Hailey James R
Form 4
January 20, 2012

FORM 4

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

(Print or Type Responses)

1. Name and Address of Reporting Person *
Hailey James R

(Last) (First) (Middle)

9009 CAROTHERS PARKWAY, SUITE 501

(Street)

FRANKLIN, TN 37067

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
HealthSpring, Inc. [HS]

3. Date of Earliest Transaction (Month/Day/Year)
01/18/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
SVP & Pres-Pharmacy Operations

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	01/18/2012		A		2,148 (1)	A	$ 46.55	21,446	D	
Common Stock	01/18/2012		A		1,826 (2)	A	$ 0	23,272	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Hailey James R 9009 CAROTHERS PARKWAY SUITE 501 FRANKLIN, TN 37067			SVP & Pres-Pharmacy Operations	

Signatures

/s/ J. Gentry Barden, Attorney-in-Fact	01/20/2012
**Signature of Reporting Person	Date

Explanation of Responses:

***** If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

****** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The reporting person acquired 2,148 shares of restricted common stock from the Company in connection with the election to defer a portion of his annual bonus pursuant to the terms of the HealthSpring, Inc. Management Stock Purchase Plan. In general, the restrictions with respect to these shares lapse on the earlier of a change in control of the Company or January 18, 2014.

(2) The reporting person received 1,826 shares of restricted common stock from the Company as compensation in connection with his continuing employment. The shares were granted pursuant to the HealthSpring, Inc. Amended and Restated 2006 Equity Incentive Plan (the "2006 Plan"). In general, the restrictions with respect to these shares lapse as follows: 50% on January 18, 2014, 25% on January 18, 2015, and 25% on January 18, 2016.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ty to the transfer and assignment of any of its assets, property or rights; . waiving any rights of value which in the aggregate are material; . except in the ordinary course of business, making or permitting any amendment or termination of any contract, agreement or license to which it is a party if such amendment or termination is material considering its business as a whole; . except in accordance with past practice and set forth in schedules to the merger agreement, making any accrual or arrangement for or payment of bonuses or special compensation of any kind or any severance or termination pay to any present or former officer or employee; . except

in accordance with past practice, increasing the rate of compensation payable to or to become payable to any of its officers or employees or making any material increase in any profit-sharing, bonus, deferred compensation, savings, insurance, pension, retirement or other employee benefit plan, payment or arrangement made to, for or with any of its officers or employees; . failing to operate its business in the ordinary course so as to preserve its business intact and to preserve the goodwill of its customers and others with whom it has business relations; and . entering into any other material transaction other than in the ordinary course of business. The merger agreement provides that prior to the Effective Date, no director or officer of Mercantile or any of its subsidiaries shall, directly or indirectly, own, manage, operate, join, control, be employed by or participate in the ownership, proposed ownership, management, operation or control of or be connected in any manner with, any business, corporation or partnership which is competitive to the business of Mercantile or its subsidiaries. The merger agreement also provides that (i) at the request of BancGroup, Mercantile will consult with BancGroup and advise BancGroup in advance of all loan requests outside the ordinary course of business or in excess of $500,000 that are not single-family residential loan requests and (ii) Mercantile will consult with BancGroup respecting business issues that Mercantile believes should be brought to the attention of BancGroup. The merger agreement also provides that Mercantile, or any agent of Mercantile, will not solicit or negotiate with any other entity with the purpose of allowing Mercantile, or substantially all of its assets, to be purchased by an entity other than BancGroup. Likewise, Mercantile has agreed not to enter into any contract that would result in the sale of Mercantile, or substantially all of its assets, to an entity other than BancGroup. Under most circumstances, if Mercantile is acquired by an entity other than BancGroup within 24 months of the termination of the merger agreement (other than if such termination is caused by BancGroup's breach of the merger agreement), then Mercantile, or the acquiring entity, will be obligated to pay the principal sum of $6,000,000 to BancGroup. 35 Indemnification BancGroup has agreed to indemnify for three years present and former directors and officers of Mercantile and the Bank against liabilities arising out of actions or omissions occurring at or prior to the Effective Date to the maximum extent provided in the Texas Business Corporation Act, or the TBCA, and Mercantile's Articles of Incorporation and Bylaws. BancGroup has also agreed to use commercially reasonable efforts to maintain in effect for a period of three years following the merger the current policies of directors' and officers' liability insurance currently maintained by Mercantile with respect to claims arising from facts or events that occurred before the merger became effective. Rights of Dissenting Shareholders Shareholders of Mercantile as of the record date may exercise dissenters' rights in connection with the merger by complying with Articles 5.11, 5.12 and 5.13 of the TBCA. Consummation of the merger is subject to, among other things, the holders of no more than 10% of the outstanding Mercantile common stock electing to exercise their dissenters' rights. By exercising dissenters' rights, you will be entitled to receive, if the merger is consummated, the "fair value" of the shares of Mercantile common stock that you owned as of the day immediately prior to the date of the special meeting. This value may differ from the value of the consideration that you would otherwise receive in the merger. The following is a summary of the statutory procedures that you must follow in the event you elect to exercise your dissenters' rights under the TBCA. This summary is not complete and is qualified in its entirety by reference to Articles 5.11, 5.12 and 5.13 of the TBCA, the text of which is set forth in full in Appendix B to this proxy statement-prospectus. How to exercise and perfect your right to dissent. In order to be eligible to exercise your right to dissent to the merger and to receive, upon compliance with the statutory requirements summarized below, the fair value of your shares of Mercantile common stock as of the day immediately preceding the special meeting, excluding any appreciation or depreciation in anticipation of the merger: . you must, prior to the special meeting, provide Any written objection with notice of intent to exercise Mercantile with a written objection to the the right of dissent should be addressed as follows: merger that states that you intend to exercise your right to dissent if the merger is Mercantile Bancorp, Inc. consummated and that provides an address to 8144 Walnut Hill Lane, Suite 180 which a notice about the outcome of the vote Dallas, Texas, 75231 on the merger may be sent; and Attention: Corporate Secretary . you must not vote your shares of Mercantile You should sign every communication common stock in favor of the merger agreement In order to exercise properly your dissenter's rights, you must refrain from voting by proxy or in person in favor of the merger agreement. A shareholder who executes and returns an unmarked proxy will have his or her shares voted "for" the merger agreement and, as a consequence thereof, such shareholder will be foreclosed from exercising rights as a dissenting shareholder. Your demand for payment. If you comply with the two items described above and the merger is completed, BancGroup, as the surviving corporation, will within 10 days of the completion of the merger deliver or mail to all holders of Mercantile common stock who satisfied the foregoing requirements a written notice that the merger has been completed. You must, within

10 days of the date the notice was sent to you by BancGroup, send a written demand to BancGroup for payment of the fair value of your shares of Mercantile common stock. Such written demand must state the number and class of the shares that you owned as of the record date and your estimate of the fair value of the shares. The fair value of your shares of Mercantile common stock will be the value of the shares on the day immediately preceding the special meeting, excluding any appreciation or 36 depreciation in anticipation of the merger. If you should fail to make such a demand within the ten-day period, you will lose the right to dissent and will be bound by the terms of the merger agreement. In order to preserve dissenters' rights, you must also submit your stock certificates to BancGroup within 20 days of making a demand for payment for notation thereon that such demand has been made. The failure to do so shall, at BancGroup's option, terminate your rights to dissent and appraisal unless a court of competent jurisdiction for good and sufficient cause shown shall direct otherwise. Any notice addressed to BancGroup must be addressed to: Office of the Senior Counsel The Colonial BancGroup, Inc. Colonial Financial Center Once Commerce Street Fifth Floor Montgomery, Alabama 36104 (334) 240-5000 BancGroup's action upon receipt of your demand for payment. Within 20 days of receiving your written demand for payment and estimate of the fair value of your shares of Mercantile common stock, BancGroup must mail or deliver to you a written notice that either: . accepts the amount declared in the demand and agrees to pay that amount within 90 days after the effective date of the merger and upon surrender of your certificate representing your shares of Mercantile common stock; or . states BancGroup's estimate of the fair value of the shares and offers to pay the amount of that estimate within 90 days after the effective date of the merger and upon surrender of your certificate representing your shares of Mercantile common stock and upon receipt of notice within 60 days after the completion of the merger that you agree to accept BancGroup's estimate. Payment of the fair value of yours shares of Mercantile common stock upon agreement of an estimate. If you and BancGroup agree upon the fair value of your shares of Mercantile common stock within 60 days after completion of the merger, BancGroup shall pay the amount of the agreed value to you upon receipt of your duly endorsed share certificates within 90 days of the completion of the merger. Upon payment of the agreed fair value, you will cease to have any interest in such shares. Commencement of legal proceedings if a demand for payment remains unsettled. If you and BancGroup have not agreed upon the fair value of your shares of Mercantile common stock within the 60-day period immediately subsequent to the completion of the merger, then either you or BancGroup may, within 60 days of the expiration of the 60 days after the effective date of the merger, file a petition in any court of competent jurisdiction in Dallas County, Texas, asking for a finding and determination of the fair value of the shares. If filed by a shareholder, service of the petition shall be had upon BancGroup as the surviving corporation and BancGroup must within 10 days after service file with the clerk of the court a list with the names and addresses of all shareholders who have demanded payment and not reached agreement as to the fair value. If filed by BancGroup, the petition must be accompanied by such a list. The clerk of the court shall give notice to BancGroup and all shareholders named on the list of the time and place fixed for the hearing of the petition. After the hearing of the petition, the court shall determine the stockholders who have complied with the statutory requirements and have become entitled to the valuation of and payment for their shares, and the court shall appoint one or more qualified appraisers to determine the fair value. The appraisers may examine the books and records of Mercantile and shall afford the interested parties a reasonable opportunity to submit pertinent evidence. The appraisers are to make a determination of the fair value upon such examination as they deem proper. The appraisers shall file a report of the value in the office of the clerk of the court, notice of which shall be given to the parties in interest. The parties in interest may submit exceptions to the report, which will be heard before the court upon the law and the facts. The court shall adjudge the fair value of the shares of the shareholders entitled to payment for their shares and shall direct the payment 37 thereof by BancGroup as the surviving corporation, together with interest which shall begin to accrue 91 days after the effective date of the merger. However, the judgment shall be payable only upon and simultaneously with surrender of the certificates representing your shares, duly endorsed. Upon BancGroup's payment of the judgment, you shall cease to have any interest in the shares. The court shall allow the appraisers a reasonable fee as court costs, and all court costs shall be allotted between the parties in the manner that the court determines to be fair and equitable, with the respective parties to bear their own attorneys' fees. Any shareholder who has demanded payment for such holder's shares may withdraw such demand at any time before payment or before any petition has been filed for valuation by the court. A demand may not be withdrawn after payment or, unless BancGroup consents, after such a petition has been filed in court. After a demand has been withdrawn, the stockholder and all persons claiming under the shareholder shall be conclusively presumed to have approved the Agreement and shall be bound by its terms. Federal income tax consequences. See "Proposal 1:

Approval of the Merger Agreement--Certain Federal Income Tax Consequences," beginning on page 28 for a discussion on how the federal income tax consequences of your action will change if you elect to dissent from the merger. Resale of BancGroup Common Stock Issued in the Merger The shares of BancGroup common stock to be issued to Mercantile shareholders pursuant to the merger agreement, including any shares to be issued pursuant to Mercantile options, have been registered under the Securities Act of 1933 (the "Securities Act"). As a result, shareholders of Mercantile who are not "affiliates" of Mercantile may resell, without restriction, all shares of BancGroup common stock which they receive in connection with the merger. Under the Securities Act, only affiliates of Mercantile are subject to restrictions on the resale of the BancGroup common stock which they receive in the merger. The definition of "affiliate" is complex and depends on the specific facts of each individual, but generally includes directors, executive officers, 10% shareholders and other persons with the power to direct management policies of the corporation in question. The BancGroup common stock received by affiliates of Mercantile who do not also become affiliates of BancGroup after the consummation of the merger may not be sold except pursuant to an effective registration statement under the Securities Act covering such shares or in compliance with Rule 145 under the Securities Act or another applicable exemption from the registration requirements of the Securities Act. Generally, Rule 145 permits BancGroup common stock held by such shareholders to be sold in accordance with certain provisions of Rule 144 under the Securities Act. In general, these provisions of Rule 144 permit a person to sell on the open market in brokers or certain other transactions within any three-month period a number of shares that does not exceed the greater of 1% of the then outstanding shares of BancGroup common stock or the average weekly trading volume in BancGroup common stock reported on the NYSE during the four calendar weeks preceding such sale. Sales under Rule 144 are also subject to the availability of current public information about BancGroup. The restrictions on sales will cease to apply under most circumstances once the former Mercantile affiliate has held the BancGroup common stock for at least one year. BancGroup common stock held by affiliates of Mercantile who become affiliates of BancGroup, if any, will be subject to additional restrictions on the ability of such persons to resell such shares. Mercantile has provided BancGroup with the identity of individuals (primarily officers, directors and principal shareholders) who may be deemed to be affiliates of Mercantile. BancGroup has obtained from those individuals a written undertaking to the effect that the individual agrees not to make a distribution within the meaning of Rule 145 under the Securities Act or to sell, transfer or otherwise dispose of the shares of BancGroup common stock received in the merger except in accordance with the Securities Act. In addition, directors and certain executive officers of Mercantile and First Mercantile Bank have agreed in the affiliate agreements they entered into with BancGroup to certain additional restrictions on resale of the BancGroup common stock issued to them in the merger. For a description of the affiliate agreements, see "Proposal 1: Approval of the Merger Agreement--Interests of Certain Persons in the Merger--Affiliate Agreements." 38 Accounting Treatment BancGroup will account for the merger as a purchase transaction in accordance with generally accepted accounting principles. Under this accounting treatment, and in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations, the purchase price will be assigned to the fair value of the net tangible and intangible assets acquired, with any amounts in excess thereof being assigned to "goodwill." The valuation of intangibles, if any, will be made as of the Effective Date of the merger. In accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, qualifying intangibles, such as core deposit intangibles, will be amortized by charges to future earnings over their expected useful lives. Amortization of core deposit intangibles is non-deductible for tax purposes. The remaining goodwill will be capitalized and evaluated for impairment on an annual basis, or if circumstances arise in which it is more likely than not the fair value of the related reporting unit has been reduced. If such goodwill were to be deemed impaired, such impairment would be measured and any such amount would be charged against current earnings. Mercantile Trust Preferred Securities In September 2001, MBI Capital Trust I, a special purpose finance subsidiary of Mercantile, issued 800,000 of its floating rate cumulative preferred securities having an aggregate liquidation value of $8,000,000 in a private placement exempt from the registration requirements of the Securities Act. At that time, Mercantile acquired 25,000 of the trust's floating rate cumulative common securities having an aggregate liquidation value of $250,000. The preferred securities and the common securities represent undivided beneficial interests in the assets of the trust, which consist solely of a floating rate subordinated debenture, due September 2031, issued by Mercantile in aggregate principal amount of $8,250,000. The subordinated debenture accrues interest at a floating rate of 125 basis points over the prime rate per annum as published in The Wall Street Journal, and the rate is adjusted quarterly. Through March 31, 2002, the subordinated debenture accrues interest at a rate of 6.00% per annum.

Mercantile makes quarterly interest only payments under the subordinated debenture to the trust which, in turn, remits payment to the holders of the preferred securities and the common securities in the form of a quarterly dividend. The principal amount of the subordinated debenture is not due until maturity. Mercantile created the trust for the sole and limited purpose of issuing the preferred securities and the common securities and investing the proceeds from the sale of securities in the subordinated debenture. Mercantile used the proceeds from the sale of the trust preferred securities to finance a portion of the purchase price it paid to acquire TownBank. SAMCO acted as co-placement agent in the trust preferred securities offering. In addition to its obligation to make quarterly payments of interest under the subordinated debenture, Mercantile has, under the preferred securities guarantee agreement, guaranteed to pay directly any amount held by the trust but not distributed to the holders of the preferred securities. Mercantile's obligation under the guarantee would arise only to the extent that the trust receives payments on the subordinated debenture, but does not, for whatever reason, distribute the full amount of the proceeds to the holders of the preferred securities. The merger agreement requires BancGroup to assume Mercantile's obligations related to the trust preferred securities, which includes its obligations under the indenture, including the obligation to make quarterly payments on the subordinated debenture, and the preferred securities guarantee agreement. NYSE Reporting of BancGroup Common Stock Issued in the Merger The shares of BancGroup common stock to be issued in the merger will be listed on the NYSE. Subsequent sales of BancGroup common stock issued in the merger will generally be reported on the NYSE. Management Following the Merger The management of BancGroup will not change in connection with the merger. 39 PROPOSAL 2: THE 280G PAYMENTS In addition to voting on the proposal to approve the merger agreement, Mercantile shareholders are being asked to consider and approve certain 280G payments to Roy J. Salley, the Chief Executive Officer of Mercantile and its subsidiary First Mercantile Bank. Mercantile, however, has agreed not to make any payments to any employee of Mercantile that would fail to be deductible for federal income tax purposes by virtue of Section 280G of the Internal Revenue Code. Section 280G provides that payments to officers, employees or shareholders of more than 1% of the outstanding shares of Mercantile common stock, which would otherwise be deductible expenses of an employer for federal income tax purposes, will not be deductible to the extent such payment may be characterized as a "parachute payment." Generally speaking, a "parachute payment" occurs when there is a change in control of an employer and, as a result, certain employees receive payments in the nature of compensation equal to or greater than three times their average annual compensation for the five years preceding the taxable year in which the change in control occurs. The amount of the payment that exceeds 299% of the employee's average annual compensation being referred to as a 280G payment. If a 280G payment was made, all compensation payments resulting from the merger which exceed the employee's average annual compensation, or the "excess parachute payments" would not be deductible by Mercantile and would be subject to a 20% excise tax payable by the recipient. In connection with the merger, it is possible that the following payments would cause or contribute to 280G payments: . the rights of the officers and directors to the automatic accelerated vesting of Mercantile options under the existing Mercantile option agreements, . the payments made to certain officers pursuant to the merger agreement, or . the potential payments under certain other agreements. The Internal Revenue Code contains an exemption for 280G payments by a corporation whose stock is not publicly traded on an established securities market if disinterested shareholders owning more than 75% of the voting power of such corporation's stock approve the payment. The shares of Mercantile common stock are not considered publicly traded on an established securities market for this purpose. Accordingly, to the extent the shareholder approval requirements of Section 280G are satisfied with respect to the payments to Mr. Sally, such payments will not be considered to be parachute payments and therefore would not give rise to an excess parachute payment subject to loss of deductibility and the 20% excise tax. Summary of Payments Mr. Salley is entitled to receive the following payments in connection with the consummation of the merger: . on December 31, 1997, Mr. Salley received a grant of options to purchase 40,000 shares of Mercantile common stock at an exercise price of $10.00 per share, of which 8,000 options remain unvested. Although the exact amount of the payment resulting from the acceleration of Mr. Salley's Mercantile options cannot be known until the Market Value of the BancGroup common stock is established, if the Market Value of the BancGroup common stock as of the Effective Date is $15.00 or higher per share, the amount of the payment resulting from the acceleration of Mr. Salley's vesting in the options, calculated in accordance with Section 280G, is estimated to be $41,933. . in the event Mr. Salley elects to participate in the cash free exchange of his Mercantile options and receive either cash or BancGroup common stock, he will be entitled to receive a cash bonus equal to 34% of the value of the cash or BancGroup common stock received. Although the exact amount of this cash bonus cannot be known until the Market Value of the BancGroup

common stock is established, if the Market Value of BancGroup common stock as of the Effective Date is $15.00 or more per share, Mr. Salley would be entitled to a payment of $574,056 at closing. . the Mercantile Board of Directors agreed to pay Mr. Salley a cash bonus if certain conditions were satisfied. These conditions included the successful sale of Mercantile at a price greater than $40.00 per share. Pursuant to that agreement, Mr. Salley will receive at the closing of the merger a cash bonus of 40 0.75% of the merger consideration paid to Mercantile shareholders. Although the exact amount of this performance cash bonus cannot be known until the Market Value of BancGroup common stock is established, if the Market Value of the BancGroup common stock as of the Effective Date is $15.00 or greater per share, Mr. Salley will be entitled to receive a cash bonus of approximately $523,439. Pursuant to Section 280G of the Code, only that portion of the payments to Mr. Salley described above that exceeds $719,822 needs to be approved by the Mercantile shareholders. Approval of 280G Payments In order to avoid the loss of deductibility to Mercantile and the 20% excise tax to Mr. Salley and to ensure that Mercantile will not breach the merger agreement, Mercantile shareholders are being asked to approve the 280G payments to Mr. Salley. Mr. Salley has executed a waiver letter, pursuant to which he waives his right to that portion of any 280G payment that would cause the 280G payment to constitute a parachute payment under Section 280G of the Code in the event Mercantile fails to obtain the requisite shareholder approval. Even if the proposal to approve the 280G payments is not approved by the Mercantile shareholders, Mr. Salley will still receive $719,822 at the closing of the merger. This payment will consist of the acceleration of Mr. Salley's vesting in his options, the payment equal to 34% of the value of his Mercantile options exchanged for cash or BancGroup common stock, to the extent that he elects to do so, and to the extent those two payments do not exceed $719,822, that portion of the performance cash bonus that when added to the first two payments would equal $719,822. If Mercantile's shareholders approve proposal 2, Mr. Salley will receive the balance of the performance cash bonus at closing. As described above, Section 280G provides an exemption from the adverse federal income tax consequences if the disinterested shareholders holding more than 75% of the voting power of Mercantile common stock immediately preceding the effective time of the merger approve the 280G payments then the 280G payments will not be considered parachute payments and, therefore, will not cause a loss of deductability or a 20% excise tax. Mr. Salley and his spouse, parents, children and grandchildren are disqualified from voting on the proposal to approve the 280G payments, and shares of Mercantile common stock beneficially owned by such persons will not be treated as outstanding for purposes of computing the necessary vote to approve their payment. At the record date, Mr. Salley owned 100 shares of Mercantile common stock, representing less then 1% of the shares of Mercantile common stock entitled to vote at the special meeting. Accordingly, the approval of the 280G payments for Mr. Salley will require the affirmative vote of more than 75% of the remaining 1,336,652 shares, or at least 1,002,489 shares of Mercantile common stock. Finally, even without the shareholder vote referenced above, any portion of a 280G payment will be reduced to the extent, if any, that Mercantile demonstrates by clear and convincing evidence that some or all of such 280G payment is "reasonable compensation" for services to be rendered to BancGroup after the merger. Any portion of a 280G payment will be reduced to the extent, if any, that Mercantile demonstrates by clear and convincing evidence that some or all of such 280G payment is "reasonable compensation" for services rendered to Mercantile prior to the merger. The approval of the 280G payments is not a condition precedent to consummation of the merger. If the Mercantile shareholders do not approve any of the payments, Mr. Salley will not receive any payment that would violate Section 280G of the Code. Payment of the 280G payments will not affect the amount to be received by the Mercantile shareholders if the merger agreement is approved. Recommendation of the Board of Directors of Mercantile THE BOARD OF DIRECTORS OF MERCANTILE BELIEVES THAT THE 280G PAYMENTS TO MR. SALLEY IS IN THE BEST INTEREST OF THE SHAREHOLDERS AND UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE PROPOSAL TO APPROVE THE 280G PAYMENTS TO MR. SALLEY. 41 COMPARATIVE MARKET PRICES AND DIVIDENDS Mercantile. Presently, no active trading market exists for the Mercantile common stock and management of Mercantile does not anticipate that a market for Mercantile common stock will develop. No registered broker/dealer makes a market in Mercantile common stock, and Mercantile common stock is not listed or quoted on any stock exchange or automated quotation system. Mercantile acts as its own transfer agent and registrar. Occasionally, management of Mercantile becomes aware of trades of shares of its common stock and the prices at which these trades were executed. The following table sets forth the high and low sales price to the extent known to management of Mercantile for trades in its common stock for each quarter during 1999, 2000 and 2001: Number Number of Shares High Low of Trades Traded ------ ------ --------- --------- 1999 First Quarter..... $ -- $ -- -- -- Second Quarter..... -- -- -- -- Third Quarter..... -- --

-- -- Fourth Quarter..... -- -- -- -- 2000 First Quarter..... $ -- $ -- -- -- Second Quarter..... 22.50 22.50 56 145,140(1) Third Quarter..... 22.50 22.50 58 119,195(1) Fourth Quarter..... 22.50 22.50 24 68,350(1) 2001 First Quarter..... $22.50 $22.50 49 131,400(1) Second Quarter..... 22.50 22.50 4 166,667(1) Third Quarter..... 27.00 27.00 20 37,037(2) Fourth Quarter..... -- -- -- -- 2002 First Quarter (through February 15, 2002) $ -- $ -- -- -- -------- (1) Represents the issuance of shares of Mercantile common stock for $22.50 per share, in cash, in an offering exempt from registration under the Securities Act. (2) Represents the issuance of 37,037 shares of Mercantile common stock for $27.00 per share, in cash, in order to fund a part of the TownBank acquisition. The prices given above represent actual trades but may not include all trades that occurred during the reported period. The prices given are the result of limited trading and may not be representative of the actual fair market value of the Mercantile common stock. Mercantile is not obligated to register its common stock or, upon any registration, to create a market for its shares. Thus, a holder of Mercantile common stock may be unable to liquidate his or her investment and must be able to bear the economic risk of such investment indefinitely. 42 BancGroup. BancGroup common stock is listed for trading on the NYSE under the symbol "CNB." The following table indicates the high and low sales prices of the BancGroup common stock as reported on the NYSE since January 1, 1999. Price Per Share of Common Stock ---------- Dividends High Low Per Share ------- ------- --------- 1999 First Quarter..... $12.563 $11.375 $.095 Second Quarter..... 13.938 11.188 .095 Third Quarter..... 15.000 10.375 .095 Fourth Quarter..... 12.938 10.188 .095 2000 First Quarter..... $10.750 $ 8.625 .11 Second Quarter..... 11.250 9.000 .11 Third Quarter..... 10.750 9.688 .11 Fourth Quarter..... 11.125 8.313 .11 2001 First Quarter..... $ 13.15 $ 10.19 .12 Second Quarter..... 14.75 12.05 .12 Third Quarter..... 14.94 11.52 .12 Fourth Quarter..... 14.98 11.92 .12 2002 First Quarter (through February 15, 2002) $ 14.73 $ 13.38 .13 On November 29, 2001, the business day immediately prior to the public announcement of the merger, the closing price of the BancGroup common stock on the NYSE was $14.00 per share. The following table presents the market value per share of BancGroup common stock on that date, and the market value and equivalent per share value of Mercantile common stock on that date: Equivalent BancGroup Mercantile Price Per Common Common Mercantile Stock(1) Stock(2) Share(3) --------- ---------- ---------- Comparative Market Value $14.00 $27.00 $48.73 -------- (1) Closing price as reported by the NYSE on November 29, 2001. (2) No established public trading market exists for the shares of Mercantile common stock. The comparative market value shown for Mercantile common stock represents the price at which shares of Mercantile common stock were sold on September 10, 2001, which was the last sale price prior to the public announcement of the merger on November 30, 2001, of which management of Mercantile is aware. (3) If the merger had closed on November 29, 2001, and assuming that the Market Value of BancGroup common stock had also been $14.00, 3.4808 shares of BancGroup common stock would have been exchanged for each share of Mercantile common stock. 43 BANCGROUP CAPITAL STOCK AND DEBENTURES BancGroup's authorized capital stock consists of 200,000,000 shares of BancGroup common stock, par value $2.50 per share and 1,000,000 shares of preference stock. As of December 31, 2001, there were issued and outstanding a total of 115,244,185 shares of BancGroup common stock. No shares of BancGroup preference stock are issued and outstanding. Additionally, BancGroup has various issuances of long term debt outstanding at December 31, 2001 summarized as follows and described more fully below, under BancGroup debt. December 31, 2001 ----------------- (in thousands) 7 1/2% Convertible Subordinated Debentures $ 2,795 7% Convertible Subordinated Debentures.... 725 Variable Rate Subordinated Debentures..... 7,725 Subordinated Notes..... 254,306 Trust Preferred Securities..... 70,000 FHLB Advances..... 1,361,938 Reverse Repurchase Agreements..... 88,063 Other Long Term Debt..... 588 ---------- Total..... $1,786,140 ========== The following statements with respect to BancGroup common stock and preference stock are brief summaries of material provisions of Delaware law, the restated certificate of incorporation of BancGroup (the "BancGroup Certificate"), as amended, and bylaws of BancGroup, do not purport to be complete and are qualified in their entirety by reference to the foregoing. BancGroup Common Stock Dividends. Subject to the rights of holders of Preference Stock, if any, to receive certain dividends prior to the declaration of dividends on shares of BancGroup common stock, when and as dividends, payable in cash, stock or other property, are declared by the BancGroup board of directors, the holders of BancGroup common stock are entitled to share ratably in such dividends. Voting Rights. Each holder of BancGroup common stock has one vote for each share held on matters presented for consideration by the stockholders. Preemptive Rights.

The holders of BancGroup common stock have no preemptive rights to acquire any additional shares of BancGroup. Issuance of Stock. The BancGroup Certificate authorizes the board of directors of BancGroup to issue authorized shares of BancGroup common stock without stockholder approval. However, BancGroup's common stock is listed on the NYSE, which requires stockholder approval of the issuance of additional shares of BancGroup common stock under certain circumstances. Liquidation Rights. In the event of liquidation, dissolution or winding-up of BancGroup, whether voluntary or involuntary, the holders of BancGroup common stock will be entitled to share ratably in any of its assets or funds that are available for distribution to its stockholders after the satisfaction of its liabilities (or after adequate provision is made therefor) and after preferences of any outstanding Preference Stock. BancGroup Preference Stock The BancGroup preference stock may be issued from time to time as a class without series, or if so determined by the board of directors of BancGroup, either in whole or in part in one or more series. The voting 44 rights, and such designations, preferences and relative, participating, optional or other special rights, if any, and the qualifications, limitations or restrictions thereof, if any, including, but not limited to, the dividend rights, conversion rights, redemption rights and liquidation preferences, if any, of any wholly unissued series of preference stock, or of the entire class of preference stock if none of such shares has been issued, the number of shares constituting any such series and the terms and conditions of the issue thereof may be fixed by resolution of the board of directors of BancGroup. Preference stock may have a preference over the BancGroup common stock with respect to the payment of dividends and the distribution of assets in the event of the liquidation or winding-up of BancGroup and such other preferences as may be fixed by the board of directors of BancGroup. BancGroup Debt BancGroup has 7.50% Convertible Subordinated Debentures due March 31, 2011 ("1986 Debentures") issued in 1986 that are convertible at any time into shares of BancGroup common stock, at the conversion price of $7.00 principal amount of 1986 Debentures, subject to adjustment upon the occurrence of certain events, for each share of stock received. The 1986 Debentures are redeemable at the option of BancGroup at the face amount plus accrued interest. In the event all of the remaining 1986 Debentures are converted into shares of BancGroup common stock in accordance with the 1986 Indenture, approximately 399,000 shares of such common stock would be issued. BancGroup also has 7.00% Convertible Subordinated Debentures due December 31, 2004 ("1994 Debentures"), that were issued by D/W Bankshares prior to being merged into BancGroup. The 1994 Debentures are convertible into BancGroup common stock, at the conversion price of $7.58 principal amount of the 1994 Debentures, subject to adjustment upon occurrence of certain events, for each share of stock received. In the event all of the remaining 1994 Debentures are converted into shares of BancGroup common stock in accordance with the 1994 Indenture, approximately 96,000 shares of such common stock would be issued. In connection with the ASB Bancshares, Inc. acquisition, on February 5, 1998, BancGroup issued $7,725,000 of variable rate subordinated debentures due February 5, 2008 ("1998 Debentures"). These variable rate subordinated debentures bear interest equal to the New York Prime Rate minus 1% (but in no event less than 7% per annum). On March 15, 1999, BancGroup issued $100 million of subordinated notes, due March 15, 2009. The notes bears interest at 8.00% per annum and are not subject to redemption prior to maturity. On January 29, 1997, BancGroup issued, through a special purpose trust, $70 million of Trust Preferred Securities. The securities bear interest at 8.92% per annum and are subject to redemption by BancGroup, in whole or in part at any time after January 29, 2007 until maturity in January 2027. Circumstances are remote that redemption will occur prior to maturity. On May 23, 2001, Colonial Bank issued $150 million in subordinated notes at 9.375% per annum due June 1, 2011 for general corporate and banking purposes in the ordinary course of business. This debt qualifies as Tier 2 capital. In connection with this issuance, BancGroup executed an interest rate swap whereby BancGroup will receive a fixed rate and pay a floating rate, effectively converting the fixed rate notes to floating. The result of this interest rate swap created a current effective rate on the notes for the fourth quarter ending December 31, 2001 of 6.32% per annum. The subordinated debentures, notes and Trust Preferred Securities described above are subordinate to substantially all remaining liabilities of BancGroup. BancGroup had long-term FHLB Advances outstanding of $1,361,938,000 at December 31, 2001. These advances bear interest rates of 1.72% to 6.58% per annum and mature from 2003 to 2013. 45 BancGroup has received funds under reverse repurchase agreements with Keefe, Bruyette & Woods. At December 31, 2001, BancGroup had long-term reverse repurchase agreements outstanding of $88 million. These agreements, which are collateralized by mortgage-backed securities, bear interest rates of 5.84% to 6.03% per annum and mature in 2003. Changes in Control Certain provisions of the BancGroup Certificate and the BancGroup Bylaws may have the effect of preventing, discouraging or delaying any change in control of BancGroup. The authority of the BancGroup board of directors to issue BancGroup preference stock with such rights and privileges,

including voting rights, as it may deem appropriate may enable BancGroup's board of directors to prevent a change in control despite a shift in ownership of the BancGroup common stock. See "Bancgroup Preference Stock." In addition, the power of BancGroup's board of directors to issue additional shares of BancGroup common stock may help delay or deter a change in control by increasing the number of shares needed to gain control. See "BancGroup common stock." The following provisions also may deter any change in control of BancGroup. Classified Board. BancGroup's board of directors is classified into three classes, as nearly equal in number as possible, with the members of each class elected to three-year terms. Thus, one-third of BancGroup's board of directors is elected by stockholders each year. With this provision, two annual elections are required in order to change a majority of the board of directors. There are currently 18 directors of BancGroup. This provision of the BancGroup Certificate also stipulates that (i) directors can be removed only for cause upon a vote of 80% of the voting power of the outstanding shares entitled to vote in the election of directors, voting as a class, (ii) vacancies in the board of directors may only be filled by a majority vote of the directors remaining in office, (iii) the maximum number of directors shall be fixed by resolution of the board of directors, and (iv) the provisions relating to the classified board of directors can only be amended by the affirmative vote of the holders of at least 80% of the voting power of the outstanding shares entitled to vote in the election of directors, voting as a class. Business Combinations. Certain "Business Combinations" of BancGroup with a "Related Person" may only be undertaken with the affirmative vote of at least 75% of the outstanding shares of "Voting Stock," plus the affirmative vote of at least 67% of the outstanding shares of Voting Stock, not counting shares owned by the Related Person, unless the Continuing Directors of BancGroup approve such Business Combination. A "Related Person" is a person, or group, who owns or acquires 10% or more of the outstanding shares of BancGroup common stock, provided that no person shall be a Related Person if such person would have been a Related Person on April 20, 1994. An effect of this provision may be to exclude Robert E. Lowder, the current Chairman and Chief Executive Officer of BancGroup, and certain members of his family from the definition of Related Person. A "Continuing Director" is a director who was a member of the board of directors immediately prior to the time a person became a Related Person. This provision may not be amended without the affirmative vote of the holders of at least 75% of the outstanding shares of Voting Stock, plus the affirmative vote of the outstanding shares of at least 67% of the outstanding Voting Stock, excluding shares held by a Related Person. This provision may have the effect of giving the incumbent board of directors a veto over a merger or other Business Combination that could be desired by a majority of BancGroup's stockholders. As of February 20, 2001, the board of directors of BancGroup owned approximately 7.9% of the outstanding shares of BancGroup common stock. Board Evaluation of Mergers. The BancGroup Certificate permits the board of directors to consider certain factors such as the character and financial stability of the other party, the projected social, legal, and economic effects of a proposed transaction upon the employees, suppliers, regulatory agencies and customers and communities of BancGroup, and other factors when considering whether BancGroup should undertake a merger, sale of assets, or other similar transaction with another party. This provision may not be amended except by the affirmative vote of at least 80% of the outstanding shares of BancGroup common stock. This provision may give greater latitude to the board of directors in terms of the factors which the board may consider in recommending or rejecting a merger or other Business Combination of BancGroup. 46 Director Authority. The BancGroup Certificate prohibits stockholders from calling special stockholders' meetings and acting by written consent. It also provides that only BancGroup's board of directors has the authority to undertake certain actions with respect to governing BancGroup such as appointing committees, electing officers, and establishing compensation of officers, and it allows the board of directors to act by majority vote. Bylaw Provisions. The BancGroup Bylaws provide that stockholders wishing to propose nominees for the board of directors or other business to be taken up at an annual meeting of BancGroup stockholders must comply with certain advance written notice provisions. These bylaw provisions are intended to provide for the more orderly conduct of stockholders' meetings but could make it more difficult for shareholders to nominate directors or introduce business at shareholders' meetings. Delaware Business Combination Statute. Subject to some exceptions, Delaware law prohibits BancGroup from entering into certain "business combinations" involving persons beneficially owning 15% or more of the outstanding BancGroup common stock (or one who is an affiliate of BancGroup and has over the past three years beneficially owned 15% or more of such stock) (either, for the purpose of this paragraph, an "Interested Stockholder"), unless the board of directors has approved either . the business combination, or . prior to the stock acquisition by which such person's beneficial ownership interest reached 15% (a "Stock Acquisition"), the Stock Acquisition. The prohibition lasts for three years from the date of the Stock Acquisition. Notwithstanding the preceding, Delaware law

allows BancGroup to enter into a business combination with an Interested Stockholder if . the business combination is approved by BancGroup's board of directors and authorized by an affirmative vote of at least 66 2/3% of the outstanding voting stock of BancGroup which is not owned by the Interested Stockholder, or . upon consummation of the transaction which resulted in the shareholder becoming an Interested Stockholder, such shareholder owned at least 85% of the outstanding BancGroup common stock (excluding BancGroup common stock held by officers and directors of BancGroup or by certain BancGroup stock plans). These provisions of Delaware law apply simultaneously with the provisions of the BancGroup Certificate relating to business combinations with a related person, described above at "Business Combinations," but they are generally less restrictive than the BancGroup Certificate. Control Acquisitions. As it relates to BancGroup, the Change in Bank Control Act of 1978 prohibits a person or group of persons from acquiring "control" of a bank holding company unless the Federal Reserve has been given 60 days' prior written notice of such proposed acquisition and within that time period the Federal Reserve has not issued a notice disapproving the proposed acquisition or extending for up to another 30 days the period during which such a disapproval may be issued. An acquisition may be made prior to the expiration of the disapproval period if the Federal Reserve issues written notice of its intent not to disapprove the transaction. Under a rebuttable presumption established by the Federal Reserve, the acquisition of more than 10% of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, such as BancGroup, would, under the circumstances set forth in the presumption, constitute the acquisition of control. The receipt of revocable proxies, provided the proxies terminate within a reasonable time after the meeting to which they relate, is not included in determining percentages for change in control purposes. 47 COMPARATIVE RIGHTS OF SHAREHOLDERS If the merger is consummated, shareholders of Mercantile, except those perfecting dissenters' rights, will become holders of BancGroup common stock. The rights of the holders of the Mercantile common stock who become holders of BancGroup common stock following the merger will be governed by the BancGroup Certificate and the BancGroup Bylaws, as well as the laws of Delaware, the state in which BancGroup is incorporated. The following summary compares the rights of the holders of Mercantile common stock with the rights of the holders of the BancGroup common stock. For a more detailed description of the rights of the holders of BancGroup common stock, including certain features of the BancGroup Certificate of Incorporation and the DGCL that might limit the circumstances under which a change in control of BancGroup could occur, see "BancGroup Capital Stock and Debentures." The following information is qualified in its entirety by the BancGroup Certificate and the BancGroup Bylaws, and Mercantile's Articles of Incorporation and Bylaws, the DGCL and the TBCA. Director Elections Mercantile. Mercantile's Bylaws provide for a board of directors consisting of not less than one nor more than 15 directors. Currently, the number of directors is fixed at 13. Directors are elected at the annual meeting of shareholders and hold office until the next annual meeting of shareholders. The Articles of Mercantile deny shareholders the right to cumulate votes in the election of directors. BancGroup. BancGroup's directors are elected to terms of three years with approximately one-third of the Board to be elected annually. There is no cumulative voting in the election of directors. See "BancGroup Capital Stock and Debentures--Changes in Control--Classified Board." Removal of Directors Mercantile. A director may be removed at any time, with or without cause, at any duly called special or annual meeting of the shareholders of Mercantile, by the affirmative vote of a majority in number of shares present at such meeting and entitled to vote for the election of such director. BancGroup. The BancGroup Certificate provides that a director may be removed from office, but only for cause and by the affirmative vote of the holders of at least 80% of the voting shares then entitled to vote at an election of directors. Voting Mercantile. Shareholders of Mercantile are entitled to one vote for each share of Mercantile common stock held. The Articles of Mercantile deny stockholders the right to cumulate votes in the election of directors. BancGroup. Each stockholder of BancGroup is entitled to one vote for each share of BancGroup common stock held, and such holders are not entitled to cumulative voting rights in the election of directors. Preemptive Rights Mercantile. Mercantile's Articles deny holders of Mercantile common stock any preemptive rights to subscribe for or acquire additional shares of common stock that may be issued by Mercantile. BancGroup. The holders of BancGroup common stock have no preemptive rights to acquire any additional shares of BancGroup common stock or any other shares of BancGroup capital stock. 48 Directors' Liability Mercantile. The Articles of Mercantile provide that a director will not incur liability to Mercantile and its stockholders for monetary damages for an act or omission that occurs in the director's capacity as a director, unless that director . commits a breach of his or her duty of loyalty to Mercantile and its stockholders; . commits an act or omission not in good faith that constitutes a breach of the duty of the director to Mercantile or an act or

omission that involves intentional misconduct or a knowing violation of the law; . engages in a transaction from which the director receives an improper benefit, whether or not the benefit resulted from an action taken within the scope of the director's office; or . engages in an act or omission for which the liability of a director is expressly provided for by statute. This provision protects Mercantile's directors against personal liability for monetary damages from breaches of their duty of care. It does not eliminate the director's duty of care and has no effect on the availability of equitable remedies such as injunction or rescission, based upon a director's breach of a director's duty of care. BancGroup. The BancGroup Certificate provides that a director of BancGroup will have no personal liability to BancGroup or its stockholders for monetary damages for breach of fiduciary duty as a director except . for any breach of the director's duty of loyalty to the corporation or its stockholders; . for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law; . for the payment of certain unlawful dividends and the making of certain stock purchases or redemptions; or . for any transaction from which the director derived an improper personal benefit. This provision would absolve directors of personal liability for negligence in the performance of duties, including gross negligence. It would not permit a director to be exculpated, however, for liability for actions involving conflicts of interest or breaches of the traditional "duty of loyalty" to BancGroup and its stockholders, and it would not affect the availability of injunctive or other equitable relief as a remedy. Indemnification Mercantile will only indemnify a person that: . acted in good faith, . reasonably believed that any actions taken in an official capacity were in Mercantile's best interests and that any actions taken outside an official capacity were not opposed to Mercantile's best interests, and . in the case of any criminal proceeding, had no reasonable cause to believe his conduct was unlawful. A person found liable to Mercantile or found liable on the basis that the person improperly received a personal benefit may only be indemnified for reasonable expenses actually incurred by the person in connection with the proceeding; however, if the person is found liable for willful or intentional misconduct in the performance of his duty to Mercantile, Mercantile shall not indemnify him in any respect. Mercantile is required to indemnify an officer, director or past director against reasonable expenses he or she incurs in connection with a proceeding in which he or she is a party because he or she is a director or officer of Mercantile, or, while a director, has served as a director, officer or other functionary of another entity, if he or she has been wholly successful in the defense of the proceeding. Mercantile may purchase and maintain insurance on behalf of any person who is or was a director or officer of Mercantile against any liability asserted against that person and incurred by that person in such a capacity, whether or not Mercantile would have the power to indemnify that person against that liability under the TBCA. 49 Mercantile maintains an officers' and directors' insurance policy pursuant to which officers and directors of Mercantile would be entitled to indemnification beyond that permitted by the Articles. BancGroup. The BancGroup Certificate provides that directors, officers, employees and agents of BancGroup shall be indemnified to the full extent permitted under the DGCL. Section 145 of the DGCL contains detailed and comprehensive provisions providing for indemnification of directors and officers of Delaware corporations against expenses, judgments, fines and settlements in connection with litigation. Under the DGCL, other than an action brought by or in the right of BancGroup, such indemnification is available if it is determined that the proposed indemnitee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of BancGroup and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. In actions brought by or in the right of BancGroup, such indemnification is limited to expenses (including attorneys' fees) actually and reasonably incurred in the defense or settlement of such action if the indemnity acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of BancGroup and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person has been adjudged to be liable to BancGroup unless and only to the extent that the Delaware Court of Chancery or the court in which the action was brought determines upon application that in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses as the court deems proper. To the extent that the proposed indemnity has been successful on the merits or otherwise in defense of any action, suit or proceeding (or any claim, issue or matter therein), he or she must be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith. BancGroup maintains an officers' and directors' insurance policy and a separate indemnification agreement pursuant to which officers and directors of BancGroup would be entitled to indemnification against certain liabilities, including reimbursement of certain expenses that extends beyond the minimum indemnification provided by Section 145 of the DGCL. Special Meetings of Shareholders; Action Without a Meeting Mercantile. Pursuant to the Mercantile's Bylaws and the TBCA, the president, the board of directors, or the holders of not less than 10 percent

of the shares of Mercantile common stock entitled to vote at a meeting may call a special meeting of the shareholders of Mercantile. Any action required to be taken at a meeting pursuant to the TBCA may be taken without a meeting if a consent in writing setting forth the action taken is signed by the holders of not less than the minimum number of votes that would have been necessary to take such action at a meeting at which the holders of all of the shares entitled to vote on the action were present and voted. BancGroup. Under the BancGroup Certificate, a special meeting of BancGroup's stockholders may only be called by a majority of the BancGroup board of directors or by the chairman of the board of directors of BancGroup. Holders of BancGroup common stock may not call special meetings or act by written consent. Mergers, Share Exchanges and Sales of Assets Mercantile. Under the TBCA, the holders of at least two-thirds of the outstanding shares entitled to vote thereon as a class must approve an agreement for the merger, consolidation, sale of substantially all of the assets, or dissolution, of a Texas corporation. The TBCA also provides, however, that the stockholders of a Texas corporation need not vote on the transaction if: . the corporation is the sole surviving corporation in the merger; . the articles of incorporation of the corporation will not differ from its articles before the merger; . each shareholder before the merger will own the same number of shares, with identical preferences and designations, immediately after the effective date of the merger; 50 . the number of shares issued in connection with the merger does not exceed 20% of the voting power immediately before the merger; . the number of shares issued in the merger does not exceed 20% of the number of shares outstanding immediately before the merger; and . the board of directors of the corporation adopts a resolution approving the plan of merger. BancGroup. The DGCL provides the mergers and sales of substantially all of the assets of Delaware corporations must be approved by a majority of the outstanding stock of the corporation entitled to vote thereon. The DGCL also provides, however, that the stockholders of the corporation surviving a merger need not approve the transaction if: . the agreement of merger does not amend in any respect the certificate of incorporation of such corporation; . each share of stock of such corporation outstanding immediately prior to the effective date of the merger is to be an identical outstanding or treasury share of the surviving corporation after the effective date of the merger; and . either no shares of common stock of the surviving corporation and no shares, securities or obligations convertible into such stock are to be issued or delivered under the plan of merger, or the authorized unissued shares or the treasury shares of common stock of the surviving corporation to be issued or delivered under the plan of merger plus those initially issuable upon conversion of any other shares, securities or obligations to be issued or delivered under such plan do not exceed 20% of the shares of common stock of such corporation outstanding immediately prior to the effective date of the merger. See also "BancGroup Capital Stock and Debentures--Changes in Control" for a description of the statutory provisions and the provisions of the BancGroup Certificate relating to changes of control of BancGroup. Amendment of Articles or Certificate of Incorporation and Bylaws Mercantile. The TBCA provides that pursuant to a resolution adopted by the board of directors of a Texas corporation and written notice of a special or annual meeting to each shareholder of record, a proposed amendment to the corporation's articles of incorporation is adopted upon the receipt of the affirmative vote of the holders of two-thirds of the shares entitled to vote, unless any class of shares is entitled to vote as a class, in which event the proposed amendment is adopted upon receiving the affirmative vote of the holders of at least two-thirds of the shares within each class entitled to vote thereon as a class and two-thirds of the total outstanding shares entitled to vote thereon. The Articles of Mercantile do not contain any provision altering the statutory provisions governing amendment of the articles of incorporation. The board of directors of Mercantile may amend the Bylaws at any meeting of the directors at which a quorum is present, provided notice of the proposed amendment was given, upon the affirmative vote of a majority of directors present. At a duly called meeting of the shareholders of Mercantile, a majority of the shareholders present may amend or repeal such amendment to the Bylaws. BancGroup. Under the DGCL, a Delaware corporation's certificate of incorporation may be amended by the affirmative vote of the holders of a majority of the outstanding shares entitled to vote thereon, and a majority of the outstanding stock of each class entitled to vote as a class, unless the certificate requires the vote of a larger portion of the stock. The BancGroup Certificate requires "super-majority" stockholder approval to amend or repeal any provision of, or adopt any provision inconsistent with, certain provisions in the BancGroup Certificate governing: . the election or removal of directors; 51 . business combinations between BancGroup and a Related Person; and . board of directors evaluation of business combination procedures. See "BancGroup Capital Stock and Debentures--Changes in Control." As is permitted by the DGCL, the Certificate gives the Board of Directors the power to adopt, amend or repeal the BancGroup Bylaws. The stockholders entitled to vote have concurrent power to adopt, amend or repeal the BancGroup Bylaws. Rights of Dissenting Stockholders Mercantile. Holders of Mercantile common stock have

dissenter's and appraisal rights under Articles 5.11, 5.12 and 5.13 of the TBCA. Under these provisions, Mercantile shareholders may dissent from certain corporate actions proposed by Mercantile's management and receive the fair value of their shares of Mercantile common stock as of or immediately prior to the effective time of the proposed corporate action. A summary of Articles 5.11, 5.12 and 5.13 is set forth under the caption "The Merger--Rights of Dissenting Shareholders," and such provisions are included as Appendix B. BancGroup. Under the DGCL, a stockholder has the right, in certain circumstances, to dissent from certain corporate transactions and receive the fair value of his or her shares in cash in lieu of the consideration he or she otherwise would have received in the transaction. For this purpose, "fair value" may be determined by all generally accepted techniques of valuation used in the financial community, excluding any element of value arising from the accomplishment or expectation of the transaction, but including elements of future value that are known or susceptible of proof. Such fair value is determined by the Delaware Court of Chancery, if a petition for appraisal is timely filed. Appraisal rights are not available, however, to stockholders of a corporation: . if the shares are listed on a national securities exchange (as is BancGroup common stock) or quoted on the Nasdaq NMS, or held of record by more than 2,000 stockholders (as is BancGroup common stock); and . stockholders are permitted by the terms of the merger or consolidation to accept in exchange for their shares: . shares of stock of the surviving or resulting corporation; . shares of stock of another corporation listed on a national securities exchange or held of record by more than 2,000 stockholders; . cash in lieu of fractional shares of such stock; or . any combination thereof. Stockholders are not permitted appraisal rights in a merger if such corporation is the surviving corporation and no vote of its stockholders is required. Preferred Stock Mercantile. Mercantile's Articles do not authorize the issuance of preferred stock. BancGroup. The BancGroup Certificate authorizes the issuance of 1,000,000 shares of preferred stock from time to time by resolution of the board of directors of BancGroup. Such preferred stock is denominated as "preference stock" in the BancGroup Certificate. Currently, no shares of preference stock are issued and outstanding. See "BancGroup Capital Stock and Debentures--Preference Stock." Effect of the Merger on Mercantile Shareholders As of February 13, 2002, Mercantile had 266 shareholders of record and 1,336,752 outstanding shares of common stock. As of December 31, 2001, there were 115,244,185 shares of BancGroup common stock outstanding held by 9,179 stockholders of record. 52 Assuming that no dissenters' rights of appraisal are exercised in the merger, that the Mercantile options are exercised prior to the Effective Date, and the Market Value of BancGroup common stock is $14.10 (the closing price of BancGroup common stock as of February 15, 2002) on the Effective Date, an approximate aggregate number of 5,460,511 shares of BancGroup common stock will be issued to the shareholders of Mercantile pursuant to the merger. These shares would represent approximately 4.5% of the total shares of BancGroup common stock outstanding after the merger, not counting any shares of BancGroup common stock that may be issued for reasons unconnected to the merger. However, if all holders of Mercantile Options were to choose to receive all cash in exchange for their Mercantile Options (see "Proposal 1: Approval of the Merger Agreement--Treatment of Mercantile Options"), then approximately 4,652,966 shares of BancGroup common stock would be issued to Mercantile shareholders pursuant to the merger. These shares would represent approximately 3.9% of the total BancGroup common stock outstanding after the merger, not counting any shares of BancGroup common stock that may be issued for reasons unconnected to the merger. The issuance of the BancGroup common stock pursuant to the merger will reduce the percentage interest of the BancGroup common stock currently held by each principal stockholder and each director and officer of BancGroup. Based upon the foregoing assumptions, as a group, the directors and officers of BancGroup who own approximately 8.1% of BancGroup's outstanding shares would own approximately 7.4% after the merger. See "Business of BancGroup--Voting Securities and Principal Stockholders." 53 BUSINESS OF BANCGROUP General BancGroup is a Delaware corporation organized in 1974 as a bank holding company under the Bank Holding Act of 1956, as amended. Through its wholly-owned subsidiary, Colonial Bank, BancGroup conducts a general commercial banking business in the states of Alabama, Florida, Georgia, Nevada, Tennessee and Texas. At December 31, 2001, BancGroup had assets of $13.2 billion. As of December 31, 2001 Colonial Bank had a total of 261 branches, with 123 branches in Alabama, 98 branches in Florida, 23 branches in Georgia, 3 branches in Tennessee, 3 branches in Texas and 11 branches in Nevada. Colonial Bank conducts a general commercial banking business in its respective service areas. Colonial Bank offers a variety of demand, savings and time deposit products as well as extensions of credit through personal, commercial and mortgage loans within each of its market areas. Colonial Bank also provides additional services to its markets through cash management services, electronic banking services, credit card and merchant services and wealth management services. Wealth management services include

trust services and the sales of various types of investment products such as mutual funds, annuities, stocks, municipal bonds and U.S. government securities. Voting Securities and Principal Stockholders As of December 31, 2001, BancGroup had issued and outstanding 115,244,185 shares of BancGroup common stock with approximately 9,179 stockholders of record. Each such share is entitled to one vote. In addition, as of that date, 3,577,421 shares of BancGroup common stock were subject to issuance upon exercise of options pursuant to BancGroup's stock option plans and up to 495,000 shares of BancGroup common stock were issuable upon conversion of BancGroup's 1986 Debentures and 1994 Debentures. There are currently 200,000,000 shares of BancGroup common stock authorized. The following table shows those persons who are known to BancGroup to be beneficial owners as of February 20, 2001 of more than five percent of outstanding BancGroup common stock. Percentage of Common Class Name and Address Stock Outstanding(1) ---------- --------- ---------- Robert E. Lowder..... 6,211,096(2) 5.6% Post Office Box 1108 Montgomery, AL 36101 -------- (1) Percentage is calculated assuming the issuance of shares of BancGroup common stock pursuant to BancGroup's stock option plans that are held by Mr. Lowder. (2) Includes 160,000 shares of common stock subject to options under BancGroup's stock option plans, excluding options that were not exercisable within 60 days of February 20, 2001, due to vesting requirements. In addition, the total includes 25,960 and 22,628 shares owned by Mr. Lowder's wife and stepson, respectively. Mr. Lowder disclaims beneficial ownership of these shares. 54 Security Ownership of Management The following table indicates for each director, executive officer, and all executive officers and directors of BancGroup as a group the number of shares of outstanding common stock of BancGroup beneficially owned as of February 20, 2001. Shares of BancGroup Beneficially Owned ---------- Percentage Common of Class Directors Name Stock Outstanding ---------- --------- ---------- Lewis Beville..... 3,988 * William Britton..... 61,919(1) * Jerry J. Chesser..... 326,999 * Augustus K. Clements, III..... 47,794 * Robert S. Craft..... 38,353(2) * Patrick F. Dye..... 34,950 * Clinton O. Holdbrooks..... 608,271(3) * Harold D. King..... 247,162(4) * Robert E. Lowder..... 6,211,096(5) 5.6% John Ed Mathison..... 43,783(6) * Milton E. McGregor..... 100,000 * John C.H. Miller, Jr..... 83,810(7) * Joe D. Mussafer..... 44,510 * William E. Powell, III..... 37,815 * James W. Rane..... 4,904 * Frances E. Roper..... 756,899 * Simuel Sippial..... 17,047 * Edward V. Welch..... 63,727 * CERTAIN EXECUTIVE OFFICERS WHO ARE NOT ALSO DIRECTORS Caryn D. Cope..... 24,944(8) * Sarah H. Moore..... 20,863(8) * W. Flake Oakley, IV..... 128,906(8) * All executive officers and directors as a group..... 8,907,740 8.1% -------- * Represents less than 1%. (1) Includes 7,232 shares owned by Mr. Britton's wife. Mr. Britton disclaims beneficial ownership of such shares. (2) Includes 2,808 shares held by the IRA of Mr. Craft's wife. Mr. Craft disclaims beneficial ownership of such shares. (3) Includes 128,996 shares held by Mr. Holdbrooks as a trustee of a charitable trust. (4) Includes 40,780 shares owned by Mr. King's wife and 20 shares held in a trust of which he is beneficiary. Mr. King disclaims beneficial ownership of such shares. (5) Includes 160,000 shares of common stock subject to options under BancGroup's stock option plans, excluding options that were not exercisable within 60 days of February 20, 2001, due to vesting requirements. In addition, the total includes 25,960 and 22,628 shares owned by Mr. Lowder's wife and stepson, respectively. Mr. Lowder disclaims beneficial ownership of these shares. (6) Includes 2,000 shares owned by Dr. Mathison's wife. Dr. Mathison disclaims beneficial ownership of such shares. (7) Includes 45,000 shares subject to options under BancGroup's stock option plans. Also includes 260 shares owned by Mr. Miller's wife. Mr. Miller disclaims beneficial ownership of his wife's shares. (8) Caryn D. Cope, Sarah H. Moore and W. Flake Oakley, IV, hold vested options respecting 10,000, 9,500 and 70,000, respectively, pursuant to BancGroup's stock option plans, excluding options that are not exercisable within 60 days of February 20, 2001, due to vesting requirements. 55 Management Information Certain information regarding the biographies of the directors and executive officers of BancGroup, executive compensation and related party transactions is included in (i) BancGroup's Annual Report on Form 10-K for the fiscal year ending December 31, 2000, at item 10, and (ii) BancGroup's Proxy Statement for its 2001 Annual Meeting under the headings "Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," "Compensation Committee Interlocks and Insider Participation," "Executive Compensation," and "Executive Compensation Committee Report" at pages 4-15. BancGroup hereby incorporates such information by reference. BUSINESS OF MERCANTILE General Mercantile was organized under the laws of the State of Texas on November 18, 1998, for the purpose of indirectly acquiring all

of the outstanding capital stock of First Mercantile Bank and becoming a bank holding company under the Bank Holding Company Act of 1956, as amended. Mercantile indirectly acquired all of the issued and outstanding stock of First Mercantile Bank in May 1999. Mercantile indirectly owns 100% of First Mercantile Bank through its direct ownership of 100% of the capital stock of Mercantile Delaware Bancorp, Inc., a Delaware corporation and intermediate bank holding company. In addition, Mercantile formed MBI Capital Trust I, a special purpose finance subsidiary, in August 2001 of which Mercantile owns all of the common securities. As of September 30, 2001, Mercantile had, on a consolidated basis, total assets of approximately $346.3 million, total loans (net of unearned discount and allowance for loan losses) of approximately $237.2 million, total deposits of approximately $297.9 million and approximately $24.6 million of stockholders' equity. Since becoming a bank holding company, Mercantile has sought to capitalize on the opportunities presented by the continued consolidation in the banking industry. Since opening in January 1998, Mercantile has grown steadily to a financial institution with over $300 million in assets as of September 30, 2001. A significant portion of that growth occurred in September 2001 when Mercantile acquired TownBank, a National Association, located in Mesquite, Texas (approximately 14 miles east of Dallas, Texas), which had immediately prior to Mercantile's acquisition, total assets of approximately $85.0 million, total loans (net of unearned discount and allowance for loan losses) of approximately $48.2 million, and total deposits of approximately $75.1 million. Mercantile conducts its community banking business through five banking offices: four in the greater Dallas metropolitan area and one in Austin, Texas. Through its banking offices, Mercantile offers a variety of traditional loan and deposit products to its customers, primarily small to medium-sized businesses and individual consumers. For businesses, Mercantile provides term loans, lines of credit and loans for working capital, business expansion and the purchase of equipment and machinery, interim construction loans for builders and owner occupied commercial real estate loans. Mercantile offers consumers automobile loans, home mortgage loans, debit cards, cash management services and Internet banking. Customers of Mercantile are provided with a full complement of traditional deposit products. Along with steady asset growth, Mercantile's financial performance has historically been characterized by consistent core earnings and low net charge-offs. The diverse economic nature of the local markets that it serves provide Mercantile with a varied customer base and allows it to spread its lending risks among different industries. Mercantile's market area consists of a dynamic metropolitan area with a correspondingly broad array of economic activities including public, financial and medical services, real estate development and technology. Mercantile derives its revenues primarily from the operations of its subsidiary bank in the form of dividends. First Mercantile Bank Activities First Mercantile Bank is a national banking association that was organized in January 1998 and is regulated by the Office of the Comptroller of the Currency and the FDIC. First Mercantile Bank considers its primary market areas to be in the cities of Dallas and Austin, Texas and surrounding areas. First Mercantile Bank serves 56 this market through its main office and two branches in Dallas, Texas, one branch in Mesquite, Texas and a branch located in Austin, Texas. First Mercantile Bank also has a mobile branch to service the needs of its customers. First Mercantile Bank is engaged in substantially all of the business operations customarily conducted by independent financial institutions in Texas, including the acceptance of checking, savings and certificates of deposit and the making of commercial and consumer loans, real estate loans, and other installment and term loans. First Mercantile Bank does not offer trust services. First Mercantile Bank does a substantial amount of business with individuals, as well as with customers in small to medium-sized commercial, industrial and professional businesses. For the convenience of its customers, First Mercantile Bank offers drive-through banking facilities, automated teller machines, night depositories, personalized checks, charge cards through correspondent banks and safe deposit boxes. First Mercantile Bank's services include cashier's checks, travelers' checks, domestic and foreign wire transfers, account research, stop payments, telephone transfers between accounts and photocopies. Competition Mercantile experiences competition in both lending and attracting funds from other commercial banks, savings banks, savings and loan associations, credit unions, finance companies, pension trusts, mutual funds, insurance companies, mortgage bankers and brokers, brokerage and investment banking firms, asset-based non-bank lenders, government agencies and certain other non-financial institutions, including retail stores, which may offer more favorable financing alternatives than Mercantile. Mercantile also competes with companies located outside of the Dallas and Austin markets that provide financial services to persons within these markets. Some of Mercantile's current and potential competitors have larger customer bases, greater brand recognition, and significantly greater financial, marketing and other resources than First Mercantile Bank, and some of them are not subject to the same degree of regulation as Mercantile. Lending Activities Mercantile offers a range of lending services, including real estate, consumer and

commercial and industrial loans. Mercantile provides general commercial lending services for corporate and other business clients as a part of its efforts to serve the local communities in which it operates. In addition, Mercantile provides loans for 1-4 family residences and, to a lesser extent, for consumer purposes. Mercantile had consolidated net loans of $237.2 million at September 30, 2001, representing 68.5% of Mercantile's consolidated assets. Mercantile's commercial and industrial loans include operating lines of credit and term loans made to small businesses primarily based on their ability to repay the loan from the business's cash flow. Business assets such as equipment, accounts receivable and inventory typically secure these loans. These loans typically involve larger loan balances than consumer or residential loans and are generally dependent on the business's cash flow and, thus, may be subject to adverse conditions in the general economy or in a specific industry. Management of Mercantile reviews the borrower's cash flows when deciding whether to grant the credit to evaluate whether estimated future cash flows will be adequate to service the principal and interest of the loan. Commercial real estate loans are primarily secured by borrower-occupied business real estate and rely on the ability of the related business to generate adequate cash flow to service the debt. Mercantile generally originates commercial real estate loans with a loan-to-value ratio of 80% or less. Management performs an analysis that is similar to the analysis used for commercial loans when deciding whether to grant a commercial real estate loan. 57 Mercantile provides construction loans secured by residential and business real estate. Management of Mercantile believes that it established its construction lending program in a manner to minimize the risks inherent in this type of lending by limiting the size of its loans on speculative projects. Mercantile does not generally make the permanent loan at the end of the construction phase. Construction loans also are generally made in amounts of 80% or less of the value of collateral. Residential real estate loans consist mainly of first and second mortgages on single family homes, with some multifamily loans. Loan-to-value ratios for these instruments are generally limited to 80%. The repayment of residential real estate loans is dependent primarily on the income and cash flows of the borrowers, with the real estate serving as a secondary or liquidation source of repayment. Mercantile periodically sells longer-term, lower-yielding mortgages on 1-4 family residences to the Federal National Mortgage Association, or FNMA, and other money center banks The rationale for these sales is to mitigate interest rate risk associated with holding long-term residential mortgages in the loan portfolio, to generate fee revenue from servicing, and still maintain the primary customer relationship. Although not a significant portion of Mercantile's loan portfolio, on occasion, Mercantile originates short-term residential real estate loans and home equity lines of credit that are secured by the borrower's residence. Such loans are made based on the borrower's ability to make repayment from employment and other income. Management of Mercantile assesses the borrower's ability to repay the debt through review of credit history and ratings, verification of employment and other income, review of debt-to-income ratios and other measures of repayment ability. Mercantile generally makes these loans in amounts of 80% or less of the value of collateral. Consumer installment loans to individuals include loans secured by automobiles and other consumer assets. Consumer loans for purchase of new automobiles do not exceed 100% of the retail price of the automobile. Loans for used cars generally do not exceed average loan value as stipulated in a recent auto industry used car price guide. Overdraft protection loans are unsecured personal lines of credit to individuals of demonstrated good credit character with reasonably assured sources of income and satisfactory credit histories. Consumer loans generally involve more risk than residential mortgage loans because of the type and nature of collateral and, in certain types of consumer loans, the absence of collateral. Because borrowers generally repay these loans from ordinary income, repayment may be adversely affected by job loss, divorce, illness or by general decline in economic conditions. Mercantile assesses the borrower's ability to make repayment through a review of credit history, credit ratings, debt-to-income ratios and other measures of repayment ability. Mercantile may renew loans at maturity when requested by a customer whose financial strength appears to support such renewal or when such renewal appears to be in the best interests of Mercantile. Mercantile requires payment of accrued interest in such instances and may adjust the rate of interest, require a principal reduction or modify other terms of the loan at the time of renewal. Deposit Activities Deposits represent the major source of Mercantile's funds for lending and other investment activities. Mercantile attracts deposits principally from within its primary market areas through the offering of a broad selection of deposit instruments, including checking accounts, money market accounts, regular savings accounts, term certificate accounts and individual retirement accounts. Although Mercantile will occasionally utilize Federal Home Loan Bank borrowings to provide a hedge on certain mortgages, it does not extensively engage in such activities. Interest rates paid, maturity terms, service fees and withdrawal penalties for the various types of accounts are established periodically by management based on Mercantile's liquidity requirements, growth goals and interest rates paid by

competitors. Mercantile does not use brokers to attract deposits. At September 30, 2001, Mercantile had, on a consolidated basis, total deposits of approximately $297.9 million. Approximately 27% of Mercantile's consolidated deposits at September 30, 2001 were certificates of deposit. Generally, Mercantile attempts to maintain the rates paid on its deposits at a competitive level. Time 58 deposits of $100,000 and over made up approximately 20% of Mercantile's consolidated total deposits at September 30, 2001. Investments Mercantile invests a portion of its assets in obligations of the U.S. Treasury and other government agencies, obligations of state and municipal subdivisions, corporate obligations, collateralized mortgage obligations and pass-through certificates guaranteed by FNMA, Federal Home Loan Mortgage Corporation and Government National Mortgage Association. Mercantile classifies these securities as either held to maturity or available for sale according to management's intent. Mercantile manages its investments in relation to loan demand and deposit growth, and generally invests its excess funds at minimal risks while providing liquidity to fund increases in loan demand or to offset fluctuations in deposits. Federal funds sold represent the excess cash Mercantile has available over and above its daily cash needs. Mercantile invests this money on an overnight basis with approved correspondent banks. At September 30, 2001, Mercantile held, on a consolidated basis, approximately $44.0 million in various securities, which represented 13% of total consolidated assets. Employees As of September 30, 2001, Mercantile had 105 full-time and equivalent employees. Mercantile believes that it has a good relationship with its employees. Properties Mercantile operates from five locations: . Mercantile's main office is located at 8144 Walnut Hill Lane, Suite 180, Dallas, Texas 75231 and is housed in an approximately 600,000 square foot 16-story building. This banking center is equipped with three teller stations, four drive-through banking lanes and an automated teller machine. . Mercantile's Preston Road branch is located at 17950 Preston Road, Suite 100, Dallas, Texas and is housed in an approximately 260,000 square foot building. The Preston Road branch is equipped with three teller stations, three drive-through banking lanes and an automated teller machine. . Mercantile's Sherry Lane branch is located at 6071 Sherry Lane, Dallas, Texas 75225 and is housed in an approximately 6,000 square foot 1-story building. The Sherry Lane branch is equipped with three teller stations, one drive-through banking lane and an automated teller machine. . Mercantile's Austin branch is located at 12007 Technology Blvd., Austin, Texas 78727 and is housed in an approximately 20,000 square foot building. The Austin branch is equipped with four teller stations, three drive-through banking lanes and an automated teller machine. . Mercantile's Mesquite branch is located at 1522 Gross Road, Mesquite, Texas 75149 and is housed in an approximately 11,500 square foot building. This branch is equipped with 6 teller stations, 6 drive-through banking lanes and an automated teller machine. 59 In addition to the locations described above, Mercantile also has a mobile branch. Mercantile believes that its facilities are adequate for its current needs. The following table sets forth the amount of deposits (unaudited) as of September 30, 2001 for each of Mercantile's office locations: Deposits at Location September 30, 2001 -------- ---------- (Dollars in thousands) Main Office--Dallas, Texas..... $107.9 Preston Road Branch--Dallas, Texas 39.8 Sherry Lane Branch--Dallas, Texas. 53.3 Austin, Texas Branch..... 22.6 Mesquite, Texas Branch..... 75.3 ------ Total..... $298.9 Legal Proceedings From time to time, litigation arises in the normal conduct of business. However, Mercantile is currently not involved in any litigation that management of Mercantile believes, either singularly or in the aggregate, could be reasonably expected to have a material adverse effect on its business, financial condition or results of operations. Information on Mercantile's Web Site Information on the Internet web site of Mercantile or First Mercantile Bank is not part of this proxy statement-prospectus, and you should not rely on that information in deciding whether to approve the merger unless that information is also in this document or in a document that is incorporated by reference into this proxy statement-prospectus. 60 Security Ownership of Management and Certain Beneficial Owners The following table sets forth certain information as of the record date regarding the beneficial ownership of Mercantile common stock by (1) each director and executive officer of Mercantile, (2) each shareholder whom we know to own beneficially more than 5% of the Mercantile common stock and (3) all of our directors and executive officers as a group. No person, to the knowledge of Mercantile, beneficially owns more than 5% of the Mercantile common stock. Unless otherwise indicated, based on information furnished by such shareholder, management believes that each person has sole voting and dispositive power with respect to all shares of common stock of which he or she is the beneficial owner. Number of Shares Percentage of of Mercantile Total Shares of Common Stock Mercantile Name and Address of Beneficial Owner Beneficially Owned Common Stock(2) ---------- ---------- ---------- Joe Alcantar..... 5,000 * Rhett D. Bentley..... 29,100(3) 2.16% Patrick Q. Crow..... 54,100(4) 4.02% Clinton J. David..... 29,000(5) 2.08% Tom Davis..... 20,350 1.52% Dennis M.

Elmore..... 58,000(6) 4.46% C. Malcolm Holland..... 34,400(7) 2.66% Casey Hozer..... 16,500(8) 1.22% H. Craig Kinney..... 68,000(9) 5.05% Michael A. Kowalski..... 28,060(10) 1.64% Kent Lance..... 15,000 1.12% Joe C. Longbotham..... 47,000(11) 3.49% Roy J. Salley..... 40,100(12) 2.91% J. Craig Wallis..... 12,000(13) * William K. Wells..... 28,500(14) 2.12% Directors and Executive Officers as a Group 593,230(15) 39.22% -------- * Represents less than 1%. (1) Information relating to beneficial ownership is based upon information available to Mercantile and uses "beneficial ownership" concepts set forth in rules of the Commission under the Securities Exchange Act of 1934, as amended. Under such rules, more than one person may be deemed to be a beneficial owner of the same securities, and a person may be deemed to be a beneficial owner of securities as to which he or she may disclaim any beneficial interest. Accordingly, individuals are named as beneficial owners as shares as to which they may disclaim any beneficial interest. Unless otherwise noted, the indicated owner has sole voting and investment power. (2) Based upon 1,512,752 shares of Mercantile common stock issued and outstanding. Shares issuable to an individual or a group under stock options exercisable within 60 days of the record date are considered outstanding for the purpose of calculating the percentage of total outstanding shares of Mercantile common stock owned by such individual or group. (3) Includes 9,000 shares that may be acquired upon exercise of options exercisable within 60 days of the record date. (4) Includes 100 shares held jointly by Mr. Crow with his wife as to which voting and investment power are shared; 34,900 shares held by the Crow family limited partnership over which Mr. Crow has sole voting on investment power; 5,100 shares held by three separate trusts of which Mr. Crow and his wife are co-trustees and share voting and investment power; and 9,000 shares that may be acquired upon exercise of options exercisable within 60 days of the record date. (5) Includes 9,000 shares that may be acquired upon exercise of options exercisable within 60 days of the record date. (6) Includes 33,000 shares held in the name of The Raymond Fund over which Mr. Elmore has sole voting and investment power; 2,000 shares held by Mr. Elmore's daughter as to which Mr. Elmore disclaims beneficial 61 ownership and 9,000 shares that may be acquired upon exercise of options exercisable within 60 days of the record date. (7) Includes 2,000 share held in a self directed IRA; and 30,000 shares that may be acquired upon exercise of options exercisable within 60 days of the record date./ / (8) Includes 15,000 shares that may be acquired upon exercise of options exercisable within 60 days of the record date/ / (9) Includes 44,000 shares held by various trusts as to which Mr. Kinney is trustee and has sole voting and investment power; and 9,000 shares that may be acquired upon exercise of options exercisable within 60 days of the record date. (10) Includes 16,000 shares that may be acquired upon exercise of options exercisable within 60 days of the record date. (11) Includes 3,000 shares held by a trust as to which Mr. Longbotham directs the trustee and has voting and investment power; and 9,000 shares that may be acquired upon exercise of options exercisable within 60 days of the record date. (12) Includes 40,000 shares that may be acquired upon exercise of options exercisable within 60 days of the record date. (13) Includes 12,000 shares that may be acquired upon exercise of options exercisable within 60 days of the record date. (14) Includes 9,000 shares that may be acquired upon exercise of options exercisable within 60 days of the record date. (15) Includes 176,000 shares that may be acquired upon exercise of options exercisable within 60 days of the record date. 62 ADJOURNMENT OF SPECIAL MEETING In the event there are an insufficient number of shares of Mercantile common stock present in person or by proxy at the special meeting to approve the merger agreement and the 280G payments, Mercantile's Board of Directors intends to adjourn the special meeting to a later date provided a majority of the shares present and voting on the motion have voted in favor of such adjournment. The place and date to which the special meeting would be adjourned would be announced at the special meeting. Proxies voted against the merger agreement and abstentions will not be voted to adjourn the special meeting. Abstentions and broker non-votes will not be voted on this matter but will not count as "no" votes. However, an abstention or a broker non-vote has the same effect as a "no" vote. If it is necessary to adjourn the special meeting and the adjournment is for a period of not more than 30 days from the original date of the special meeting, no notice of the time and place of the adjourned meeting need be given the Mercantile shareholders, other than an announcement made at the special meeting. The effect of any such adjournment would be to permit Mercantile to solicit additional proxies for approval of the merger agreement and the 280G payments. Such an adjournment would not invalidate any proxies previously filed as long as the record date for the adjourned meeting remained the same, including proxies filed by shareholders voting against the merger agreement or the 280G payments. OTHER MATTERS The Board of Directors of Mercantile is not aware of any business to come before the special meeting other than those matters described above in this proxy statement-prospectus. If, however, any other matters not now

known should properly come before the special meeting, the proxy holders named in the accompanying proxy will vote such proxy on such matters as determined by a majority of the Board of Directors of Mercantile. DATE FOR SUBMISSION OF BANCGROUP STOCKHOLDER PROPOSALS The deadline for the inclusion of a stockholder proposal in BancGroup's proxy solicitation material for its 2002 annual meeting has already passed. In order to be eligible for inclusion in BancGroup's proxy solicitation materials for its 2003 annual meeting of stockholders, any stockholder proposal to take action at such meeting must be received at BancGroup's main office at One Commerce Street, Post Office Box 1108, Montgomery, Alabama 36101, no later than 120 calendar days in advance of the date of March 15, 2003 (November 16, 2002), for inclusion in the proxy or information statement relating to the 2003 annual meeting. LEGAL MATTERS Certain legal matters regarding the shares of BancGroup common stock of BancGroup offered hereby are being passed upon by the law firm of Miller, Hamilton, Snider & Odom, L.L.C., Mobile, Alabama, of which John C. H. Miller, Jr., a director of BancGroup, is a partner. Such firm received fees for legal services performed in 2001 of $1,781,996. As of February 5, 2002, John C. H. Miller, Jr. beneficially owned 92,844 shares of BancGroup common stock. Mr. Miller also received employee-related compensation from BancGroup in 2001 of $41,000. Certain legal matters relating to the merger are being passed upon for Mercantile by the law firm of Jenkens & Gilchrist, a Professional Corporation, Dallas, Texas. 63 EXPERTS The consolidated financial statements of BancGroup incorporated in this proxy statement-prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2000 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in accounting and auditing. It is not expected that a representative of such firm will be present at the special meeting. PLEASE SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT IN THE ACCOMPANYING ENVELOPE AS PROMPTLY AS POSSIBLE. YOU MAY REVOKE THE PROXY BY GIVING WRITTEN NOTICE OF REVOCATION TO THE SECRETARY OF MERCANTILE PRIOR TO THE SPECIAL MEETING, BY EXECUTING A LATER DATED PROXY AND DELIVERING IT TO THE PRESIDENT OF MERCANTILE PRIOR TO THE SPECIAL MEETING OR BY ATTENDING THE SPECIAL MEETING VOTING IN PERSON. 64 WHERE YOU CAN FIND MORE INFORMATION BancGroup files reports, proxy statements, and other information with the SEC. You can read and copy these reports, proxy statements, and other information concerning us at the SEC's Public Reference Room at 450 Fifth Street, N. W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. You can review BancGroup's electronically filed reports, proxy and information statements on the SEC's Internet site at http://www.sec.gov. BancGroup's common stock is quoted on the New York Stock Exchange under the symbol "CNB". These reports, proxy statements and other information are also available for inspection at the offices of the New York Stock Exchange, 20 Broad Street, New York City, New York 10005. BancGroup has filed a registration statement on Form S-4 with the SEC covering the common stock. This proxy statement-prospectus, which forms a part of the registration statement, does not contain all of the information included in the registration statement. For further information about BancGroup and its common stock you should refer to the registration statement and its exhibits. You can obtain the full registration statement from the SEC as indicated above. The SEC allows BancGroup to "incorporate by reference" the information it files with the SEC. This permits BancGroup to disclose important information to you by referring to these filed documents. The information incorporated by reference is an important part of this proxy statement-prospectus, and information that BancGroup files later with the SEC will automatically update and supersede this information. BancGroup incorporates by reference: . its Annual Report on Form 10-K for the year ended December 31, 2000, . its Quarterly Reports on Form 10-Q for the periods ended March 31, 2001, June 30, 2001, and September 30, 2001, . BancGroup's Current Report on Form 8-K, dated as of January 28, 2002, providing restated financial statements to reflect its recent acquisition of Manufacturers Bancshares, Inc. . its description of the current management and Board of Directors contained in BancGroup's Proxy Statement for its 2001 Annual Meeting, . a description of its common stock, $2.50 par value per share, contained in BancGroup's Registration Statement on Form 8-A, filed with the SEC on November 22, 1994 and effective February 22, 1995, and . any future filings made with the SEC under Sections 13(a), 13(c), 14 or 15(d) under the Securities Exchange Act of 1934 after the date of this proxy statement-prospectus and prior to the special meeting, or, in the case of exercise of stock options that are being assumed by BancGroup, prior to the exercise of such options. You may request a copy of these filings at no cost by writing or telephoning BancGroup at the following address: Office of the Senior Counsel The Colonial BancGroup, Inc. Colonial Financial Center One Commerce Street Fifth Floor Montgomery, Alabama 36104 (334) 240-5315 You should rely only on the information incorporated by

reference or provided in this proxy statement-prospectus. BancGroup has not authorized anyone else to provide you with different information. BancGroup is not making an offer of the common stock in any state where the offer is not permitted. You should not assume that the information in this proxy statement-prospectus is accurate as of any date other than the date on the front of this proxy statement-prospectus. 65 APPENDIX A AGREEMENT AND PLAN OF MERGER by and between THE COLONIAL BANCGROUP, INC., and MERCANTILE BANCORP, INC. dated as of November 29, 2001 TABLE OF CONTENTS Caption Page ------- ---- ARTICLE 1 -- NAME 1.1 Name..... A-5 ARTICLE 2 -- MERGER--TERMS AND CONDITIONS 2.1 Applicable Law..... A-5 2.2 Corporate Existence..... A-5 2.3 Article of Incorporation and Bylaws..... A-6 2.4 Resulting Corporation's Officers and Board.. A-6 2.5 Stockholder Approval..... A-6 2.6 Further Acts..... A-6 2.7 Effective Date and Closing..... A-6 2.8 Subsidiary Bank Merger..... A-6 ARTICLE 3 -- CONVERSION OF ACQUIRED CORPORATION STOCK 3.1 Conversion of Acquired Corporation Stock.... A-7 3.2 Surrender of Acquired Corporation Stock..... A-8 3.3 Fractional Shares..... A-9 3.4 Adjustments..... A-9 3.5 BancGroup Stock..... A-9 3.6 Dissenting Rights..... A-9 ARTICLE 4 -- REPRESENTATIONS, WARRANTIES AND COVENANTS OF BANCGROUP 4.1 Organization..... A-9 4.2 Capital Stock..... A-9 4.3 Financial Statements; Taxes..... A-10 4.4 No Conflict with Other Instrument..... A-10 4.5 Absence of Material Adverse Change..... A-11 4.6 Approval of Agreement..... A-11 4.7 Tax Treatment..... A-11 4.8 Title and Related Matters..... A-11 4.9 Subsidiaries..... A-11 4.10 Contracts..... A-11 4.11 Litigation..... A-11 4.12 Compliance..... A-12 4.13 Registration Statement..... A-12 4.14 SEC Filings..... A-12 4.15 Form S-4..... A-12 4.16 Brokers..... A-12 4.17 Government Authorization..... A-13 4.18 Absence of Regulatory Communications..... A-13 4.19 Disclosure..... A-13 4.20 Computer Hardware and Software..... A-13 A-1 Page ---- ARTICLE 5 -- REPRESENTATIONS, WARRANTIES AND COVENANTS OF ACQUIRED CORPORATION 5.1 Organization..... A-13 5.2 Capital Stock..... A-13 5.3 Subsidiaries..... A-13 5.4 Financial Statements; Taxes..... A-14 5.5 Absence of Certain Changes or Events..... A-15 5.6 Title and Related Matters..... A-16 5.7 Commitments..... A-17 5.8 Charter and Bylaws..... A-17 5.9 Litigation..... A-17 5.10 Material Contract Defaults..... A-17 5.11 No Conflict with Other Instrument..... A-17 5.12 Governmental Authorization..... A-18 5.13 Absence of Regulatory Communications..... A-18 5.14 Absence of Material Adverse Change..... A-18 5.15 Insurance..... A-18 5.16 Pension and Employee Benefit Plans..... A-18 5.17 Buy-Sell Agreements..... A-18 5.18 Brokers..... A-19 5.19 Approval of Agreements..... A-19 5.20 Disclosure..... A-19 5.21 Registration Statement..... A-19 5.22 Loans; Adequacy of Allowance for Loan Losses..... A-19 5.23 Environmental Matters..... A-20 5.24 Collective Bargaining..... A-20 5.25 Labor Disputes..... A-20 5.26 Derivatives Contracts..... A-20 5.27 Non-Terminable Contracts and Severance Agreements A-20 5.28 Absence of Gross Up Bonuses..... A-20 ARTICLE 6 -- ADDITIONAL COVENANTS 6.1 Additional Covenants of BancGroup..... A-21 6.2 Additional Covenants of Acquired Corporation..... A-23 ARTICLE 7 -- MUTUAL COVENANTS AND AGREEMENTS 7.1 Best Efforts; Cooperation..... A-26 7.2 Press Release..... A-27 7.3 Mutual Disclosure..... A-27 7.4 Access to Properties and Records..... A-27 7.5 Notice of Adverse Changes..... A-27 ARTICLE 8 -- CONDITIONS TO OBLIGATIONS OF ALL PARTIES 8.1 Approval by Shareholders..... A-27 8.2 Regulatory Authority Approval A-27 A-2 Page ---- 8.3 Litigation..... A-28 8.4 Registration Statement A-28 8.5 Tax Opinion..... A-28 ARTICLE 9 -- CONDITIONS TO OBLIGATIONS OF ACQUIRED CORPORATION 9.1 Representations, Warranties and Covenants..... A-29 9.2 Adverse Changes..... A-29 9.3 Closing Certificate..... A-29 9.4 Opinion of Counsel..... A-30 9.5 NYSE Listing..... A-30 9.6 Other Matters..... A-30 9.7 Material Events..... A-30 ARTICLE 10 -- CONDITIONS TO OBLIGATIONS OF BANCGROUP 10.1 Representations, Warranties and Covenants..... A-30 10.2 Adverse Changes..... A-30 10.3 Closing Certificate..... A-30 10.4 Opinion of

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AGREEMENT AND PLAN OF MERGER THIS AGREEMENT AND PLAN OF MERGER is made and entered into as of this the /29th/ day of November, 2001, by and between MERCANTILE BANCORP, INC. ("Acquired Corporation"), a Texas corporation, and THE COLONIAL BANCGROUP, INC. ("BancGroup"), a Delaware corporation. WITNESSETH WHEREAS, Acquired Corporation operates as a bank holding company for its indirect 100% owned subsidiary, First Mercantile Bank, National Association, a national banking association (the "Bank"), with its principal office in Dallas, Texas; and WHEREAS, BancGroup is a bank holding company with a Subsidiary bank, Colonial Bank, operating in Alabama, Florida, Georgia, Tennessee, Texas, and Nevada and another subsidiary bank, Manufacturers Bank of Florida, operating in Florida; and WHEREAS, both BancGroup and Acquired Corporation wish to merge (the "Merger") with each other; and WHEREAS, it is the intention of BancGroup and Acquired Corporation that such Merger shall qualify for federal income tax purposes as a "reorganization" within the meaning of Section 368(a) of the Code, as defined herein; NOW, THEREFORE, in consideration of the mutual covenants contained herein, the Parties hereto agree as follows: ARTICLE 1 NAME 1.1 Name. The name of the corporation resulting from the Merger shall be "The Colonial BancGroup, Inc." ARTICLE 2 MERGER -- TERMS AND CONDITIONS 2.1 Applicable Law. On the Effective Date (as defined in Section 2.7 of this Agreement), Acquired Corporation shall be merged with and into BancGroup (herein referred to as the "Resulting Corporation" whenever reference is made to it as of the time of merger or thereafter). The Merger shall be undertaken pursuant to the provisions of and with the effect provided in the Delaware General Corporation Law (the "DGCL") and, to the extent applicable, the Texas Business Corporation Act (the "TBCA"). The offices and facilities of Acquired Corporation and of BancGroup shall become the offices and facilities of the Resulting Corporation. 2.2 Corporate Existence. On the Effective Date, the corporate existence of Acquired Corporation and of BancGroup shall, as provided in the DGCL and the TBCA, be merged into and continued in the Resulting Corporation, and the Resulting Corporation shall be deemed to be the same corporation as Acquired Corporation and BancGroup. All rights, franchises and interests of Acquired Corporation and BancGroup, respectively, in and to every type of property (real, personal and mixed) and choses in action shall be transferred to and vested in the Resulting Corporation by virtue of the Merger without any deed or other transfer. The Resulting Corporation on the Effective Date, and without any order or other action on the part of any court or otherwise, shall hold and enjoy all rights of property, franchises and interests, including appointments, designations and nominations and all other rights and interests as trustee, executor, administrator, transfer agent and registrar of stocks and bonds, A-5 guardian of estates, assignee, and receiver and in every other fiduciary capacity and in every agency, and capacity, in the same manner and to the same extent as such rights, franchises and interests were held or enjoyed by Acquired Corporation and BancGroup, respectively, on the Effective Date. At and after the Effective Date, the Merger shall also have the effects set forth in Section 5.07 of the TBCA. 2.3 Certificate of Incorporation and Bylaws. On the Effective Date, the certificate of incorporation and bylaws of the Resulting Corporation shall be the restated certificate of incorporation, as amended, and bylaws of BancGroup as they exist immediately before the Effective Date. 2.4 Resulting Corporation's Officers and Board. The board of directors and the officers of the Resulting Corporation on the Effective Date shall consist of those persons serving in such capacities of BancGroup as of the Effective Date. 2.5 Shareholder Approval. This Agreement shall be submitted to the shareholders of Acquired Corporation at a special or annual meeting of Acquired Corporation's shareholders (the "Shareholders Meeting") to be held as promptly as practicable consistent with the satisfaction of the conditions set forth in this Agreement. Upon approval by the requisite vote of the shareholders of Acquired Corporation as

required by applicable Law, the Merger shall become effective as soon as practicable thereafter in the manner provided in Section 2.7 hereof. 2.6 Further Acts. If, at any time after the Effective Date, the Resulting Corporation shall consider or be advised that any further assignments or assurances in law or any other acts are necessary or desirable (i) to vest, perfect, confirm or record, in the Resulting Corporation, title to and possession of any property or right of Acquired Corporation or BancGroup, acquired as a result of the Merger, or (ii) otherwise to carry out the purposes of this Agreement, BancGroup and its officers and directors shall execute and deliver all such proper deeds, assignments and assurances in law and do all acts necessary or proper to vest, perfect or confirm title to, and possession of, such property or rights in the Resulting Corporation and otherwise to carry out the purposes of this Agreement; and the proper officers and directors of the Resulting Corporation are fully authorized in the name of Acquired Corporation or BancGroup, or otherwise, to take any and all such action. 2.7 Effective Date and Closing. Subject to the terms of all requirements of Law and the conditions specified in this Agreement, the Merger shall become effective on the date specified in the Certificate of Merger to be filed with the Secretary of State of the State of Delaware (such time being herein called the "Effective Date"), which shall be the date of the Closing unless the parties otherwise agree. Assuming all other conditions stated in this Agreement have been or will be satisfied as of the Closing, the Closing shall take place at the offices of BancGroup, in Montgomery, Alabama, at 5:00 p.m. on a date agreed to by Acquired Corporation and BancGroup that shall be as soon as reasonably practicable after the later to occur of (i) the Shareholders Meeting, (ii) receipt of all required regulatory approvals under Section 8.2, and satisfaction of all other conditions precedent set forth in Articles 8 and 9, which are required to be satisfied prior to Closing, or at such other place and time that the Parties may mutually agree. 2.8 Subsidiary Bank Merger. BancGroup and Acquired Corporation anticipate that on or after the Effective Date, the Bank will merge with and into Colonial Bank ("the Bank Merger"). The exact timing and structure of the Bank Merger has not been finalized at this time, and BancGroup in its sole discretion will finalize such timing and structure at a later date, including whether the Bank shall be merged into Colonial Bank ("Resulting Bank"), provided, however, the Bank Merger will be structured such that it will not have a negative impact on the fax consequences of the Merger to the Acquired Corporation Shareholders and will not materially delay the consummation of the Merger. Acquired Corporation, as sole shareholder of Mercantile Delaware Bancorp, Inc. ("MDBI"), a Delaware corporation, which is the sole shareholder of Bank, will cause all necessary steps be taken to consummate the Bank Merger, including the calling of any special meetings of the board of directors or shareholders of the Bank, voting its shares of stock of the Bank in favor of the Bank Merger and the filing of any regulatory applications. A-6 ARTICLE 3 CONVERSION OF ACQUIRED CORPORATION STOCK 3.1 Conversion of Acquired Corporation Stock. (a) On the Effective Date, each share of common stock, $5.00 par value, of Acquired Corporation outstanding and held of record by Acquired Corporation's shareholders (the "Acquired Corporation Stock"), shall be converted by operation of law and without any action by any holder thereof into shares of BancGroup Common Stock (as defined in Section 14). Specifically, each outstanding share of Acquired Corporation Stock shall (subject to Section 3.3 hereof), be converted into 3.4808 shares of BancGroup Common Stock (the "Exchange Ratio"), provided that the Market Value for BancGroup Common Stock is not less than $11.00 per share nor greater than $15.00 per share. If Market Value is less than $11.00, the Exchange Ratio shall equal $38.29 divided by the Market Value of BancGroup Common Stock (rounded to the nearest one-thousandth). If the Market Value is greater than $15.00, then the Exchange Ratio shall equal $52.21 divided by the Market Value of BancGroup Common Stock (rounded to the nearest one-thousandth). The Market Value shall be the average of the closing prices of the BancGroup Common Stock as reported by the New York Stock Exchange ("NYSE") on each of the ten trading days ending on the trading day five trading days immediately preceding the Effective Date. The appropriate ratio that is used to calculate the Merger Consideration based upon the Market Value as set forth above is referred to as the "Exchange Ratio". However, if there shall be announced between the date of this Agreement and the Effective Date (i) by any Person that such Person is or has commenced a tender or exchange offer to acquire in excess of 50% of the outstanding shares of BancGroup Common Stock, or (ii) by BancGroup that it has entered into a letter of intent or an agreement for the acquisition of BancGroup by another Person or that BancGroup shall be merged with a Person in a transaction in which BancGroup is not the surviving corporation, or a transaction in which BancGroup's current shareholders would own less than 50% of the resulting corporation, then each outstanding share of Acquired Corporation Stock shall be converted into 3.4808 shares of BancGroup Common Stock without reference to the Market Value of BancGroup Common Stock. (b) (i) On the Effective Date, and subject to Section 3.1(c) below, BancGroup shall assume all Acquired Corporation Options outstanding in accordance with

the applicable terms of the Acquired Corporation stock option plans ("Acquired Corporation Stock Option Plan"). Such assumption shall be in a manner consistent with the terms of the Acquired Corporation Stock Option Plan and any Acquired Corporation Stock Option agreement pursuant to which such Acquired Corporation Stock Options were issued and granted. Each such option shall cease to represent a right to acquire Acquired Corporation Stock and shall, instead, represent the right to acquire BancGroup Common Stock on substantially the same terms applicable to the Acquired Corporation Options except as specified below in this Section. The number of shares of BancGroup Common Stock to be issued pursuant to such options shall equal the number of shares of Acquired Corporation Stock subject to such Acquired Corporation Options multiplied by the Exchange Ratio, provided that no fractions of shares of BancGroup Common Stock shall be issued and the number of shares of BancGroup Common Stock to be issued upon the exercise of Acquired Corporation Options, if a fractional share exists, shall equal the number of whole shares obtained by rounding to the nearest whole number, giving account to such fraction, or by paying for such fraction in cash, based upon the Market Value. The exercise price for the acquisition of BancGroup Common Stock shall be the exercise price for each share of Acquired Corporation Stock subject to such options divided by the Exchange Ratio, adjusted appropriately for any rounding to whole shares that may be done. It is intended that the assumption by BancGroup of the Acquired Corporation Options shall be undertaken in a manner that will not constitute a "modification", "extension", or "renewal" as defined in Section 424 of the Internal Revenue Code of 1986, as amended (the "Code") as to any stock option which is an "incentive stock option." Schedule 3.1 hereto sets forth the names of all persons holding Acquired Corporation Options, the number of shares of Acquired Corporation Stock subject to such options, the exercise price and the expiration date of such options. As soon as reasonably practicable after the Effective Date, BancGroup shall deliver to each shareholder an appropriate notice setting forth such person's rights and the number of shares and the exercise price thereof of BancGroup Common Stock applicable to such option. Schedule 3.1 also contains complete and accurate copies of all Acquired Corporation's Stock Option Plans and forms of Acquired Corporation Stock Option Agreements used, and the most recent prospectus sent to stock option holders, if applicable. A-7 (ii) BancGroup shall file at its expense a registration statement with the SEC on Form S-8 or such other appropriate form (including the Form S-4 to be filed in connection with the Merger) with respect to the shares of BancGroup Common Stock to be issued pursuant to such options and shall use its reasonable best efforts to maintain the effectiveness of such registration statement for so long as such options remain outstanding. Such shares shall also be registered or qualified for sale under the securities laws of any state in which registration or qualification is necessary. (c) In lieu of the conversion specified in paragraph (b)(i) of Section 3, no later than five days prior to the Effective Date, each holder of outstanding Acquired Corporation Options may provide written notice to Acquired Corporation (in form and substance reasonably satisfactory to BancGroup) that he or she wishes to exchange his or her Acquired Corporation Options, as of the Effective Date, and, to receive an amount of BancGroup Common Stock or cash, in exchange therefor. The amount of cash to be received shall be determined by calculating the difference between (i) the number obtained by multiplying the number of shares of Acquired Corporation Stock issuable pursuant to his or her Acquired Corporation Options times the Exchange Ratio times Market Value and (ii) the number obtained by multiplying the number of shares of Acquired Corporation Stock issuable pursuant to his or her Acquired Corporation Options times the exercise price per share (as determined pursuant to the applicable stock option plan and stock option agreement of the Acquired Corporation) (such difference is referred to herein as the "Option Consideration"). If the holder of Acquired Corporation Options elects to receive BancGroup Common Stock in lieu of cash, the Option Consideration shall be divided by Market Value to determine the number of shares of BancGroup Common Stock to be received. In the event that the exercise prices of all Acquired Corporation Options are not the same, The Option Consideration shall be determined for each series of options and the number of shares of BancGroup Common Stock issued shall be totaled to obtain the aggregate number of shares to be received by that holder of such Acquired Corporation Options. No fractional shares shall be issued and fractions shall be paid in cash at the Market Value. If an Acquired Corporation Company Employee chooses to exchange his or her options in accordance with this Section 3.1(c), he or she shall also receive a cash bonus equal to the Option Consideration multiplied by 0.34 less any consideration due such Acquired Corporation Company Employee under any "Tax Gross Up Bonus" or any other bonus related in any way to the exercise of the Acquired Corporation Options. If less than all such options are exchanged the bonus shall be reduced pro rata for those options not exchanged. For example, if an individual who holds 100 options of a particular class as of the Effective Date and whose bonus set out on Schedule 3.1(c) is $1,000, elects to exchange 80 options pursuant to this Section 3.1(c) (leaving 20 options remaining); then

such individual's bonus shall be $800 (800/100 x $100). 3.2 Surrender of Acquired Corporation Stock. After the Effective Date, each holder of an outstanding certificate or certificates which represented shares of Acquired Corporation Stock who is entitled to receive BancGroup Common Stock shall be entitled, upon surrender to BancGroup or an exchange agent appointed by BancGroup, of their certificate or certificates representing shares of Acquired Corporation Stock (or an affidavit or affirmation by such holder of the loss, theft, or destruction of such certificate or certificates in such form as BancGroup may reasonably require and, if BancGroup reasonably requires, a bond of indemnity in form and amount, and issued by such sureties, as BancGroup may reasonably require), to receive in exchange therefor a certificate or certificates representing the number of whole shares of BancGroup Common Stock into and for which the shares of Acquired Corporation Stock so surrendered shall have been converted, such certificates to be of such denominations and registered in such names as such holder may reasonably request. Such holder shall receive cash for fractional shares. Until so surrendered and exchanged, each such outstanding certificate which, prior to the Effective Date, represented shares of Acquired Corporation Stock and which is to be converted into BancGroup Common Stock shall for all purposes evidence ownership of the BancGroup Common Stock into and for which such shares shall have been so converted, except that no dividends or other distributions with respect to such BancGroup Common Stock shall be made until the certificates previously representing shares of Acquired Corporation Stock shall have been properly tendered, but upon surrender such dividends and distributions shall be paid (without interest). Within a reasonable time after the Effective Date the Exchange Agent shall send a notice and transmittal form to each Acquired Corporation shareholder advising as to the effectiveness of the Merger and the procedure for exchange of stock certificates. A-8 3.3 Fractional Shares. No fractional shares of BancGroup Common Stock shall be issued, and each holder of shares of Acquired Corporation Stock having a fractional interest arising upon the conversion of such shares into shares of BancGroup Common Stock shall, at the time of surrender of the certificates previously representing Acquired Corporation Stock, be paid by BancGroup an amount in cash equal to the Market Value of such fractional share. 3.4 Adjustments. In the event that, prior to the Effective Date, BancGroup Common Stock shall be changed into a different number of shares or a different class of shares by reason of any recapitalization or reclassification, stock dividend, combination, stock split, or reverse stock split of the BancGroup Common Stock, or changed into or exchanged for a different kind or number of securities, then an appropriate and proportionate adjustment shall be made in the number of shares of BancGroup Common Stock (or such other company the shares of BancGroup Common Stock shall have been changed or exchanged for) into which the Acquired Corporation Stock shall be converted. Appropriate and proportionate adjustments shall also be made in the maximum and minimum Exchange Ratios set forth in this Agreement. 3.5 BancGroup Stock. The shares of BancGroup Common Stock issued and outstanding immediately before the Effective Date shall continue to be issued and outstanding shares of the Resulting Corporation. 3.6 Dissenting Rights. Any shareholder of Acquired Corporation who shall not have voted in favor of this Agreement and who has complied with the applicable procedures set forth in the TBCA, relating to rights of dissenting shareholders, shall be entitled to receive payment for the fair value of his Acquired Corporation Stock. If after the Effective Date a dissenting shareholder of Acquired Corporation fails to perfect, or effectively withdraws or loses his right to appraisal and payment for his shares of Acquired Corporation Stock, BancGroup shall issue and deliver the consideration to which such holder of shares of Acquired Corporation Stock is entitled under Section 3.1 (without interest) upon surrender by such holder of the certificate or certificates representing shares of Acquired Corporation Stock held by him or her. ARTICLE 4 REPRESENTATIONS, WARRANTIES AND COVENANTS OF BANCGROUP BancGroup represents, warrants and covenants to and with Acquired Corporation as follows: 4.1 Organization. BancGroup is a corporation duly organized, validly existing and in good standing under the Laws of the State of Delaware. BancGroup has the necessary corporate powers to carry on its business as presently conducted and is qualified to do business in every jurisdiction in which the character and location of the Assets owned by it or the nature of the business transacted by it requires qualification or in which the failure to qualify could, individually or in the aggregate, have a Material Adverse Effect. 4.2 Capital Stock. (a) The authorized capital stock of BancGroup consists of (A) 200,000,000 shares of Common Stock, $2.50 par value per share, of which as of October 31, 2001, 115,202,034 shares were validly issued and outstanding, fully paid and nonassessable and are not subject to preemptive rights (not counting additional shares subject to issue pursuant to stock option and other plans and convertible debentures), and (B) 1,000,000 shares of Preference Stock, $2.50 par value per share, none of which are issued and outstanding. The shares of BancGroup Common Stock to be issued in the Merger are duly authorized and, when so issued, will be validly issued and outstanding, fully paid and

nonassessable, will have been registered under the 1933 Act, and will have been registered or qualified under the securities laws of all jurisdictions in which such registration or qualification is required, based upon information provided by Acquired Corporation. (b) The authorized capital stock of each Subsidiary of BancGroup is validly issued and outstanding, fully paid and nonassessable, and each Subsidiary is wholly owned, directly or indirectly, by BancGroup. A-9 4.3 Financial Statements; Taxes. (a) BancGroup has delivered to Acquired Corporation copies of the following financial statements of BancGroup: (i) Consolidated balance sheets as of December 31, 1999, December 31, 2000, and September 30, 2001; (ii) Consolidated statements of operations for each of the three years ended December 31, 1998, 1999 and 2000, and for the nine months ended September 30, 2001; (iii) Consolidated statements of cash flows for each of the three years ended December 31, 1998, 1999 and 2000, and for the nine months ended September 30, 2001; (iv) Consolidated statements of changes in stockholders' equity for the three years ended December 31, 1998, 1999 and 2000, and for the nine months ended September 30, 2001. All such financial statements are in all material respects in accordance with the books and records of BancGroup and have been prepared in accordance with GAAP applied on a consistent basis throughout the periods indicated, all as more particularly set forth in the notes to such statements. Each of the consolidated balance sheets presents fairly as of its date the consolidated financial condition of BancGroup and its Subsidiaries. Except as and to the extent reflected or reserved against in such balance sheets (including the notes thereto), BancGroup did not have, as of the dates of such balance sheets, any material Liabilities or obligations (absolute or contingent) of a nature customarily reflected in a balance sheet or the notes thereto. The statements of consolidated income, stockholders equity and changes in consolidated financial position present fairly the results of operations and changes in financial position of BancGroup and its Subsidiaries for the periods indicated. The financial information listed above for the years ended December 31, 2000, 1999 and 1998 has been audited by BancGroup's independent auditor. The foregoing representations, insofar as they relate to the unaudited interim financial statements of BancGroup for the nine months ended September 30, 2001, are subject in all cases to normal recurring year-end adjustments and the omission of footnote disclosure. (b) All Tax returns required to be filed by or on behalf of BancGroup have been timely filed (or requests for extensions therefor have been timely filed and granted and have not expired), and all returns filed are complete and accurate in all material respects. All Taxes shown on these returns to be due and all additional assessments received have been paid. The amounts recorded for Taxes on the balance sheets provided under Section 4.3(a) are, to the Knowledge of BancGroup, sufficient in all material respects for the payment of all unpaid federal, state, county, local, foreign or other Taxes (including any interest or penalties) of BancGroup accrued for or applicable to the period ended on the dates thereof, and all years and periods prior thereto and for which BancGroup may at such dates have been liable in its own right or as transferee of the Assets of, or as successor to, any other corporation or other party. No audit, examination or investigation is presently being conducted or, to the Knowledge of BancGroup, threatened by any taxing authority which is likely to result in a material Tax Liability, no material unpaid Tax deficiencies or additional liabilities of any sort have been proposed by any governmental representative and no agreements for extension of time for the assessment of any material amount of Tax have been entered into by or on behalf of BancGroup. BancGroup has withheld from its employees (and timely paid to the appropriate governmental entity) proper and accurate amounts for all periods in material compliance with all Tax withholding provisions of applicable federal, state, foreign and local Laws (including without limitation, income, social security and employment Tax withholding for all types of compensation). 4.4 No Conflict with Other Instrument. The consummation of the transactions contemplated by this Agreement will not result in a breach of or constitute a Default (without regard to the giving of notice or the passage of time) under any material Contract, indenture, mortgage, deed of trust or other material agreement or instrument to which BancGroup or any of its Subsidiaries is a party or by which they or their Assets may be bound; will not conflict with any provision of the restated certificate of incorporation, as amended, or bylaws of BancGroup or the articles of incorporation or bylaws of any of its Subsidiaries; and will not violate any provision of any Law, regulation, judgment or decree binding on them or any of their Assets. A-10 4.5 Absence of Material Adverse Change. Since the date of the most recent balance sheet provided under Section 4.3(a)(i) above, there have been no events, changes or occurrences which have had or are reasonably likely to have, individually or in the aggregate, a Material Adverse Effect on BancGroup. 4.6 Approval of Agreement. The board of directors of BancGroup has, or will have prior to the Effective Date, approved this Agreement and the transactions contemplated by it and has, or will have prior to the Effective Date, authorized the execution and delivery by BancGroup of this Agreement. This Agreement constitutes the legal, valid and binding obligation of BancGroup, enforceable against it in accordance with its terms. Approval of this

Agreement by the stockholders of BancGroup is not required by applicable Law. Subject to the matters referred to in Section 8.2, BancGroup has full power, authority and legal right to enter into this Agreement and to consummate the transactions contemplated by this Agreement. BancGroup has no Knowledge of any fact or circumstance under which the appropriate regulatory approvals required by Section 8.2 will not be granted without the imposition of material conditions or material delays. 4.7 Tax Treatment. BancGroup has no present plan to sell or otherwise dispose of any of the Assets of Acquired Corporation subsequent to the Merger, and BancGroup intends to continue the historic business of Acquired Corporation. 4.8 Title and Related Matters. BancGroup has good and marketable title to all the properties, interests in properties and Assets, real and personal, that are material to the business of BancGroup, reflected in the most recent balance sheet referred to in Section 4.3(a), or acquired after the date of such balance sheet (except properties, interests and Assets sold or otherwise disposed of since such date, in the ordinary course of business), free and clear of all mortgages, Liens, pledges, charges or encumbrances except (i) mortgages and other encumbrances referred to in the notes of such balance sheet, (ii) liens for current Taxes not yet due and payable and (iii) such imperfections of title and easements as do not materially detract from or interfere with the present use of the properties subject thereto or affected thereby, or otherwise materially impair present business operations at such properties. To the Knowledge of BancGroup, the material structures and equipment of BancGroup comply in all material respects with the requirements of all applicable Laws. 4.9 Subsidiaries. Each Subsidiary of BancGroup has been duly incorporated and is validly existing as a corporation in good standing under the Laws of the jurisdiction of its incorporation and each Subsidiary has been duly qualified as a foreign corporation to transact business and is in good standing under the Laws of each other jurisdiction in which it owns or leases properties, or conducts any business so as to require such qualification and in which the failure to be duly qualified could have a Material Adverse Effect upon BancGroup and its Subsidiaries considered as one enterprise; each of the banking Subsidiaries of BancGroup has its deposits fully insured by the Federal Deposit Insurance Corporation to the extent provided by the Federal Deposit Insurance Act; and the businesses of the non-bank Subsidiaries of BancGroup are permitted to subsidiaries of registered financial holding companies. 4.10 Contracts. Neither BancGroup nor any of its Subsidiaries is in violation of its respective certificate of incorporation or bylaws or in Default in the performance or observance of any material obligation, agreement, covenant or condition contained in any Contract, indenture, mortgage, loan agreement, note, lease or other instrument to which it is a party or by which it or its property may be bound. 4.11 Litigation. Except as disclosed in BancGroup's SEC filings or reserved for in BancGroup's financial statements, there is no Litigation before or by any court or Agency, domestic or foreign, now pending, or, to the Knowledge of BancGroup, threatened against or affecting BancGroup or any of its Subsidiaries (nor is BancGroup aware of any facts which could give rise to any such Litigation) which is required to be disclosed in the Registration Statement (other than as disclosed therein), or which is likely to have any Material Adverse Effect or prospective Material Adverse Effect, or which is likely to materially and adversely affect the properties or Assets thereof or which is likely to materially affect or delay the consummation of the transactions contemplated by this Agreement; all pending legal or governmental proceedings to which BancGroup or any A-11 Subsidiary is a party or of which any of their properties is the subject which are not described in the Registration Statement, including ordinary routine litigation incidental to the business, are, considered in the aggregate, not material; and neither BancGroup nor any of its Subsidiaries have any contingent obligations which could be considered material to BancGroup and its Subsidiaries considered as one enterprise which are not disclosed in the Registration Statement as it may be amended or supplemented. 4.12 Compliance. In the conduct of their respective businesses, BancGroup and its Subsidiaries are, to the Knowledge of BancGroup, in material compliance with all material federal, state or local Laws applicable to their or the conduct of such businesses. 4.13 Registration Statement. At the time the Registration Statement becomes effective and at the time of the Shareholders Meeting, the Registration Statement, including the Proxy Statement which shall constitute a part thereof, will comply in all material respects with the requirements of the 1933 Act and the rules and regulations thereunder, will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the representations and warranties in this subsection shall not apply to statements in or omissions from the Proxy Statement made in reliance upon and in conformity with information furnished in writing to BancGroup by Acquired Corporation or any of its representatives expressly for use in the Proxy Statement or information included in the Proxy Statement regarding the business of Acquired Corporation, its operations, Assets and capital. 4.14 SEC Filings. (a) BancGroup has heretofore delivered to Acquired Corporation copies of BancGroup's: (i) Annual Report on

Form 10-K for the fiscal year ended December 31, 2000; (ii) 2000 Annual Report to Shareholders; (iii) the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2001; and (iv) any reports on Form 8-K, filed by BancGroup with the SEC since December 31, 2000. Since December 31, 1999, BancGroup has timely filed all reports and registration statements and the documents required to be filed with the SEC under the rules and regulations of the SEC and all such reports and registration statements or other documents have complied in all material respects, as of their respective filing dates and effective dates, as the case may be, with all the applicable requirements of the 1933 Act and the 1934 Act. As of the respective filing and effective dates, none of such reports or registration statements or other documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. (b) The documents incorporated by reference into the Registration Statement, at the time they were filed with the SEC, complied in all material respects with the requirements of the 1934 Act and Regulations thereunder and when read together and with the other information in the Registration Statement will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading at the time the Registration Statement becomes effective or at the time of the Shareholders Meeting. 4.15 Form S-4. The conditions for use of a registration statement on SEC Form S-4 set forth in the General Instructions on Form S-4 have been or will be satisfied with respect to BancGroup and the Registration Statement. 4.16 Brokers. Except for negotiations with SAMCO Capital Markets, a Division of Service Asset Management Company ("SAMCO"), all negotiations relative to this Agreement and the transactions contemplated by this Agreement have been carried on by BancGroup directly with Acquired Corporation and without the intervention of any other person, either as a result of any act of BancGroup or otherwise in such manner as to give rights to any valid claim against BancGroup for finders fees, brokerage commissions or other like payments. A-12 4.17 Government Authorization. BancGroup and its Subsidiaries have all Permits that, to the Knowledge of BancGroup and its Subsidiaries, are or will be legally required to enable BancGroup or any of its Subsidiaries to conduct their businesses in all material respects as now conducted by each of them. 4.18 Absence of Regulatory Communications. Neither BancGroup nor any of its Subsidiaries is subject to, or has received during the past three (3) years, any written communication directed specifically to it from any Agency to which it is subject or pursuant to which such Agency has imposed or has indicated it may impose any material restrictions on the operations of it or the business conducted by it or in which such Agency has raised a material question concerning the condition, financial or otherwise, of such company. 4.19 Disclosure. No representation or warranty, or any statement or certificate furnished or to be furnished to Acquired Corporation by BancGroup, contains or will contain any untrue statement of a material fact, or omits or will omit to state a material fact necessary to make the statements contained in this Agreement or in any such statement or certificate not misleading. ARTICLE 5 REPRESENTATIONS, WARRANTIES AND COVENANTS OF ACQUIRED CORPORATION Acquired Corporation represents, warrants and covenants to and with BancGroup, as follows: 5.1 Organization. Acquired Corporation is a Texas corporation, and the Bank is a national banking association. Acquired Corporation wholly owns MDBI, and MDBI is the sole stockholder of the Bank. Each Acquired Corporation Company (as defined in Section 14) is duly organized, validly existing and in good standing under the Laws of its respective jurisdiction of incorporation and has all requisite power and authority to carry on its business as it is now being conducted and is qualified to do business in every jurisdiction in which the character and location of the Assets owned by it or the nature of the business transacted by it requires qualification or in which the failure to qualify could, individually, or in the aggregate, have a Material Adverse Effect. 5.2 Capital Stock. As of the date of this Agreement, the authorized capital stock of Acquired Corporation consisted of 2,000,000 shares of common stock, $5.00 par value, 1,336,752 shares of which are issued and outstanding. All of such shares which are outstanding are validly issued, fully paid and nonassessable and not subject to preemptive rights. Acquired Corporation has 232,000 shares of its common stock subject to exercise pursuant to stock options under its stock option plans. Except for the foregoing, Acquired Corporation does not have any other arrangements or commitments obligating it to issue shares of its capital stock or any securities convertible into or having the right to purchase shares of its capital stock. 5.3 Subsidiaries. Except for MDBI and MBI Capital Trust I (the "MBI Trust"), a Delaware Business Trust, Acquired Corporation has no direct Subsidiaries. MDBI owns all of the issued and outstanding shares of the Bank, and there are no Subsidiaries of the Bank. Acquired Corporation owns all of the issued and outstanding capital stock of MDBI free and clear of any liens, claims or encumbrances of any kind. Acquired Corporation owns all of the issued and outstanding common securities of MBI Trust free and clear of any liens, claims or encumbrances of any kind. MDBI

owns all of the issued and outstanding capital stock of the Bank free and clear of any liens, claims or encumbrances of any kind. All of the issued and outstanding shares of capital stock of the Subsidiaries have been validly issued and are fully paid and non-assessable, except as such shares of the Bank may be deemed assessable under 12 U.S.C. (S)55. As of the date of this Agreement, there were 1,000,000 shares of the common stock, $5.00 par value, authorized by the Bank, and 700,000 of which are issued and outstanding. The Bank has no arrangements or commitments obligating it to issue shares of its capital stock or any securities convertible into or having the right to purchase shares of its capital stock. As of the date of this Agreement, there were 1,000 shares of the common stock, $1.00 par value, authorized by MDBI, and 1,000 of which are issued and outstanding. MDBI has no arrangements or commitments obligating it to issue shares of its A-13 capital stock or any securities convertible into or having the right to purchase shares of its capital stock. As of the date of this Agreement, there were 24,743 shares of the common securities (having a $10.00 liquidation amount) and 800,000 shares of trust preferred securities (having a $10.00 liquidation amount), authorized by MBI Trust, all of which are issued and outstanding. MBI Trust has no arrangements or commitments obligating it to issue shares of its capital stock or any securities convertible into or having the right to purchase shares of its capital stock. 5.4 Financial Statements; Taxes (a) Acquired Corporation has delivered to BancGroup copies of the following financial statements of Acquired Corporation: (i) Consolidated balance sheet as of December 31, 1999, and December 31, 2000; (ii) Consolidated statements of income for each of the two years ended December 31, 1999 and 2000; (iii) Consolidated statements of shareholders equity for each of the two years ended December 31, 1999, and 2000; and (iv) An unconsolidated balance sheet, statement of income, and statement of shareholders equity as of and for the nine-month period ended September 30, 2001. All of the foregoing financial statements are in all material respects in accordance with the books and records of Acquired Corporation and have been prepared in accordance with GAAP applied on a consistent basis throughout the periods indicated, except for changes required by GAAP, all as more particularly set forth in the notes to such statements. Each of such balance sheets presents fairly as of its date the financial condition of Acquired Corporation. Except as and to the extent reflected or reserved against in such balance sheets (including the notes thereto), Acquired Corporation did not have, as of the date of such balance sheets, any material Liabilities or obligations (absolute or contingent) of a nature customarily reflected in a balance sheet or the notes thereto. The statements of income, shareholders equity and cash flows present fairly the results of operation, changes in shareholders equity and cash flows of Acquired Corporation for the periods indicated. The financial information contained in the above statements for the years ended December 31, 1999 and 2000, has been audited by the independent auditor for Acquired Corporation. The foregoing representations, insofar as they relate to the unaudited interim financial statements of Acquired Corporation for the nine months ended September 30, 2001, are subject in all cases to normal recurring year-end adjustments and the omission of footnote disclosure. (b) Except as set forth on Schedule 5.4(b), all Tax returns required to be filed by or on behalf of Acquired Corporation have been timely filed (or requests for extensions therefor have been timely filed and granted and have not expired), and all returns filed are complete and accurate in all material respects. All Taxes shown on these returns to be due and all additional assessments received have been paid. The amounts recorded for Taxes on the balance sheets provided under Section 5.4(a) are, to the Knowledge of Acquired Corporation, sufficient in all material respects for the payment of all unpaid federal, state, county, local, foreign and other Taxes (including any interest or penalties) of Acquired Corporation accrued for or applicable to the period ended on the dates thereof, and all years and periods prior thereto and for which Acquired Corporation may at such dates have been liable in its own right or as a transferee of the Assets of, or as successor to, any other corporation or other party. No audit, examination or investigation is presently being conducted or, to the Knowledge of Acquired Corporation, threatened by any taxing authority which is likely to result in a material Tax Liability, no material unpaid Tax deficiencies or additional liability of any sort has been proposed by any governmental representative and no agreements for extension of time for the assessment of any material amount of Tax have been entered into by or on behalf of Acquired Corporation. Acquired Corporation has not executed an extension or waiver of any statute of limitations on the assessment or collection of any Tax due that is currently in effect. A-14 (c) Each Acquired Corporation Company has withheld from its employees (and timely paid to the appropriate governmental entity) proper and accurate amounts for all periods in material compliance with all Tax withholding provisions of applicable federal, state, foreign and local Laws (including without limitation, income, social security and employment Tax withholding for all types of compensation). Each Acquired Corporation Company is in compliance with, and its records contain all information and documents (including properly completed IRS Forms W-9) necessary to comply with, all applicable information reporting and Tax withholding requirements under

federal, state and local Tax Laws, and such records identify with specificity all accounts subject to backup withholding under Section 3406 of the Code. 5.5 Absence of Certain Changes or Events. Except as set forth on Schedule 5.5, since the date of the most recent balance sheet provided under Section 5.4(a)(i) above, no Acquired Corporation Company has: (a) issued, delivered or agreed to issue or deliver any stock or other corporate equity securities (whether authorized and unissued or held in the treasury) except shares of common stock issued upon the exercise of existing Acquired Corporation Options and shares issued as director's qualifying shares; (b) borrowed or agreed to borrow any funds or incurred, or become subject to, any Liability (absolute or contingent) except borrowings, obligations (including purchase of federal funds) and Liabilities incurred in the ordinary course of business and consistent with past practice; (c) paid any material obligation or Liability (absolute or contingent) other than current Liabilities reflected in or shown on the most recent balance sheet referred to in Section 5.4(a)(i) and current Liabilities incurred since that date in the ordinary course of business and consistent with past practice; (d) declared or made, or agreed to declare or make, any payment of dividends or distributions of any Assets of any kind whatsoever to shareholders, or purchased or redeemed, or agreed to purchase or redeem, directly or indirectly, or otherwise acquire, any of its outstanding securities. In no event shall the shareholders of Acquired Corporation be entitled to both an Acquired Corporation dividend and to BancGroup's regular dividend during the quarter in which the Effective Date occurs. Notwithstanding the foregoing, nothing in this Agreement shall prevent the Bank and MDBI from paying dividends to the Acquired Corporation in such amount necessary for the Acquired Corporation to make any interest payments on its debentures or other indebtedness outstanding as of the date of this Agreement. Provided, further, that in the event the Merger does not close prior to the record date for the second quarter dividend at BancGroup (such dividend generally being declared in the July meeting of the board of directors of BancGroup), the Acquired Corporation may pay a dividend to its Shareholders in an amount equal to the amount of dividend such Shareholders would have received if they were shareholders of BancGroup on such record date. For purposes of determining the amount of such dividend the Acquired Corporation may use the exchange ratio of 3.4808 in calculating the number of shares of BancGroup Common Stock that would have been received by the Shareholders. (e) except in the ordinary course of business, sold or transferred, or agreed to sell or transfer, any of its Assets, or canceled, or agreed to cancel, any debts or claims; (f) except in the ordinary course of business, entered or agreed to enter into any agreement or arrangement granting any preferential rights to purchase any of its Assets, or requiring the consent of any party to the transfer and assignment of any of its Assets; (g) suffered any Losses or waived any rights of value which in either event in the aggregate would have a Material Adverse Effect on Acquired Corporation considering its business as a whole; (h) except in the ordinary course of business, made or permitted any amendment or termination of any Contract, agreement or license to which it is a party if such amendment or termination would have a Material Adverse Effect on Acquired Corporation considering its business as a whole; A-15 (i) except as set forth in Schedule 5.5(i) or in accordance with normal and usual practice, and as previously disclosed to BancGroup, made any accrual or arrangement for or payment of bonuses or special compensation of any kind or any severance or termination pay to any present or former officer or employee; (j) except in accordance with normal and usual practice, and as previously disclosed to BancGroup, increased the rate of compensation payable to or to become payable to any of its officers or employees or made any material increase in any profit sharing, bonus, deferred compensation, savings, insurance, pension, retirement or other employee benefit plan, payment or arrangement made to, for or with any of its officers or employees; (k) received notice or had Knowledge or reason to believe that any of its substantial customers has terminated or intends to terminate its relationship, which termination would have a Material Adverse Effect on its financial condition, results of operations, business, Assets or properties; (l) failed to operate its business in the ordinary course so as to preserve its business intact and to preserve the goodwill of its customers and others with whom it has business relations; (m) other than this Agreement and the Stock Option Agreement, entered into any material transaction other than in the ordinary course of business; or (n) agreed in writing, or otherwise, to take any action described in clauses (a) through (m) above. Between the date hereof and the Effective Date, no Acquired Corporation Company, without the express written approval of BancGroup, will do any of the things listed in clauses (a) through (n) of this Section 5.5 except as permitted therein or as contemplated in this Agreement, and no Acquired Corporation Company will enter into or amend any material Contract, other than Loans or renewals thereof entered into in the ordinary course of business, without the express written consent of BancGroup. 5.6 Title and Related Matters. (a) Title. Each Acquired Corporation Company has good and indefeasible title to all the properties, interest in properties and Assets, real and personal, that are material to the business of such Acquired Corporation Company,

reflected in the most recent balance sheet referred to in Section 5.4(a)(i), or acquired after the date of such balance sheet (except properties, interests and Assets sold or otherwise disposed of since such date, in the ordinary course of business), free and clear of all mortgages, Liens, pledges, charges or encumbrances except (i) mortgages and other encumbrances referred to in the notes to such balance sheet, (ii) Liens for current Taxes not yet due and payable and (iii) such imperfections of title and easements as do not materially detract from or interfere with the present use of the properties subject thereto or affected thereby, or otherwise materially impair present business operations at such properties. To the Knowledge of Acquired Corporation, the material structures and equipment of each Acquired Corporation Company comply in all material respects with the requirements of all applicable Laws. Complete and accurate copies of the deeds to all real property owned by each Acquired Corporation Company are attached hereto as Schedule 5.6(a). (b) Leases. Schedule 5.6(b) sets forth a list and description of all real and personal property owned or leased by any Acquired Corporation Company, either as lessor or lessee. Complete and accurate copies of all such leases are attached to Schedule 5.6(b). (c) Personal Property. Schedule 5.6(c) sets forth a depreciation schedule of each Acquired Corporation Company's fixed Assets as of the latest practicable date. (d) Computer Hardware and Software. Schedule 5.6(d) contains a listing of all agreements relating to data processing computer software and hardware now being used in the business operations of any Acquired Corporation Company. Except as set forth in Schedule 5.6(d), Acquired Corporation is not aware of any defects, A-16 irregularities or problems with any of its computer hardware or software which renders such hardware or software unable to perform satisfactorily the tasks and functions to be performed by them in the business of any Acquired Corporation Company. Complete and accurate copies of all Contracts, plans and other items so listed have been attached to Schedule 5.6(d). 5.7 Commitments. Except as set forth in Schedule 5.7, no Acquired Corporation Company is a party to any oral or written (i) Contracts for the employment of any officer or employee which is not terminable on 30 days' (or less) notice, (ii) profit sharing, bonus, benefit deferred compensation, savings, stock option, severance pay, pension or retirement plan, agreement or arrangement, (iii) loan agreement, indenture or similar agreement relating to the borrowing of money by such party, (iv) guaranty of any obligation for the borrowing of money or otherwise, excluding endorsements made for collection, and guaranties made in the ordinary course of business, (v) consulting or other similar material Contracts, (vi) collective bargaining agreement, (vii) agreement with any present or former officer, director or shareholder of such party, or (viii) other Contract, agreement or other commitment which is material to the business, operations, property, prospects or Assets or to the condition, financial or otherwise, of any Acquired Corporation Company. Complete and accurate copies of all Contracts, plans and other items so listed have been made available to BancGroup for inspection. 5.8 Charter and Bylaws. Schedule 5.8 contains true and correct copies of the articles of incorporation and bylaws (or comparable organizational documents in the case of MBI Trust) of each Acquired Corporation Company, including all amendments thereto, as currently in effect. There will be no changes in such articles of incorporation or bylaws prior to the Effective Date, without the prior written consent of BancGroup. 5.9 Litigation. Except as set out in Schedule 5.9, there is no Litigation (whether or not purportedly on behalf of Acquired Corporation) pending or, to the Knowledge of Acquired Corporation, threatened against or affecting any Acquired Corporation Company (nor does Acquired Corporation have Knowledge of any facts which are likely to give rise to any such Litigation) at law or in equity, or before or by any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, or before any arbitrator of any kind, which involves the reasonable likelihood of any judgment or Liability not fully covered by insurance in excess of a reasonable deductible amount or which may have a Material Adverse Effect on Acquired Corporation, and no Acquired Corporation Company is in Default with respect to any judgment, order, writ, injunction, decree, award, rule or regulation of any court, arbitrator or governmental department, commission, board, bureau, agency or instrumentality, which Default would have a Material Adverse Effect on Acquired Corporation. Except as set out in Schedule 5.9, to the Knowledge of Acquired Corporation, each Acquired Corporation Company has complied in all material respects with all material applicable Laws and Regulations including those imposing Taxes, of any applicable jurisdiction and of all states, municipalities, other political subdivisions and Agencies, in respect of the ownership of its properties and the conduct of its business, which, if not complied with, would have a Material Adverse Effect on Acquired Corporation. 5.10 Material Contract Defaults. Except as disclosed on Schedule 5.10, no Acquired Corporation Company is in Default in any material respect under the terms of any material Contract, agreement, lease or other commitment which is or may be material to the business, operations, properties or Assets, or the condition, financial or otherwise, of such company and, to the Knowledge of Acquired Corporation, there is no event which, with notice or lapse of time, or both, may be or become an event of

Default under any such material Contract, agreement, lease or other commitment in respect of which adequate steps have not been taken to prevent such a Default from occurring. 5.11 No Conflict with Other Instrument. Except as disclosed in Schedule 5.11, the consummation of the transactions contemplated by this Agreement will not result in the breach of any term or provision of or constitute a Default under any material Contract, indenture, mortgage, deed of trust or other material agreement or instrument to which any Acquired Corporation Company is a party and will not conflict with any provision of the charter or bylaws of any Acquired Corporation Company. A-17 5.12 Governmental Authorization. Each Acquired Corporation Company has all Permits that, to the Knowledge of Acquired Corporation, are or will be legally required to enable any Acquired Corporation Company to conduct its business in all material respects as now conducted by each Acquired Corporation Company. 5.13 Absence of Regulatory Communications. Except as disclosed in Schedule 5.13, no Acquired Corporation Company is subject to, nor has any Acquired Corporation Company received during the past three years, any written communication directed specifically to it from any Agency to which it is subject or pursuant to which such Agency has imposed or has indicated it may impose any material restrictions on the operations of it or the business conducted by it or in which such Agency has raised any material question concerning the condition, financial or otherwise, of such company. 5.14 Absence of Material Adverse Change. Except as disclosed in Schedule 5.14, to the Knowledge of Acquired Corporation, since the date of the most recent balance sheet provided under Section 5.4(a)(i), there have been no events, changes or occurrences which have had, or are reasonably likely to have, individually or in the aggregate, a Material Adverse Effect on any Acquired Corporation Company. 5.15 Insurance. Each Acquired Corporation Company has in effect insurance coverage and bonds with reputable insurers which, in respect to amounts, types and risks insured, management of Acquired Corporation reasonably believes to be adequate for the type of business conducted by such company. No Acquired Corporation Company is liable for any material retroactive premium adjustment. All insurance policies and bonds are valid, enforceable and in full force and effect according to their respective terms, and no Acquired Corporation Company has received any notice of any material premium increase or cancellation with respect to any of its insurance policies or bonds. Within the last three years, no Acquired Corporation Company has been refused any insurance coverage which it has sought or applied for, and it has no reason to believe that existing insurance coverage cannot be renewed as and when the same shall expire, upon terms and conditions as favorable as those presently in effect, other than possible increases in premiums that do not result from any extraordinary loss experience. All policies of insurance presently held or policies containing substantially equivalent coverage will be outstanding and in full force with respect to each Acquired Corporation Company at all times from the date hereof to the Effective Date. 5.16 Pension and Employee Benefit Plans. (a) To the Knowledge of Acquired Corporation, all employee benefit plans of (i) each Acquired Corporation Company and (ii) any entity from which any Acquired Corporation Company may lease employees have been established in compliance with, and such plans have been operated in material compliance with, all applicable Laws. Except as set forth in Schedule 5.16, no Acquired Corporation Company sponsors or otherwise maintains a "pension plan" within the meaning of Section 3(2) of ERISA or any other retirement plan that is intended to qualify under Section 401 of the Code, nor do any unfunded Liabilities exist with respect to any employee benefit plan, past or present. To the Knowledge of Acquired Corporation, no employee benefit plan, any trust created thereunder or any trustee or administrator thereof has engaged in a "prohibited transaction," as defined in Section 4975 of the Code, which may have a Material Adverse Effect on the condition, financial or otherwise, of any Acquired Corporation Company. (b) To the Knowledge of Acquired Corporation, no amounts payable to any employee of any Acquired Corporation Company will fail to be deductible for federal income tax purposes by virtue of Section 280G of the Code and regulations thereunder. 5.17 Buy-Sell Agreements. To the Knowledge of Acquired Corporation, there are no agreements among any shareholder of any Acquired Corporation Company granting to any person or persons a right of first refusal in respect of the sale, transfer, or other disposition of shares of outstanding securities by any shareholder of Acquired Corporation Company, any similar agreement or any voting agreement or voting trust in respect of any such shares. A-18 5.18 Brokers. Except with respect to SAMCO, all negotiations relative to this Agreement and the transactions contemplated by this Agreement have been carried on by Acquired Corporation directly with BancGroup and without the intervention of any other person, either as a result of any act of Acquired Corporation, or otherwise, in such manner as to give rise to any valid claim against Acquired Corporation for a finder's fee, brokerage commission or other like payment. However, Acquired Corporation will pay fees to a financial advisor for the issuance of a fairness opinion as described on Schedule 5.18. 5.19 Approval of Agreements. The board of directors of Acquired Corporation has approved this Agreement and the transactions contemplated by this

Agreement and has authorized the execution and delivery by Acquired Corporation of this Agreement. Subject to the matters referred to in Section 8.2, Acquired Corporation has full power, authority and legal right to enter into this Agreement, and, upon appropriate vote of the shareholders of Acquired Corporation in accordance with this Agreement, Acquired Corporation shall have full power, authority and legal right to consummate the transactions contemplated by this Agreement. 5.20 Disclosure. (a) No representation or warranty, nor any statement or certificate furnished or to be furnished to BancGroup by Acquired Corporation, contains or will contain any untrue statement of a material fact, or omits or will omit to state a material fact necessary to make the statements contained in this Agreement or in any such statement or certificate not misleading. (b) On or before the date hereof the Acquired Corporation has delivered to BancGroup its Disclosure Schedules setting forth, among other things, exceptions to any and all of its representations and warranties in Article 5. While Acquired Corporation has used commercially reasonable efforts to identify in the Disclosure Schedule the particular representation or warranty to which each such disclosure or exception relates, each such disclosure or exception shall be deemed disclosed for purposes of all representations and warranties in Article 5 and the Disclosure Schedule. The mere inclusion of an exception in the Disclosure Schedule shall not be deemed an admission by Acquired Corporation that such exception represents a material fact, event, or circumstance. 5.21 Registration Statement. At the time the Registration Statement becomes effective and at the time of the Shareholders Meeting, the Registration Statement, including the Proxy Statement which shall constitute part thereof, will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the representations and warranties in this Section shall only apply to statements in or omissions from the Proxy Statement relating to descriptions of the business of Acquired Corporation, its Assets, properties, operations, and capital stock or to information furnished in writing by Acquired Corporation or its representatives expressly for inclusion in the Proxy Statement. 5.22 Loans; Adequacy of Allowance for Loan Losses. All reserves for loan losses shown on the most recent financial statements furnished by Acquired Corporation have been calculated in accordance with prudent and customary banking practices and are adequate in all material respects to reflect all known and reasonably anticipated risk inherent in the loans of Acquired Corporation to the Knowledge of Acquired Corporation. Acquired Corporation has no Knowledge of any fact which is likely to require a future material increase in the provision for loan losses or a material decrease in the loan loss reserve reflected in such financial statements. Each loan reflected as an Asset on the financial statements of Acquired Corporation is the legal, valid and binding obligation of the obligor of each loan, enforceable in accordance with its terms subject to the effect of bankruptcy, insolvency, reorganization, moratorium, or other similar laws relating to creditors' rights generally and to general equitable principles and complies with all Laws to which it is subject. Acquired Corporation does not have in its portfolio any loan exceeding its legal lending limit, and except as disclosed on Schedule 5.22, Acquired Corporation has no known significant delinquent, substandard, doubtful, loss, nonperforming or problem loans. A-19 5.23 Environmental Matters. Except as provided in Schedule 5.23, to the Knowledge of Acquired Corporation, each Acquired Corporation Company is in material compliance with all Laws and other governmental requirements relating to the generation, management, handling, transportation, treatment, disposal, storage, delivery, discharge, release or emission of any waste, pollution, or toxic, hazardous or other substance (the "Environmental Laws"), and Acquired Corporation has no Knowledge that any Acquired Corporation Company has not complied with all regulations and requirements promulgated by the Occupational Safety and Health Administration that are applicable to any Acquired Corporation Company. To the Knowledge of Acquired Corporation, there is no Litigation pending or threatened with respect to any violation or alleged violation of the Environmental Laws. To the Knowledge of Acquired Corporation, with respect to Assets of any Acquired Corporation Company, including any Loan Property, (i) there has been no spillage, leakage, contamination or release of any substances for which the appropriate remedial action has not been completed; (ii) no owned or leased property is contaminated with or contains any hazardous substance or waste; and (iii) there are no underground storage tanks on any premises now or previously owned or leased by any Acquired Corporation Company. Acquired Corporation has no Knowledge of any facts which would suggest that any Acquired Corporation Company has engaged in any management practice with respect to any of its past or existing borrowers which could reasonably be expected to subject any Acquired Corporation Company to any Liability, either directly or indirectly, under the principles of law as set forth in United States v. Fleet Factors Corp., 901 F.2d 1550 (11th Cir. 1990) or any similar principles. Moreover, to the Knowledge of Acquired Corporation, no Acquired Corporation Company has extended credit, either on a secured or unsecured basis, to any person or other entity engaged in any

activities which would require or requires such person or entity to obtain any Permits which are required under any Environmental Law which has not been obtained. 5.24 Collective Bargaining. There are no labor contracts, collective bargaining agreements, letters of undertakings or other arrangements, formal or informal, between any Acquired Corporation Company and any union or labor organization covering any Acquired Corporation Company's employees and none of said employees are represented by any union or labor organization. 5.25 Labor Disputes. To the Knowledge of Acquired Corporation, each Acquired Corporation Company is in material compliance with all federal and state laws respecting employment and employment practices, terms and conditions of employment, wages and hours. No Acquired Corporation Company is or has been engaged in any unfair labor practice, and, to the Knowledge of Acquired Corporation, no unfair labor practice complaint against any Acquired Corporation Company is pending before the National Labor Relations Board. Relations between management of each Acquired Corporation Company and the employees are amicable and there have not been, nor to the Knowledge of Acquired Corporation, are there presently, any attempts to organize employees, nor to the Knowledge of Acquired Corporation, are there plans for any such attempts. 5.26 Derivative Contracts. Except for the Stock Option Agreement, no Acquired Corporation Company is a party to or has agreed to enter into a swap, forward, future, option, cap, floor or collar financial contract, or any other interest rate or foreign currency protection contract or derivative security not included in Acquired Corporation's financial statements delivered under Section 5.4 hereof which is a financial derivative contract (including various combinations thereof). 5.27 Non-Terminable Contracts or Severance Agreements. Except as listed in Schedule 5.28, no Acquired Corporation Company is a party to or has agreed to enter into an employment or vendor contract that is not terminable without penalty within 90 days or contains an extraordinary buyout. With the exception of certain agreements otherwise referenced in this Agreement, no Acquired Corporation Company is a party to or has agreed to enter into any employment agreement, non-competition agreement, salary continuation plan or severance agreement or similar arrangement with any Acquired Corporation Company employee. Complete and accurate copies to all contracts or agreements listed in Schedule 5.28 are attached thereto. 5.28 Absence of Gross Up Bonuses. Notwithstanding any provision hereof to the contrary and/or any disclosure contained in any schedule hereto, Acquired Corporation hereby represents and warrants that no A-20 Acquired Corporation Company is a party to any existing agreement with any holder of an Acquired Corporation Option which creates an obligation, contingent or otherwise, to pay any "gross up" bonus or any other bonus of any nature whatsoever related to or arising out of the exercise of the Acquired Corporation Options. ARTICLE 6 ADDITIONAL COVENANTS 6.1 Additional Covenants of BancGroup. BancGroup covenants to and with Acquired Corporation as follows: (a) Registration Statement and Other Filings. As soon as reasonably practicable after the execution of this Agreement, BancGroup shall prepare, with the assistance of Acquired Corporation, and file with the SEC the Registration Statement on Form S-4 (or such other form as may be appropriate) and all amendments and supplements thereto, which filing shall include the prospectus and proxy statement for the Shareholders Meeting, in form reasonably satisfactory to Acquired Corporation and its counsel, with respect to the Common Stock to be issued pursuant to this Agreement and the matters to be considered at the Shareholders Meeting. BancGroup shall, as soon as reasonably practicable, prepare, with the assistance of Acquired Corporation, all necessary filings with any Federal or State banking Agencies which may be necessary for approval to consummate the transactions contemplated by this Agreement and shall use commercially reasonable efforts to secure all such approvals as soon as practicable, and shall also use commercially reasonable efforts to cause the Registration Statement to become effective under the 1933 Act as soon as reasonably practicable after the filing thereof and take any action required to be taken under other applicable securities Laws in connection with the issuance of the shares of BancGroup Common Stock upon consummation of the Merger. Copies of all such filings shall be furnished in advance to Acquired Corporation and its counsel. (b) Blue Sky Permits. BancGroup shall use commercially reasonable efforts to obtain, prior to the effective date of the Registration Statement, all necessary state securities Law or "blue sky" Permits and approvals required to carry out the transactions contemplated by this Agreement. (c) Financial Statements. BancGroup shall furnish to Acquired Corporation: (i) As soon as practicable and in any event within forty-five (45) days after the end of each quarterly period (other than the last quarterly period) in each fiscal year, consolidated statements of operations of BancGroup for such period and for the period beginning at the commencement of the fiscal year and ending at the end of such quarterly period, and a consolidated statement of financial condition of BancGroup as of the end of such quarterly period, setting forth in each case in comparative form figures for the corresponding periods ending in the preceding fiscal year, subject to changes resulting from year-end adjustments; (ii) Promptly upon receipt thereof, copies of all audit reports submitted to BancGroup by independent

auditors in connection with each annual, interim or special audit of the books of BancGroup made by such accountants; (iii) As soon as practicable, copies of all such financial statements and reports as it shall send to its stockholders and of such regular and periodic reports as BancGroup may file with the SEC or any other Agency; and (iv) With reasonable promptness, such additional financial data as Acquired Corporation may reasonably request. (d) No Control of Acquired Corporation by BancGroup. Notwithstanding any other provision hereof, until the Effective Date, the authority to establish and implement the business policies of Acquired Corporation shall continue to reside solely in Acquired Corporation's officers and board of directors. A-21 (e) Listing. Prior to the Effective Date, BancGroup shall use commercially reasonable efforts to list the shares of BancGroup Common Stock to be issued in the Merger on the NYSE or other quotations system on which such shares are primarily traded. (f) Employee Benefit Matters. (i) On the Effective Date, all employees of any Acquired Corporation Company shall, at BancGroup's option, either become employees of the Resulting Corporation or its Subsidiaries or be entitled to severance benefits in accordance with Colonial Bank's severance policy in effect as of the date of this Agreement. All employees of any Acquired Corporation Company who become employees of the Resulting Corporation or its Subsidiaries on the Effective Date shall be entitled, to the extent permitted by applicable Law, to participate in all benefit plans of Colonial Bank to the same extent as Colonial Bank employees, except as stated otherwise in this Section. Employees of any Acquired Corporation Company who become employees of the Resulting Corporation or its Subsidiaries on the Effective Date shall be allowed to participate as of the Effective Date in the medical and dental benefits plan of Colonial Bank as employees of Colonial Bank, and the time of employment of such employees who are employed at least 30 hours per week with any Acquired Corporation Company as of the Effective Date shall be counted as employment under such dental and medical plans of Colonial Bank for purposes of calculating any 30 day waiting period and pre-existing condition limitations. To the extent permitted by applicable Law, the period of service with the appropriate Acquired Corporation Company of all employees who become employees of the Resulting Corporation or its Subsidiaries on the Effective Date shall be recognized only for vesting and eligibility purposes under Colonial Bank's benefit plans. In addition, if the Effective Date falls within an annual period of coverage under the medical plan of the Resulting Corporation and its Subsidiaries, each such Acquired Corporation Company employee shall be given credit for covered expenses paid by that employee under comparable employee benefit plans of the Acquired Corporation Company during the applicable coverage period through the Effective Date towards satisfaction of any annual deductible limitation and out-of-pocket maximum that may apply under that group health plan of the Resulting Corporation and its Subsidiaries. (ii) For the purposes of this Section 6.1(f), an employee of Acquired Corporation Company shall include any leased employee. (g) Indemnification. (i) Subject to the conditions set forth in the succeeding paragraph, for a period of three (3) years after the Effective Date, BancGroup shall, and shall cause Resulting Bank to indemnify, defend, and hold harmless (including advancement of expenses consistent with Texas Law) each director and officer of each Acquired Corporation Company (each being an "Indemnified Party") against all liabilities arising out of actions or omissions occurring upon or prior to the Effective Date (including without limitation the transactions contemplated by this Agreement) to the extent authorized under the articles of incorporation and bylaws of the applicable Acquired Corporation Company and applicable Law. (ii) Any Indemnified Party wishing to claim indemnification under this subsection (g), upon learning of any such liability or Litigation, shall promptly notify BancGroup thereof. In the event of any such Litigation (whether arising before or after the Effective Date) (i) BancGroup or Resulting Bank shall have the right to assume the defense thereof with counsel reasonably acceptable to such Indemnified Party and, upon assumption of such defense, BancGroup shall not be liable to such Indemnified Parties for any legal expenses of other counsel or any other expenses subsequently incurred by such Indemnified Parties in connection with the defense thereof, except that if BancGroup or Resulting Bank elects not to assume such defense, or counsel for the Indemnified Parties advises that there are substantive issues which raise conflicts of interest between BancGroup and the Indemnified Parties, the Indemnified Parties may retain counsel satisfactory to them, and BancGroup or Resulting Bank shall pay all reasonable fees and expenses of such counsel for the Indemnified Parties promptly as statements therefor are received; provided, that BancGroup shall be obligated pursuant to this subsection to pay for only one firm or counsel for all Indemnified Parties in any jurisdiction; (ii) the Indemnified Parties will cooperate in the defense of any such Litigation; and (iii) BancGroup shall not be liable for any settlement A-22 effected without its prior consent; and provided further that BancGroup and Resulting Bank shall not have any obligation hereunder to any Indemnified Party when and if a court of competent jurisdiction shall determine, and such determination shall have become final, that the indemnification of such Indemnified Party in the

manner contemplated hereby is prohibited by applicable Law. (iii) In consideration of and as a condition precedent to the effectiveness of the indemnification obligations provided by BancGroup in this section to a director or officer of any Acquired Corporation Company, such director or officer of the Acquired Corporation Company shall have delivered to BancGroup on or prior to the Effective Date an affidavit in form reasonably satisfactory to BancGroup concerning claims such directors or officers may have against any Acquired Corporation Company. In the letter, the directors or officers shall (i) acknowledge the assumption by BancGroup as of the Effective Date of all Liability (to the extent any Acquired Corporation Company is so liable) for claims for indemnification arising under Section 6.1(g) hereof; (ii) affirm that they do not have nor are they aware of any claims they might have (other than those referred to in the following clause (iii)) against any Acquired Corporation Company; and (iii) identify any claims or any facts or circumstances of which they are aware that could give rise to a claim for indemnification under section 6.1(g)(i) hereof. (iv) Acquired Company hereby represents and warrants to BancGroup that it has no knowledge of any claim, pending or threatened, or of any facts or circumstances that could give rise to any obligation by BancGroup to provide the indemnification required by this Section 6.1(g) other than as disclosed in the letters of the directors and executive officers referred to in Section 6.1(g)(iii) hereof or described in any schedule to this Agreement and claims arising from any transaction contemplated by this Agreement. (v) BancGroup shall use commercially reasonable efforts (and Acquired Corporation shall cooperate prior to the Effective Date of the Merger in these efforts) to maintain in effect for a period of three (3) years after the Effective Date of the Merger, Acquired Corporation's existing directors' and officer's liability insurance policy (provided that BancGroup may substitute therefor (i) policies of at least the same coverage and amounts containing terms and conditions which are substantially no less advantageous or (ii) with the consent of Acquired Corporation (given prior to the Effective Date of the Merger) any other policy with respect to claims arising from facts or events which occurred prior the Effective Date. (vi) The obligations of BancGroup under this Section 6.1(g) are intended to be enforceable against BancGroup directly by the Indemnified Parties and shall be binding on all respective successors and assigns of BancGroup. (h) Assumption of Obligations Related to the Trust Preferred Securities. At or prior to the Closing Date, BancGroup shall take all steps and enter into all documentation necessary for the Acquired Corporation to continue its obligations under that certain Indenture, dated as of September 7, 2001, by and between the Acquired Corporation and First Union Trust Company, National Association ("First Union"), and that certain Trust Preferred Securities Guarantee Agreement, dated as of September 7, 2001, by and between the Acquired Corporation and First Union, relating to the trust preferred securities issued by MBI Trust. Additionally, BancGroup shall take all steps and enter into all documentation necessary for BancGroup to assume the obligations of the Acquired Corporation under the Indenture and Trust Preferred Securities Guarantee Agreement, including, without limitation, the execution and delivery of a supplemental indenture satisfactory in form to First Union, as trustee of MBI Trust. 6.2 Additional Covenants of Acquired Corporation. Acquired Corporation covenants to and with BancGroup as follows: (a) Operations. Acquired Corporation will conduct its business and the business of each Acquired Corporation Company in a proper and prudent manner and will use commercially reasonable efforts to maintain A-23 its relationships with its depositors, customers and employees. No Acquired Corporation Company will engage in any material transaction outside the ordinary course of business or make any material change in its accounting policies or methods of operation, nor will Acquired Corporation take any action to permit the occurrence of any change or event which would render any of the representations and warranties in Article 5 hereof untrue in any material respect at and as of the Effective Date with the same effect as though such representations and warranties had been made at and as of such Effective Date. Acquired Corporation shall contact any person who may be required to execute an undertaking under Section 10.5 hereof to request such undertaking and shall take all such reasonable steps as are necessary to obtain such undertaking. Acquired Corporation will take no action that would prevent or impede the Merger from qualifying as a tax-free reorganization within the meaning of Section 368 of the Code. Notwithstanding the foregoing, nothing in this Agreement shall prevent the Bank and MDBI from paying dividends to the Acquired Corporation in such amount necessary for the Acquired Corporation to make any interest payments on its debentures or other indebtedness outstanding as of the date of this Agreement. (b) Stockholders Meeting; Best Efforts. Acquired Corporation will cooperate with BancGroup in the preparation of the Registration Statement (which shall include the prospectus/proxy statement for the Shareholder Meeting) and any regulatory filings and will cause the Shareholders Meeting to be held for the purpose of approving the Merger as soon as practicable after the effective date of the Registration Statement, and will use commercially reasonable efforts (subject to compliance with their fiduciary duties) to bring about the transactions contemplated by this Agreement, including shareholder approval of

this Agreement, as soon as practicable unless this Agreement is terminated as provided herein. (c) Prohibited Negotiations. (i) Except with respect to this Agreement and the transactions contemplated hereby, no Acquired Corporation Company nor any affiliate thereof nor any investment banker, attorney, accountant, or other representative (collectively, "Representatives") retained by an Acquired Corporation Company shall directly or indirectly solicit any Acquisition Proposal by any Person. Except to the extent deemed necessary to comply with the fiduciary duties of Acquired Corporation's board of directors under applicable law (based on the written advice by counsel to such board of directors that failure to do so may constitute a breach of their fiduciary duties), no Acquired Corporation Company or any Representative thereof shall furnish any non-public information that it is not legally obligated to furnish, negotiate with respect to, or enter into any Contract with respect to, any Acquisition Proposal, and each Acquired Corporation Company shall direct and use its reasonable efforts to cause all of its Representatives not to engage in any of the foregoing, but Acquired Corporation may communicate information about such an Acquisition Proposal to its shareholders if and to the extent that such action is based on the written advice at counsel to such board of directors that failure to do so may constitute a breach of their fiduciary duties under applicable law. Acquired Corporation shall promptly notify BancGroup orally and in writing in the event that any Acquired Corporation Company receives any inquiry or proposal relating to any such Acquisition Proposal. Acquired Corporation shall immediately cease and cause to be terminated any existing activities, discussions, or negotiations with any Persons other than BancGroup conducted heretofore with respect to any of the foregoing. (ii) If Acquired Corporation (A) enters into a letter of intent or definitive agreement regarding an Acquisition Proposal with any third party (other than BancGroup or any of its Subsidiaries) prior to the earlier of (i) the Effective Date or (ii) the termination of this Agreement pursuant to Article 13 hereof (other than a termination pursuant to paragraph (a) of section 13.2 hereof or by Acquired Corporation pursuant to paragraphs (b), (c) or (d) of section 13.2 hereof), or (B) if Acquired Corporation receives or is the subject of an Acquisition Proposal from a third party (other than BancGroup or its Subsidiaries) prior to the termination of this Agreement pursuant to Article 13 hereof (other than a termination pursuant to paragraph (a) of section 13.2 hereof or by Acquired Corporation pursuant to paragraphs (b), (c) or (d) of section 13.2 hereof), and within 24 months after termination of this Agreement pursuant to Article 13 hereof (other than a termination pursuant to paragraph (a) of section 13.2 hereof or by Acquired Corporation pursuant to paragraphs (b), (c) or (d) of section 13.2 hereof) an Acquisition Proposal is consummated with such third party, Acquired Corporation covenants and agrees that it A-24 shall pay to BancGroup upon demand at any time (Y) after Acquired Corporation enters into an agreement which is legally binding on Acquired Corporation regarding an Acquisition Proposal or (Z) at any time on or after the date of consummation of such Acquisition Proposal, which ever is the first to occur, the principal sum of $6,000,000. Such payment shall compensate BancGroup for its direct and indirect costs and expenses in connection with the transactions contemplated by this Agreement, including BancGroup's management time devoted to negotiation and preparation for the Merger and BancGroup's loss as a result of the Merger not being consummated. The Parties acknowledge and agree that it would be impracticable or extremely difficult to fix the actual damages resulting from the foregoing events and, therefore, the Parties have agreed upon the foregoing payment as liquidated damages which shall not be deemed to be in the nature of a penalty. Other than the payment provided for in this section 6.2(c)(ii) and any Liability for expenses as set forth in Section 15.10 hereof, there shall be no other Liability or obligation on the part of any Acquired Corporation Company or their respective directors or officers resulting from any of the events described in this section 6.2(c)(ii). (d) Director Recommendation. The members of the board of directors of Acquired Corporation agree to support publicly the Merger subject to compliance with their fiduciary duties upon written advice of counsel. (e) Shareholder Voting. Acquired Corporation shall, on or before the date of execution of this Agreement, obtain and submit to BancGroup an agreement from each of its directors, executive officers and affiliates substantially in the form set forth in Exhibit A as BancGroup may require. (f) Financial Statements and Monthly Status Reports. Acquired Corporation shall furnish to BancGroup: (i) As soon as practicable and in any event within 45 days after the end of each quarterly period (other than the last quarterly period in which event the period shall be ninety (90) days) in each fiscal year, consolidated statements of operations of Acquired Corporation for such period and for the period beginning at the commencement of the fiscal year and ending at the end of such quarterly period, and a consolidated statement of financial condition of Acquired Corporation as of the end of such quarterly period, setting forth in each case in comparative form figures for the corresponding periods ending in the preceding fiscal year, subject to changes resulting from year-end adjustments; (ii) Promptly upon receipt thereof, copies of all audit reports submitted to Acquired Corporation by independent auditors

in connection with each annual, interim or special audit of the books of Acquired Corporation made by such accountants; (iii) As soon a practicable, copies of all such financial statements and reports as it shall send to its shareholders and of such regular and periodic reports as Acquired Corporation may file with the SEC or any other Agency; (iv) With reasonable promptness, such additional financial data as BancGroup may reasonably request; and (v) Within 10 calendar days after the end of each month (or, if the financial statements referred to in clause (d) are not then available, as soon as possible thereafter) commencing with the next calendar month following the date of this Agreement and ending at the Effective Date, a written description of (a) any non-compliance with the terms of this Agreement, together with its then current estimate of the out-of-pocket costs and expenses incurred or reasonably accruable in connection with the transactions contemplated by this Agreement; (b) the status, as of the date of the report, of all existing or threatened litigation against any Acquired Corporation Company (with the understanding that the litigation portion of the report need only contain changes in prior reported information that have been brought to the attention of Acquired Corporation by its counsel or otherwise, and that Acquired Corporation is not obligated to poll its outside counsel each month for such litigation information); (c) copies of minutes of any meeting of the board of directors of any Acquired Corporation Company and any committee thereof occurring in the month for which such report is made, A-25 including all documents presented to the directors at such meetings, provided, however, the Acquired Corporation may redact such portions of its minutes and omit such documents that pertain or relate to the advisability of the transactions contemplated hereby, or which information to be disclosed is of a nature such that, in the reasonable opinion of the body holding the meeting following consultation with counsel, disclosure would be inappropriate based on restrictions imposed by applicable antitrust, competition or similar laws or regulations; and (d) monthly financial statements, including a balance sheet and income statement. (g) Fiduciary Duties. Except as set out in Schedule 6.2(g), prior to the Effective Date, (i) no director or officer (each an "Executive") of any Acquired Corporation Company shall, directly or indirectly, own, manage, operate, join, control, be employed by or participate in the ownership, proposed ownership, management, operation or control of or be connected in any manner with, any business, corporation or partnership which is competitive to the business of any Acquired Corporation Company, (ii) all Executives, at all times, shall satisfy their fiduciary duties to Acquired Corporation and its Subsidiaries, and (iii) such Executives shall not (except as required in the course of his or her employment with any Acquired Corporation Company) communicate or divulge to, or use for the benefit of himself or herself or any other person, firm, association or corporation, without the express written consent of Acquired Corporation, any confidential information which is possessed, owned or used by or licensed by or to any Acquired Corporation Company or confidential information belonging to third parties which any Acquired Corporation Company shall be under obligation to keep secret or which may be communicated to, acquired by or learned of by the Executive in the course of or as a result of his or her employment with any Acquired Corporation Company, except as otherwise required by law, regulation or court order, in the defense of litigation for which Acquired Corporation or BancGroup may be liable, or in any actions relating to this Agreement and the transactions contemplated hereby. (h) Certain Practices. At the request of BancGroup, (i) Acquired Corporation shall cause the Bank to consult with BancGroup and advise BancGroup of all of the Bank's loan requests over $500,000 that are not single-family residential loan requests or of any other loan request outside the normal course of business, and (ii) Acquired Corporation will consult with BancGroup to coordinate various business issues on a basis mutually satisfactory to Acquired Corporation and BancGroup. Acquired Corporation and the Bank shall not be required to undertake any of such activities, however, except as such activities may be in compliance with existing Law and Regulations. ARTICLE 7 MUTUAL COVENANTS AND AGREEMENTS 7.1 Best Efforts; Cooperation. Subject to the terms and conditions herein provided, BancGroup and Acquired Corporation each agrees to use commercially reasonably efforts promptly to take, or cause to be taken, all actions and do, or cause to be done, all things necessary, proper or advisable under applicable Laws or otherwise, including, without limitation, promptly making required deliveries of shareholder lists and stock transfer reports and attempting to obtain all necessary Consents and waivers and regulatory approvals, including the holding of any regular or special board meetings, to consummate and make effective, as soon as practicable, the transactions contemplated by this Agreement. The officers of each Party to this Agreement shall fully cooperate with officers and employees, accountants, counsel and other representatives of the other Parties not only in fulfilling the duties hereunder of the Party of which they are officers but also in assisting, directly or through direction of employees and other persons under their supervision or control, such as stock transfer agents for the Party, the other Parties requiring information which is reasonably available from such Party. No Acquired Corporation Company shall take any action which would

cause the merger to fail to qualify as a reorganization within the meaning of Section 368 of the Code. No Acquired Corporation Company shall take any action which would materially affect or delay receipt of the approval contemplated in Section 8.2 herein or materially delay performance of its covenants under this Agreement. A-26 7.2 Press Release. Each Party hereto agrees that, unless approved by the other Parties in advance, such Party will not make any public announcement, issue any press release or other publicity or confirm any statements by any person not a party to this Agreement concerning the transactions contemplated hereby. Notwithstanding the foregoing, each Party hereto reserves the right to make any disclosure if such Party, in its reasonable discretion and as advised by counsel, deems such disclosure required by Law. In that event, such Party shall provide to the other Party the text of such disclosure sufficiently in advance to enable the other Party to have a reasonable opportunity to comment thereon. 7.3 Mutual Disclosure. Each Party hereto agrees to promptly furnish to each other Party hereto its public disclosures and filings not precluded from disclosure by Law including but not limited to call reports, Form 8-K, Form 10-Q and Form 10-K filings, Y-3 applications, reports on Form Y-6 (or Y-10, as applicable), quarterly or special reports to shareholders, Tax returns, Form S-8 registration statements and similar documents. 7.4 Access to Properties and Records. Each Party hereto shall afford the officers and authorized representatives of the other Party full access to the Assets, books and records of such Party in order that such other Parties may have full opportunity to make such investigation as they shall desire of the affairs of such Party and shall furnish to such Parties such additional financial and operating data and other information as to its businesses and Assets as shall be from time to time reasonably requested. All such information that may be obtained by any such Party will be held in confidence by such party, will not be disclosed by such Party or any of its representatives except in accordance with this Agreement, and the Confidentiality Agreements, and will not be used by such Party for any purpose other than the accomplishment of the Merger as provided herein. 7.5 Notice of Adverse Changes. Each Party agrees to give written notice promptly to the other Party upon becoming aware of the occurrence or impending occurrence of any event or circumstance relating to it or any of its Subsidiaries which (i) is reasonably likely to have, individually or in the aggregate, a Material Adverse Effect on it or (ii) would cause or constitute a material breach of any of its representations, warranties, or covenants contained herein, and to use its reasonable efforts to prevent or promptly to remedy the same. ARTICLE 8 CONDITIONS TO OBLIGATIONS OF ALL PARTIES The obligations of BancGroup and Acquired Corporation to cause the transactions contemplated by this Agreement to be consummated shall be subject to the satisfaction, in the sole discretion of the Party or Parties relying upon such conditions, on or before the Effective Date of all the following conditions, except as such Party or Parties may waive such conditions in writing: 8.1 Approval by Shareholders. At the Shareholders Meeting, this Agreement and the matters contemplated by this Agreement shall have been duly approved by the vote of the holders of not less than the requisite number of the issued and outstanding voting securities of Acquired Corporation as is required by applicable Law and Acquired Corporation's articles of incorporation and bylaws. 8.2 Regulatory Authority Approval. (a) Orders, consents, and approvals, in form and substance reasonably satisfactory to BancGroup and Acquired Corporation, shall have been entered by the Board of Governors of the Federal Reserve System and other appropriate bank regulatory Agencies (i) granting the authority necessary for the consummation of the Merger, and (ii) satisfying all other requirements prescribed by Law (including without limitation, the expiration of any mandatory waiting periods). No Order, Consent or approval so obtained which is necessary to consummate the transactions as contemplated hereby shall be conditioned or restricted in a manner which in the reasonable good faith judgment of the board of directors of BancGroup would so materially adversely impact the economic benefits of the transaction as contemplated by this Agreement so as to render inadvisable the consummation of the Merger. A-27 (b) Each Party shall have obtained any and all other Consents required for consummation of the Merger (other than those referred to in Section 8.2(a) of this Agreement) for the preventing of any Default under any Contract or Permit of such Party which, if not obtained or made, is reasonably likely to have, individually or in the aggregate, a Material Adverse Effect on such Party. No Consent obtained which is necessary to consummate the transactions contemplated hereby shall be conditioned or restricted in a manner which in the reasonable judgment of the board of directors of BancGroup would so materially adversely impact the economic or business benefits of the transactions contemplated by this Agreement so as to render inadvisable the consummation of the Merger. 8.3 Litigation. None of the Parties shall be subject to any order, decree, or injunction of a court or agency of competent jurisdiction which enjoins or prohibits consummation of the Merger. There shall be no pending or threatened Litigation in any court or any pending or threatened proceeding by any governmental commission, board or Agency, with a view to seeking or in which it is sought to restrain or prohibit consummation of the transactions

contemplated by this Agreement or in which it is sought to obtain divestiture, rescission or damages in connection with the transactions contemplated by this Agreement and no investigation by any Agency shall be pending or threatened which might result in any such suit, action or other proceeding. 8.4 Registration Statement. The Registration Statement shall be effective under the 1933 Act and no stop order suspending the effectiveness of the Registration Statement shall be in effect; no proceedings for such purpose, or under the proxy rules of the SEC or any bank regulatory authority pursuant to the 1934 Act, with respect to the transactions contemplated hereby, shall be pending before or threatened by the SEC or any bank regulatory authority; and all approvals or authorizations for the offer of BancGroup Common Stock shall have been received or obtained pursuant to any applicable state securities Laws, and no stop order or proceeding with respect to the transactions contemplated hereby shall be pending or threatened under any such state Law. 8.5 Tax Opinion. An opinion of PricewaterhouseCoopers LLP, shall have been received in form and substance reasonably satisfactory to Acquired Corporation and BancGroup to the effect that (i) the Merger will constitute a "reorganization" within the meaning of Section 368 of the Code; (ii) no gain or loss will be recognized by BancGroup or Acquired Corporation; (iii) no gain or loss will be recognized by the shareholders of Acquired Corporation who receive shares of BancGroup Common Stock except to the extent of any taxable "boot" received by such persons from BancGroup, and except to the extent of any dividends received from Acquired Corporation prior to the Effective Date; (iv) the basis of the BancGroup Common Stock received in the Merger will be equal to the sum of the basis of the shares of Acquired Corporation common stock exchanged in the Merger and the amount of gain, if any, which was recognized by the exchanging Acquired Corporation shareholder, including any portion treated as a dividend, less the value of taxable boot, if any, received by such shareholder in the Merger; (v) the holding period of the BancGroup Common Stock will include the holding period of the shares of Acquired Corporation Stock exchanged therefor if such shares of Acquired Corporation Stock were capital assets in the hands of the exchanging Acquired Corporation shareholder; and (vi) cash received by an Acquired Corporation shareholder in lieu of a fractional share interest of BancGroup Common Stock will be treated as having been received as a distribution in full payment in exchange for the fractional share interest of BancGroup Common Stock which he or she would otherwise be entitled to receive and will qualify as capital gain or loss (assuming the Acquired Corporation Stock was a capital asset in his or her hands as of the Effective Date). BancGroup shall pay the fees of PricewaterhouseCoopers LLP incurred in preparing and issuing the above mentioned opinion. A-28 ARTICLE 9 CONDITIONS TO OBLIGATIONS OF ACQUIRED CORPORATION The obligations of Acquired Corporation to cause the transactions contemplated by this Agreement to be consummated shall be subject to the satisfaction on or before the Effective Date of all the following conditions except as Acquired Corporation may waive such conditions in writing: 9.1 Representations, Warranties and Covenants. Notwithstanding any investigation made by or on behalf of Acquired Corporation, all representations and warranties of BancGroup contained in this Agreement shall be true in all material respects on and as of the Effective Date as if such representations and warranties were made on and as of such Effective Date, except to the extent that the failure to be true shall not either individually or in the aggregate have a Material Adverse Effect on BancGroup and its subsidiaries, taken as a whole, and BancGroup shall have performed in all material respects all agreements and covenants required by this Agreement to be performed by it on or prior to the Effective Date, except to the extent that the failure to perform shall not have a Material Adverse Effect either individually or in the aggregate on BancGroup and its subsidiaries as a whole. 9.2 Adverse Changes. There shall have been no changes after the date of the most recent balance sheet provided under Section 4.3(a)(i) hereof in the results of operations (as compared with the corresponding period of the prior fiscal year), Assets, Liabilities, financial condition or affairs of BancGroup which in their total effect constitute a Material Adverse Effect, nor shall there have been any material changes in the Laws governing the business of BancGroup which would impair the rights of Acquired Corporation or its shareholders pursuant to this Agreement. 9.3 Closing Certificate. In addition to any other deliveries required to be delivered hereunder, Acquired Corporation shall have received a certificate from the President or an Executive Vice President and from the Secretary or Assistant Secretary of BancGroup dated as of the Closing certifying that: (a) the board of directors of BancGroup has duly adopted resolutions approving the substantive terms of this Agreement and authorizing the consummation of the transactions contemplated by this Agreement and such resolutions have not been amended or modified and remain in full force and effect; (b) each person executing this Agreement on behalf of BancGroup is an officer of BancGroup holding the office or offices specified therein and the signature of each person set forth on such certificate is his or her genuine signature; (c) the certificate of incorporation and bylaws of BancGroup referenced in Section 4.4 hereof remain in full force and effect; (d) such persons have no

knowledge of a basis for any material claim, in any court or before any Agency or arbitration or otherwise against, by or affecting BancGroup or the business, prospects, condition (financial or otherwise), or Assets of BancGroup which would prevent the performance of this Agreement or the transactions contemplated by this Agreement or declare the same unlawful or cause the rescission thereof; (e) to such persons' knowledge, the Proxy Statement delivered to Acquired Corporation's shareholders, or any amendments or revisions thereto so delivered, as of the date thereof, did not contain or incorporate by reference any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances under which they were made (it being understood that such persons need not express a statement as to information concerning or provided by Acquired Corporation for inclusion in such Proxy Statement); and (f) the conditions set forth in this Article 9 insofar as they relate to BancGroup have been satisfied. A-29 (g) BancGroup has authorized sufficient shares of its common stock for issuance to satisfy its obligations under this Agreement. 9.4 Opinion of Counsel. Acquired Corporation shall have received an opinion of Miller, Hamilton, Snider & Odom, L.L.C., counsel to BancGroup, dated as of the Closing, substantially in the form set forth in Exhibit B hereto. 9.5 NYSE Listing. The shares of BancGroup Common Stock to be issued under this Agreement shall have been approved for listing on the NYSE. 9.6 Other Matters. There shall have been furnished to such counsel for Acquired Corporation certified copies of such corporate records of BancGroup and copies of such other documents as such counsel may reasonably have requested for such purpose. All documents required to be executed and delivered by BancGroup as provided in this Agreement shall have been so executed and delivered. 9.7 Material Events. There shall have been no determination by the board of directors of Acquired Corporation that the transactions contemplated by this Agreement have become impractical because of any state of war, declaration of

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	
$6,678,604	$6,361,907
NET INTEREST INCOME	
$118,119	$112,181
INTEREST SPREAD	
3.30%	3.45%
NET INTEREST MARGIN	
3.87%	3.86%

(1) The interest income and the yields on federally nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory federal

income tax rate of 35%.

(2) The interest income and the yields on state nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory state income tax rate of 9%.

(3) Nonaccruing loans are included in the daily average loan amounts outstanding.

Provision for Credit Losses

At June 30, 2006, nonperforming loans were $13.49 million or 0.28% of loans, net of unearned income compared to nonperforming loans of $13.19 million or 0.28% of loans, net of unearned income at December 31, 2005, respectively. The components of nonperforming loans include nonaccrual loans and loans, which are contractually past due 90 days or more as to interest or principal, but have not been put on a nonaccrual

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basis. At June 30, 2006, nonaccrual loans were $6.96 million, a decrease of $188 thousand or 2.63% from $7.15 million at year-end 2005. Loans past due 90 days or more were $6.53 million at June 30, 2006, an increase of $492 thousand or 8.15% from $6.04 million at year-end 2005. Total nonperforming assets of $15.80 million, including OREO of $2.31 million at June 30, 2006, represented 0.24% of total assets at the end of the second quarter. For a summary of nonperforming assets, see Note 5 to the unaudited Notes to Consolidated Financial Statements.

At June 30, 2006, impaired loans were $18.34 million, which was an increase of $1.79 million from the $16.55 million in impaired loans at December 31, 2005. This increase in impaired loans was due primarily to loans to three customers totaling $1.25 million. Currently, no specific allowance allocation is required as the credits are adequately collateralized. However, based on current information and events, United believes it is probable that the borrowers will not be able to repay all amounts due according to the contractual terms of the loan agreements. For further details regarding impaired loans, see Note 5 to the unaudited Consolidated Financial Statements.

United evaluates the adequacy of the allowance for credit losses on a quarterly basis and its loan administration policies are focused upon the risk characteristics of the loan portfolio. United s process for evaluating the allowance is a formal company-wide process that focuses on early identification of potential problem credits and procedural discipline in managing and accounting for those credits. This process determines the appropriate level of the allowance for credit losses, allocation among loan types and lending-related commitments, and the resulting provision for credit losses.

United maintains an allowance for loan losses and an allowance for lending-related commitments. The combined allowances for loan losses and lending-related commitments are referred to as the allowance for credit losses. At June 30, 2006, the allowance for credit losses was $52.90 million as compared to $52.87 million at December 31, 2005. As a percentage of loans, net of unearned income, the allowance for credit losses was 1.10% at June 30, 2006 and 1.14% of loans, net of unearned income at December 31, 2005. The ratio of the allowance for credit losses to nonperforming loans was 392.1% and 401.0% at June 30, 2006 and December 31, 2005, respectively.

The provision for credit losses for the first six months of 2006 and 2005 was $598 thousand and $1.62 million, respectively. For the quarters ended June 30, 2006 and 2005, the provision for credit losses was $348 thousand and $504 thousand, respectively. Net charge-offs for the first six months of 2006 were $574 thousand as compared to $1.34 million for the first six months of 2005. Net charge-offs were $418 thousand for the second quarter of 2006 as compared to net charge-offs of $295 thousand for the same quarter in 2005. Note 4 to the accompanying unaudited Notes to unaudited Consolidated Financial Statements provides a progression of the allowance for credit losses.

In determining the adequacy of the allowance for credit losses, management makes allocations to specific commercial loans classified by management as to the level of risk. Management determines the loan s risk by considering the borrowers ability to repay, the collateral securing the credit and other borrower-specific factors that may impact collectibility. Specific loss allocations are based on the present value of expected future cash flows using the loan s effective interest rate, or as a practical expedient, at the loan s observable market price or the fair value of the collateral if the loan is collateral-dependent. Other commercial loans not specifically reviewed on an individual basis are evaluated based on loan pools, which are grouped by similar risk characteristics using management s internal risk ratings. Allocations for these commercial loan

pools are determined based upon historical loss experience adjusted for current conditions and risk factors. Allocations for loans, other than commercial loans, are developed by applying historical loss experience adjusted for current conditions and risk factors to loan pools grouped by similar risk characteristics. While allocations are made to specific loans and pools of loans, the allowance is available for all credit losses. The allowance for imprecision is a relatively small component of the total allowance for credit losses and recognizes the normal variance resulting from the process of estimation. Differences between actual loan loss experience and estimates are reviewed on a quarterly basis and adjustments are made to those estimates.

United s formal company-wide process at June 30, 2006 produced increased allocations in two of the four loan categories from December 31, 2005. The components of the allowance allocated to commercial loans increased by $2 million due to the segmentation of the portfolio into two additional loan pools for which special allocations of $1.2 million were established. The remainder of the increase was primarily driven by an increase in specific loan allocations on impaired loans of $380 thousand and an allocation of $420 thousand due to an increase in loan volume. These factors were somewhat offset by changes in historical loss rates. The allocation for the real estate construction loan pool also rose during the quarter rose by $944 thousand primarily due to changes in loan volume, loss rate factors and qualitative adjustments. The allocation for consumer loans decreased $1.5 million as a result of decreases in historical loss rates, loan volume and qualitative factors. The allocation for real estate loans decreased by $705 thousand due to changes in loan volume and loss rates. The unfunded commitments liability was stable, decreasing by $18 thousand primarily due to changes in unfunded exposure and historical loss rates.

An allowance is established for probable credit losses on impaired loans via specific allocations. Nonperforming commercial loans and leases are regularly reviewed to identify impairment. A loan or lease is impaired when, based on current information and events, it is probable that the subsidiary banks will not be able to collect all amounts contractually due. Measuring impairment of a loan requires judgment and estimates, and the eventual outcomes may differ from those estimates. Impairment is measured based upon the present value of expected future cash flows from the loan discounted at the loan s effective rate, the loan s observable market price or the fair value of collateral, if the loan is collateral dependent. When the selected measure is less than the recorded investment in the loan, an impairment has occurred. The allowance for impaired loans was $1.4 million at June 30, 2006 and $1.0 million at December 31, 2005. Compared to year-end, this element of the allowance increased by $380 thousand primarily due to one large and several smaller new commercial impaired loans.

An allowance is also recognized for imprecision inherent in estimates of loss. There are many factors affecting the allowance for loan losses and allowance for lending-related commitments; some are quantitative while others require qualitative judgment. Although management believes its methodology for determining the allowance adequately considers all of the potential factors to identify and quantify probable losses in the portfolio, the process includes subjective elements and is therefore susceptible to change. This estimate for imprecision has been established to recognize the variance, within a reasonable margin, of the loss estimation process. The estimate for imprecision decreased at June 30, 2006 by $668 thousand from year-end 2005 to $1.6 million. This represents only 2.9% of the bank s total allowance for credit loss and in as much as this variance is within a predetermined narrow parameter, the methodology has confirmed that the United s allowance for credit loss is at an appropriate level.

Management believes that the allowance for credit losses of $52.90 million at June 30, 2006 is adequate to provide for probable losses on existing loans and loan-related commitments based on information currently available.

United s loan administration policies are focused on the risk characteristics of the loan portfolio in terms of loan approval and credit quality. The commercial loan portfolio is monitored for possible concentrations of credit in one or more industries. Management has lending limits as a percentage of capital per type of credit concentration in an effort to ensure adequate diversification within the portfolio. Most of United s commercial loans are secured by real estate located in West Virginia, Southeastern Ohio, Virginia and Maryland. It is the opinion of management that these commercial loans do not pose any unusual risks and that adequate consideration has been given to these loans in establishing the allowance for credit losses.

Management is not aware of any potential problem loans, trends or uncertainties, which it reasonably expects, will materially impact future operating results, liquidity, or capital resources which have not been disclosed. Additionally, management has disclosed all known material credits, which cause management to have serious doubts as to the ability of such borrowers to comply with the loan repayment schedules.

Other Income

Other income consists of all revenues, which are not included in interest and fee income related to earning assets. Noninterest income has been and will continue to be an important factor for improving United s profitability. Recognizing the importance, management continues to evaluate areas where noninterest income can be enhanced. Noninterest income was $28.09 million for the first six months of 2006, up $1.81 million or 6.88% when compared to the first six months of 2005. For the second quarter of 2006, noninterest income was $14.43 million, an increase of $1.07 million or 7.98% from the second quarter of 2005.

Revenue from trust and brokerage services grew $1.17 million or 21.24% for the first six months of 2006 as compared to the first six months of 2005. For the second quarter of 2006, revenue from trust and brokerage services grew $906 thousand or 33.05% from the prior year s second quarter. The increase in revenue from trust and brokerage services was due to a greater volume of business and a larger customer base.

Service charges, commissions and fees from customer accounts increased $1.29 million or 7.87% for the first six months of 2006 as compared to the first six months of 2005. For the second quarter of 2006, service charges, commissions and fees from customer accounts increased $447 thousand or 5.25% for the second quarter of 2006 as compared to the same period in 2005. The largest component within this category is fees from deposit services which increased $716 thousand or 5.30% and $216 thousand or 3.08% in the first six months and second quarter of 2006, respectively, from last year s first six months of second quarter of 2005 due mainly to United s High Performance Checking program introduced during the first quarter of 2006. In particular, insufficient funds (NSF) fees increased $1.04 million and $489 thousand during the first six months and second quarter of 2006, respectively, and check card fees increased $271 thousand and $150 thousand, respectively. Deposit service charges and account analysis fees declined $382 thousand and $158 thousand, respectively, for the first six months of 2006 as compared to the first six months of 2005. For the second quarter of 2006, deposit service charges and account analysis fees declined $244 thousand and $90 thousand, respectively, compared to the same period in the prior year.

Mortgage banking income increased $26 thousand or 7.37% due to an increased spread between loan sales proceeds and the carrying value of mortgage loans sold in the secondary market during the first six months

of 2006 as compared to last year s first six months. Mortgage loan sales were $22.30 million in the first half of 2006 as compared to $31.75 million in the first half of 2005. Mortgage banking income for the second quarter of 2006 declined $77 thousand or 33.92% due to fewer sales of mortgage loans in the secondary market when compared to the second quarter of 2005. Mortgage loan sales were $9.99 million in the second quarter of 2006 as compared to $20.92 million in the second quarter of 2005.

Income from bank life insurance policies decreased $319 thousand or 13.17% and $398 thousand or 27.28% for the first half and second quarter of 2006, respectively, as compared to last year s income during the same periods.

Included in total noninterest income for the first half of 2006 are the results of United s balance sheet repositioning which occurred during the first quarter of 2006. As part of the repositioning, United prepaid a $50 million variable interest rate FHLB advance and terminated a fixed interest rate swap associated with the advance. United recognized a $3.06 million gain on the termination of the interest rate swap. Additionally, United incurred a net loss on securities transactions of $2.94 million in the first half of 2006 due mainly to an other than temporary impairment on approximately $86 million of low-yielding fixed rate investment securities which United sold as part of its balance sheet repositioning. United realized a net gain of $982 thousand on securities transactions in the first half of 2005. For the second quarter of 2006, United realized a net loss on securities transactions of $99 thousand as compared to a net gain of $58 thousand on securities transactions in the second quarter of 2005.

On a linked-quarter basis, noninterest income increased $763 thousand or 5.58% from the first quarter of 2006. The rise in noninterest income was due mainly to increased revenue from trust and brokerage services of $627 thousand or 20.76% for the quarter. In addition, deposit service fees increased $226 thousand or 3.23% for the second quarter of 2006 when compared to the first quarter of 2006 due primarily to United s High Performance Checking program.

Other Expenses

Just as management continues to evaluate areas where noninterest income can be enhanced, it strives to improve the efficiency of its operations to reduce costs. Other expenses include all items of expense other than interest expense, the provision for loan losses, and income taxes. For the first six months of 2006, noninterest expenses increased $5.03 million or 8.48% from the first six months of 2005. Noninterest expenses increased $1.59 million or 5.19% for the second quarter of 2006 compared to the same period in 2005.

The increase in noninterest expense for the first half and second quarter of 2006 was primarily due to increases of $2.06 million or 7.11% and $1.03 million or 6.90% in salaries and benefits expense as compared to the same periods last year. Salaries expense for the first half of 2006 increased $1.42 million or 6.14% as a result of the higher base salaries and performance-based commissions and incentives. Health care and pension costs increased $286 thousand or 13.67% and $102 thousand or 8.42%, respectively, for the first six months of 2006 as compared to last year s first six months. Salaries expense for the second quarter of 2006 increased $874 thousand or 7.38% from the second quarter of 2005 as a result of the previously mentioned higher base salaries and performance-based commissions and incentives.

The remainder of the increases in noninterest expense for the first half and second quarter of 2006 from the

same time periods last year was due primarily to expenses related to United s new High Performance Checking program. United incurred marketing and related costs of approximately $1.62 million during the first half of 2006 to launch and promote its High Performance Checking program for consumer customers. During the second quarter of 2006, United incurred additional marketing and related costs of approximately $686 thousand to continue the promotion of the High Performance Checking Program. However, the increased spending is having the desired impact of attracting low cost deposits. Largely due to the High Performance Checking initiative, United has opened 20,629 new consumer accounts during the first half of 2006 as compared to 12,158 new consumer accounts in the first half of 2005. United opened 10,088 new consumer accounts during the second quarter of 2006 as compared to 5,823 new consumer accounts in the second quarter of 2005.

Net occupancy expense for the first half and second quarter of 2006 increased $281 thousand or 4.57% and $63 thousand or 2.06%, respectively, from the first half and second quarter of 2005. The increases were due mainly to increases in utilities expense and real property taxes.

Equipment expense declined $281 thousand or 8.48% and $359 thousand or 21.46% for the first half and second quarter of 2006, respectively, as compared to the same periods in 2005. The decrease was due mainly to a gain of $198 thousand on the sale of an OREO property during the second quarter of 2006 as well as lower levels of maintenance expense.

Data processing expense increased $83 thousand or 2.89% for the first half of 2006 as compared to the first half of 2005. For the second quarter of 2006, data processing expense decreased $45 thousand or 2.93% as compared to the second quarter of 2005.

Other expenses increased $2.89 million or 16.04% and $897 thousand or 9.55% for the first six months and second quarter of 2006, respectively, as compared to the same periods of 2005 due primarily to the expenses previously mentioned related to United s new High Performance Checking Program. In addition, bankcard processing fees increased $419 thousand and $190 thousand, respectively, due to increased transactions for the first half and second quarter of 2006 when compared to the same periods last year. The remaining increase in all other expenses in the first six months and second quarter of 2006 from last year s first six months and second quarter was due mainly to increases in several general operating expenses, none of which were individually significant.

On a linked-quarter basis, noninterest expense for the second quarter of 2006 was relatively flat from the first quarter of 2006, decreasing $25 thousand or less than 1% for the quarter. Decreases in net occupancy expense of $199 thousand, equipment expense of $404 thousand and other expenses of $304 thousand were virtually offset by increases in salaries and benefits expense of $853 thousand and data processing expense of $29 thousand.

As previously discussed in Note 11 of the unaudited Notes to Consolidated Financial Statements contained within this document, United adopted SFAS 123R on January 1, 2006 using the modified prospective transition method. SFAS 123R requires the measurement of all employee share-based payments to employees, including grants of employee stock options, using a fair-value based method and the recording of such expense in our consolidated statements of income. Under this transition method, compensation cost to be recognized beginning in the first quarter of in 2006 included: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value

estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Results for prior periods were not restated. Due to a modification on December 30, 2005 to accelerate any unvested options under United s existing stock option plans, United did not recognize any compensation cost for the second quarter and first half of 2006. Prior to January 1, 2006, United accounted for its stock option plans under the intrinsic value method. Because the exercise price at the date of the grant was equal to the market value of the stock, no compensation expense was recognized.

At the Annual Meeting of Shareholders held on May 15, 2006, the United shareholders approved the 2006 Stock Option Plan and thus, it became effective upon the shareholders approval. No stock options have been granted under the 2006 Stock Option Plan. Any stock options granted under the 2006 Stock Option Plan in the future will be subject to the provisions of SFAS 123R.

Income Taxes

For the first six months of 2006 and 2005, income taxes were $23.67 million and $22.52 million, respectively. For the second quarter of 2006, income taxes were $12.04 million as compared to $11.22 million for the second quarter of 2005. United s effective tax rates for the first six months of 2006 and 2005 were 32.10% and 31.37%, respectively. For the quarters ended June 30, 2006 and 2005, United s effective tax rates were 32.10% and 31.40%, respectively.

Contractual Obligations, Commitments, Contingent Liabilities and Off-Balance Sheet Arrangements

United has various financial obligations, including contractual obligations and commitments, that may require future cash payments. Please refer to United s Annual Report on Form 10-K for the year ended December 31, 2005 for disclosures with respect to United s fixed and determinable contractual obligations. There have been no material changes outside the ordinary course of business since year-end 2005 in the specified contractual obligations disclosed in the Annual Report on Form 10-K.

United also enters into derivative contracts, mainly to protect against adverse interest rate movements on the value of certain assets or liabilities, under which it is required to either pay cash to or receive cash from counterparties depending on changes in interest rates. Further discussion of derivative instruments is presented in Note 10 to the unaudited Notes to Consolidated Financial Statements.

United is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include loan commitments and standby letters of credit. United s maximum exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument for the loan commitments and standby letters of credit is the contractual or notional amount of those instruments. United uses the same policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Since many of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Further discussion of off-balance sheet commitments is included in Note 9 to the unaudited Notes to Consolidated Financial Statements.

Liquidity

United maintains, in the opinion of management, liquidity which is sufficient to satisfy United s cash needs, its depositors requirements and meet the credit needs of its customers. Like all banks, United depends upon its ability to renew maturing deposits and other liabilities on a daily basis and to acquire new funds in a variety of markets. A significant source of funds available to United is core deposits . Core deposits include certain demand deposits, statement and special savings and NOW accounts. These deposits are relatively stable, and they are the lowest cost source of funds available to United. To help attract these lower cost deposits, United introduced its High Performance Checking program during the first quarter of 2006. Management has been very satisfied with the results of the new program for the first half of 2006 as the number of new core deposit accounts have increased substantially. Short-term borrowings have also been a significant source of funds. These include federal funds purchased and securities sold under agreements to repurchase. Repurchase agreements represent funds which are obtained as the result of a competitive bidding process.

Liquid assets are cash and those items readily convertible to cash. All banks must maintain sufficient balances of cash and near-cash items to meet the day-to-day demands of customers and United s cash needs. Other than cash and due from banks, the available for sale securities portfolio and maturing loans are the primary sources of liquidity.

The goal of liquidity management is to ensure the ability to access funding which enables United to efficiently satisfy the cash flow requirements of depositors and borrowers and meet United s cash needs. Liquidity is managed by monitoring funds availability from a number of primary sources. Funding is available from cash and cash equivalents, unused short-term borrowing and a geographically dispersed network of subsidiary banks providing access to a diversified and substantial retail deposit market.

Short-term needs can be met through a wide array of sources such as correspondent and downstream correspondent federal funds and utilization of Federal Home Loan Bank advances.

Other sources of liquidity available to United to provide long-term as well as short-term funding alternatives, in addition to FHLB advances, are long-term certificates of deposit, lines of credit, borrowings that are secured by bank premises or stock of United s subsidiaries and issuances of trust preferred securities. In the normal course of business, United through its Asset Liability Committee evaluates these as well as other alternative funding strategies that may be utilized to meet short-term and long-term funding needs.

For the six months ended June 30, 2006, cash of $54.90 million was provided by operating activities. Net cash of $628 thousand was provided by investing activities which was primarily due to net cash received of $160.54 million for excess net proceeds from sales, calls and maturities of investment securities over purchases which practically offset loan growth of $158.48 million. During the first six months of 2006, net cash of $52.01 million was used in financing activities due primarily to repayment of short-term and long-term FHLB borrowings in the amount of $186.99 million. Other uses of cash for financing activities included payment of $22.68 million and $24.94 million, respectively, for cash dividends and acquisitions of United shares under the stock repurchase program. Cash provided by financing activities included growth in deposits of $138.03 million and an increase in federal funds purchased and securities sold under agreements to repurchase of $5.46 million and $35.60 million, respectively. The net effect of cash flow activities was an

increase in cash and cash equivalents of $3.52 million for the first six months of 2006.

United anticipates it can meet its obligations over the next 12 months and has no material commitments for capital expenditures. There are no known trends, demands, commitments, or events that will result in or that are reasonably likely to result in United s liquidity increasing or decreasing in any material way. United also has lines of credit available.

The Asset Liability Committee monitors liquidity to ascertain that a liquidity position within certain prescribed parameters is maintained. No changes are anticipated in the policies of United s Asset Liability Committee.

Capital Resources

United s capital position is financially sound. United seeks to maintain a proper relationship between capital and total assets to support growth and sustain earnings. United has historically generated attractive returns on shareholders equity. Based on regulatory requirements, United and its banking subsidiaries are categorized as well capitalized institutions. United s risk-based capital ratios of 11.39% at June 30, 2006 and 11.28% at December 31, 2005, are both significantly higher than the minimum regulatory requirements. United s Tier I capital and leverage ratios of 10.26% and 8.56%, respectively, at June 30, 2006, are also well above regulatory minimum requirements.

Total shareholders equity was $635.03 million, a decrease of $178 thousand or less than 1% from December 31, 2005. United s equity to assets ratio was 9.45% at June 30, 2006 as compared to 9.44% at December 31, 2005. The primary capital ratio, capital and reserves to total assets and reserves, was 10.16% at June 30, 2006 as compared to 10.15% at December 31, 2005. United s average equity to average asset ratio was 9.66% and 9.97% for the quarters ended June 30, 2006 and 2005, respectively. For the first six months of 2006 and 2005, the average equity to average assets ratio was 9.65% and 10.01%, respectively.

During the second quarter of 2006, United s Board of Directors declared a cash dividend of $0.27 per share. Cash dividends were $0.54 per common share for the first six months of 2006. Total cash dividends declared were approximately $11.21 million for the second quarter of 2006 and $22.54 million for the six months of 2006, an increase of 1.26% and 1.50% over comparable periods of 2005. The year 2006 is expected to be the thirty-third consecutive year of dividend increases to United shareholders.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The objective of United s Asset Liability Management function is to maintain consistent growth in net interest income within United s policy guidelines. This objective is accomplished through the management of balance sheet liquidity and interest rate risk exposures due to changes in economic conditions, interest rate levels and customer preferences.

Interest Rate Risk

Management considers interest rate risk to be United s most significant market risk. Interest rate risk is the exposure to adverse changes in United s net interest income as a result of changes in interest rates. United s earnings are largely dependent on the effective management of interest rate risk.

Management of interest rate risk focuses on maintaining consistent growth in net interest income within Board-approved policy limits. United s Asset Liability Management Committee, which includes senior management representatives and reports to the Board of Directors, monitors and manages interest rate risk to maintain an acceptable level of change to net interest income as a result of changes in interest rates. Policy established for interest rate risk is stated in terms of the change in net interest income over a one-year and two-year horizon given an immediate and sustained increase or decrease in interest rates. The current limits approved by the Board of Directors are structured on a staged basis with each stage requiring specific actions.

United employs a variety of measurement techniques to identify and manage its exposure to changing interest rates. One such technique utilizes an earnings simulation model to analyze the sensitivity of net interest income to movements in interest rates. The model is based on actual cash flows and repricing characteristics for on and off-balance sheet instruments and incorporates market-based assumptions regarding the impact of changing interest rates on the prepayment rate of certain assets and liabilities. The model also includes executive management projections for activity levels in product lines offered by United. Assumptions based on the historical behavior of deposit rates and balances in relation to changes in interest rates are also incorporated into the model. Rate scenarios could involve parallel or nonparallel shifts in the yield curve, depending on historical, current, and expected conditions, as well as the need to capture any material effects of explicit or embedded options. These assumptions are inherently uncertain and, as a result, the model cannot precisely measure net interest income or precisely predict the impact of fluctuations in interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and management s strategies.

Interest sensitive assets and liabilities are defined as those assets or liabilities that mature or are repriced within a designated time frame. The principal function of interest rate risk management is to maintain an appropriate relationship between those assets and liabilities that are sensitive to changing market interest rates. The difference between rate sensitive assets and rate sensitive liabilities for specified periods of time is known as the GAP. Earnings-simulation analysis captures not only the potential of these interest sensitive assets and liabilities to mature or reprice but also the probability that they will do so. Moreover, earnings-simulation analysis considers the relative sensitivities of these balance sheet items and projects their behavior over an extended period of time. United closely monitors the sensitivity of its assets and liabilities on an on-going basis and projects the effect of various interest rate changes on its net interest margin.

The following table shows United s estimated earnings sensitivity profile as of June 30, 2006 and December 31, 2005:

Change in Interest Rates (basis points)	Percentage Change in Net Interest Income	
	June 30, 2006	December 31, 2005
+200	2.58%	2.50%
+100	1.34%	1.47%
-100	-0.46%	-3.56%
-200	-4.04%	-9.62%

At June 30, 2006, given an immediate, sustained 100 basis point upward shock to the yield curve used in the simulation model, net interest income for United is estimated to increase by 1.34% over one year as compared to an increase of 1.47% at December 31, 2005. A 200 basis point immediate, sustained upward shock in the yield curve would increase net interest income by a estimated 2.58% over one year as of June 30, 2006, as compared to an increase of 2.50% as of December 31, 2005. A 100 and 200 basis point immediate, sustained downward shock in the yield curve would decrease net interest income by an estimated 0.46% and 4.04%, respectively, over one year as compared to a decrease of 3.56% and 9.62%, respectively, over one year as of December 31, 2005.

This analysis does not include the potential increased refinancing activities, which should lessen the negative impact on net income from falling rates. While it is unlikely market rates would immediately move 100 or 200 basis points upward or downward on a sustained basis, this is another tool used by management and the Board of Directors to gauge interest rate risk. All of these estimated changes in net interest income are and were within the policy guidelines established by the Board of Directors.

To further aid in interest rate management, United s subsidiary banks are members of the Federal Home Loan Bank (FHLB). The use of FHLB advances provides United with a low risk means of matching maturities of earning assets and interest-bearing funds to achieve a desired interest rate spread over the life of the earning assets. In addition, United uses credit with large regional banks and trust preferred securities to provide funding.

As part of its interest rate risk management strategy, United may use derivative instruments to protect against adverse price or interest rate movements on the value of certain assets or liabilities and on future cash flows. These derivatives commonly consist of interest rate swaps, caps, floors, collars, futures, forward contracts, written and purchased options. Interest rate swaps obligate two parties to exchange one or more payments generally calculated with reference to a fixed or variable rate of interest applied to the notional amount. United accounts for its derivative activities in accordance with the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. In the first quarter of 2006, United realized a gain of $3.06 million in connection with the termination of an interest rate swap which has been used to hedge a debt which was prepaid.

During 1999, to better manage risk, United sold fixed-rate residential mortgage loans in a securitization transaction. In that securitization, United retained a subordinated interest that represented United s right to future cash flows arising after third party investors in the securitization trust have received the return for which they contracted. United does not receive annual servicing fees from this securitization because the loans are serviced by an independent third-party. The investors and the securitization trust have no recourse

to United s other assets for failure of debtors to pay when due; however, United s retained interests are subordinate to investors interests. The book value and fair value of the subordinated interest are subject to credit, prepayment, and interest rate risks on the underlying fixed-rate residential mortgage loans in the securitization.

At the date of securitization, key economic assumptions used in measuring the fair value of the subordinated interest were as follows: a weighted average life of 5.3 years, expected cumulative default rate of 15%, and residual cash flows discount rates of 8% to 18%. Key economic assumptions used in measuring the fair value of the subordinated interest at June 30, 2006 and December 31, 2005 were as follows:

	June 30, 2006	**December 31, 2005**
Weighted average life (in years)	0.2	0.5
Prepayment speed assumption (annual rate)	15.19% - 37.00%	15.19% - 35.00%
Cumulative default rate	19.21%	19.21%
Residual cash flows discount rate (annual rate)	7.18% - 13.89%	6.32% - 12.95%

At June 30, 2006 and December 31, 2005, the fair values of the subordinated interest were approximately $236 thousand and $1.1 million, respectively, and are carried in the available for sale investment portfolio. The cost of the available for sale securities was zero at June 30, 2006 and December 31, 2005.

At June 30, 2006, the principal balances of the residential mortgage loans held in the securitization trust were approximately $12.7 million. Principal amounts owed to third party investors and to United in the securitization were approximately $4.8 million and $7.9 million, respectively, at June 30, 2006. United recognizes the excess of all cash flows attributable to the subordinated interest using the effective yield method. Because the amortized cost of United s subordinated interest was zero at June 30, 2006, the difference between the cash flows associated with these underlying mortgages and amounts owed to third party investors will be recognized into interest income as cash is received by United over the remaining life of the loans. The weighted average term to maturity of the underlying mortgages approximated 14 years as of June 30, 2006. During the three and six months ended June 30, 2006, United received cash of $2.42 million and $1.46 million, respectively, from its subordinated interest in the securitization.

The amount of future cash flows from United s subordinated interest is highly dependent upon future prepayments and defaults. Accordingly, the amount and timing of future cash flows to United is uncertain at this time.

The following table presents quantitative information about delinquencies, net credit losses, and components of the underlying securitized fixed-rate residential mortgage loans:

	June 30, 2006	December 31, 2005
Total principal amount of loans	$12,740	$ 15,747
Principal amount of loans 60 days or more past due	381	541
Year to date average balances	14,452	20,271
Year to date net credit losses	225	343

Extension Risk

A key feature of most mortgage loans is the ability of the borrower to repay principal earlier than scheduled. This is called a prepayment. Prepayments arise primarily due to sale of the underlying property, refinancing, or foreclosure. In general, declining interest rates tend to increase prepayments, and rising interest rates tend to slow prepayments. Like other fixed-income securities, when interest rates rise, the value of mortgage- related securities generally decline. The rate of prepayments on underlying mortgages will affect the price and volatility of mortgage-related securities and may shorten or extend the effective maturity of the security beyond what was anticipated at the time of purchase. If interest rates rise, United s holdings of mortgage- related securities may experience reduced returns if the borrowers of the underlying mortgages pay off their mortgages later than anticipated. This is generally referred to as extension risk.

At June 30, 2006, United s mortgage-related securities portfolio had an amortized cost of $814 million, of which approximately $719 million or 88% were fixed rate collateralized mortgage obligations (CMOs). Theses fixed rate CMOs consisted primarily of planned amortization class (PACs) and accretion directed (VADMs) bonds having a weighted average life of approximately 2.4 years and a weighted average yield of 4.26%, under current projected prepayment assumptions. These securities are expected to have very little extension risk in a rising rate environment. Current models show that in rates up 300 basis points, the average life of these securities would only extend to 2.6 years. The projected price decline of the fixed rate CMO portfolio in rates up 300 basis points would be 6.7%, less than the price decline of a 3-year Treasury note. By comparison, the price decline of a 30-year current coupon mortgage backed security (MBS) in rates higher by 300 basis points would be approximately 16%.

United had approximately $18 million in 30-year mortgage backed securities with a projected yield of 6.71% and a projected average life of 4.7 years on June 30, 2006. These bonds are projected to be good risk/reward securities in stable rates, rates down moderately and rates up moderately due to the high yield and premium book price. However, should rates increase 300 basis points, the average life will extend and these bonds will experience significant price depreciation, but not as significant as current coupon pools.

The mortgage related securities portfolio at June 30, 2006, also included $25 million in adjustable rate securities (ARMs), $17 million in balloon securities, $21 million 10-year, and $10 million in 15-year mortgage backed pass-through securities.

Item 4. CONTROLS AND PROCEDURES

As of June 30, 2006, an evaluation was performed under the supervision of and with the participation of United s management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of United s disclosure controls and procedures. Based on that evaluation, United s management, including the CEO and CFO, concluded that United s disclosure controls and procedures as of June 30, 2006 were effective in ensuring that information required to be disclosed in the Quarterly Report on Form 10-Q was recorded, processed, summarized and reported within the time period required by the Securities and Exchange Commission s rules and forms. There have been no changes in United s internal control over financial reporting that occurred during the quarter ended June 30, 2006, or in other factors that has materially affected or is reasonably likely to materially affect United s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

In the normal course of business, United and its subsidiaries are currently involved in various legal proceedings. Management is vigorously pursuing all its legal and factual defenses and, after consultation with legal counsel, believes that all such litigation will be resolved with no material effect on United s financial position.

Item 1A. RISK FACTORS

In addition to the other information set forth in this report, please refer to United s Annual Report on Form 10-K for the year ended December 31, 2005 for disclosures with respect to United s risk factors which could materially affect United s business, financial condition or future results. The risks described in the Annual Report on Form 10-K are not the only risks facing United. Additional risks and uncertainties not currently known to United or that United currently deems to be immaterial also may materially adversely affect United s business, financial condition and/or operating results.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There have been no United equity securities sold within the last three (3) years that were not registered. The table below includes certain information regarding United s purchase of its common shares during the quarter ended June 30, 2006:

Period	Total Number of Shares Purchased (1) (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (3)	Maximum Number of Shares that May Yet be Purchased Under the Plans (3)
4/01 4/30/2006	114,101	$ 37.38	114,000	187,700
5/01 5/31/2006	131,329	$ 36.13	131,000	56,700
6/01 6/30/2006	110,030	$ 35.88	110,000	1,646,700
Total	355,460	$ 36.45		

(1) Includes shares exchanged in connection with the exercise of stock options under United s stock option plans. Shares are purchased pursuant to the terms of the applicable stock

option plan and not pursuant to a publicly announced stock repurchase plan. For the three months ended June 30, 2006, the following shares were exchanged by participants in United s stock option plans: May 2006 255 shares at an average price of $36.73.

(2) Includes shares purchased in open market transactions by United for a rabbi trust to provide payment of benefits under a deferred compensation plan for certain key officers of United and its subsidiaries. For the first three months ended June 30, 2006, the following shares were purchased for the deferred compensation plan: April 2006 101 shares at an average price of $37.30; May 2006 74 shares at an average price of $37.57; and June 2006 30 shares at an average price of $37.63.

(3) In August of 2004, United s Board of Directors approved a repurchase plan to repurchase up to 1.775 million shares of United s common stock on the open market (the 2004 Plan).

During the second quarter of 2006, United completed the repurchases under the 2004 Plan. In May of 2006, United s Board of Directors approved a new repurchase plan to repurchase up to 1.7 million shares of United s common stock on the open market (the 2006 Plan) effective upon the completion of the 2004 Plan. The timing, price and quantity of purchases under the plan are at the discretion of management and the plan may be discontinued, suspended or restarted at any time depending on the facts and circumstances.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) The Annual Meeting of Shareholders was held on Monday, May 15, 2006.

(b) Not applicable as to election of directors because: i) proxies for the meeting were solicited pursuant to Regulation 14 under the Securities and Exchange Act of 1934; ii) there was no solicitation in opposition to the nominees as listed in the proxy statement; iii) all of such nominees, as listed in the proxy statement, were elected.

(c) Three proposals were voted upon at the annual meeting, which included: (1) the election of fifteen (15) persons to serve as directors of United for a one-year term expiring at the 2007 Annual Meeting; (2) the approval of the 2006 Stock Option Plan; and (3) the ratification of the selection of Ernst & Young, Charleston, West Virginia, as independent registered public accountants for the fiscal year ending December 31, 2006. The results of the

proposals appear on the following page.

Proposal 1. Election of Directors:

	Votes For	Votes Withheld
Richard M. Adams	34,960,263	1,075,175
Robert G. Astorg	35,072,020	963,418
Thomas J. Blair, III	35,116,051	919,387
W. Gaston Caperton, III	28,733,928	7,301,510
Lawrence K. Doll	34,974,738	1,060,700
Theodore J. Georgelas	29,179,372	6,856,066
F. T. Graff, Jr.	34,740,443	1,357,571
Russell L. Isaacs	34,677,867	1,357,571
John M. McMahon	35,136,855	898,583
J. Paul McNamara	34,975,972	1,059,466
G. Ogden Nutting	34,658,738	1,376,700
William C. Pitt, III	35,124,465	910,973
I. N. Smith, Jr.	35,391,899	643,539
Mary K. Weddle	35,240,643	794,795
P. Clinton Winter, Jr.	35,061,704	973,734

Proposal 2. Approval of the 2006 Stock Option Plan:

For	Against	Abstain
28,306,491	1,843,221	452,130

Proposal 3. Ratification of the selection of Ernst & Young LLP as independent registered public accountants:

For	Against	Abstain
35,624,692	349,214	92,899

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

Exhibits required by Item 601 of Regulation S-K

Exhibit 31.1	Certification as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer
Exhibit 31.2	Certification as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer
Exhibit 32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer
Exhibit 32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer

SIGNATURES

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 thereunto duly authorized.

UNITED BANKSHARES, INC.
(Registrant)

Date: August 3, 2006

/s/ Richard M. Adams

Richard M. Adams, Chairman of the Board and Chief Executive Officer

Date: August 3, 2006

/s/ Steven E. Wilson

Steven E. Wilson, Executive Vice President, Treasurer, Secretary and Chief Financial Officer