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ALABAMA NATIONAL BANCORPORATION  
Form 10-Q  
August 14, 2001

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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

For the Quarterly Period Ended June 30, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

Commission File No. 0-25160

ALABAMA NATIONAL BANCORPORATION

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(Exact Name of Registrant as Specified in Its Charter)

DELAWARE

63-1114426

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(State of Incorporation)

(I.R.S. Employer Identification No.)

1927 FIRST AVENUE NORTH, BIRMINGHAM, ALABAMA 35203-4009

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(Address of principal executive office)

Registrant's telephone number, including area code: (205) 583-3600

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(Former Name, Former Address and Former Fiscal Year,  
if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes    X    No \_\_\_\_\_  
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Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 10, 2001
-----	-----
Common Stock, \$1.00 Par Value	11,837,677

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### FORWARD-LOOKING INFORMATION

Statements contained in this Quarterly Report on Form 10-Q that are not historical facts are forward-looking statements. In addition, Alabama National Bancorporation ("Alabama National"), through its senior management, from time to time makes forward-looking public statements concerning its expected future operations and performance and other developments. Such forward-looking statements are necessarily estimates reflecting Alabama National's best judgment based upon current information and involve a number of risks and uncertainties, and various factors could cause results to differ materially from those contemplated by such forward-looking statements. Such factors could include those identified from time to time in Alabama National's Securities and Exchange Commission filings and other public announcements, including the factors described in Alabama National's Annual Report on Form 10-K for the year ended December 31, 2000. With respect to the adequacy of the allowance for loan losses for Alabama National, these factors include the rate of growth in the economy, especially in the Southeast, the relative strength and weakness in the consumer and commercial credit sectors and in the real estate markets and the performance of the stock and bond markets. The forward-looking statements contained in this Quarterly Report speak only as of the date of this report, and Alabama National undertakes no obligation to revise these statements following the date of this Quarterly Report on Form 10-Q.

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Part I - Financial Information

Item 1 - Financial Statements (Unaudited)  
Alabama National BanCorporation and Subsidiaries  
Consolidated Statements of Condition

(In thousands, except share amounts)

	June 30, 2001
	-----
<b>Assets</b>	
Cash and due from banks.....	\$ 112,859
Interest-bearing deposits in other banks .....	22,913
Investment securities (estimated market values of \$138,752 and \$61,485)...	137,201
Securities available for sale.....	291,229
Trading securities.....	1,330
Federal funds sold and securities purchased under resell agreements.....	38,898
Loans held for sale.....	21,197
Loans.....	1,788,237
Unearned income.....	(1,069)
	-----
Loans, net of unearned income.....	1,787,168
Allowance for loan losses.....	(23,277)
	-----
Net loans.....	1,763,891
Property, equipment and leasehold improvements, net.....	52,993
Intangible assets.....	13,206
Cash surrender value of life insurance.....	44,769
Receivable from investment division customers.....	59,174
Other assets.....	34,207
	-----
Totals.....	\$2,593,867
	=====
<b>Liabilities and Stockholders' Equity</b>	
Deposits:	
Noninterest bearing.....	\$ 301,387
Interest bearing.....	1,567,065
	-----
Total deposits.....	1,868,452
Federal funds purchased and securities sold under repurchase agreements...	260,870
Treasury, tax and loan accounts.....	1,569
Short-term borrowings.....	30,000
Payable for securities purchased for investment division customers.....	57,211
Accrued expenses and other liabilities.....	33,851
Long-term debt.....	159,185
	-----
Total liabilities.....	2,411,138
Common stock, \$1 par, authorized 17,500,000 shares; issued 11,921,669 and 11,921,628 shares at June 30, 2001 and December 31, 2000, respectively..	11,922
Additional paid-in capital.....	86,917
Retained earnings.....	84,351
Treasury stock at cost, 88,385 and 136,099 shares at June 30, 2001 and December 31, 2000, respectively.....	(2,229)
Accumulated other comprehensive income (loss), net of tax.....	1,768

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Total stockholders' equity.....	182,729
Totals.....	\$2,593,867

See accompanying notes to unaudited consolidated financial statements

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Alabama National BanCorporation and Subsidiaries  
Consolidated Statements of Income (Unaudited)

(In thousands, except per share data)

	For the three months ended June 30,	
	2001	2000
Interest income:		
Interest and fees on loans.....	\$ 37,539	\$ 34,627
Interest on securities.....	6,874	6,161
Interest on deposits in other banks.....	169	68
Interest on trading securities.....	33	22
Interest on Federal funds sold and securities purchased under resell agreements.....	592	518
Total interest income.....	45,207	41,396
Interest expense:		
Interest on deposits.....	19,205	16,451
Interest on Federal funds purchased and securities sold under repurchase agreements.....	2,406	2,495
Interest on long and short-term borrowings.....	2,443	2,447
Total interest expense.....	24,054	21,393
Net interest income.....	21,153	20,003
Provision for loan losses.....	701	697
Net interest income after provision for loan losses.....	20,452	19,306
Noninterest income:		
Gain (loss) on disposition of assets.....	15	(6)
Service charges on deposit accounts.....	2,339	2,073
Investment services income.....	2,806	1,082
Securities brokerage and trust income.....	2,163	1,725
Origination and sale of mortgage loans.....	1,932	947
Bank owned life insurance.....	556	532
Insurance commissions.....	457	510
Other.....	1,140	962
Total noninterest income.....	11,408	7,825

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Alabama National BanCorporation and Subsidiaries  
Consolidated Statements of Income (Unaudited) (Continued)

(In thousands, except per share data)

	For the thr ended J ----- 2001 -----
Noninterest expense:	
Salaries and employee benefits.....	10,785
Commission based compensation.....	2,820
Occupancy and equipment expenses.....	2,454
Other.....	5,630
	-----
Total noninterest expense.....	21,689
	-----
Income before provision for income taxes.....	10,171
Provision for income taxes.....	3,195
	-----
Net income.....	\$ 6,976
	=====
Net income per common share (basic).....	\$ .59
	=====
Weighted average common shares outstanding (basic).....	11,821
	=====
Net income per common share (diluted).....	\$ .58
	=====
Weighted average common and common equivalent shares outstanding (diluted)...	12,089
	=====

See accompanying notes to unaudited consolidated financial statements

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Alabama National BanCorporation and Subsidiaries  
Consolidated Statements of Income (Unaudited)

(In thousands, except per share data)

For the six months ended June 30, -----	
2001	2000
----	----

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Interest income:		
Interest and fees on loans.....	\$ 75,818	\$ 66,056
Interest on securities.....	13,632	12,141
Interest on deposits in other banks.....	238	124
Interest on trading securities.....	59	62
Interest on Federal funds sold and securities purchased under resell agreements.....	1,285	1,272
	-----	-----
Total interest income.....	91,032	79,655
Interest expense:		
Interest on deposits.....	39,453	31,646
Interest on Federal funds purchased and securities sold under repurchase agreements.....	5,042	4,310
Interest on long and short-term borrowings.....	5,045	4,548
	-----	-----
Total interest expense.....	49,540	40,504
	-----	-----
Net interest income.....	41,492	39,151
Provision for loan losses.....	1,294	1,263
	-----	-----
Net interest income after provision for loan losses.....	40,198	37,888
Noninterest income:		
Gain (loss) on disposition of assets.....	36	(8)
Service charges on deposit accounts.....	4,554	4,024
Investment services income.....	6,512	2,346
Securities brokerage and trust income.....	4,545	3,599
Origination and sale of mortgage loans.....	3,247	1,735
Bank owned life insurance.....	1,104	1,009
Insurance commissions.....	972	1,097
Other.....	2,245	1,817
	-----	-----
Total noninterest income.....	23,215	15,619

See accompanying notes to unaudited consolidated financial statements

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Alabama National BanCorporation and Subsidiaries  
Consolidated Statements of Income (Unaudited) (Continued)

-----  
(In thousands, except per share data)

		For the six ended June -----
		2001 ----
Noninterest expense:		
Salaries and employee benefits.....		22,076
Commission based compensation.....		5,864
Occupancy and equipment expenses.....		4,986
Other.....		11,722
		-----
Total noninterest expense.....		44,648

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	-----
Income before provision for income taxes.....	18,765
Provision for income taxes.....	5,946
	-----
Net income.....	\$12,819
	=====
Net income per common share (basic).....	\$ 1.09
	=====
Weighted average common shares outstanding (basic).....	11,805
	=====
Net income per common share (diluted).....	\$ 1.06
	=====
Weighted average common and common equivalent shares outstanding (diluted).....	12,080
	=====

See accompanying notes to unaudited consolidated financial statements

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Alabama National BanCorporation and Subsidiaries  
Consolidated Statements of Comprehensive Income (Unaudited)

-----  
(In thousands)

	For the three months ended June 30,	
	-----	
	2001	2000
	-----	-----
Net income.....	\$ 6,976	\$ 6,976
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale.....	(79)	(79)
Less: Reclassification adjustment for net gains included in net income.....	-	-
	-----	-----
Other comprehensive income (loss), before tax.....	(79)	(79)
Provision for (benefit from) income taxes related to items of other comprehensive income.....	4	4
	-----	-----
Other comprehensive income (loss), net of tax.....	(83)	(83)
	-----	-----
Comprehensive income.....	\$ 6,893	\$ 6,893
	=====	=====

See accompanying notes to unaudited consolidated financial statements

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Alabama National BanCorporation and Subsidiaries  
Consolidated Statements of Comprehensive Income (Unaudited)

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(In thousands)

	For the six months ended June 30,	
	-----	
	2001	
	----	
Net income.....	\$ 12,819	\$
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale.....	3,968	
Less: Reclassification adjustment for net gains included in net income.....	-	
	-----	-----
Other comprehensive income (loss), before tax.....	3,968	
Provision for (benefit from) income taxes related to items of other comprehensive income.....	1,386	
	-----	-----
Other comprehensive income (loss), net of tax.....	2,582	
	-----	-----
Comprehensive income.....	\$ 15,401	\$
	=====	=====

See accompanying notes to unaudited consolidated financial statements

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Alabama National BanCorporation and Subsidiaries  
Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	For the six months ended June 30,	
	-----	
	2001	
	----	
Net cash flows provided by operating activities.....	\$ 24,592	\$
Cash flows from investing activities:		
Proceeds from maturities of investment securities.....	16,838	
Purchases of investment securities.....	(93,272)	(
Purchases of securities available for sale.....	(77,220)	(
Proceeds from sale of securities available for sale.....	--	
Proceeds from maturities of securities available for sale.....	115,366	
Net (increase) decrease in interest bearing deposits in other banks.....	(15,283)	
Net (increase) decrease in federal funds sold and securities purchased under resell agreements.....	(8,638)	
Net increase in loans.....	(94,021)	(1
Purchases of property, equipment and leasehold improvements.....	(2,934)	
Premiums returned (cash paid) for bank-owned life insurance.....	791	
Costs capitalized on other real estate owned.....	--	
Proceeds from sale of other real estate owned.....	1,175	
Proceeds from sale of property, equipment and leasehold improvements.....	52	
	-----	-----



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Net cash used in investing activities.....	(157,146)	(1)
Cash flows from financing activities:		
Net increase in deposits.....	61,357	1
Increase in federal funds purchased and securities sold under agreements to repurchase.....	94,290	
Net increase in short and long-term borrowings and capital leases.....	14,489	
Exercise of stock options and other stock based compensation.....	245	
Purchase of treasury stock.....	--	
Changes incidental to merger.....	(10)	
Dividends on common stock.....	(5,434)	
Net cash provided by financing activities.....	164,937	1
Increase in cash and cash equivalents.....	32,383	
Cash and cash equivalents, beginning of period.....	80,476	
Cash and cash equivalents, end of period.....	\$ 112,859	\$
Supplemental schedule of noncash investing and financing activities		
Acquisition of collateral in satisfaction of loans.....	\$ 1,307	\$
Adjustment to market value of securities available for sale, net of deferred income taxes.....	\$ 2,582	\$

See accompanying notes to unaudited consolidated financial statements

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES  
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2001

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months and six months ended June 30, 2001 are subject to year-end audit and are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2001. These interim financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in Alabama National's Form 10-K for the year ended December 31, 2000.

NOTE B - COMMITMENT AND CONTINGENCIES

Alabama National's subsidiary banks make loan commitments and incur contingent liabilities in the normal course of business, which are not reflected in the consolidated statements of condition.

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### NOTE C - RECENTLY ISSUED PRONOUNCEMENTS

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#### Derivative Investments and Hedging Activities

Effective January 1, 2001, Alabama National BanCorporation adopted Statement of Financial Accounting Standard No. 133, Accounting for Derivative Instruments and Hedging Activities, ("Statement 133"). Statement 133 standardizes the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, by requiring that an entity recognize those items as assets or liabilities in the statement of financial position and measure them at fair value. If certain conditions are met, an entity may elect to designate a derivative instrument as a hedging instrument. Statement 133 generally provides for matching the timing of gain or loss recognition on the hedging instrument with the recognition of (a) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (b) the earnings effect of the hedged forecasted transaction. Statement 133, as amended by Statement of Financial Accounting Standards No. 137, Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of SFAS No. 133, and by Statement of Financial Accounting Standards No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities - An Amendment of SFAS No. 133, is effective for fiscal years beginning after June 15, 2000, and is effective for interim periods in the initial year of adoption. Alabama National's derivative activities at June 30, 2001, relate solely to the interest rate lock commitments (IRLCs), which Alabama National has entered into with certain customers for specific short-term periods of time. These IRLCs relate to prospective mortgage loans, which Alabama National originates and then immediately transfers to secondary mortgage servicers. The transfer of these IRLCs allows Alabama National to pass financial risk associated with potential changes in interest rates on to secondary mortgage servicers. Alabama National also reduces its financial risk associated with mortgage lending by utilizing "best efforts" agreements with secondary mortgage servicers. These agreements relieve Alabama National of its liability to deliver if a mortgage loan fails to close. The adoption of Statement 133 as of January 1, 2001, did not have a material impact on the financial position or results of operations of Alabama National BanCorporation, as of and for the period ended June 30, 2001.

#### Business Combinations

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 141 (Statement 141), Business Combinations, which has an effective date of June 30, 2001 for all business combinations

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initiated after this date. This statement supercedes Accounting Principles Board Opinion No.16, Business Combinations, and FASB Statement No. 38, Accounting for Preacquisition Contingencies of Purchase Enterprises. This statement requires all business combinations within the scope of Statement 141 to be accounted for using the purchase method of accounting. For business combinations completed prior to June 30, 2001, Statement 141 requires companies to recognize intangible assets apart from goodwill and expand the disclosures relating to assets acquired and liabilities assumed. Management is currently evaluating the impact that the adoption of Statement 141 will have on Alabama National's financial statements.

#### Goodwill and Other Intangible Assets

In June 2001, the FASB issued Statement of Financial Accounting Standard No. 142 (Statement 142), Goodwill and Other Intangible Assets, which is effective for

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all fiscal years beginning after December 31, 2001. This statement addresses the accounting treatment for intangible assets, which are acquired individually or with a group of other assets, in financial statements upon their acquisition. Statement 142 also addresses the accounting for goodwill and other intangible assets for periods after they have been initially recognized in the financial statements. Goodwill will cease to be amortized upon the adoption and implementation of Statement 142 and an annual test for the impairment of existing goodwill balances will be required. Management is currently evaluating the impact that the adoption of Statement 142 will have on Alabama National's financial statements.

### NOTE D - MERGERS AND ACQUISITIONS

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On January 31, 2001, Peoples State Bank of Groveland merged with a newly formed subsidiary of Alabama National, whereby Peoples State Bank became a wholly owned subsidiary of Alabama National. Pursuant to the Peoples State Bank merger each share of Peoples State Bank common stock was converted into 1.164 shares of Alabama National common stock. A total of 734,609 shares of Alabama National common stock were issued to Peoples State Bank shareholders. The Peoples State Bank merger was accounted for as a pooling of interests and, accordingly, financial statements for all periods have been restated to reflect the results of operations of the companies on a combined basis from the earliest period presented, except dividends per share.

Separate results of Alabama National and Peoples State Bank are presented below:

	Three months ended		Six months
	June 30, 2001	June 30, 2000	June 30, 2001
Net interest income			
Alabama National BanCorporation	\$19,780	\$18,694	\$38,759
Peoples State Bank	1,373	1,309	2,733
	-----	-----	-----
As currently reported	\$21,153	\$20,003	\$41,492
	=====	=====	=====
Net income			
Alabama National BanCorporation (1)	\$ 6,494	\$ 5,903	\$12,373
Peoples State Bank (2)	482	315	446
	-----	-----	-----
As currently reported	\$ 6,976	\$ 6,218	\$12,819
	=====	=====	=====

(1) Includes \$314,000 of after-tax merger-related expenses during the six months ended June 30, 2001.

(2) Includes \$467,000 of after-tax merger-related expenses during the six months ended June 30, 2001.

### NOTE E - EARNINGS PER SHARE

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The following table reflects the reconciliation of the numerator and denominator of the basic earnings per share computation to the diluted earnings per share

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computation for the three months and six months ended June 30, 2001 and 2000.

	Income -----	Shares -----	Per Share Amount -----
(In thousands, except per share amounts)			
THREE MONTHS ENDED JUNE 30, 2001			
Basic EPS net income.....	\$ 6,976	11,821	\$0.59 =====
Effect of dilutive securities.....	-	268	
Diluted EPS.....	\$ 6,976 =====	12,089 =====	\$0.58 =====
THREE MONTHS ENDED JUNE 30, 2000			
Basic EPS net income.....	\$ 6,218	11,800	\$0.53 =====
Effect of dilutive securities.....	-	153	
Diluted EPS.....	\$ 6,218 =====	11,953 =====	\$0.52 =====
SIX MONTHS ENDED JUNE 30, 2001			
Basic EPS net income.....	\$12,819	11,805	\$1.09 =====
Effect of dilutive securities.....	-	275	
Diluted EPS.....	\$12,819 =====	12,080 =====	\$1.06 =====
SIX MONTHS ENDED JUNE 30, 2000			
Basic EPS net income.....	\$12,174	11,801	\$1.03 =====
Effect of dilutive securities.....	-	146	
Diluted EPS.....	\$12,174 =====	11,947 =====	\$1.02 =====

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### NOTE F - SEGMENT REPORTING

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Alabama National's reportable segments represent the distinct major product lines it offers and are viewed separately for strategic planning purposes by management. During the second quarter of 2001, Alabama National has changed its segment disclosures to present the combined results of operations for the securities brokerage and trust divisions into a consolidated segment. This change is due to the similar customer base and products offered by these divisions and reflects management's view that these formerly separate segments should be combined for internal and external monitoring and reporting. Correspondingly, Alabama National has combined these previously separate divisions for both the six-month periods ended June 30, 2001 and June 30, 2000. The following table is a reconciliation of the reportable segment revenues, expenses, and profit to Alabama National's consolidated totals (in thousands).

Securities

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	Investment Services Division -----	Brokerage & Trust Division -----	Mortgage Lending Division -----	Insurance Division -----	Retail and Commercial Banking -----	Co O -----
Six months ended June 30, 2001:						
Interest income	\$ --	\$ 1,178	\$ 535	\$ 5	\$ 89,641	\$
Interest expenses		296	372	4	48,353	
Net interest income		882	163	1	41,288	
Provision for loan losses					1,294	
Noninterest income	6,512	4,545	3,291	972	7,875	
Noninterest expense	4,891	4,460	1,981	975	29,622	\$
Net income (loss) before tax	\$ 1,621	\$ 967	\$ 1,473	\$ (2)	\$ 18,247	\$
Six months ended June 30, 2000:						
Interest income	\$ --	\$ 1,635	\$ 189	\$ 11	\$ 78,666	\$
Interest expenses		817	114	6	39,809	
Net interest income		818	75	5	38,857	
Provision for loan losses					1,263	
Noninterest income	2,346	3,599	1,810	1,097	6,757	
Noninterest expense	2,369	3,502	1,292	998	26,181	
Net income (loss) before tax	\$ (23)	\$ 915	\$ 593	\$ 104	\$ 18,170	\$

Corporate overhead is comprised of compensation and benefits for certain members of management, merger-related costs, interest expense on parent company debt, amortization of intangibles and other expenses.

Item 2. Management's Discussion and Analysis  
of Financial Condition and Results of Operations

Basis of Presentation

The following is a discussion and analysis of the consolidated financial condition of Alabama National and results of operations as of the dates and for the periods indicated. On January 31, 2001, Peoples State Bank of Groveland merged with a newly formed subsidiary of Alabama National, whereby Peoples State Bank became a wholly owned subsidiary of Alabama National. Pursuant to the Peoples State Bank merger each share of Peoples State Bank common stock was converted into 1.164 shares of Alabama National common stock. A total of 734,609 shares of Alabama National common stock were issued to Peoples State Bank shareholders. The Peoples State Bank merger was accounted for as a pooling of interests and, accordingly, financial statements for all periods have been restated to reflect the results of operations of the companies on a combined basis from the earliest period presented, except dividends per share. All significant intercompany accounts and transactions have been eliminated. The accounting and reporting policies of Alabama National conform with generally accepted accounting principles and with general financial services industry practices.

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This information should be read in conjunction with Alabama National's unaudited consolidated financial statements and related notes appearing elsewhere in this report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing in Alabama National's Annual Report on Form 10-K for the year ended December 31, 2000.

### Performance Overview

-----

Alabama National's net income was \$6.98 million for the second quarter of 2001 (the "2001 second quarter"), compared to \$6.22 million for the second quarter of 2000 (the "2000 second quarter"). Net income for the six months ended June 30, 2001 (the "2001 six months") was \$12.82 million, compared to \$12.17 million for the six months ended June 30, 2000 (the "2000 six months"). Net income per diluted common share for the 2001 and 2000 second quarters was \$0.58 and \$0.52, respectively. For the 2001 six months, net income per diluted common share was \$1.06, compared to \$1.02 for the 2000 six months. Excluding after tax merger-related charges incurred during the first quarter of 2001 relating to the Peoples State Bank merger, Alabama National's net income for the 2001 six months was \$13.60 million, compared to \$12.17 million for the 2000 six months, and net income per diluted common share for the 2001 six months and 2000 six months was \$1.13 and \$1.02, respectively.

The annualized return on average assets for Alabama National was 1.12% for the 2001 second quarter, compared to 1.17% for the 2000 second quarter. The annualized return on average assets for Alabama National was 1.06% for the 2001 six months, compared to 1.17% for the 2000 six months. The annualized return on average stockholders' equity decreased for the 2001 second quarter to 15.43%, as compared to 16.55% for the 2000 second quarter. The annualized return on average stockholders' equity decreased for the 2001 six months to 14.48%, as compared to 16.36% for the 2000 six months. Excluding the after tax merger-related charges incurred during the first quarter of 2001 relating to the Peoples State Bank merger, the annualized return on average assets and annualized return on stockholders' equity for the 2001 six months were 1.12% and 15.36%, respectively. Book value per share at June 30, 2001 was \$15.44, an increase of \$0.88 from year-end 2000. Tangible book value per share at June 30, 2001 was \$14.33, an increase of \$0.99 from year-end 2000. Alabama National paid cash dividends totaling \$0.46 on common shares during the 2001 six months, compared to \$0.42 paid on common shares during the 2000 six months.

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### Net Income

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The principal reason for the increase in net income for each of the 2001 second quarter and the 2001 six months, compared to the same periods in 2000, was the growth in noninterest income. During the 2001 second quarter noninterest income totaled \$11.4 million, compared to \$7.8 million in the 2000 second quarter, an increase of 45.8%. During the 2001 six months Alabama National recorded noninterest income of \$23.2 million compared to \$15.6 million during the 2000 six months, an increase of 48.6%. During each of the 2001 second quarter and 2001 six months, the increase in noninterest income was attributable to increased production and volume from the investment services division, securities brokerage division and from fees earned from the origination and sale of mortgages. Net interest income also increased slightly in each of the 2001 second quarter and 2001 six months compared to the same periods in 2000. Net interest income is the difference between the income earned on interest bearing assets and the interest paid on deposits and borrowings used to support such assets. Net interest income increased by \$1.2 million, or 5.7%, to \$21.2 million during the 2001 second quarter from \$20.0 million during the 2000 second

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quarter. Net interest income increased to \$41.5 million during the 2001 six months from \$39.2 million during the 2000 six months, representing an increase of \$2.3 million, or 6.0%. The increases in noninterest income and net interest income were offset by increases in noninterest expense of \$3.6 million to \$21.7 million for the 2001 second quarter and \$8.8 million to \$44.6 million for the 2001 six months, compared to \$18.1 million and \$35.9 million, respectively for the same periods in 2000. The net income for the 2001 six months includes after-tax merger-related charges relating to the Peoples State Bank merger totaling \$781,000. These charges on a pre-tax basis consist of approximately \$135,000 in legal and accounting fees, \$385,000 in employment-related expenses, \$300,000 in advisory fees/commissions, \$121,000 in technology conversion charges, and \$57,000 in other charges. These pre-tax charges increased noninterest expense for the 2001 six months by \$997,000.

Average earning assets for the 2001 second quarter and six months increased by \$341.7 million and \$341.5 million, respectively, as compared to the same periods in 2000. Average interest-bearing liabilities increased by \$295.7 million and \$302.8 million during the 2001 second quarter and six months, respectively, as compared to the same periods in 2000. The average taxable equivalent rate earned on assets was 8.00% and 8.25% for the 2001 second quarter and 2001 six months, compared to 8.65% and 8.50% for the 2000 second quarter and 2000 six months, respectively. The average rate paid on interest-bearing liabilities was 4.83% and 5.08% for the 2001 second quarter and 2001 six months, respectively, compared to 5.05% and 4.89% for the 2000 second quarter and 2000 six months, respectively. The net interest margin was 3.72% and 3.74% for the 2001 second quarter and 2001 six months, respectively, compared to 4.15% for each of the 2000 second quarter and 2000 six months. The reduction in net interest margin is largely due to the effects of interest rate reductions by the Federal Reserve during the first six months of 2001. Alabama National's interest earning assets have repriced more quickly than its interest-bearing liabilities. Management anticipates that as more interest-bearing liabilities mature and reprice that the net interest margin will begin to improve.

The following tables depict, on a taxable equivalent basis for the 2001 and 2000 second quarter and six months, certain information related to Alabama National's average balance sheet and its average yields on assets and average costs of liabilities. Such yields or costs are derived by dividing income or expense by the average daily balance of the associated assets or liabilities.

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### AVERAGE BALANCES, INCOME AND EXPENSES AND RATES (Amounts in thousands, except yields and rates)

	Six months ended		
	2001		
	Average Balance	Income/ Expense	Yield/ Cost
<b>Assets:</b>			
<b>Earning assets:</b>			
Loans (1) (3).....	\$1,759,905	\$75,964	8.70%
<b>Securities:</b>			
Taxable.....	386,664	12,892	6.72
Tax exempt.....	29,689	1,120	7.61
Cash balances in other banks.....	11,939	238	4.02
Funds sold.....	49,215	1,285	5.27

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Trading account securities.....	1,900	59	6.26	
	-----	-----		
Total earning assets (2).....	2,239,312	91,558	8.25	1,
	-----	-----		
Cash and due from banks.....	81,911			
Premises and equipment.....	51,993			
Other assets.....	98,258			
Allowance for loan losses.....	(22,815)			
	-----			
Total assets.....	\$2,448,659			\$2,
	=====			=====
Liabilities:				
Interest-bearing liabilities:				
Interest-bearing transaction accounts.....	\$ 299,932	4,675	3.14	\$
Savings deposits.....	311,536	5,303	3.43	
Time deposits.....	959,284	29,475	6.20	
Funds purchased.....	210,188	5,042	4.84	
Other short-term borrowings.....	34,922	1,129	6.52	
Long-term debt.....	152,030	3,916	5.19	
	-----	-----		
Total interest-bearing liabilities.....	1,967,892	49,540	5.08	1,
	-----	-----		
Demand deposits.....	253,567			
Accrued interest and other liabilities.....	48,637			
Stockholders' equity.....	178,563			
	-----			
Total liabilities and stockholders' equity..	\$2,448,659			\$2,
	=====			=====
Net interest spread.....			3.17%	
			=====	
Net interest income/margin on a taxable equivalent basis.....		42,018	3.78%	
			=====	
Tax equivalent adjustment (2).....		526		
		-----		
Net interest income/margin.....		\$41,492	3.74%	
		=====	=====	

- (1) Average loans include nonaccrual loans. All loans and deposits are domestic.
- (2) Tax equivalent adjustments are based upon assumed tax rate of 34%, and do not reflect the disallowance for Federal income tax purposes of interest expense related to certain tax exempt assets.
- (3) Fees in the amount of \$2,084,000 and \$1,722,000 are included in interest and fees on loans for the six months ended June 30, 2001 and 2000, respectively.

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AVERAGE BALANCES, INCOME AND EXPENSES AND RATES  
(Amounts in thousands, except yields and rates)

	Three months ended Jun			
	-----			
	2001			
	-----			
	Average	Income/	Yield/	Avera
	Balance	Expense	Cost	Balan



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Assets:				
Earning assets:				
Loans (1) (3)	\$1,789,388	\$37,620	8.43%	\$1,534,
Securities:				
Taxable	392,796	6,514	6.65	332,
Tax exempt	29,104	545	7.51	32,
Cash balances in other banks	17,242	169	3.93	4,
Funds sold	49,562	592	4.79	33,
Trading account securities	2,222	33	5.96	1,
	-----	-----		-----
Total earning assets (2)	2,280,314	45,473	8.00	1,938,
	-----	-----		-----
Cash and due from banks	82,316			76,
Premises and equipment	51,860			47,
Other assets	96,734			87,
Allowance for loan losses	(22,993)			(19,
	-----			-----
Total assets	\$2,488,231			\$2,130,
	=====			=====
Liabilities:				
Interest-bearing liabilities:				
Interest-bearing transaction accounts	\$ 308,208	2,241	2.92	\$ 252,
Savings deposits	315,871	2,581	3.28	322,
Time deposits	953,503	14,383	6.05	802,
Funds purchased	230,172	2,406	4.19	164,
Other short-term borrowings	27,222	440	6.48	52,
Long-term debt	164,357	2,003	4.89	110,
	-----	-----		-----
Total interest-bearing liabilities	1,999,333	24,054	4.83	1,703,
	-----	-----		-----
Demand deposits	262,421			246,
Accrued interest and other liabilities	45,190			29,
Stockholders' equity	181,287			151,
	-----			-----
Total liabilities and stockholders' equity	\$2,488,231			\$2,130,
	=====			=====
Net interest spread			3.17%	
			====	
Net interest income/margin on				
a taxable equivalent basis		21,419	3.77%	
			====	
Tax equivalent adjustment (2)		266		
		-----		
Net interest income/margin		\$21,153	3.72%	
		=====	====	

- (1) Average loans include nonaccrual loans. All loans and deposits are domestic.
- (2) Tax equivalent adjustments are based upon assumed tax rate of 34%, and do not reflect the disallowance for Federal income tax purposes of interest expense related to certain tax exempt assets.
- (3) Fees in the amount of \$1,023,000 and \$903,000 are included in interest and fees on loans for the three months ended June 30, 2001 and 2000, respectively.

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The following tables set forth, on a taxable equivalent basis, the effect which varying levels of earning assets and interest-bearing liabilities and the applicable rates had on changes in net interest income for the 2001 second quarter and six months compared to the 2000 second quarter and six months, respectively. For the purposes of these tables, changes, which are not solely attributable to volume or rate, are allocated to volume and rate on a pro rata basis.

ANALYSIS OF CHANGES IN NET INTEREST INCOME  
(Amounts in thousands)

	Six Months Ended June 30,		
	2001 Compared to 2000 Variance Due to		
	Volume	Yield/Rate	Total
Earning assets:			
Loans.....	\$14,962	\$(5,159)	\$ 9,803
Securities:			
Taxable.....	2,380	(825)	1,555
Tax exempt.....	(130)	32	(98)
Cash balances in other banks.....	230	(116)	114
Funds sold.....	393	(380)	13
Trading account securities.....	4	(7)	(3)
	-----	-----	-----
Total interest income.....	17,839	(6,455)	11,384
Interest-bearing liabilities:			
Interest-bearing transaction accounts.....	831	100	931
Savings and money market deposits.....	(196)	(98)	(294)
Time deposits.....	4,985	2,185	7,170
Funds purchased.....	2,544	(1,812)	732
Other short-term borrowings.....	(151)	(47)	(198)
Long-term debt.....	1,292	(597)	695
	-----	-----	-----
Total interest expense.....	9,305	(269)	9,036
	-----	-----	-----
Net interest income on a taxable equivalent basis.....	\$ 8,534	\$(6,186)	2,348
	=====	=====	
Taxable equivalent adjustment.....			(7)
			-----
Net interest income.....			\$ 2,341
			=====

ANALYSIS OF CHANGES IN NET INTEREST INCOME  
(Amounts in thousands)

	Three Months Ended June 30,
	2001 Compared to 2000

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	Variance Due to		
	Volume	Yield/Rate	Total
Earning assets:			
Loans.....	\$16,141	\$ (13,200)	\$2,941
Securities:			
Taxable.....	2,163	(1,380)	783
Tax exempt.....	(64)	(47)	(111)
Cash balances in other banks.....	255	(154)	101
Funds sold.....	708	(634)	74
Trading account securities.....	39	(28)	11
	-----	-----	-----
Total interest income.....	19,242	(15,443)	3,799
Interest-bearing liabilities:			
Interest-bearing transaction accounts.....	1,050	(779)	271
Savings and money market deposits.....	(55)	(216)	(271)
Time deposits.....	2,294	460	2,754
Funds purchased.....	3,318	(3,340)	(22)
Other short-term borrowings.....	(406)	(43)	(449)
Long-term debt.....	1,956	(1,578)	378
	-----	-----	-----
Total interest expense.....	8,157	(5,496)	2,661
	-----	-----	-----
Net interest income on a taxable equivalent basis.....	\$11,085	\$ (9,947)	1,138
	=====	=====	
Taxable equivalent adjustment.....			12
			-----
Net interest income.....			\$1,150
			=====

The provision for loan losses represents a charge to current earnings necessary to maintain the allowance for loan losses at an appropriate level based on management's analysis of the potential risk in the loan portfolio. The amount of the provision is a function of the level of loans outstanding, the level of non-performing loans, historical loan loss experience, the amount of loan losses actually charged against the allowance during a given period and current economic conditions. The provision for loan losses was \$701,000 for the 2001 second quarter, virtually unchanged when compared with \$697,000 recorded in the 2000 second quarter. The provision for loan losses was \$1,294,000 for the 2001 six months, compared to \$1,263,000 in the 2000 six months. The allowance for loan losses as a percentage of outstanding loans, net of unearned income, was 1.30% at June 30, 2001, compared to 1.31% at December 31, 2000.

Because of the inherent uncertainty of assumptions made during the assessment process, there can be no assurance that loan losses in future periods will not exceed the allowance for loan losses or that additional allocations to the allowance will not be required. See Asset Quality.

Total noninterest income for the 2001 second quarter was \$11.4 million, compared to \$7.8 million for the 2000 second quarter, an increase of 45.8%. For the 2001 six months, noninterest income increased to \$23.2 million compared to \$15.6 million for the 2000 six months, an increase of 48.6%. The components of

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noninterest income include service charges on deposits, investment services revenue, securities brokerage and trust revenue, insurance commissions, and fees relating to the origination and sale of mortgage loans. Service charges on deposits for the 2001 second quarter and 2000 second quarter were \$2.3 million and \$2.1 million, respectively. For the 2001 six months, service charge income increased to \$4.6 million from \$4.0 million for the 2000 six months. Revenue from the investment division totaled \$2.8 million in the 2001 second quarter, an increase of \$1.7 million, or 159.3%, as compared to \$1.1 million recorded in the 2000 second quarter. During the 2001 six months the investment division revenue totaled \$6.5 million, an increase of \$4.2 million, or 177.6%, as compared to \$2.3 million in the 2000 six months. The substantial increase in revenue in the investment division was due to increased liquidity of community banks served by this division and the decline of falling interest rates during 2001, both of which led to increased demand for fixed income securities by its customers. Securities brokerage and trust revenue increased 25.4% to \$2.2 million in the 2001 second quarter, compared to \$1.7 million in the 2000 second quarter. For the 2001 six months securities brokerage and trust revenue totaled \$4.5 million, as compared to \$3.6 million during the 2000 six months, an increase of 26.3%. The increase in the securities brokerage and trust division during each period of 2001 is attributable to continued expansion in the number of customers and total customer assets under management by these departments. Insurance commissions totaled \$457,000 and \$1.0 million during the 2001 second quarter and 2001 six months, respectively, as compared to \$510,000 and \$1.1 million recorded in the same periods during 2000. The decrease during each period of 2001 is attributable to competitive pressures in the municipal segment of the insurance business. Fees generated from the origination and sale of mortgages increased to \$1.9 million for the 2001 second quarter from \$947,000 in the 2000 second quarter, representing a 104.0% increase. During the 2001 six months mortgage fees increased to \$3.2 million from \$1.7 million during the 2000 six months, an increase of 87.1%. This increase is primarily a result of declining interest rates and the impact the interest rate environment has on refinancing and new mortgage origination activity. Other noninterest income increased to \$1.1 million for the 2001 second quarter compared to \$1.0 million during the 2000 second quarter. Other noninterest income increased to \$2.2 million during the 2001 six months, an increase of 23.6%, compared to \$1.8 million recorded in the 2000 six months.

Noninterest expense was \$21.7 million for the 2001 second quarter, compared to \$18.1 million for the 2000 second quarter. For the 2001 six months, noninterest expense was \$44.6 million, compared to \$35.9 million for the 2000 six months. Noninterest expense includes salaries and employee benefits, commission based compensation, occupancy and equipment expenses and other expenses. Salaries and employee benefits were \$10.8 million for the 2001 second quarter, compared to \$9.6 million for the 2000 second quarter. For the 2001 six months, salaries and employee benefits were \$22.1 million, compared to \$19.1 million in the 2000 six months. The increase in salaries and employee benefits represents general staffing increases concurrent with expansion of offices and business lines and merit compensation increases. Commission based compensation was \$2.8 million for the 2001 second quarter, compared to \$1.1 million for the 2000 second quarter. For the 2001 six months, commission based compensation was \$5.9 million, compared to \$2.2 million in the 2000 six months. The increase in commission based compensation during these periods is attributable to increased production in the mortgage, securities brokerage and investment divisions. Occupancy and equipment expense totaled \$2.5 million in the 2001 second quarter and \$2.2 million in the 2000 second quarter. Occupancy and equipment expense totaled \$5.0 million in the 2001 six months and \$4.3 million in the 2000 six months. The 2001 second quarter and six months include expenses related to two banking branches opened in third and fourth quarters of 2000 and expenses related to two banking branches acquired during August of 2000. Other noninterest expense increased to \$5.6 million in the 2001 second quarter, compared with \$5.2 million in the 2000 second quarter. Other noninterest expense was \$11.7 million in the 2001 six months and \$10.3 million in the 2000

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six months.

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Because of an increase in pre-tax income, income tax expense was \$3.2 million for the 2001 second quarter. compared to \$2.8 million for the 2000 second quarter. For the 2001 six months, income tax expense was \$5.9 million, compared to \$5.5 million for the 2000 six months. The effective tax rates for the 2001 second quarter and the 2001 six months were 31.4% and 31.7%, respectively, compared to 31.2% and 31.0% for the same periods of 2000. These effective tax rates are impacted by items of income and expense that are not subject to federal or state taxation.

Earning Assets

Loans comprised the largest single category of Alabama National's earning assets on June 30, 2001. Loans, net of unearned income, were \$1.79 billion, or 68.9% of total assets at June 30, 2001, compared to \$1.71 billion, or 72.5% at December 31, 2000. Loans grew \$76.4 million, or 4.5%, during the 2001 six months, compared to the 2000 year-end. Average loans grew \$273.2 million, or 18.4%, during the 2001 six months, compared to the 2000 six months. The following table details the composition of the loan portfolio by category at the dates indicated:

COMPOSITION OF LOAN PORTFOLIO  
(Amounts in thousands, except percentages)

	June 30, 2001		December
	Amount	Percent of Total	Amount
Commercial, financial and agricultural.....	\$ 270,092	15.11%	\$ 275,107
Real estate:			
Construction.....	203,352	11.37	185,814
Mortgage - residential.....	506,934	28.35	490,152
Mortgage - commercial.....	538,783	30.13	498,858
Mortgage - other.....	4,580	.25	4,238
Consumer.....	78,161	4.37	79,458
Lease financing receivables.....	69,392	3.88	58,668
Securities brokerage margin loans.....	20,496	1.15	29,901
Other.....	96,447	5.39	89,700
	-----	-----	-----
Total gross loans.....	1,788,237	100.00%	1,711,896
		=====	
Unearned income.....	(1,069)		(1,086)
	-----		-----
Total loans, net of unearned income.....	1,787,168		1,710,810
Allowance for loan losses.....	(23,277)		(22,368)
	-----		-----
Total net loans.....	\$1,763,891		\$1,688,442
	=====		=====

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The carrying value of investment securities increased \$76.4 million in the 2001 six months from \$60.8 million at December 31, 2000, to \$137.2 million at June 30, 2001. During the 2001 six months, Alabama National purchased \$93.3 million of investment securities and received \$16.8 million from maturities, including principal paydowns of mortgage backed securities.

The carrying value of securities available for sale decreased \$34.1 million in the 2001 six months from \$325.3 million at December 31, 2000, to \$291.2 million at June 30, 2001. Purchases of available for sale securities totaled \$77.2 million and maturities, calls, and sales of available for sale securities totaled \$115.4 million. Unrealized gains on available for sale securities totaled \$2.6 million net of income taxes, during the 2001 six months.

Trading account securities, which had a balance of \$1.3 million at June 30, 2001, are securities owned by Alabama National prior to sale and delivery to Alabama National's customers. It is the policy of Alabama National to limit positions in such securities to reduce its exposure to market and interest rate changes. Federal funds sold and securities purchased under agreements to resell totaled \$38.9 million at June 30, 2001 and \$30.3 million at December 31, 2000.

### Deposits and Other Funding Sources

-----

Deposits increased by \$61.4 million from year-end 2000, to \$1.87 billion at June 30, 2001. All categories of deposits experienced growth during the 2000 six months, except time deposits greater than \$100,000. Included in time deposits greater than \$100,000 at June 30, 2001 and December 31, 2000, were \$25.0 million and \$78.1 million of brokered deposits, respectively. Alabama National decreased its reliance on brokered deposits due to increases in the other categories of deposits. Excluding brokered deposits, time deposits greater than \$100,000 actually increased during the 2001 six months.

Federal funds purchased and securities sold under agreements to repurchase totaled \$260.9 million at June 30, 2001, an increase of \$94.3 million from December 31, 2000. The treasury, tax and loan account increased to \$1.6 million at June 30, 2001, compared with \$900,000 at December 31, 2000. Short-term borrowings at June 30, 2001 totaled \$30.0 million, including a note payable to a third party bank of \$28.0 million and advances from the Federal Home Loan Bank ("FHLB") totaling \$2.0 million.

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Alabama National's short-term borrowings at June 30, 2001 and December 31, 2000 are summarized as follows:

#### SHORT-TERM BORROWINGS (Amounts in thousands)

	June 30, 2001 -----	Decem 2 -----
Note payable to third party bank under secured master note agreement; rate varies with LIBOR and was 4.5838% and 7.4318% at June 30, 2001 and December 31, 2000, respectively; collateralized by Alabama National's stock in subsidiary banks.	\$28,000	\$2
FHLB debt due at various maturities ranging from April 23, 2001		

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through October 12, 2001; bearing interest at fixed and variable rates ranging from 5.08375% to 6.40% and 6.40% to 6.7575% at June 30, 2001 and December 31, 2000, respectively; collateralized by FHLB stock and certain first mortgages. Several of these notes were called or refinanced during the first and second quarters of 2001.

2,000 5

FHLB open ended note payable; rate varies daily based on the FHLB Daily Rate Credit interest price and was 6.35% at December 31, 2000; collateralized by FHLB stock and certain first mortgage loans. This note was repaid during the first quarter of 2001.

-

Total short-term borrowings

\$30,000 \$9

Alabama National's long-term debt at June 30, 2001 and December 31, 2000 are summarized as follows:

LONG-TERM DEBT  
(Amounts in thousands)

June 30, 2001 Dece 2

FHLB debt due April 23, 2004; rate varies with LIBOR and was 6.48% at December 31, 2000; rate changes to 5.02% from April 23, 2001 to April 23, 2004; convertible at the option of the FHLB on April 23, 2001 to a three month LIBOR advance; collateralized by FHLB stock and certain first mortgage loans. Advance was called during 2001 second quarter.

\$ - \$1

FHLB debt due at various maturities ranging from November 5, 2003 through April 6, 2011; bearing interest at fixed rates ranging from 3.82% to 6.00% and 4.74% to 6.00% at June 30, 2001 and December 31, 2000, respectively; convertible at the option of the FHLB at dates ranging from July 30, 2001 to March 26, 2003; collateralized by FHLB stock, certain first mortgage loans and pledged available for sale securities.

134,000 4

FHLB debt due February 11, 2003; interest rate varies with LIBOR and was 5.9275% and 6.5275% at June 30, 2001 and December 31, 2000, respectively; collateralized by FHLB stock and certain first mortgage loans.

25,000 2

Various notes payable

25

Capital leases payable

160

Total long-term debt

\$159,185 \$8

Asset Quality

Nonperforming loans are comprised of loans past due 90 days or more and still accruing interest, loans accounted for on a nonaccrual basis and loans in which the terms have been restructured to provide a reduction or deferral of interest

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or principal because of a deterioration in the financial position of the borrower. At June 30, 2001, Alabama National had no loans past due 90 days or more and still accruing interest. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that the collection of interest is doubtful. It is Alabama National's policy to place a delinquent loan on nonaccrual status when it becomes 90 days or more past due. When a loan is placed on nonaccrual status, all interest that is accrued on the loan is reversed and deducted from earnings as a reduction of reported interest. No additional interest is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain. When a problem loan is finally resolved, there may ultimately be an actual writedown or charge-off of the principal balance of the loan which would necessitate additional charges to the allowance for loan losses.

At June 30, 2001, nonperforming assets totaled \$7.0 million, compared to \$5.1 million at year-end 2000. Nonperforming assets as a percentage of loans plus other real estate were 0.39% at June 30, 2001, compared to 0.30% at December 31, 2000. The following table presents Alabama National's nonperforming assets for the dates indicated.

### NONPERFORMING ASSETS (Amounts in thousands, except percentages)

	June 30, 2001	December 31, 2000
	-----	-----
Nonaccrual loans.....	\$ 5,404	\$ 3,642
Restructured loans.....	-	-
Loans past due 90 days or more and still accruing.....	-	-
	-----	-----
Total nonperforming loans.....	5,404	3,642
Other real estate owned.....	1,619	1,468
	-----	-----
Total nonperforming assets.....	\$ 7,023	\$ 5,110
	=====	=====
Allowance for loan losses to period-end loans..	1.30%	1.31%
Allowance for loan losses to period-end nonperforming loans.....	430.74	614.17
Allowance for loan losses to period-end nonperforming assets.....	331.44	437.73
Net charge-offs to average loans.....	0.04	0.04
Nonperforming assets to period-end loans and other real estate owned.....	0.39	0.30
Nonperforming loans to period-end loans.....	0.30	0.21



Net loan charge-offs for the 2001 six months totaled \$385,000, or 0.04% (annualized) of average loans for the period. The allowance for loan losses as a percentage of total loans, net of unearned income, was 1.30% at June 30, 2001, compared to 1.31% at December 31, 2000. The following table analyzes activity in the allowance for loan losses for the 2001 six months.

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES  
For the Six Months Ended June 30, 2001  
(Amounts in thousands, except percentages)

Allowance for loan losses at beginning of period.....	\$22,368
Charge-offs:	
Commercial, financial and agricultural.....	114
Real estate - mortgage.....	133
Consumer.....	650
	-----
Total charge-offs.....	897
	-----
Recoveries:	
Commercial, financial and agricultural.....	143
Real estate - mortgage.....	141
Consumer.....	228
	-----
Total recoveries.....	512
	-----
Net charge-offs.....	385
	-----
Provision for loan losses.....	1,294
	-----
Allowance for loan losses at end of period.....	\$23,277
	=====

The loan portfolio is periodically reviewed to evaluate the outstanding loans and to measure both the performance of the portfolio and the adequacy of the allowance for loan losses. This analysis includes a review of delinquency trends, actual losses and internal credit ratings. Based on this analysis, management considers the allowance for loan losses at June 30, 2001 to be adequate to cover possible loan losses in the portfolio as of that date. However, because of the inherent uncertainty of assumptions made during the evaluation process, there can be no assurance that loan losses in future periods will not exceed the allowance for loan losses or that additional allocations to the allowance will not be required.

Interest Rate Sensitivity  
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Alabama National monitors and manages the pricing and maturity of its assets and liabilities in order to diminish the potential adverse impact that changes in interest rates could have on net interest income. The principal monitoring

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technique employed by Alabama National is simulation analysis, which technique is augmented by "gap" analysis.

In simulation analysis, Alabama National reviews each individual asset and liability category and its projected behavior in various different interest rate environments. These projected behaviors are based upon management's past experiences and upon current competitive environments, including the various environments in the different markets in which Alabama National competes. Using this projected behavior and differing rate scenarios as inputs, the simulation analysis generates as output a projection of net interest income. Alabama National also periodically verifies the validity of this approach by comparing actual results with those that were projected in previous models. See Market Risk.

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Another technique used by Alabama National in interest rate management is the measurement of the interest sensitivity "gap," which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. Interest rate sensitivity can be managed by repricing assets and liabilities, selling securities available for sale, replacing an asset or liability at maturity or by adjusting the interest rate during the life of an asset or liability.

Alabama National evaluates interest sensitivity risk and then formulates guidelines regarding asset generation and repricing, and sources and prices of off-balance sheet commitments in order to decrease interest sensitivity risk. Alabama National uses computer simulations to measure the net income effect of various interest rate scenarios. The modeling reflects interest rate changes and the related impact on net income over specified periods of time.

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The following table illustrates Alabama National's interest rate sensitivity at June 30, 2001, assuming relevant assets and liabilities are collected and paid, respectively, based upon historical experience rather than their stated maturities.

### INTEREST SENSITIVITY ANALYSIS (Amounts in thousands, except ratios)

	June 30, 2001			
	Zero Through Three Months	After Three Through Twelve Months	One Through Three Years	Greater Three Years
<b>Assets:</b>				
<b>Earning assets:</b>				
Loans (1).....	\$863,238	\$ 220,016	\$333,646	\$386,646
Securities (2).....	24,953	58,406	115,978	217,978
Trading securities.....	1,330	-	-	-
Interest-bearing deposits in other banks.....	22,913	-	-	-
Funds sold.....	38,898	-	-	-
	-----	-----	-----	-----
Total interest-earning assets.....	\$951,332	\$ 278,422	\$449,624	\$603,624

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### Liabilities:

#### Interest-bearing liabilities:

##### Interest-bearing deposits:

Demand deposits.....	\$108,932	\$ -	\$ -	\$203
Savings and money market deposits...	115,344	-	-	200
Time deposits (3).....	329,101	499,993	84,050	25
Funds purchased.....	260,870	-	-	
Short-term borrowings (4).....	31,569	-	-	
Long-term debt.....	50,004	50,014	59,036	
	-----	-----	-----	-----
Total interest-bearing liabilities..	\$895,820	\$ 550,007	\$143,086	\$429
	=====	=====	=====	=====
Period gap.....	\$ 55,512	\$(271,585)	\$306,538	\$173
	=====	=====	=====	=====
Cumulative gap.....	\$ 55,512	\$(216,073)	\$ 90,465	\$264
	=====	=====	=====	=====
Ratio of cumulative gap to total earning assets.....	2.43%	-9.46%	3.96%	1

(1) Excludes nonaccrual loans of \$5,404,000.

(2) Excludes available for sale equity securities of \$11,620,000.

(3) Excludes matured certificates which have not been redeemed by the customer and on which no interest is accruing.

(4) Includes treasury, tax and loan account of \$1,569,000.

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Alabama National generally benefits from increasing market rates of interest when it has an asset-sensitive gap and generally benefits from decreasing market rates of interest when it is liability sensitive. Alabama National is liability sensitive through the one year time frame, except for the zero through three month period. However, Alabama National's gap analysis is not a precise indicator of its interest sensitivity position. The analysis presents only a static view of the timing of maturities and repricing opportunities, without taking into consideration that changes in interest rates do not affect all assets and liabilities equally. For example, rates paid on a substantial portion of core deposits may change contractually within a relatively short time frame, but those rates are viewed by management as significantly less interest-sensitive than market-based rates, such as those paid on non-core deposits. Accordingly, management believes that a liability-sensitive gap position is not as indicative of Alabama National's true interest sensitivity as it would be for an organization which depends to a greater extent on purchased funds to support earning assets. Net interest income may be affected by other significant factors in a given interest rate environment, including changes in the volume and mix of earning assets and interest-bearing liabilities.

#### Market Risk

Alabama National's earnings are dependent on its net interest income which is the difference between interest income earned on all earning assets, primarily loans and securities, and interest paid on all interest bearing liabilities, primarily deposits. Market risk is the risk of loss from adverse changes in market prices and rates. Alabama National's market risk arises primarily from inherent interest rate risk in its lending, investing and deposit gathering

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activities. Alabama National seeks to reduce its exposure to market risk through actively monitoring and managing its interest rate risk. Management relies upon static "gap" analysis to determine the degree of mismatch in the maturity and repricing distribution of interest earning assets and interest bearing liabilities which quantifies, to a large extent, the degree of market risk inherent in Alabama National's balance sheet. Gap analysis is further augmented by simulation analysis to evaluate the impact of varying levels of prevailing interest rates and the sensitivity of specific earning assets and interest bearing liabilities to changes in those prevailing rates. Simulation analysis consists of evaluating the impact on net interest income given changes from 200 basis points below to 200 basis points above the current prevailing rates. Management makes certain assumptions as to the effect varying levels of interest rates have on certain earning assets and interest bearing liabilities, which assumptions consider both historical experience and consensus estimates of outside sources.

With respect to the primary earning assets, loans and securities, certain features of individual types of loans and specific securities introduce uncertainty as to their expected performance at varying levels of interest rates. In some cases, prepayment options exist whereby the borrower may elect to repay the obligation at any time. These prepayment options make anticipating the performance of those instruments difficult given changes in prevailing rates. At June 30, 2001, mortgage backed securities with a carrying value of \$330.4 million, or 12.7% of total assets, and essentially every loan, net of unearned income, (totaling \$1.79 billion, or 68.9% of total assets), carried such prepayment options. Management believes that assumptions used in its simulation analysis about the performance of financial instruments with such prepayment options are appropriate. However, the actual performance of these financial instruments may differ from management's estimates due to several factors, including the diversity and financial sophistication of the customer base, the general level of prevailing interest rates and the relationship to their historical levels, and general economic conditions. The difference between those assumptions and actual results, if significant, could cause the actual results to differ from those indicated by the simulation analysis.

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Deposits totaled \$1.87 billion, or 72.0% of total assets, at June 30, 2001. Since deposits are the primary funding source for earning assets, the associated market risk is considered by management in its simulation analysis. Generally, it is anticipated that deposits will be sufficient to support funding requirements. However, the rates paid for deposits at varying levels of prevailing interest rates have a significant impact on net interest income and therefore, must be quantified by Alabama National in its simulation analysis. Specifically, Alabama National's spread, the difference between the rates earned on earning assets and rates paid on interest bearing liabilities, is generally higher when prevailing rates are higher. As prevailing rates reduce, the spread tends to compress, with severe compression at very low prevailing interest rates. This characteristic is called "spread compression" and adversely effects net interest income in the simulation analysis when anticipated prevailing rates are reduced from current rates. Management relies upon historical experience to estimate the degree of spread compression in its simulation analysis. Management believes that such estimates of possible spread compression are reasonable. However, if the degree of spread compression varies from that expected, the actual results could differ from those indicated by the simulation analysis.

The following table illustrates the results of simulation analysis used by Alabama National to determine the extent to which market risk would affect net interest margin for the next twelve months if prevailing interest rates increased or decreased the specified amounts from current rates. Because of the

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inherent use of estimates and assumptions in the simulation model used to derive this information, the actual results of the future impact of market risk on Alabama National's net interest margin may differ from that found in the table.

### MARKET RISK (Amounts in thousands)

Change in Prevailing Interest Rates (1)	As of June 30, 2001		As of December 31, 2000	
	Net Interest Income Amount	Change from Income Amount	Net Interest Income Amount	Change Income A
+200 basis points	\$98,339	5.43%	\$91,547	5.0
+100 basis points	96,603	3.57	89,413	2.6
0 basis points	93,272	-	87,136	
-100 basis points	88,894	(4.69)	84,039	(3.5)
-200 basis points	84,245	(9.68)	81,948	(5.9)

(1) Assumes an immediate rate change of this magnitude.

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### Liquidity and Capital Adequacy

Alabama National's net loan to deposit ratio was 95.6% at June 30, 2001, compared to 94.7% at year-end 2000. Alabama National's liquid assets as a percentage of total deposits were 9.3% at June 30, 2001, compared to 6.6% at year-end 2000. At June 30, 2001, Alabama National had unused federal funds lines of approximately \$139.9 million, unused lines at the Federal Home Loan Bank of \$148.6 million and an unused credit line with a third party bank of \$7.0 million. During the 2001 second quarter, the maximum credit amount under this third party bank facility was increased from \$32.0 million to \$35.0 million. Alabama National also has access to approximately \$142.9 million via a credit facility with the Federal Reserve Bank of Atlanta. At June 30, 2001 and year-end 2000, there were no outstanding borrowings under this Federal Reserve credit facility. Management analyzes the level of off-balance sheet assets such as unfunded loan commitments and outstanding letters of credit as they relate to the levels of cash, cash equivalents, liquid investments, and available funds lines in an attempt to minimize the possibility that a potential liquidity shortfall will exist. Based on this analysis, management believes that Alabama National has adequate liquidity to meet short-term operating requirements. However, no assurances can be given in this regard.

Alabama National's stockholders' equity increased by \$11.1 million from December 31, 2000, to \$182.7 million at June 30, 2001. This increase was attributable to the following (in thousands):

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Net income.....	\$12,819
Dividends.....	(5,434)
Issuance of stock from treasury.....	447
Additional paid in capital related to stock based compensation.....	721
Changes incidental to merger.....	(10)
Increase in unrealized gain on securities available for sale, net of deferred taxes.....	2,582
	-----
Net increase.....	\$11,125
	=====

A strong capital position is vital to the continued profitability of Alabama National because it promotes depositor and investor confidence and provides a solid foundation for future growth of the organization. The capital of Alabama National and its subsidiary banks (the "Banks") exceeded all prescribed regulatory capital guidelines at June 30, 2001. Under the capital guidelines of their regulators, Alabama National and the Banks are currently required to maintain a minimum risk-based total capital ratio of 8%, with at least 4% being Tier 1 capital. Tier 1 capital consists of common stockholders' equity, qualifying perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, less goodwill. In addition, Alabama National and the Banks must maintain a minimum Tier 1 leverage ratio (Tier 1 capital to total

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assets) of at least 3%, but this minimum ratio is increased by 100 to 200 basis points for other than the highest rated institutions. The following table sets forth the risk-based and leverage ratios of Alabama National and each subsidiary bank at June 30, 2001:

	Tier 1 Risk Based -----	Total Risk Based -----
Alabama National BanCorporation.....	8.88%	10.11%
National Bank of Commerce of Birmingham.....	9.80	10.97
Alabama Exchange Bank.....	12.55	13.80
Bank of Dadeville.....	11.80	13.04
Citizens & Peoples Bank, N.A.....	9.73	10.96
Community Bank of Naples, N.A.....	9.86	11.11
First American Bank.....	9.71	10.96
First Citizens Bank.....	13.46	14.62
First Gulf Bank.....	9.60	10.85
Georgia State Bank.....	10.64	11.68
Public Bank.....	9.36	10.41
Peoples State Bank.....	9.37	10.62
Required minimums.....	4.00	8.00

### Item 3 - Quantitative and Qualitative Disclosures about Market Risk

The information required by this item is contained in Item 2 herein under the headings "Interest Rate Sensitivity" and "Market Risk".

### Part II Other Information

#### Item 4 - Submission of Matters to a Vote of Security-Holders

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Alabama National held its Annual Meeting of Stockholders on May 3, 2001. At the meeting, the stockholders of Alabama National were asked to vote on the election of 15 directors to serve until the next annual meeting of stockholders and their successors are elected and qualified. The results of the stockholder voting on this matter is summarized as follows:

	FOR -----	WITHHOLD AUTHORITY -----
Election of directors:		
W. Ray Barnes.....	9,994,091	25,450
Dan M. David.....	9,993,718	25,823
T. Morris Hackney.....	9,465,490	554,051
John H. Holcomb, III.....	9,761,938	257,603
John D. Johns.....	9,466,390	553,151
John J. McMahon, Jr.....	9,460,242	559,299
C. Phillip McWane.....	9,466,278	553,263
William D. Montgomery.....	9,994,055	25,486
Richard Murray, IV.....	9,993,866	25,675
Drayton Nabers, Jr.....	9,466,242	553,299
Victor E. Nichol, Jr.....	9,993,866	25,675
C. Lloyd Nix.....	9,990,367	29,174
G. Ruffner Page, Jr.....	9,982,030	37,511
William E. Sexton.....	9,993,043	26,498
W. Stancil Starnes.....	9,466,390	553,151

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### Item 6 - Exhibits and Reports on Form 8-K

- (a) Exhibits:
- Exhibit 3.1 - Certificate of Incorporation (filed as an Exhibit to Alabama National's Registration Statement on Form S-1 (Commission File no. 33-83800) and incorporated herein by reference).
  - Exhibit 3.1A - Certificate of Amendment of Certificate of Incorporation (filed as an Exhibit to Alabama National's Annual Report of Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).
  - Exhibit 3.1B - Certificate of Merger (filed as an Exhibit to Alabama National's Annual Report of Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
  - Exhibit 3.1C - Certificate of Amendment of Certificate of Incorporation dated April 23, 1998 (filed as an Exhibit to Alabama National's Report of Form 10-Q for the quarter ended March 31, 1998 and incorporated herein by reference).
  - Exhibit 3.2 - Bylaws (filed as an Exhibit to Alabama National's

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Registration Statement on Form S-1 (Commission File No. 33-83800) and incorporated herein by reference).

Exhibit 10.1 - Fifth Amendment to Credit Agreement between Alabama National BanCorporation and AmSouth Bank dated May 31, 2001.

Exhibit 11 - Computation of Earnings Per Share

(b) Reports on Form 8-K

None.

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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.

ALABAMA NATIONAL BANCORPORATION

Date: August 13, 2001  
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/s/John H. Holcomb, III  
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John H. Holcomb, III, its Chairman and Chief Executive Officer

Date: August 13, 2001  
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/s/William E. Matthews, V.  
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William E. Matthews, V., its Executive Vice President and Chief Financial Officer

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