

COLONIAL BANCGROUP INC
Form DEF 14A
March 14, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

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

Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

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

The Colonial BancGroup, Inc.

(Name of Registrant as specified in Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

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

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

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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TO OUR SHAREHOLDERS:

We cordially invite you to attend the annual meeting of the shareholders of The Colonial BancGroup, Inc. to be held at 10:00 a.m., central time, Wednesday, April 16, 2008, at the Colonial Corporate Campus, 100 Colonial Bank Boulevard, Montgomery, Alabama.

Enclosed is a Notice of the meeting, a Proxy Statement, a Proxy Card and the Annual Report to Shareholders for 2007. At the meeting, we will also report on matters of current interest to our shareholders.

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

Thank you for your support of Colonial BancGroup.

Sincerely,

Robert E. Lowder

Chairman of the Board,

Chief Executive Officer and President

March 18, 2008

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

To Be Held April 16, 2008

NOTICE IS GIVEN that the annual meeting of shareholders of The Colonial BancGroup, Inc. (BancGroup), a Delaware corporation, will be held at the Colonial Corporate Campus, 100 Colonial Bank Boulevard, Montgomery, Alabama, on Wednesday, April 16, 2008 at 10:00 a.m., central time, for the following purposes:

1. To elect the nominees named in the Proxy Statement as directors to serve terms of three years;
2. To ratify the appointment of PricewaterhouseCoopers, LLP as BancGroup s independent auditors for 2008;
3. To approve the amended Stock Plan for Directors;
4. To approve the amended Management Incentive Plan;
5. To vote on a shareholder proposal;
6. To transact such other business as may properly come before the meeting or any adjournments thereof, but which is not now anticipated.

Details respecting these matters are set forth in the accompanying Proxy Statement. Only shareholders of record at the close of business on February 20, 2008 will be entitled to notice of, and to vote at, the meeting. A complete list of the shareholders of record entitled to vote at the meeting, arranged in alphabetical order and showing the address of each shareholder and the number of shares registered in the name of each shareholder, shall be open to examination by any shareholder at BancGroup s principal office at 100 Colonial Bank Boulevard, Montgomery, Alabama, during ordinary business hours for any purpose germane to the meeting. Such list will be open for a period of at least ten days prior to the meeting.

All shareholders of BancGroup are cordially invited to attend the meeting in person. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, PLEASE SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT IN THE ACCOMPANYING ENVELOPE AS PROMPTLY AS POSSIBLE. ALTERNATIVELY, YOU MAY VOTE YOUR PROXY VIA TELEPHONE OR THE INTERNET. YOUR PROXY MAY BE REVOKED BY YOUR VOTE IN PERSON AT THE MEETING, BY YOUR EXECUTION AND SUBMISSION OF A LATER DATED PROXY BEFORE THE MEETING, OR IF YOU VOTE ELECTRONICALLY, THEN BEFORE 11:59 P.M. EASTERN TIME ON APRIL 15, 2008, OR BY YOU GIVING WRITTEN NOTICE OF REVOCATION TO THE SECRETARY OF BANCGROUP AT ANY TIME PRIOR TO THE VOTING THEREOF.

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By Order of the Board of Directors

Robert E. Lowder

Chairman of the Board,

Chief Executive Officer and President

March 18, 2008

**Important Notice Regarding the Availability of Proxy Materials for the
Shareholder Meeting to Be Held on April 16, 2008**

The proxy statement and annual report to shareholders are available at

www.cstproxy.com/colonialbank/2008/

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THE COLONIAL BANCGROUP, INC.

100 Colonial Bank Boulevard

Post Office Box 241148

Montgomery, Alabama 36124

Telephone: 334-676-5000

PROXY STATEMENT

FOR 2008 ANNUAL MEETING OF SHAREHOLDERS

OVERVIEW

This Proxy Statement and the accompanying Proxy Card are furnished on or about March 18, 2008, by The Colonial BancGroup, Inc. (BancGroup) to the holders of record of Common Stock as of February 20, 2008 in connection with BancGroup s annual meeting of shareholders (the Annual Meeting), and any adjournments thereof, to be held on Wednesday, April 16, 2008, at 10:00 a.m., central time, at the Colonial Corporate Campus, 100 Colonial Bank Boulevard, Montgomery, Alabama. The matters to be considered and acted upon, including the election of directors, are described herein.

BancGroup s Nominating and Corporate Governance Committee and the Board of Directors of BancGroup (the Board) recommend (i) the election of each of the five director-nominees named in this Proxy Statement for a term of three years, (ii) the ratification of PricewaterhouseCoopers, LLP as BancGroup s independent auditors for 2008, (iii) the approval of the amended Stock Plan for Directors, (iv) the approval of the amended Management Incentive Plan in order that payments made under this plan will continue to be afforded beneficial tax treatment under Section 162(m) of the Internal Revenue Code of 1986, and (v) a vote AGAINST the shareholder proposal.

Your proxy is solicited on behalf of the Board and is revocable at any time prior to the voting of such proxy by giving written notice of revocation to the Secretary of BancGroup, by submitting a later-dated proxy, or by voting in person at the Annual Meeting. Mere attendance at the Annual Meeting without voting in person will not be sufficient to revoke a previously submitted proxy. All properly submitted proxies delivered pursuant to this solicitation will be voted at the Annual Meeting in accordance with instructions, if any. If no instructions are given, the proxies will be voted FOR election of the director-nominees named herein, FOR Proposals 2, 3 and 4 and AGAINST Proposal 5 and in accordance with the instructions of management as to any other matters that may come before the Annual Meeting.

The cost of soliciting proxies will be borne by BancGroup. In addition to mailing, proxies may be solicited by personal interview, telephone, facsimile, e-mail or other electronic means. Banks, brokers, nominees or fiduciaries should forward the soliciting material to the principals to obtain authorization for the execution of proxies, as required by law. BancGroup also will allow proxies to be delivered by telephone or via the internet. BancGroup may, upon request, reimburse banks, brokers and other institutions, nominees and fiduciaries for their expenses in forwarding proxy material to the principals. BancGroup has retained the firm of Georgeson Shareholder Communications, Inc. to solicit proxies and will pay that firm a fee of \$7,000, plus out of pocket expenses.

SHAREHOLDERS ELIGIBLE TO VOTE

This Proxy Statement is furnished to the holders of Common Stock who were holders of record as of the close of business on February 20, 2008. Only those holders are eligible to vote at the Annual Meeting.

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

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

CORPORATE GOVERNANCE

Director Independence

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

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

Code of Ethics

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

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Corporate Governance Guidelines

In compliance with NYSE listing standards, BancGroup has adopted Corporate Governance Guidelines. These guidelines are posted on BancGroup's website at www.colonialbank.com.

SHAREHOLDER COMMUNICATIONS WITH DIRECTORS

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

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

BancGroup encourages its directors to attend its annual meeting of shareholders. Last year, all of BancGroup's directors attended the annual meeting.

VOTING SECURITIES AND PRINCIPAL SHAREHOLDERS

As of February 20, 2008, BancGroup had 158,049,100 shares of Common Stock outstanding with approximately 10,065 shareholders of record. Each such share is entitled to one vote. In addition, as of that date, 2,074,930 shares of Common Stock were subject to issuance upon the exercise of options pursuant to BancGroup's stock option plans. There are currently 400,000,000 shares of Common Stock authorized. BancGroup is not aware of any material change in the ownership of Common Stock since February 20, 2008.

Security Ownership of Certain Beneficial Owners

As of December 31, 2007, no person was known by BancGroup to be the beneficial owner of more than 5% of the outstanding shares of BancGroup common stock, except as follows:

Name and Address

of Beneficial Owner	Shares of Common Stock Beneficially Owned(1)	Percent of Class
Barclays Global Investors, NA 45 Fremont Street, San Francisco, CA 94105	12,817,898	8.11%

(1) This information is based on a Schedule 13G filed by Barclays Global Investors, NA on February 5, 2008. Barclays Global Investors, NA, Barclays Global Fund Advisors, Barclays Global Investors, LTD, Barclays Global Investors Japan Limited, and Barclays Global Investors Canada Limited share voting power over 11,641,820 of the shares and share dispositive power over all of the shares. These shares are held in trust accounts for the economic benefit of the beneficiaries of those accounts.

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The following table indicates for each director, director-nominee, executive officer, and all executive officers and directors of BancGroup as a group the number of shares of Common Stock beneficially owned on February 20, 2008.

Name	Shares of BancGroup Beneficially Owned	
	Common Stock	Percentage of Class Outstanding
DIRECTORS		
Lewis E. Beville	24,237(1)	*
Augustus K. Clements, III	58,071	*
Robert S. Craft	48,761(2)	*
Patrick F. Dye	31,025	*
Hubert L. Harris, Jr.	12,696	*
Clinton O. Holdbrooks	456,138(3)	*
Deborah L. Linden	10,448	*
Robert E. Lowder	7,265,386(4)	4.58%
John Ed Mathison	50,932(5)	*
Milton E. McGregor	1,001,460	*
John C. H. Miller, Jr.	43,242(6)	*
Joseph D. Mussafer	51,908	*
William E. Powell, III	36,417	*
James W. Rane	159,260(7)	*
Simuel Sippial, Jr.	49,429	*
Edward V. Welch	54,308(8)	*
EXECUTIVE OFFICERS WHO ARE NOT ALSO DIRECTORS		
Sarah H. Moore	245,137(9)	*
Caryn Cope Hughes	209,522(9)	*
Patti G. Hill	211,171(9)	*
David B. Byrne, Jr.	48,029(9)	*
All Executive Officers, and Directors as a group	10,067,577	6.34%

* Represents less than 1%.

- (1) Includes 474 shares owned by Mr. Beville's son.
- (2) Includes 2,808 shares held by the IRA of Mr. Craft's wife. Mr. Craft disclaims beneficial ownership of the shares.
- (3) Includes 80,000 shares held by Mr. Holdbrooks as trustee.
- (4) Includes 500,324 shares of Common Stock subject to options that are exercisable within 60 days of February 20, 2008. In addition, the total includes 25,960 shares owned by Mr. Lowder's wife. Mr. Lowder disclaims beneficial ownership of these shares. The total also includes 409,768 shares which are owned by the Estate of Catherine K. Lowder, deceased. Mr. Lowder is the personal representative and a beneficiary of the Estate and is also the trustee and a beneficiary of the Catherine K. Lowder Revocable Management Trust, to which the shares will be distributed. Mr. Lowder has been treated as the beneficial owner of these shares.
- (5) Includes 2,000 shares owned by Dr. Mathison's wife. Dr. Mathison disclaims beneficial ownership of these shares.
- (6) Includes 21,363 shares owned by Mr. Miller's wife. Mr. Miller disclaims beneficial ownership of these shares.
- (7) Includes 123 shares owned by a trust, of which Mr. Rane is the trustee. Mr. Rane disclaims beneficial ownership of these shares.
- (8) Includes 20,000 shares which are pledged as collateral for borrowings and 362 shares owned by Mr. Welch's wife's estate. Mr. Welch disclaims beneficial ownership of these shares.
- (9) Includes all shares subject to options that are exercisable within 60 days of February 20, 2008 by the following BancGroup officers: Ms. Moore (97,370), Ms. Hughes (40,310), Ms. Hill (77,570) and Mr. Byrne (15,111). Ms. Moore's amount includes 4,649 shares owned by her son. Mr. Byrne's amount includes 500 shares owned by his wife. Mr. Byrne disclaims beneficial ownership of these shares.

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PROPOSAL 1

ELECTION OF DIRECTORS

The Nominees

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

BancGroup's Amended and Restated Certificate of Incorporation provides for the election of directors by classes to terms of three years, with one class of approximately one-third of the total number of directors to be elected each year. Five nominees are proposed for election to the class of directors whose terms expire in 2011. At the Annual Meeting, proxies cannot be voted for more than five directors or for a person who has not been properly nominated.

Nomination Process

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

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

The Nominating and Corporate Governance Committee considers a variety of sources when evaluating individuals as potential Board members. BancGroup does not typically retain a search firm to assist in the selection of directors. Historically, most of BancGroup's director nominees have served on one of Colonial Bank's regional boards or the board of a company acquired by BancGroup, and have had a leadership position with a business or institution that is located in a community served by Colonial Bank. The Nominating and Corporate Governance Committee and the Board consider Colonial Bank regional board members to be an excellent source for nominees because service on a regional Colonial Bank board gives an individual an opportunity to better understand Colonial Bank and BancGroup, and the individual's prior service enables the Nominating and Corporate Governance Committee to evaluate the level of contribution that individual can make to BancGroup and its constituents. The Nominating and Corporate Governance Committee and Board also take into consideration the diversity of the Board when selecting nominees. The Nominating and Corporate Governance Committee will review this process from time to time and may alter the process at its discretion.

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

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

Vote Required

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

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

The following table provides certain biographical information about each nominee to be proposed on behalf of the Board and continuing directors whose terms will expire in 2009 and 2010. Unless otherwise indicated, each person has been engaged in the principal occupation shown for at least the last five years. The Board recommends that shareholders vote FOR the approval of the following Director nominees.

NOMINEES FOR A TERM EXPIRING IN 2011:

Name, Age and Year	Position and Office	Present and Principal Occupation for Last Five Years
Became Director Augustus K. Clements, III 65, 1997	Held with BancGroup And Colonial Bank Director, BancGroup; Member, Executive Committee; Director, Colonial Bank	Managing Partner, Clements Financial Group, LLC, from 2001 through 2004; Financial Representative, Clements Financial Group, LLC since January 2005, Montgomery, AL.
Patrick F. Dye 68, 1981	Director, BancGroup	Special Advisor, Auburn University; Part Owner, Craftmasters Printing; Assistant to the President, Auburn University Foundation, since 2002; Former Host of Pat Dye Outdoors (Radio Show); Owner, Crooked Oaks Hunting Preserve; Former Owner, Wildlife Information, LLC (sold in 2006), Auburn, AL.
Milton E. McGregor 68, 1993	Director, BancGroup; Member, Compensation Committee	Chief Executive Officer and President, Macon County Greyhound Park d/b/a Victoryland; Chief Executive Officer and President, Jefferson County Racing Association (greyhound racing facility); Part Owner, Southern Springs Nursing Home; Part Owner, Union Street Partners, Montgomery, AL
William E. Powell, III 63, 1987	Director, BancGroup; Member, Audit Committee; Member, Nominating and Corporate Governance Committee; Director, Colonial Bank; Member, Colonial Bank Fiduciary Audit Committee	Executive Vice President, Alabama Cattlemen's Association (trade association representing the beef cattle industry), Montgomery, AL

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Position and Office		
Name, Age and Year	Held with BancGroup	Present and Principal
Became Director Simuel Sippial, Jr. 65, 1997	And Colonial Bank Director, BancGroup; Chairman, Compensation Committee; Member, Executive Committee; Member, Risk Committee; Member, Nominating and Corporate Governance Committee; Director, Colonial Bank; Chairman, Colonial Bank Fiduciary Audit Committee; Member, Colonial Bank CRA Committee	Occupation for Last Five Years President, Sippial Enterprises, Inc. (real estate investment company), Montgomery, AL; Retired IBM Business Unit Executive
CONTINUING DIRECTORS WHOSE TERMS EXPIRE IN 2010:		

Position and Office		
Name, Age and Year	Held with BancGroup	Present and Principal
Became Director Robert S. Craft 56, 1992	And Colonial Bank Director, BancGroup; Chairman, Nominating and Corporate Governance Committee; Member, Executive Committee; Member, Risk Committee	Occupation for Last Five Years President, Craft Development Corp. (golf course ownership and development company); Managing Officer, Pinehurst Development (real estate development company); Managing Member, Craft Turf Farms LLC (turf grass production and sales company); President, Wingo Trucking Inc. (trucking company); Managing Member, Woodlands Management Co. LLC (golf course management company); Managing Member, Bright s Creek Development Co. LLC (golf course ownership company); Managing Member, TRI-TEL, LLC (hotel ownership company); President, Cotton Creek Condominium Development Corp.; President, Craft Realty, Inc.; Member, Craft Properties, Ltd. (a family limited partnership); Managing Member, Turf Properties, LLC and Turf Properties #2, LLC (turf grass production and sales company); Member, Craft Farms Land Development Company, LLC.; Member, Robert Craft Ventures LLC; Member, Turf Properties #3, LLC, Foley, AL

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Name, Age and Year	Position and Office	
	Held with BancGroup	Present and Principal
Became Director Hubert L. Harris, Jr. 64, 2004	And Colonial Bank Director, BancGroup; Member, Audit Committee; Member, Risk Committee	Occupation for Last Five Years Chief Executive Officer of INVESCO North America from August 2003 to December 2005, Atlanta, GA Retired; Chief Executive Officer of AMVESCAP Retirement from January 1998, to August 2003, Atlanta, GA
Clinton O. Holdbrooks 69, 1986	Director, BancGroup; Chairman, Risk Committee	Chairman of the Board, East Central Area of the Alabama Region from July, 2002 to July 2006 - Retired; Chairman of the Board, Central Alabama Region June 2000 to July 2002, Birmingham, AL
Robert E. Lowder* 65, 1981	Chairman of the Board, Chief Executive Officer and President, BancGroup; Chairman, Executive Committee; Chairman of the Board, Chief Executive Officer and President, Colonial Bank	Chairman of the Board and Chief Executive Officer, BancGroup and Colonial Bank since 1981; also President of BancGroup and Colonial Bank from 1981 to 2003 and since 2005, Montgomery, AL
John C. H. Miller, Jr. 64, 1981	Vice-Chairman of the Board, BancGroup; Member, Executive Committee	Member, Miller, Hamilton, Snider & Odom, L.L.C. (law firm), Mobile, AL
James W. Rane 61, 1997	Director, BancGroup	President, Great Southern Wood Preserving, Inc., Great Southern Wood of Florida, Inc., Great Southern Wood of North Alabama, Inc. and Great Southern Wood Statesboro, Inc.; Manager, Texas, Great Southern Wood, LLC; President, Global Fibers USA, Inc. , (lumber companies), Abbeville, AL

* Indicates that the director is also an executive officer.

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

Name, Age and Year	Position and Office	
	Held with BancGroup	Present and Principal
Became Director	And Colonial Bank	Occupation for Last Five Years
Lewis E. Beville 55, 1997	Director, BancGroup; Chairman, Audit Committee; Member, Nominating and Corporate Governance Committee	Vice President of T&B Ltd. d/b/a Thames, Batre, Mattei, Beville and Ison (insurance agency), Mobile, AL
Deborah L. Linden 52, 2006	Director, BancGroup; Member, Compensation Committee; Advisory Board Director, Central Florida Region; Member, Loan Committee Central Florida Region	Chief Executive Officer of Island One Resorts and Club Navigo (time share companies); Chairman of the Board of Island One Resorts Management Corporation (property management company), Orlando, FL
John Ed Mathison 69, 1987	Director, BancGroup	Senior Minister, Frazer Memorial United Methodist Church, Montgomery, AL
Joseph D. Mussafer 68, 1981	Director, BancGroup; Member, Risk Committee; Member, Compensation Committee	President, MBC United Wholesale, LLC (beverage distributor), Montgomery, AL
Edward V. Welch 75, 1981	Director, BancGroup; Member, Audit Committee	Chairman of the Board, Welch, Hornsby & Welch, Inc. (investment advisory firm); former Chairman of the Board of Trinity Investments, Inc., (investment holding company); former Part Owner, The Timberlands, LLC and The Waters at Waugh, LLC (real estate development companies), Montgomery, AL

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 2007 (See Audit Committee Report). The Audit Committee Charter, as amended, is available on BancGroup's website at www.colonialbank.com.

On January 16, 2008, the Board approved the charter for BancGroup's newly formed Risk Committee. The Risk Committee was formed for the purpose of overseeing the policies, procedures and practices relating to BancGroup's enterprise-wide risks, compliance with applicable laws and regulations, and material pending or threatened litigation. The Board has determined that all members of the Risk Committee are independent, and that each member of the Risk Committee satisfies the experience and financial literacy requirements established by the NYSE. The Risk Committee's charter is attached herein as Appendix C.

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BancGroup's Asset/Liability Committee (ALCO) established 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 provided 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 2007. On January 16, 2008, as a result of the newly formed Risk Committee, the Board determined that the Asset/Liability Committee was no longer needed and therefore approved its dissolution.

BancGroup's Compensation Committee discharges the Board's responsibilities in matters relating to executive compensation, administers BancGroup's incentive compensation and equity-based plans, oversees the preparation of BancGroup's proxy, and produces annually a report on executive compensation for inclusion in BancGroup's proxy statement. The Compensation Committee met seven times in 2007 (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.

BancGroup's Nominating and Corporate Governance Committee nominates individuals to stand for election as directors of BancGroup, and monitors 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 2008 annual meeting of shareholders. This committee met six times in 2007. 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. 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 five times in 2007. Actions taken by the Executive Committee at those meetings were later reviewed and ratified by the full board of directors.

During 2007, the Board met four times. All BancGroup directors attended 75% or more of the Board meetings and the respective committee meetings on which they served.

The following table shows the current membership of each committee.

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

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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's common stock on Forms 3, 4 and 5 with the Securities and Exchange Commission. Such directors, officers and 10% shareholders, if any, are required by SEC regulations to furnish BancGroup with copies of all Section 16(a) forms they file.

To BancGroup's knowledge, based solely on a review of the copies of such forms received by BancGroup, and written representations from certain reporting persons that no Forms 5 were required for those persons, BancGroup believes that during the fiscal year ended December 31, 2007 all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% Shareholders were complied with, except that Mr. Lowder, Ms. Moore, Ms. Cope, Ms. Hill, Mr. Byrne and BancGroup's Chief Accounting Officer Brent Hicks filed late Form 4's, three transactions each, on January 22, 2007 reporting grants of restricted stock and stock options due to an administrative oversight on the part of BancGroup. Directors Milton McGregor and Deborah Linden each filed one late Form 4 each on January 16, 2008 for open market purchases. Mr. McGregor's Form 4 reported three transactions that occurred on the same day. Ms. Linden's Form 4 reported one transaction.

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COMPENSATION DISCUSSION & ANALYSIS

Compensation Overview

BancGroup strives to attract and retain highly motivated executives through the use of competitive total compensation. The overall guiding principle for executive compensation at BancGroup is to provide *Pay for Performance*. The Compensation Committee of the Board (hereafter referred to as the Committee for Compensation Discussion & Analysis) believes that compensation should be aligned with BancGroup's financial performance and the creation of long-term shareholder value. The Committee uses both quantitative and qualitative performance measures to achieve this compensation philosophy, with incentive compensation plans aligned with performance measures that are intended to ultimately drive shareholder value.

Financial Performance

BancGroup earned \$1.17 per share for 2007, \$1.37 on an operating basis. Along with many other financial institutions, BancGroup's earnings declined from 2006. Consistent with other peer banks, BancGroup's results were impacted by declining economic and credit environments in the United States. During February 2008, the Federal Deposit Insurance Corporation (FDIC) reported that banks and savings institutions earned 27.4% less during 2007 than in 2006. Higher loan-loss provisions, primarily due to weakness in residential mortgage and construction loans, and lower trading revenues were primary factors responsible for the 2007 earnings decline, according to the FDIC. BancGroup's asset quality performance remained favorable compared to peers while reflecting the deterioration in the overall economy. During 2007, BancGroup paid \$0.75 per share in dividends, an increase from \$0.68 in 2006, while BancGroup's share price declined.

As a result, under BancGroup's *Pay for Performance* philosophy, the named executive officers received total compensation for 2007, at well below superior (maximum) levels, driven by annual cash incentive payouts being below maximum levels. In addition, the value of equity incentives and other shares held by named executive officers, such as Stock Options, Time Based Restricted Stock and Performance Based Restricted Stock also decreased significantly, reflecting the decline in share price.

During 2006, BancGroup achieved significant growth in earnings per share to \$1.72 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. For 2006, the named executive officers received total compensation at above target levels, driven by annual cash incentive payouts.

Role of the Compensation Committee

General

The Committee discharges the Board's responsibilities in executive compensation matters and oversees equity-based plans for all employees and total compensation for executive officers. By its charter, 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 2007, the Committee met seven times after having met nine times during 2006. The Chairman of the Committee reports on Committee actions at all 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.

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COMPENSATION DISCUSSION & ANALYSIS

Interaction with Compensation Consultants and Management

For 2007, Pearl Meyer & Partners (Pearl Meyer) continued as the executive compensation consultant for the Committee. Pearl Meyer was retained to assist the Committee with several projects, including executive compensation program analysis as well as research, analysis, advice and assistance with the disclosures contained in this proxy statement. While the Committee retains Pearl Meyer directly in carrying out assignments, Pearl Meyer also interacted with BancGroup management. Pearl Meyer does not provide significant services to BancGroup outside its role of providing advice to the Committee.

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 2007, the Committee considered information provided by and advice from Pearl Meyer 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 information provided by Pearl Meyer and recommendations from the Chief Executive Officer.

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 Pearl Meyer to assist with its review of the compensation programs for the executive officers. 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 information from the CEO, Mercer and Miller Hamilton.

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COMPENSATION DISCUSSION & ANALYSIS

Compensation Philosophy, Objectives and Determinations

Compensation Philosophy

The overall guiding principle for executive compensation at BancGroup is to provide *Pay for Performance*. 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. 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. As further discussed under **Pay Elements**, compensation is comprised of three primary components: (1) competitive base salaries; (2) annual cash incentives; and (3) long-term incentives including Options, Performance Based Restricted Stock and Time Based Restricted Stock

The Committee uses both quantitative and qualitative performance measures to measure and determine this compensation philosophy, with incentive compensation plans aligned with performance using quantitative factors such as earnings per share (EPS), efficiency ratio, net income, non-performing assets ratio, net charge-off ratio, expense control 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. The Chief Executive Officer's performance measures are objective and directly related to the CEO's duties and responsibilities. Executive officers other than the Chief Executive Officer have one component of the annual incentive plan tied to the individual's overall performance for the year which is subject to the CEO's judgment, while all other performance measures are related to the Company's performance, are objective and are quantitatively measurable.

Compensation Objectives

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 the encouragement of stock ownership.

Compensation Determinations

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.

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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.

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COMPENSATION DISCUSSION & ANALYSIS

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.

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 Cash 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 increased share price), Performance Based Restricted Stock (designed to reward for achievement of long-term financial performance goals), and Time 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 2007 (the 2007 Peer Group) was developed with the assistance of Pearl Meyer and included 28 financial institutions with total assets ranging between \$8 billion and \$63 billion as of September 30, 2007. These institutions were selected as peers because of their size, nature of operations, and/or geographic footprint. The following are the financial institutions included in the 2007 Peer Group:

Alabama National Bancorporation	Fulton Financial Corporation
Associated Banc-Corp	Huntington Bancshares Incorporated
BancorpSouth, Inc.	M&T Bank Corporation
BankUnited Financial Corporation	Northern Trust Corporation
BOK Financial Corporation	Old National Bancorp
Citizens Republic Bancorp, Inc.	The South Financial Group, Inc.
City National Corporation	Synovus Financial Corp.

Comerica Incorporated

TCF Financial Corporation

Commerce Bancorp, Inc.

Trustmark Corporation

Commerce Bancshares, Inc.

UMB Financial Corporation

Cullen/Frost Bankers, inc.

Valley National Bancorp

First Citizens BancShares, Inc.

Webster Financial Corporation

First Horizon National Corporation

Whitney Holding Corporation

FirstMerit Corporation

Zions Bancorporation

Table of Contents**COMPENSATION DISCUSSION & ANALYSIS**

The peer group used for 2006 was developed in 2005, with assistance from Miller Hamilton (the 2006 Peer Group) and included 42 financial institutions with total assets ranging between \$10 billion to \$84 billion as of December 31, 2004

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:

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 2007, the targeted pay mix for each named executive officer was as follows:

Executive	Title	Salary as % of Total Compensation	Target Annual Cash Incentives as % of Total Compensation	Target Long-Term Equity Incentive as % of Total Compensation
Robert E. Lowder	Chairman, CEO and President	29%	29%	42%
Sarah H. Moore	SEVP Chief Financial Officer	40%	20%	40%
Caryn Cope Hughes	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%

In any given year, the Committee may make decisions to rebalance the overall program and address different objectives than those for 2007. The 2006 targeted pay mix was substantially similar to 2007.

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 2007, to consider and approve salaries for the 2007 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 2007, 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 Pearl Meyer as well as the recommendations of the Chief Executive Officer, in February 2007, the Committee increased the salaries of Ms. Moore, Ms. Hughes and Ms. Hill by 3.6% to \$428,904 from \$414,000. This change was consistent with the average raise for all BancGroup employees and represented an assessment of the personal growth and performance of each executive officer and the value of their contribution to BancGroup. Based upon the peer group, the annual salary for Ms. Moore and Ms. Hill approximated the market median of the peer group, whereas the annual salary for Ms. Hughes was in the top 10% of the peer group. Ms. Hughes' salary was deemed appropriate because of the importance placed by BancGroup on maintaining high credit quality. Also in February 2007, Mr. Byrne's annual salary was increased to \$325,000 from \$250,000. This change was made to bring Mr. Byrne's annual salary to approximately the market median of the peer group.

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The Committee evaluated the Chief Executive Officer's salary on the same basis and determined that Mr. Lowder's salary for 2007 should be increased to \$1,158,041, an increase of 3.6%, from \$1,117,800 in 2006. This increase was also consistent with the average raise for all BancGroup employees. The resulting salary, which is above median market levels, reflects Mr. Lowder's long tenure and high performance, while his total compensation remained below the median of that group.

For 2008, each of the named executive officers has elected to forego a salary increase.

Annual Incentives

Annual incentives foster the *Motivation* objective by creating performance-based compensation that is focused on BancGroup's annual financial results. For fiscal 2007, BancGroup's annual incentive programs were structured in two formal plans: the Management Incentive Plan (MIP) and the Management Team Incentive Plan (MTIP). Both the MIP and MTIP provide annual incentive opportunities to the executive officers. The MIP provides for the Committee to decrease the resulting payout (negative discretion) but not to increase the resulting payout (positive discretion), while the MTIP 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 cash incentive opportunities are set at levels consistent with market median data of the peer group. Target payout levels for each of the executive officers are as follows:

Mr. Lowder 100% of salary.

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

Mr. Byrne 30% of salary.

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

Executive	EPS	Efficiency		NPA % (1)	NCO % (2)	Stock Price	Other (3)	Strategic Planning
		Ratio						
Robert E. Lowder	50%	0%	0%	0%	25%	25%	0%	0%
Sarah H. Moore	50%	15%	0%	0%	0%	0%	15%	20%
Caryn Cope Hughes	50%	0%	15%	15%	0%	0%	0%	20%
Patti G. Hill	50%	15%	0%	0%	0%	0%	15%	20%
David B. Byrne, Jr.	50%	0%	10%	10%	0%	0%	20%	10%

(1) Non-performing assets as a % of total loans compared to peers.

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

(3) Represent the following: Net Income Growth versus peers for Ms. Moore, Pretax income for various lines of business for Ms. Hill and legal expense management for Mr. Byrne.

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:

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Achievement of the EPS growth and efficiency ratio 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 probability of resulting in losses. Management and the Committee believe this cultural trait has served BancGroup well in the context of the banking industry's cyclical nature by providing earnings protection in a downturn.

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

Ms. Moore's, Ms. Hills's and Mr. Byrne's other individual performance goals are intended to encourage performance within their respective areas of control.

The strategic planning component is intended to reflect the overall contribution by the executive to BancGroup's performance that cannot be measured by the other components.

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.

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 the Threshold level performance criteria represent acceptable financial performance. The following represents the specific goals for 2007:

	Threshold	Target	Superior
EPS	\$1.73	\$1.77	\$1.81
Efficiency Ratio	40 th Percentile of Peer Group	50 th Percentile of Peer Group	85 th Percentile of Peer Group
Nonperforming Assets Ratio	50 th Percentile of Peer Group	65 th Percentile of Peer Group	85 th Percentile of Peer Group
Net Charge-off Ratio	0.25%	0.15%	0.10%
Stock Price	40 th Percentile of Peer Group	50 th Percentile of Peer Group	85 th Percentile of Peer Group
Net Income Growth	50 th Percentile of Peer Group	65 th Percentile of Peer Group	85 th Percentile of Peer Group
Pretax Income of various Lines of Business	Pretax income of \$1 million below Budget	Budgeted Pretax Income	Pretax income of \$1 million above Budget
Legal Expenses	Expenses of \$915 thousand over Budget	Budgeted Expense	Expenses of \$700 thousand below Budget

At a meeting held on February 12, 2008, the Committee reviewed BancGroup's 2007 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 2007 and payable in February 2008:

Mr. Lowder: \$0, or 0% of salary, resulting from:

EPS: \$1.37, a payout of 0% of the superior level.

Net Charge-off Ratio: 0.35%, a payout of 0% of the superior level.

Stock price growth to peers: below threshold, a payout of 0% of the superior level.

Ms. Moore \$297,359, or 69.3% of salary, resulting from:

EPS \$1.37, a payout of 0% of the superior level.

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COMPENSATION DISCUSSION & ANALYSIS

Efficiency Ratio Versus Peers 82nd percentile of the peer group, a payout of 96% of the superior level.
Net Income Growth Versus Peers 25th percentile of the peer group, a payout of 0% of the superior level.
Strategic planning 100% of the superior level.
Discretionary payment of \$150,000 representing Ms. Moore's superior individual performance and overall contribution to BancGroup's results. See further discussion on pages 21 and 25.

Ms. Hill \$297,359, or 69.3% of salary, resulting from:

EPS \$1.37, a payout of 0% of the superior level.
Efficiency Ratio Versus Peers 82nd percentile of the peer group, a payout of 96% of the superior level.
Pretax Income from Lines of Business below threshold level, a payout of 0% of the superior level.
Strategic planning 100% of the superior level.
Discretionary payment of \$150,000 representing Ms. Hill's superior individual performance and overall contribution to BancGroup's results. See further discussion on pages 21 and 25.

Ms. Hughes \$106,154, or 24.8% of salary, resulting from:

EPS \$1.37, a payout of 0% of the superior level.
Net Charge-off Ratio 0.35%, a payout of 0% of the superior level.
Nonperforming Assets Ratio Versus Peers 54th percentile of the peer group, a payout of 32% of the superior level.
Strategic planning 100% of the superior level.

Mr. Byrne \$63,895, or 19.7% of salary, resulting from:

EPS \$1.37, a payout of 0% of the superior level.
Net Charge-off Ratio 0.35%, a payout of 0% of the superior level.
Nonperforming Assets Ratio Versus Peers 54th percentile of the peer group, a payout of 32% of the superior level.
Legal Expense Management expense controls resulted in payout at Superior level, 100% of superior.
Strategic planning 100% of the superior level.

Long-Term Incentives

Long-term incentives were awarded to executive officers in 2007 and 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 Time 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.

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COMPENSATION DISCUSSION & ANALYSIS

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

Each of the executive officers received a mix of long-term incentives that included Performance Based Restricted Stock, Time Based Restricted Stock and Stock Options, each of which represented 1/3 of the total LTIP value, 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.

The 2007 Performance Based Restricted Stock grants are earned based on earnings per share growth relative to a peer group over the three-year performance period including fiscal 2007-2009, with certain Threshold, Target and Superior performance levels correlating to performance outcomes. To achieve Threshold payout, BancGroup's cumulative annual growth rates in earnings per share must be greater than the 40th percentile of the peer group, while Target is set at the 50th percentile and Superior at the 85th percentile of the peer group. Shares of Performance Based Restricted Stock will be forfeited if Threshold performance levels are not achieved. If Threshold performance is achieved, 50% of the granted shares would vest, while Target performance would result in 100% of the granted shares vesting and Superior performance would result in the vesting of 150% of the granted shares. Performance between the respective levels will be pro-rated straight line.

The 2006 Performance Based Restricted Stock grants have substantially the same terms as the 2007 Performance Based Restricted Stock, except that they are for the three-year performance period including fiscal 2006-2008, and they will vest based upon predetermined cumulative annual growth rates of Colonial's Earnings Per Share during that period. The Committee believes the relative EPS growth objectives for the three-year period represent significant financial performance and, if achieved, will enhance shareholder value. The Superior performance levels represent significant performance beyond Target, which if achieved will lead to even more significant enhancement of shareholder value.

Additionally, Mr. Lowder received \$41,250 and \$31,500 worth of stock for his service on the BancGroup Board of Directors for 2007 and 2006, respectively.

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 those frozen amounts and 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. All

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BancGroup employees meeting the definition of highly compensated under the Internal Revenue Code (\$100,000 or more of cash compensation for 2007) are eligible to participate in the Deferred Compensation Plan. 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 \$251,731 and \$508,431, respectively, for 2007 and 2006, for 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 was not Ms. Hill's primary residence. Ms. Hill's Other Compensation includes \$17,400 as the amount paid by BancGroup during 2006 for the house. Ms. Hill personally paid all other expenses relative to the maintenance of the rental house. During 2007, the Company did not reimburse Ms. Hill for any costs related to this or any other housing facility.

Committee Discretion

The Committee retains the discretion to decrease all forms of calculated incentive payouts (annual and long-term) based on significant individual or BancGroup performance shortfalls. For executive officers other than Mr. Lowder, the Committee may increase annual incentive payouts and/or consider special awards for significant achievements, including but not limited to superior asset management, investment or strategic accomplishments and/or consummation of mergers, acquisitions, dispositions or conversions. The Committee exercised discretion to recognize the superior individual performance during 2007 through discretionary payments of \$150,000 to Ms. Hill and Ms. Moore. The Committee determined that the result of the mathematical calculations within MTIP did not appropriately or adequately reflect the overall contribution of Ms. Moore and Ms. Hill to the success of the Company during 2007. Given the significant change in the overall banking environment during 2007, compared to when the MTIP goals were set at the beginning of the year, the Committee determined that certain of the activities of Ms. Moore and Ms. Hill should be evaluated differently than was originally included in the MTIP. After completing an extensive review of the performance of Ms. Moore and Ms. Hill, the Committee determined that the overall performance of Ms. Moore and Ms. Hill was significantly above median performance and, as a result, decided that the adjusted payout percentage for each of these executive officers should be approximately 70% of the superior payout. The resulting total cash compensation for 2007 for Ms. Moore and Ms. Hill of \$726,263 (comprised of base salary, MTIP payment and discretionary payment) was determined to be appropriate for their personal performance and the performance of the departments of the Company that are under their control. Specifically, the Committee considered that the Company was negatively impacted primarily as a result of deteriorating credit quality within the banking industry and that the impact of this should be mitigated for Ms. Moore and Ms. Hill. The Committee also determined that the discretionary payment would appropriately serve its *Retention* objective for two executive officers who have provided years of excellent service.

For 2006, the Committee also exercised discretion to recognize the individual performance of Ms. Moore and Ms. Hill through discretionary payments of \$68,000 each.

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 23), but can exercise negative discretion. In 2007 and 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 in a given year will vary above or below the target compensation levels based primarily on the attainment of

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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 reflects the highly 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 peer bank practices when compared to the objective comparative data even where subjective factors may have influenced the compensation decisions.

Timing of Equity Grants

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