF DIRECTORS  
THE COLONIAL BANCGROUP, INC.**

**Annual Meeting of Shareholders**

**April 18, 2007**

The undersigned hereby appoints Lewis E. Beville and Simuel Sippial, Jr., and either of them, or such other persons as the Board of Directors of The Colonial BancGroup, Inc. ( BancGroup ) may designate, proxies for the undersigned, with full power of substitution, to represent the undersigned and to vote all of the shares of common stock, par value \$2.50 per share, of BancGroup (the Common Stock ) which the undersigned would be entitled to vote at the annual meeting of shareholders to be held on April 18, 2007, and at any and all adjournments thereof. The proxies, in their discretion, are further authorized to vote (i) for the election of a person to the Board of Directors if any nominee named herein becomes unable to serve or for good cause will not serve, and (ii) on any other matter that may properly come before the meeting, including matters incident to the conduct of the meeting.

**(Continued and to be signed on reverse side.)**

␣ FOLD AND DETACH HERE ␣



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1. To elect the following Directors for terms expiring in 2010:		<b>FOR</b>	<b>WITHHOLD</b>
(01) Robert S. Craft	(04) Robert E. Lowder	listed except as	authority to vote
(02) Hubert L. Harris	(05) John C.H. Miller, Jr.	marked to the contrary	for all nominees
(03) Clinton O. Holdbrooks	(06) James W. Rane	"	"

**INSTRUCTIONS: TO WITHHOLD AUTHORITY TO VOTE FOR ANY INDIVIDUAL, STRIKE A LINE THROUGH THE NOMINEE'S NAME IN THE ABOVE LIST.**

2. To approve the 2007 Stock Plan for Directors.

FOR " AGAINST " ABSTAIN "

3. To approve the Management Incentive Plan.

FOR " AGAINST " ABSTAIN "

4. To ratify the appointment of PricewaterhouseCoopers LLP as BancGroup's independent auditor for 2007.

FOR " AGAINST " ABSTAIN "

**PLEASE MARK ONE OF THE BOXES FOR EACH PROPOSAL TO REFLECT YOUR VOTE.**

**PLEASE SIGN AND DATE THIS PROXY.**

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS AND WILL BE VOTED AS DIRECTED HEREIN. IF NO DIRECTION IS GIVEN, THIS PROXY WILL BE VOTED **FOR** THE PERSONS NAMED IN PROPOSAL 1 AND **FOR** PROPOSALS 2, 3 AND 4 ABOVE.

Signature(s) \_\_\_\_\_  
 Dated: \_\_\_\_\_, 2007

Please sign exactly as your name appears on this card. Agents, executors, administrators, guardians, and trustees must give full title as such. Corporations should sign by their President or authorized officer.

⌵ Please detach proxy at perforation before mailing. ⌵

YOU MAY VOTE BY TELEPHONE OR THE INTERNET.

*If you are voting by telephone or the internet, please do not mail your proxy.*

( **VOTE BY TELEPHONE** )

Call **Toll-Free** using a Touch-Tone phone

**1-800-652-8683**

**VOTE BY INTERNET**

Access the Website and cast your vote

**<http://www.computershare.com/expressvote>**

**VOTE BY MAIL**

Return your proxy in the **postage-paid** envelope provided.

**Vote 24 hours a day, 7 days a week!**

Your telephone or internet vote must be received by 11:59 p.m. eastern daylight time  
on April 17, 2007 to be counted in the final tabulation.

**YOUR CONTROL NUMBER IS \_\_\_\_\_**

**Vote by Telephone**

Have your proxy card available when you call the Toll-Free number **1-800-652-8683** using a touch-tone phone. You will be prompted to enter your control number and then you can follow the simple prompts that will be presented to you to record your vote.

**Vote by Internet**

Have your proxy card available when you access the website **<http://www.computershare.com/expressvote>**. You will be prompted to enter your control number and then you can follow the simple prompts that will be presented to you to record your vote.

**Vote by Mail**

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Please mark, sign and date your proxy card and return it in the **postage-paid envelope** provided or return it to: Proxy Services, C/O Computershare Investor Services, P.O. Box 43102, Providence, RI. 02940.

### **To Change Your Vote**

Any subsequent vote by any means will change your prior vote. For example, if you voted by telephone, a subsequent internet vote will change your vote. The last vote received before 11:59 p.m. eastern daylight time, April 17, 2007 will be the one counted. You may also revoke your proxy by voting in person at the Annual Meeting.