ALABAMA NATIONAL BANCORPORATION
Form 10-K
March 19, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002, OR**

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED] FOR THE TRANSITION PERIOD FROM ____________ TO ____________ .**

Commission file number: 0-25160

ALABAMA NATIONAL BANCORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**63-1114426**
(State of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1927 First Avenue North, Birmingham, AL 35203-4009

(Address of principal executive offices) (Zip Code)

(205) 583-3600

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $1.00 par value

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 ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes x No ¨

The aggregate market value of voting stock held by non-affiliates of the registrant at June 28, 2002 was $425,954,249.

As of March 12, 2003 the registrant had outstanding 12,369,274 shares of its common stock.

DOCUMENTS INCORPORATED BY REFERENCE IN THIS FORM 10-K:

The definitive Proxy Statement for the 2003 Annual Meeting of Alabama National BanCorporation s Stockholders is incorporated by reference into Part III of this report.

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* Portions of the Proxy Statement for the Registrant s Annual Meeting of Stockholders to be held on April 30, 2003 are incorporated by reference in Part III of this Form 10-K.

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K, other periodic reports filed by Alabama National BanCorporation (the Company or Alabama National) under the Securities Exchange Act of 1934, as amended, and any other written or oral statements made by or on behalf of Alabama National may include forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 which reflect Alabama National s current views with respect to future events and financial performance. Such forward looking statements are based on general assumptions and are subject to various risks, uncertainties, and other factors that may cause actual results to differ materially from the views, beliefs and projections expressed in such statements. These risks, uncertainties and other factors include, but are not limited to:

(1) Possible changes in economic and business conditions that may affect the prevailing interest rates, the prevailing rates of inflation, or the amount of growth, stagnation, or recession in the global, U.S., and southeastern U.S. economies, the value of investments, collectibility of loans and the profitability of business entities;

(2) Possible changes in monetary and fiscal policies, laws and regulations, and other activities of governments, agencies and similar organizations;

(3) The effects of easing of restrictions on participants in the financial services industry, such as banks, securities brokers and dealers, investment companies and finance companies, and changes evolving from the enactment of the Gramm-Leach-Bliley Act which became effective in 2000, and attendant changes in patterns and effects of competition in the financial services industry;

(4) The cost and other effects of legal and administrative cases and proceedings, claims, settlements and judgments;

(5) The impact of terrorist activities on the national economy and money markets, particularly in light of the September 11, 2001 terrorist attacks in New York City and Washington, D.C.; and

(6) The ability of Alabama National to achieve the expected operating results related to the acquired operations of recently-completed and future acquisitions (if any), which depends on a variety of factors, including (i) the ability of Alabama National to achieve the anticipated cost savings and revenue enhancements with respect to the acquired operations, (ii) the assimilation of the acquired operations to Alabama National s corporate culture, including the ability to instill Alabama National s credit practices and efficient approach to the acquired operations, (iii) the continued growth of the markets in which Alabama National operates consistent with recent historical experience, (iv) the absence of material contingencies related to the acquired operations, including asset quality and litigation contingencies, and (v) Alabama National s ability to expand into new markets and to maintain profit margins in the face of pricing pressures.

The words believe, expect, anticipate, project and similar expressions signify forward looking statements. Readers are cautioned not to place undue reliance on any forward looking statements made by or on behalf of Alabama National. Any such statement speaks only as of the date the statement was made. Alabama National undertakes no obligation to update or revise any forward looking statements.

PART I

ITEM 1. BUSINESS

Alabama National BanCorporation (Alabama National or ANB) is a Delaware bank holding company with its principal place of business in Birmingham, Alabama, and its main office located at 1927 First Avenue North, Birmingham, Alabama 35203 (Telephone Number: (205) 583-3600). Alabama National is currently the parent of three national banks, National Bank of Commerce of Birmingham (NBC) (Birmingham, Alabama and the Birmingham metropolitan area), Citizens & Peoples Bank, National Association (Pensacola, Florida), and Community Bank of Naples, National Association (Naples, Florida); three state member banks, Alabama Exchange Bank (Tuskegee, Alabama), Bank of Dadeville (Dadeville, Alabama) and First Gulf Bank (Baldwin County, Alabama); and five state nonmember banks, First American Bank (Decatur/Huntsville and Auburn/Opelika, Alabama), Public Bank (Metropolitan Orlando and Vero Beach, Florida), Georgia State Bank (Mableton, Georgia), First Citizens Bank, (Talladega, Alabama) and Peoples State Bank of Groveland (Lake County, Florida) (collectively the Banks). In addition, Alabama National is currently the ultimate parent of one securities brokerage firm, NBC Securities, Inc. (Birmingham, Alabama); one receivables factoring company, Corporate Billing, Inc. (Decatur, Alabama); and one insurance agency, ANB Insurance Services, Inc. (headquartered in Decatur, Alabama).

Recent Developments

Potential Acquisition of Millennium Bank.

On January 28, 2002, Alabama National entered into an Agreement and Plan of Merger with Millennium Bank of Gainesville, Florida (the Millennium Merger Agreement). Millennium Bank had assets of approximately $99 million and deposits of approximately $83 million as of December 31, 2002. Pursuant to the Millennium Merger Agreement, Millennium Bank will merge with a newly formed subsidiary of Alabama National and will thereby become a wholly-owned subsidiary of Alabama National. The Millennium Merger Agreement provides that upon the merger, Millennium Bank shareholders will receive approximately $1.52 in cash and 0.63115 shares of Alabama National common stock for each Millennium Bank share. Upon a decline in Alabama National s share price and subject to certain limits, Millennium Bank shareholders will receive additional cash consideration. In addition, Millennium Bank shareholders have the option to receive additional cash, subject to certain limits, rather than shares of Alabama National common stock. Assuming no such share price decline and assuming no Millennium Bank shareholders elect to receive cash rather than Alabama National s common stock, Millennium Bank shareholders will receive in the aggregate approximately $1.12 million in cash and 520,000 Alabama National shares and share equivalents. The merger is subject to regulatory approval, Millennium Bank shareholder approval and certain other conditions. Alabama National expects the transaction to close in the second quarter of 2003.

Subsidiary Banks

Alabama National operates through eleven subsidiary Banks which have a total of 66 banking offices and three insurance offices (where no banking is conducted) in the states of Alabama, Georgia and Florida. The Banks focus on traditional consumer, residential mortgage, commercial and real estate construction lending, and equipment leasing to customers in their market areas. The Banks also offer a variety of deposit programs to individuals and small businesses and other organizations at interest rates generally consistent with local market conditions. NBC offers trust services, investment services and securities brokerage services. In addition, the Banks offer individual retirement and KEOGH accounts, safe deposit and night depository facilities and additional services such as the sale of traveler s checks, money orders and cashier s checks.

Lending Activities

General

Through the Banks, Alabama National offers a range of lending services, including real estate, consumer and commercial loans, to individuals and small businesses and other organizations that are located in or conduct a substantial portion of their business in the Banks market areas. Alabama National s total loans and leases, net of unearned interest, at December 31, 2002, were approximately $2.2 billion, or approximately 72.2% of total earning assets. The interest rates charged on loans vary with the degree of risk, maturity and amount of the loan and are further subject to competitive pressures, money market rates, availability of funds and government regulations. Alabama National has no foreign loans or loans for highly leveraged transactions, as such terms are defined by applicable banking regulations.

Loan and Lease Portfolio

Real Estate Loans. Loans secured by real estate are the primary component of Alabama National s loan portfolio, constituting approximately $1.6 billion, or 74.4 % of total loans and leases, net of unearned interest, at December 31, 2002. The Banks often take real estate as an additional source of collateral to secure commercial and industrial loans. Such loans are classified as real estate loans rather than commercial and industrial loans if the real estate collateral is considered significant as a secondary source of repayment for the loan. The Banks real estate loan portfolio is comprised of commercial and residential mortgages. Residential mortgages held in the Banks loan portfolio, both fixed and variable, are made based upon amortization schedules of up to 30 years but generally have maturity dates of five years or less. The Banks commercial mortgages accrue at either variable or fixed rates. The variable rates approximate current market rates. Construction loans are made on a variable rate basis. Origination fees are normally charged for most loans secured by real estate. The Banks primary type of residential mortgage loan is the single-family first mortgage, typically structured with fixed or adjustable interest rates, based on market conditions. These loans usually have terms of five years, with payments through the date of maturity generally based on a 15 or 30 year amortization schedule.

The Banks originate residential loans for sale into the secondary market. Such loans are made in accordance with underwriting standards set by the purchaser of the loan, normally as to loan-to-value ratio, interest rate and documentation. Such loans are generally made under a commitment to purchase from a loan purchaser. The Banks generally collect from the borrower or purchaser a combination of the origination fee, discount points and/or service release fee. During 2002, the Banks sold approximately $600 million in loans to such purchasers.

The Banks nonresidential mortgage loans include commercial, industrial and unimproved real estate loans. The Banks generally require nonresidential mortgage loans to have an 80% loan-to-value ratio and usually underwrite their commercial loans on the basis of the borrower s cash flow and ability to service the debt from earnings, rather than on the basis of the value of the collateral. Terms on construction loans are usually less than twelve months, and the Banks typically require real estate mortgages and personal guarantees supported by financial statements and a review of the guarantor s personal finances.

Consumer Loans. Consumer lending includes installment lending to individuals in the Banks market areas and generally consists of loans to purchase automobiles and other consumer durable goods. Consumer loans constituted $78.3 million, or 3.6% of Alabama National s loan portfolio at December 31, 2002. Consumer loans are underwritten based on the borrower s income, current debt level, past credit history and collateral. Consumer rates are both variable and fixed, with terms negotiable. Terms generally range from one to five years depending on the nature and condition of the collateral. Periodic amortization, generally monthly, is typically required.

Commercial and Financial Loans. The Banks make loans for commercial purposes in various lines of business. These loans are typically made on terms up to five years at fixed or variable rates. The loans are secured by various types of collateral including accounts receivable, inventory or, in the case of equipment loans, the financed equipment. The Banks attempt to reduce their credit risk on commercial loans by underwriting the loan based on the borrower s cash flow and its ability to service the debt from earnings, and by limiting the loan to value ratio. Historically, the Banks have typically loaned up to 80% on loans secured by accounts receivable, up to 50% on loans secured by inventory, and up to 100% on loans secured by equipment. The Banks also make some unsecured commercial loans and offer equipment leasing. Commercial and financial loans constituted $253.6 million, or 11.6% of Alabama National s loan portfolio at December 31, 2002. Interest rates are negotiable based upon the borrower s financial condition, credit history, management stability and collateral.

Credit Procedures and Review

Loan Approval. Certain credit risks are inherent in making loans. These include prepayment risks, risks resulting from uncertainties in the future value of collateral, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers. In particular, longer maturities increase the risk that economic conditions will change and adversely affect collectibility.

Alabama National attempts to minimize loan losses through various means and uses standardized underwriting criteria. Alabama National has established a standardized loan policy for all of the Banks that may be modified based on local market conditions. In particular, on larger credits, Alabama National generally relies on the cash flow of a debtor as the source of repayment and secondarily on the value of the underlying collateral. In addition, Alabama National attempts to utilize shorter loan terms in order to reduce the risk of a decline in the value of such collateral.

Alabama National addresses repayment risks by adhering to internal credit policies and procedures which all of the Banks have adopted. These policies and procedures include officer and customer lending limits, a multi-layered loan approval process for larger loans, documentation examination and follow-up procedures for any exceptions to credit policies. The point in each Bank s loan approval process at which a loan is approved depends on the size of the borrower s credit relationship with such Bank. Each of the lending officers at each of the Banks has the authority to approve loans up to an approved loan authority amount as approved by each Bank s Board of Directors. Loans in excess of the highest loan authority amount at each Bank must be approved by Alabama National s President and Chief Operating Officer. In addition, loans in excess of a particular loan officer s approval authority must be approved by a more senior officer at the particular Bank, the loan committee at such Bank, or both.

Loan Review. Alabama National maintains a continuous loan review system for each of NBC and First American Bank and a scheduled review system for the other Banks. Under this system, each loan officer is directly responsible for monitoring the risk in his portfolio and is required to maintain risk ratings for each credit assigned. The risk rating system incorporates the basic regulatory rating system as set forth in the applicable regulatory asset quality examination procedures.

Alabama National s Loan Review Department (LRD), which is wholly independent of the lending function, serves as a validation of each loan officer s risk monitoring and rating system. LRD s primary function is to provide the Board of Directors of each Bank with a thorough understanding of the credit quality of such Bank s loan portfolio. Other review requirements are in place to provide management with early warning systems for problem credits as well as compliance with stated lending policies. LRD s findings are reported, along with an asset quality review, to the Alabama National Board of Directors at each bi-monthly meeting.

Deposits

The principal sources of funds for the Banks are core deposits, consisting of demand deposits, interest-bearing transaction accounts, money market accounts, savings deposits and certificates of deposit. Transaction accounts include checking and negotiable order of withdrawal (NOW) accounts which customers use for cash management and which provide the Banks with a source of fee income and cross-marketing opportunities, as well as a low-cost source of funds. Time and savings accounts also provide a relatively stable and low-cost source of funding. The largest source of funds for the Banks are certificates of deposit. Certificates of deposit in excess of $100,000 are held primarily by customers in the Banks market areas.

Deposit rates are reviewed weekly by senior management of each of the Banks. Management believes that the rates the Banks offer are competitive with those offered by other institutions in the Banks market areas. Alabama National focuses on customer service to attract and retain deposits.

Investment Services

NBC operates an investment department devoted primarily to handling correspondent banks investment needs. Services provided by the investment department include the sale of securities, asset/liability consulting, safekeeping and bond accounting.

Securities Brokerage and Trust Division

NBC s wholly owned subsidiary, NBC Securities, Inc. (NBC Securities), is licensed as a broker-dealer. Started in 1995, NBC Securities provides investment services to individuals and institutions. These services include the sale of stocks, bonds, mutual funds, annuities, margin loans, other insurance products and financial planning. NBC Securities has a total of 58 investment advisors located in the following markets: Auburn/Opelika, Birmingham, Decatur, Fairhope, Foley, Gadsden, Gulf Shores, Huntsville, and Mobile, Alabama; Clermont, Naples, Pensacola, and Tallahassee, Florida; Atlanta and Mableton, Georgia; Central City, Kentucky; and Franklin and Nashville, Tennessee. NBC also operates a trust division that manages the assets of both corporate and individual customers located primarily in the Birmingham, Alabama market. The division s corporate trust services include managing and servicing retirement plan accounts such as pension, profit sharing and 401(k) plans.

Mortgage Lending Division

Substantially all of the Banks operate mortgage lending divisions that make home loans to individuals located in the markets served by the Banks. The majority of these loans are sold to corporate investors, who also service the loans.

Insurance Services Division

Alabama National s First American Bank subsidiary purchased an existing insurance agency, Rankin Insurance Services, Inc., in 1999. Rankin Insurance, now operating under the name ANB Insurance Services Inc., is a full service independent property and casualty insurance agency headquartered in Decatur, Alabama.

Competition

The Banks encounter strong competition in making loans, acquiring deposits and attracting customers for investment and trust services. Competition among financial institutions is based upon interest rates offered on deposit accounts, interest rates charged on loans, other credit and service charges relating to loans, the quality and scope of the services rendered, the convenience of banking facilities and, in the case of loans to commercial borrowers, relative lending limits. The Banks compete with other commercial banks, savings and loan associations, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking companies, and other financial intermediaries operating in Alabama and elsewhere. Many of these competitors, some of which are affiliated with large bank holding companies, have substantially greater resources and lending limits, and may offer certain services that the Banks do not currently provide. In addition, many of Alabama National s non-bank competitors are not subject to the same extensive federal regulations that govern bank or thrift holding companies and federally insured banks or thrifts.

The Gramm-Leach-Bliley Act, effective March 11, 2000, permits bank holding companies to become financial holding companies and thereby affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. *See* **Supervision and Regulation**. Under the Act, securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions. The Gramm-Leach-Bliley Act, which represents the most sweeping reform of financial services regulation in over sixty years, may significantly change the competitive environment in which Alabama National and the Banks conduct business. At this time, however, it is not possible to predict the full effect that the Act will have on Alabama National. One consequence may be increased competition from large financial services companies that will be permitted to provide many types of financial services, including bank products, to their customers.

The financial services industry is also likely to become more competitive as further technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the IBBEA) authorized bank holding companies to acquire banks and other bank holding companies without geographic limitations beginning September 30, 1995. In addition, beginning on June 1, 1997, the IBBEA authorized interstate mergers and consolidations of existing banks, provided that neither bank s home state had opted out of interstate branching by May 31, 1997. The States of Alabama, Georgia and Florida have opted in to interstate branching. Interstate branching provides that once a bank has established branches in a state through an interstate merger, the bank may establish and acquire additional branches at any location in the state where any bank involved in the interstate merger could have established or acquired branches under applicable federal or state law.

Size gives the larger banks certain advantages in competing for business from large corporations. These advantages include higher lending limits and the ability to offer services in other areas of Alabama and the southeast region. Some of Alabama National s competitors still maintain substantially greater resources and lending limits than Alabama National. As a result, Alabama National has not generally attempted to compete for the banking relationships of large corporations, and generally concentrates its efforts on small to medium-sized businesses and individuals to which Alabama National believes it can compete effectively by offering quality, personal service. However, management believes it may be able to compete more effectively for the business of some large corporations, given its current growth pattern.

Management believes that the Banks commitment to their respective primary market areas, as well as their commitment to quality and personalized banking services, are factors that contribute to the Banks competitiveness. Management believes that Alabama National s decentralized community banking strategy positions the Banks to compete successfully in their market areas.

Market Areas and Growth Strategy

Through NBC, Alabama National serves the metropolitan Birmingham market, which includes portions of Jefferson, Shelby and St. Clair Counties. Alabama National s First American Bank subsidiary serves Morgan, Limestone and Madison Counties in north Alabama and Lee County in east central Alabama. First American s largest market presence is in Decatur, Alabama, which has demonstrated a growing economic base in recent years. First American also acquired two branches in Huntsville, Alabama from another bank holding company during 2000 and has experienced significant growth in this market. First American entered the Lee County market, which includes the communities of Auburn and Opelika, with the December 2001 acquisition of Farmers National Bancshares, Inc. Lee County is also one of Alabama s higher growth counties. Through First Gulf Bank, Alabama National serves Baldwin County, Alabama. Located between Mobile, Alabama and Pensacola, Florida, Baldwin County has a broad base of economic activity in the retail and service, agriculture, seafood, tourism and manufacturing industries. Baldwin County includes the popular tourism and retirement resort communities of Gulf Shores and Fairhope. Shelby, Baldwin, Lee and St. Clair Counties have been named in statistical surveys as four of the fastest growing counties in Alabama.

In 1997, Alabama National expanded outside of Alabama with the opening of Citizens & Peoples Bank, N.A. in Escambia County, Florida. In 1998, Alabama National further expanded its presence in markets outside of Alabama with two acquisitions in Florida and one in Georgia. Public Bank is located in the fast-growing greater Orlando area, with offices in Altamonte Springs, Kissimmee and St. Cloud, Florida. Public Bank also expanded to the Atlantic Coast in September 2001 with the opening of its first branch office in Vero Beach, Florida, followed by the opening of a second branch office in Vero Beach in late 2002. Community Bank of Naples, N.A., located in Collier County, Florida, and Georgia State Bank, located in the greater-Atlanta counties of Cobb, Douglas and Paulding, are located in markets that are among the fastest growing in their respective states. Effective January 31, 2001, Alabama National expanded its presence in the greater-Orlando area with the

acquisition of Peoples State Bank of Groveland (Peoples State Bank). Peoples State Bank serves customers in the communities of Groveland, Leesburg and Clermont, Florida. The other Banks, First Citizens, Alabama Exchange Bank and Bank of Dadeville, are located in non-metropolitan areas. Each of these three Banks, while experiencing minimal growth due to market growth that has not been significant, typically operates at a high level of profitability. As a result, these Banks tend to produce capital for growth in many of the high growth markets served by the other Banks. Alabama National s strategy is to focus on growth in profitability for these non-metropolitan banks, since market growth has not been as significant.

Due to continuing consolidation within the banking industry, as well as in the Southeastern United States, Alabama National may in the future seek to combine with other banks or thrifts (or their holding companies) that may be of smaller, equal or greater size than Alabama National. Alabama National currently intends to concentrate on acquisitions of additional banks or thrifts (or their holding companies) which operate in attractive market areas in Alabama, Florida and Georgia. In addition to price and terms, the factors considered by Alabama National in determining the desirability of a business acquisition or combination are financial condition, asset quality, earnings potential, quality of management, market area and competitive environment. As noted above under the heading **Recent Developments**, Alabama National has entered into a Merger Agreement for the acquisition of Millennium Bank of Gainesville, Florida. The Gainesville market is the home of the University of Florida and has shown substantial growth over the last several years.

In addition to expansion through combinations with other banks or thrifts, Alabama National intends to continue to expand where possible through growth of its existing banks in their respective market areas. During 1998, NBC formed a commercial leasing division which currently focuses on machinery and equipment leases to business customers. Also, Alabama National is exploring expansion into lines of business closely related to banking and will pursue such expansion if it believes such lines could be profitable without causing undue risk to Alabama National. During 1999, First American Bank acquired Rankin Insurance Services, Inc. (now known as ANB Insurance Services, Inc.), a full service independent property and casualty insurance agency located in Decatur, Alabama. ANB Insurance Services completed the acquisition of two additional insurance agencies in 2002, one headquartered in Birmingham, Alabama, and one headquartered in Groveland, Florida. ANB Insurance Services has agents in most of the markets serviced by the Banks. While Alabama National plans to continue its growth as described above, there is no assurance that its efforts will be successful.

Employees

As of December 31, 2002, Alabama National and the Banks together had approximately 1,195 full-time equivalent employees. None of these employees is a party to a collective bargaining agreement. Alabama National considers its relations with its employees to be good.

Supervision and Regulation

Alabama National and the Banks are subject to state and federal banking laws and regulations which impose specific requirements and restrictions on, and provide for general regulatory oversight with respect to, virtually all aspects of operations. These laws and regulations are generally intended to protect depositors, not stockholders. To the extent that the following summary describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in applicable laws or regulations may have a material effect on the business and prospects of Alabama National.

Beginning with the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) and following in December 1991 with the Federal Deposit Insurance Corporation Act (FDICIA), numerous additional regulatory requirements have been placed on the banking industry and additional changes have been proposed. The operations of Alabama National and the Banks may be affected by legislative changes and the policies of various regulatory authorities. Alabama National is unable to predict the nature or the extent of the effect on its business and earnings that fiscal or monetary policies, economic control, or new federal or state legislation may have in the future.

As a bank holding company, Alabama National is subject to the regulation, examination and supervision of the Federal Reserve. The Banks are subject to supervision, examination and regulation by applicable state and federal banking agencies, including the Federal Reserve, the Office of the Comptroller of the Currency (the OCC) and the Federal Deposit Insurance Corporation (the FDIC). The Banks are also subject to various requirements and restrictions under federal and state law, including requirements to maintain allowances against deposits, restrictions on the types and amounts of loans that may be granted and the interest that may be charged thereon, and limitations on the types of investments that may be made and the types of services that may be offered. Various consumer laws and regulations also affect the operations of the Banks. In addition to the impact of regulation, commercial banks are affected significantly by the actions of the Federal Reserve as it attempts to control the money supply and credit availability in order to influence the economy.

Pursuant to the IBBEA, bank holding companies from any state may now acquire banks located in any other state, subject to certain conditions, including concentration limits. A bank may establish branches across state lines by merging with a bank in another state (unless applicable state law prohibits such interstate mergers), provided certain conditions are met. A bank may also establish a de novo branch in a state in which the bank does not maintain a branch if that state expressly permits such interstate de novo branching and certain other conditions are met.

There are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by federal law and regulatory policy that are designed to reduce potential loss exposure to the depositors of such depository institutions and to the FDIC insurance fund in the event the depository institution becomes in danger of default or is in default. For example, under a policy of the Federal Reserve with respect to bank holding company operations, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and commit resources to support such institutions in circumstances where it might not do so absent such policy. In addition, the cross-guarantee provisions of federal law require insured depository institutions under common control to reimburse the FDIC for any loss suffered or reasonably anticipated as a result of the default of a commonly controlled insured depository institution or for any assistance provided by the FDIC to a commonly controlled insured depository institution in danger of default.

The federal banking agencies have broad powers under current federal law to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institutions in question are well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized as such terms are defined under regulations issued by each of the federal banking agencies. In general, the agencies measure capital adequacy within a framework that makes capital requirements sensitive to the risk profiles of individual banking companies. The guidelines define capital as either Tier 1 (primarily common shareholders equity) or Tier 2 (certain debt instruments and a portion of the allowance for loan losses). Alabama National and the Banks are subject to a minimum Tier 1 capital ratio (Tier 1 capital to risk-weighted assets) of 4%, a total capital ratio (Tier 1 plus Tier 2 to risk-weighted assets) of 8% and a Tier 1 leverage ratio (Tier 1 to average quarterly assets) of 3%. To be considered a well capitalized institution, the Tier 1 capital ratio, the total capital ratio, and the Tier 1 leverage ratio must equal or exceed 6%, 10% and 5%, respectively.

The Federal Reserve has adopted rules to incorporate market and interest rate risk components into its risk-based capital standards. Amendments to the risk-based capital requirements, incorporating market risk, became effective January 1, 1998. Under these market risk requirements, capital will be allocated to support the amount of market risk related to a financial institution s ongoing trading activities.

The Banks are subject to the provisions of Section 23A of the Federal Reserve Act, which place limits on the amount of loans or extensions of credit to, investments in or certain other transactions with affiliates, and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. In general, the Banks affiliates are Alabama National and Alabama National s non-bank subsidiaries.

The Banks are also subject to the provisions of Section 23B of the Federal Reserve Act that, among other things, prohibit a bank from engaging in certain transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with non-affiliated companies.

The Banks are also subject to certain restrictions on extensions of credit to executive officers, directors, certain principal stockholders and their related interests. Such extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (ii) must not involve more than the normal risk of repayment or present other unfavorable features.

The Community Reinvestment Act (CRA) requires that, in connection with examinations of financial institutions within their respective jurisdictions, the Federal Reserve, the FDIC or the OCC shall evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those institutions. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. These factors are considered in evaluating mergers, acquisitions and applications to open a branch or facility. The CRA also requires all institutions to make public disclosure of their CRA ratings. Each of the Banks received at least a satisfactory rating in its most recent evaluation.

There are various legal and regulatory limits on the extent to which the Banks may pay dividends or otherwise supply funds to Alabama National. In addition, federal and state regulatory agencies also have the authority to prevent a bank or bank holding company from paying a dividend or engaging in any other activity that, in the opinion of the agency, would constitute an unsafe or unsound practice.

FDIC regulations require that management report on its responsibility for preparing its institution s financial statements and for establishing and maintaining an internal control structure and procedures for financial reporting and compliance with designated laws and regulations concerning safety and soundness.

The FDIC currently uses a risk-based assessment system for insured depository institutions that takes into account the risks attributable to different categories and concentrations of assets and liabilities. The FDIC recently has proposed changes to its assessment system that are designed to require premium payments by a greater number of banks and other FDIC-insured depository institutions and that also would provide rebates to some institutions. If any of these changes were to take effect, the assessment obligations of the Banks could change.

The Gramm-Leach-Bliley Act, which became effective in 2000, permits bank holding companies to become financial holding companies and thereby affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. A bank holding company may become a financial holding company by filing a declaration if each of its subsidiary banks is well capitalized under the FDICIA prompt corrective action provisions, is well managed, and has at least a satisfactory rating under the CRA. No regulatory approval will be required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve. At this time, Alabama National has not registered to become a financial holding company.

The Gramm-Leach-Bliley Act broadly defines financial in nature to include securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking; and activities that the Federal Reserve has determined to be closely related to banking. The Act also permits the Federal Reserve, in consultation with the Department of Treasury, to determine that other activities are financial in nature and therefore permissible for financial holding companies. A national bank also may engage, subject to limitations on investment, in activities that are financial in nature

(other than insurance underwriting, insurance company portfolio investment, merchant banking, real estate development and real estate investment) through a financial subsidiary of the bank, if the bank is well capitalized, well managed and has at least a satisfactory CRA rating. Subsidiary banks of a financial holding company or national banks with financial subsidiaries must continue to be well capitalized and well managed in order to continue to engage in activities that are financial in nature without regulatory actions or restrictions, which could include divestiture of the financial subsidiary or subsidiaries. In addition, a financial holding company or a bank may not acquire a company that is engaged in activities that are financial in nature unless each of the subsidiary banks of the financial holding company or the bank at issue has a CRA rating of satisfactory or better. Bank holding companies that have not become financial holding companies are prohibited from engaging in activities other than banking or managing or controlling banks or other permissible subsidiaries and from acquiring or retaining direct or indirect control of any company engaged in any activities other than those activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

The Act preserves the role of the Federal Reserve as the umbrella supervisor for holding companies while at the same time incorporating a system of functional regulation designed to take advantage of the strengths of the various federal and state regulators. In particular, the Act replaces the broad exemption from Securities and Exchange Commission regulation that banks previously enjoyed with more limited exemptions, and it reaffirms that states are the regulators for the insurance activities of all persons, including federally-chartered banks.

The Gramm-Leach-Bliley Act also establishes a minimum federal standard of financial privacy. In general, the applicable regulations issued by the various federal regulatory agencies prohibit affected financial institutions (including banks, insurance agencies and broker/dealers) from sharing information about their customers with non-affiliated third parties unless (1) the financial institution has first provided a privacy notice to the customer; (2) the financial institution has given the customer an opportunity to opt out of the disclosure; and (3) the customer has not opted out after being given a reasonable opportunity to do so.

On October 26, 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA Patriot Act) was signed into law. The USA Patriot Act broadened the application of anti-money laundering regulations to apply to additional types of financial institutions, such as broker-dealers, and strengthened the ability of the U.S. government to detect and prosecute international money laundering and the financing of terrorism. The principal provisions of Title III of the USA Patriot Act require that regulated financial institutions, including state member banks: (i) establish an anti-money laundering program that includes training and audit components; (ii) comply with regulations regarding the verification of the identity of any person seeking to open an account; (iii) take additional required precautions with non-U.S. owned accounts; and (iv) perform certain verification and certification of money laundering risk for their foreign correspondent banking relationships. The USA Patriot Act also expanded the conditions under which funds in a U.S. interbank account may be subject to forfeiture and increased the penalties for violation of anti-money laundering regulations. Failure of a financial institution to comply with the USA Patriot Act s requirements could have serious legal and reputational consequences for the institution. Alabama National has adopted policies, procedures and controls to address compliance with the requirements of the USA Patriot Act under the existing regulations and will continue to revise and update its policies, procedures and controls to reflect changes required by the USA Patriot Act and implementing regulations.

NBC Securities is a broker-dealer registered with the Securities and Exchange Commission and is a member of the National Association of Securities Dealers, Inc.

Executive Officers of the Registrant

The Executive Officers of Alabama National serve at the pleasure of the Board of Directors. Set forth below are the current Executive Officers of Alabama National and a brief explanation of their principal employment during the last five (5) years.

John H. Holcomb, III Age 51 Chairman and Chief Executive Officer. Mr. Holcomb has served as Chairman and Chief Executive Officer of Alabama National since 1996. Mr. Holcomb has been Chief Executive Officer of NBC since 1990.

Richard Murray, IV Age 40 President and Chief Operating Officer. Mr. Murray has served as President and Chief Operating Officer of Alabama National since 2000. Prior to such time, Mr. Murray served as Executive Vice President of Alabama National beginning 1998 and Executive Vice President of NBC beginning 1997. Mr. Murray served as Senior Vice President of NBC from 1990 until 1997.

William E. Matthews, V Age 38 Executive Vice President and Chief Financial Officer. Mr. Matthews has served as Executive Vice President and Chief Financial Officer of Alabama National and NBC since 1998. Prior to that date, Mr. Matthews served as Senior Vice President of NBC beginning in 1996.

Victor E. Nichol, Jr. Age 56 Vice Chairman. Mr. Nichol has served as Vice Chairman of Alabama National since 2000. Prior to such time, Mr. Nichol served as President and Chief Operating Officer of Alabama National beginning in 1996. Mr. Nichol has been Executive Vice President of NBC since 1994.

Dan M. David Age 57 Vice Chairman. Mr. David has served as Vice Chairman of Alabama National since November 30, 1997 when First American Bancorp merged with and into Alabama National. Mr. David serves as Chairman and Chief Executive Officer of First American Bank, positions he has held since 1995. Mr. David served as Chairman and Chief Executive Officer of First American Bancorp from 1995 through 1997.

John R. Bragg Age 41 Executive Vice President. Mr. Bragg has served as Executive Vice President of Alabama National since 1998 and Executive Vice President of NBC since 1997. Mr. Bragg served as Senior Vice President of NBC from 1992 until 1997.

Shelly S. Williams Age 40 Senior Vice President and Controller. Ms. Williams has served as Senior Vice President and Controller of Alabama National and NBC since 2000. Prior to such time, Ms. Williams served as Vice President and Controller of NBC from 1997 through 2000, and as Assistant Vice President and Assistant Controller of NBC from 1996 to 1997.

Company Website

Alabama National s website address is www.alabamanational.com. Alabama National makes available free of charge through its website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material has been filed with or furnished to the Securities and Exchange Commission.

ITEM 2. PROPERTIES

Alabama National, through the Banks, currently operates 66 banking offices and three insurance offices. Of these offices, Alabama National, through the Banks, owns 56 banking offices without encumbrance and leases an additional 10 banking offices and its three insurance offices. Alabama National, through NBC, leases its principal administrative offices, which are located at 1927 First Avenue North, Birmingham, Alabama. *See* Notes 7 and 10 to the Consolidated Financial Statements of Alabama National and Subsidiaries included in this Annual Report on Form 10-K beginning at page F-1 for additional information regarding Alabama National s premises and equipment.

ITEM 3. LEGAL PROCEEDINGS

Alabama National, in the normal course of business, is subject to various pending and threatened litigation. Although it is not possible to determine at this point in time, based on consultation with legal counsel, management does not anticipate that the ultimate liability, if any, resulting from such litigation will have a material effect on Alabama National s financial condition and results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS

None.

PART II

ITE[]M 5. MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

At March 12, 2003 Alabama National had 1,496 stockholders of record (including shares held in street names by nominees who are record holders) and 12,369,274 shares of Alabama National Common Stock outstanding. Alabama National Common Stock is traded in the over-the-counter market and prices are quoted on the NASDAQ/NMS under the symbol ALAB.

The reported sales price range for Alabama National Common Stock and the dividends declared during each calendar quarter of 2001 and 2002 are shown below:

	High	Low	Dividends Declared
2001			
First Quarter	$ 32.00	$ 22.50	$ .23
Second Quarter	32.45	27.50	.23
Third Quarter	34.99	25.51	.23
Fourth Quarter	35.68	30.04	.23
2002			
First Quarter	$ 37.00	$ 31.60	$ .25
Second Quarter	44.27	35.45	.25
Third Quarter	46.46	35.52	.25
Fourth Quarter	48.23	39.74	.25

As a bank holding company, Alabama National, except under extraordinary circumstances, will not generate earnings of its own, but will rely solely on dividends paid to it by the Banks as the source of income to meet its expenses and pay dividends. Under normal circumstances, Alabama Nationals ability to pay dividends will depend entirely on the ability of the Banks to pay dividends to Alabama National. The Banks are subject to state and federal banking regulations, and the payment of dividends by the Banks is governed by such regulations.

The last reported sales price of Alabama National Common Stock as reported on the NASDAQ/NMS on March 12, 2003 was $42.00. The prices shown do not reflect retail mark-ups and mark-downs. The market makers for Alabama National Common Stock as of December 31, 2002, were Morgan, Stanley & Co., Inc., Raymond James & Associates, Inc., Legg Mason Wood Walker Inc., Speer, Leeds & Kellogg, Keefe, Bruyette & Woods, Inc., Trident Securities, Inc., Herzog, Heine, Geduld, Inc., Instinet Corporation, RediBook ECN LLC, Knight Securities L.P., Archipelago L.L.C., Island System Corporation, MARKETXT, Inc., Hoefer & Arnett, Incorporated, THE BRUT ECN, LLC, Merrill Lynch, Weeden and Co., Inc., Cincinnati Stock Exchange, The Robinson Humphrey Co., Goldman, Sachs & Co., FTN Financial Securities Corp., NDB Capital Markets, B-Trade Services LLC, Deutsche Banc Alex Brown, Sandler O Neill & Partners, Susquehanna Capital Group, Ladenburg, Thalmann & Co., MarketTXT Special Account, and Sterne, Agee & Leach.

ITEM 6. SELECTED FINANCIAL DATA

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(Amounts in thousands, except ratios and per share data)

	Year Ended December 31,				
	2002	**2001(1)**	**2000(1)**	**1999(1)**	**1998(1)**
Income Statement Data:					
Interest income	$ 178,147	$ 179,537	$ 171,222	$ 133,106	$ 121,713
Interest expense	65,313	90,393	90,987	62,307	59,064
Net interest income	112,834	89,144	80,235	70,799	62,649
Provision for loan and lease losses	7,956	3,946	2,506	2,107	1,796
Net interest income after provision for loan and lease losses	104,878	85,198	77,729	68,692	60,853
Net securities gains (losses)	35	246	(119)	196	187
Noninterest income	61,129	48,461	33,466	31,120	29,963
Noninterest expense	113,577	92,233	74,111	65,860	64,401
Income before income taxes	52,465	41,672	36,965	34,148	26,602
Provision for income taxes	16,735	13,232	11,421	10,817	8,504
Income before minority interest in earnings of consolidated subsidiary	35,730	28,440	25,544	23,331	18,098
Minority interest in earnings of consolidated subsidiary	28	25	26	25	23
Net income	$ 35,702	$ 28,415	$ 25,518	$ 23,306	$ 18,075
Balance Sheet Data:					
Total assets	$ 3,316,168	$ 2,843,467	$ 2,358,285	$ 2,025,503	$ 1,751,724
Earning assets	3,034,980	2,612,806	2,140,562	1,811,312	1,563,967
Securities	700,333	567,688	386,059	353,923	333,898
Loans held for sale	51,030	36,554	5,226	8,615	19,047
Loans and leases, net of unearned income	2,191,394	1,964,169	1,710,810	1,403,489	1,147,100
Allowance for loan and lease losses	32,704	28,519	22,368	19,111	17,465
Deposits	2,330,395	2,066,759	1,807,095	1,529,251	1,345,017
Short-term debt	152,100	68,350	91,439	24,389	21,700
Long-term debt	240,065	209,631	83,926	124,005	32,328
Stockholders equity	234,492	207,886	171,604	146,280	138,515
Weighted Average Shares Outstanding Diluted(2)	12,683	12,141	11,973	12,008	11,908
Per Common Share Data:					
Net income diluted	$ 2.81	$ 2.34	$ 2.13	$ 1.94	$ 1.52
Book value (period end)	18.95	16.84	14.56	12.40	11.83
Tangible book value (period end)	17.28	15.31	13.34	11.49	11.13
Dividends declared	1.00	0.92	0.84	0.72	0.60
Performance Ratios:					
Return on average assets	1.18%	1.12%	1.17%	1.26%	1.09%
Return on average equity	16.01	15.40	16.29	16.11	13.57
Net interest margin(3)	4.07	3.83	4.03	4.23	4.28
Net interest margin (taxable equivalent) (3)	4.11	3.88	4.08	4.30	4.35
Asset Quality Ratios:					
Allowance for loan and lease losses to period end loans(4)	1.49%	1.45%	1.31%	1.36%	1.52%
Allowance for loan and lease losses to period end nonperforming loans(5)	318.07	377.09	614.17	431.11	330.78

Net charge-offs to average loans and leases(4)	0.18	0.09	0.04	0.04	0.01
Nonperforming assets to period end loans and leases and foreclosed property(4)(5)	0.59	0.47	0.30	0.38	0.57
Capital and Liquidity Ratios:					
Average equity to average assets	7.36%	7.28%	7.16%	7.80%	8.03%
Leverage (4.00% required minimum)(6)	7.52	7.61	6.83	7.23	7.51
Risk-based capital					
Tier 1 (4.00% required minumum)(6)	10.00	9.92	8.86	9.46	10.18
Total (8.00% required minimum)(6)	11.26	11.17	10.11	10.70	11.43
Average loans and leases to average deposits	96.44	97.74	94.04	89.00	83.00

(1) On January 31, 2001, Peoples State Bank of Groveland (PSB) merged with a newly formed subsidiary of Alabama National, whereby PSB became a wholly owned subsidiary of Alabama National (the PSB Merger). On December 31, 1998, Community Bank of Naples, N.A. (Naples) merged with and into a subsidiary of Alabama National (the Naples Merger). On October 2, 1998, Community Financial Corporation (CFC) merged with and into Alabama National (the CFC Merger). On May 29, 1998, Public Bank Corporation (PBC) merged with and into Alabama National (the PBC Merger). Because these mergers were accounted for as pooling-of-interests, the historical Five-Year Summary of Selected Financial Data for all periods have been restated to include the results of operations of PSB, Naples, CFC, and PBC from the earliest period presented, except for dividends per common share. (See Note 2 to Alabama National s consolidated financial statements included in this Annual Report).

(2) The weighted average common shares include those of PSB, Naples, CFC and PBC at the applicable exchange ratios.

(3) Net interest income divided by average earning assets.

(4) Does not include loans held for sale.

(5) Nonperforming loans and nonperforming assets include loans past due 90 days or more that are still accruing interest. It is Alabama National s policy to place all loans on nonaccrual status when over ninety days past due.

(6) Based upon fully phased-in requirements.

ITEM 7. 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 BanCorporation (Alabama National) and results of operations as of the dates and for the periods indicated. All significant intercompany accounts and transactions have been eliminated. The accounting and reporting policies of Alabama National conform with accounting principles generally accepted in the United States of America and with general financial service industry practices.

The historical consolidated financial statements of Alabama National and the FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA derived from the historical consolidated financial statements of Alabama National are set forth elsewhere herein. This discussion should be read in conjunction with those consolidated financial statements and selected consolidated financial data and the other financial information included in this Annual Report.

Selected Bank Financial Data

Alabama National s success is dependent upon the financial performance of its subsidiary banks (the Banks). Alabama National, with input from the management of each Bank, establishes operating goals for each Bank. The following tables summarize selected financial information for 2002 and 2001 for each of the Banks.

SELECTED BANK FINANCIAL DATA

(Amounts in thousands, except ratios)

	December 31, 2002										
	National Bank of Commerce	**Alabama Exchange Bank**	**Bank of Dadeville**	**Citizens & Peoples Bank, N.A.**	**First American Bank**	**First Citizens Bank**	**First Gulf Bank**	**Peoples State Bank**	**Public Bank**	**Georgia State Bank**	**Community Bank of Naples, N.A.**
Summary of Operations:											
Interest income	$ 56,945	$ 4,794	$ 4,605	$ 5,129	$ 46,662	$ 6,008	$ 11,965	$ 9,437	$ 7,861	$ 14,708	$ 10,858
Interest expense	21,387	1,193	1,465	1,733	17,387	2,055	4,083	3,366	2,891	5,412	3,717
Net interest income	35,558	3,601	3,140	3,396	29,275	3,953	7,882	6,071	4,970	9,296	7,141
Provision for loan and lease losses	3,763	133	40	270	400	20	630	789	700	490	721
Securities gains					6		29				
Noninterest income	36,464	643	733	795	12,624	917	3,668	1,284	2,131	2,569	1,233
Noninterest expense	47,392	2,370	1,823	2,349	27,850	2,334	7,108	4,000	3,952	6,601	3,552
Net income	14,292	1,190	1,402	988	9,258	1,901	2,524	1,733	1,525	3,179	2,581
Balance Sheet Highlights:											
At Period-End:											
Total assets	$ 1,283,862	$ 78,193	$ 73,029	$ 92,564	$ 769,660	$ 103,371	$ 218,568	$ 151,804	$ 141,564	$ 228,543	$ 206,947
Securities	340,013	26,300	20,715	13,180	96,168	45,817	28,240	35,412	21,830	52,420	20,158
Loans and leases, net of unearned income	746,271	39,564	45,008	69,189	571,066	42,366	161,793	100,255	102,750	142,404	169,808
Allowance for loan and lease losses	10,417	668	644	975	9,335	615	2,263	1,810	1,564	2,013	2,400
Deposits	691,675	66,157	59,839	75,037	618,990	84,418	171,784	134,088	120,922	176,295	143,897
Short-term debt	60,000			4,000	28,000	7,000	17,000	4,000			13,000
Long-term debt	111,056	5,000	5,000	3,000	37,009	4,000	11,000		8,000	15,000	16,000
Stockholders' equity	88,270	6,396	5,765	6,578	70,200	7,297	15,927	11,225	11,254	18,412	15,081
Performance Ratios:											

Return on average assets	1.28%	1.51%	1.93%	1.17%	1.28%	1.95%	1.21%	1.20%	1.22%	1.39%	1.41%
Return on average equity	16.70	18.18	23.66	16.62	13.95	25.19	16.79	16.01	15.76	18.31	20.54
Net interest margin	3.44	5.05	4.75	4.39	4.46	4.41	4.13	4.51	4.30	4.41	4.48
Capital and Liquidity Ratios:											
Average equity to average assets	7.69	8.33	8.17	7.02	9.19	7.72	7.23	7.52	7.73	7.57	6.86
Leverage (4.00% required minimum)	7.51	7.27	7.91	7.17	7.48	7.00	7.30	7.15	8.05	7.45	7.40
Risk-based capital											
Tier 1 (4.00% required minimum)	9.96	13.35	12.54	9.74	9.14	13.50	10.06	11.00	9.88	11.59	9.60
Total (8.00% required minimum)	11.14	14.61	13.79	11.00	10.39	14.71	11.31	12.26	11.13	12.85	10.85
Average loans and leases to average deposits	119.67	59.27	75.73	88.42	92.72	52.22	96.14	81.81	86.16	75.56	112.07

SELECTED BANK FINANCIAL DATA

(Amounts in thousands, except ratios)

	December 31, 2001										
	National Bank of Commerce	Alabama Exchange Bank	Bank of Dadeville	Citizens & Peoples Bank, N.A.	First American Bank	First Citizens Bank	First Gulf Bank	Peoples State Bank	Public Bank	Georgia State Bank	Community Bank of Naples, N.A.
Summary of Operations:											
Interest income	$ 66,266	$ 5,326	$ 5,254	$ 4,340	$ 37,547	$ 6,653	$ 12,897	$ 10,417	$ 7,222	$ 14,936	$ 10,144
Interest expense	35,830	1,811	2,285	2,529	18,537	3,189	5,936	4,903	3,480	7,305	4,607
Net interest income .	30,436	3,515	2,969	1,811	19,010	3,464	6,961	5,514	3,742	7,631	5,537
Provision for loan and lease losses	1,100	160	87	242	510	20	537	225	340	350	375
Securities gains	140				15					11	80
Noninterest income	29,745	681	660	422	8,065	804	2,900	1,040	1,406	2,149	1,038
Noninterest expense	41,513	2,252	1,651	1,578	17,915	2,124	5,924	4,251	3,131	5,343	3,152
Net income	12,299	1,225	1,353	275	5,918	1,638	2,224	1,293	1,051	2,733	2,000
Balance Sheet Highlights:											
At Period-End:											
Total assets	$ 1,080,094	$ 75,982	$ 69,833	$ 76,518	$ 691,692	$ 93,907	$ 189,176	$ 133,143	$ 111,825	$ 219,461	$ 159,297
Securities	238,484	25,459	14,108	14,307	95,977	41,340	16,638	19,522	19,637	66,616	15,520
Loans and leases, net of unearned income .	710,418	39,063	48,770	52,852	496,079	43,348	144,033	102,305	76,860	118,987	129,769
Allowance for loan and lease losses	9,449	579	641	702	8,745	590	1,960	1,527	1,031	1,613	1,682
Deposits	579,350	64,033	58,120	58,117	584,337	79,924	150,256	116,690	94,579	168,724	117,892
Short-term debt	25,000			4,000			6,000	4,000			13,000
Long-term debt	106,077	5,000	5,000	2,000	28,020	6,000	16,000		5,000	15,000	6,000
Stockholders equity	82,061	6,323	5,677	5,006	63,013	7,190	13,660	9,902	8,623	15,399	10,942
Performance Ratios:											
Return on average assets	1.22%	1.60%	1.90%	0.43%	1.23%	1.72%	1.24%	0.99%	1.05%	1.33%	1.37%
Return on average equity	15.52	18.68	22.92	6.35	13.36	22.08	17.75	13.51	13.98	18.83	20.14
Net interest margin	3.23	5.01	4.54	3.09	4.34	3.93	4.25	4.49	4.10	4.06	4.37
Capital and Liquidity Ratios:											

Average equity to average assets	7.83	8.55	8.30	6.75	9.24	7.80	7.01	7.32	7.53	7.07	6.82
Leverage (4.00% required minimum)	7.72	7.36	8.17	6.90	9.69	7.17	7.21	7.35	7.97	6.88	6.91
Risk-based capital											
Tier 1 (4.00% required minimum)	10.60	13.42	11.69	8.85	9.73	13.67	10.12	10.25	9.88	11.12	8.85
Total (8.00% required minimum)	11.83	14.67	12.94	10.10	10.98	14.86	11.37	11.50	11.06	12.28	10.10
Average loans and leases to average deposits	118.73	63.58	83.20	74.35	97.39	55.12	99.65	89.02	81.22	75.73	104.72

Critical Accounting Policies and Estimates

Alabama National s accounting policies are critical to understanding the results of operations and financial position as reported in the consolidated financial statements. Significant accounting policies utilized by Alabama National are discussed in more detail in the notes to the consolidated financial statements set forth beginning on page F-1 herein.

Some of the more complex technical accounting policies require management to make significant estimates and judgments that affect the valuation of reported assets and liabilities, including associated revenues, expenses, and disclosure. The following briefly describes the more complex policies involving a significant amount of judgments about valuation and the application of complex accounting standards and interpretations.

Allowance for Loan and Lease Losses

Alabama National records estimated probable inherent credit losses in the loan and lease portfolios as an allowance for loan and lease losses. The methodologies and assumptions for determining the adequacy of the overall allowance for loan and lease losses involve significant judgments to be made by management. Some of the more critical judgments supporting the amount of Alabama National s allowance for loan and lease losses include judgments about: credit worthiness of borrowers, estimated value of underlying collateral, assumptions about cash flow, determination of loss factors for estimating credit losses, and the impact of current events, conditions, and other factors impacting the level of probable inherent losses. Under different conditions or using different assumptions, the actual amount of credit losses ultimately confirmed by Alabama National may be different than management s estimates provided in the consolidated financial statements.

For a more complete discussion of the methodology employed to calculate the allowance for loan and lease losses, see Note 1 to Alabama National s consolidated financial statements included in this Annual Report and **Provision and Allowance for Loan and Lease Losses.**

Mergers and Acquisitions

Alabama National s growth in business and profitability over the past several years has been enhanced significantly by mergers and acquisitions. Prior to July 2001, Alabama National s acquisitions were accounted for using the pooling-of-interests and purchase business combination methods of accounting. Effective July 1, 2001, Alabama National adopted SFAS No. 141, Business Combinations, which allows only the use of the purchase method of accounting. For purchase acquisitions, Alabama National is required to record the assets acquired, including identified intangible assets, and liabilities assumed at their fair value, which in many instances involves estimates based on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques. The determination of the useful lives of intangible assets is subjective as is the appropriate amortization period for such intangible assets. These estimates also include the establishment of various accruals and allowances based on planned facilities dispositions and employee severance considerations, among other acquisition-related items. In addition, purchase acquisitions typically result in goodwill, which is subject to ongoing periodic impairment tests based on the fair value of net assets acquired compared to the carrying value of goodwill.

Income Taxes

The calculation of Alabama National s income tax provision is complex and requires the use of estimates and judgments in its determination. As part of Alabama National s overall business strategy, management must consider tax laws and regulations that apply to the specific facts and circumstances under consideration. This analysis includes evaluating the amount and timing of the realization of income tax liabilities or benefits. Management closely monitors tax developments in order to evaluate the effect they may have on Alabama National s overall tax position.

Pension and Other Postretirement Benefits

Alabama National offers various pension plans and postretirement benefit plans to employees. The calculation of obligations and related expenses under these plans requires the use of actuarial valuation methods and assumptions. Actuarial valuations and the determination of future market values of plan assets are subject to management judgment and may differ significantly if different assumptions are used. Please refer to Note 12 to Alabama National s consolidated financial statements included in this annual report for disclosures related to Alabama National s benefit plans.

Stock-based Compensation

Alabama National uses a fair value based method of accounting for stock based compensation costs. Compensation costs for stock-based compensation arrangements are measured at the grant date based on the fair value of the award and is recognized over the related service period. Accounting for stock-based compensation requires the use of an option-pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock and the expected dividends on it, and the risk-free interest rate over the expected life of the option. Please refer to Note 12 to Alabama National s consolidated financial statements included in this annual report for disclosures related to Alabama National s stock-based compensation awards.

Other

There are other complex accounting standards that require Alabama National to employ significant judgment in interpreting and applying certain of the principles proscribed by those standards. These judgments include, but are not limited to, determination of whether a financial instrument or other contract meets the definition of a derivative in accordance with SFAS No. 133, the accounting for a transfer of financial assets and extinguishments of liabilities in accordance with SFAS No. 140, and the determination of asset impairment, including when such impairment is other-than-temporary. For a more complete discussion of the accounting policies, see Note 1 to Alabama National s consolidated financial statements included in this Annual Report.

Results of Operations

Year ended December 31, 2002, compared with year ended December 31, 2001

Alabama National s net income increased by $7.3 million, or 25.6%, to $35.7 million in the year ended December 31, 2002, from $28.4 million for the year ended December 31, 2001. Return on average assets during 2002 was 1.18%, compared with 1.12% during 2001, and return on average equity was 16.01% during 2002, compared with 15.40% during 2001.

Net interest income increased $23.7 million, or 26.6%, to $112.8 million in 2002, from $89.1 million in 2001, as interest income decreased by $1.4 million and interest expense decreased $25.1 million. The increase in net interest income is attributable to a decrease in the interest rate paid on deposits and a $311.1 million increase in average loans to $2.12 billion during 2002, from $1.81 billion in 2001. The increase in average loans is a result of continued management emphasis on loan growth and continued strength in some of the economies in the markets served by

Alabama National. In general, loans are Alabama National s highest yielding earning asset. Alabama National also experienced growth in its securities portfolio that contributed to the increase in net interest income in 2002. Average securities totaled $589.3 million in 2002, compared to $449.9 in 2001. Average interest bearing liabilities increased $394.1 million, to $2.44 billion in 2002. Despite the increase in average interest bearing liabilities, interest expense decreased $25.1 million during 2002. All categories of average interest-bearing liabilities increased during 2002. Average time deposits increased $140.0 million, to $1.09 billion in 2002, compared to $948.2 million in 2001. The interest rate paid on time deposits decreased 209 basis points to 3.59% in 2002. Also, average interest-bearing transaction accounts and savings and money market deposits increased a combined $153.1 million while the rate paid on these types of accounts decreased 139 basis points.

Alabama National s net interest spread and net interest margin were 3.79% and 4.07%, respectively, in 2002, compared to 3.33% and 3.83%, respectively, in 2001. The increased net interest margin during 2002 is due to Alabama National s ability to reprice most of its time deposits at lower rates during 2002. The Federal Reserve

Bank reduced rates repeatedly during 2001, causing the rates paid on time deposits originated in higher interest rate environments to be significantly above current rates. As those time deposits matured, the funds either moved into transaction type deposit accounts or into other time deposit accounts at the lower current rates. The result is that the rate paid on interest-bearing liabilities decreased 175 basis points while the rate earned on earning assets decreased by only 129 basis points. *See* **Net Interest Income.**

Alabama National recorded a provision for loan and lease losses of $8.0 million during 2002, compared to $3.9 million in 2001. Management believes that both loan loss experience and asset quality indicate that the allowance for loan losses is maintained at an adequate level, although there can be no assurance that economic or regulatory factors will not require further increases in the allowance. Alabama National s allowance for loan and lease losses as a percentage of period-end loans and leases (excluding loans held for sale) was 1.49% at December 31, 2002, compared with 1.45% at December 31, 2001. The allowance for loan and lease losses as a percentage of period-end nonperforming assets was 254.49% at December 31, 2002, compared with 308.55% at December 31, 2001. Alabama National experienced net charge-offs of $3.8 million in 2002, equating to a ratio of net charge-offs to average loans and leases of 0.18%, compared with net charge-offs of $1.7 million in 2001, equating to a ratio of net charge-offs to average loans and leases of 0.09%. *See* **Provision and Allowance for Loan and Lease Losses.**

Noninterest income, including net securities gains and losses, increased $12.5 million, or 25.6%, to $61.2 million in 2002, compared with $48.7 million in 2001. Each component of noninterest income experienced increases during 2002, except for investment services income which had a slight decrease. The most significant increases were recorded in service charge income, the securities and trust division, and the mortgage division. Total revenue earned from the mortgage division increased $3.4 million, or 46.1%, to $10.9 million in 2002, from $7.4 million in 2001. The securities brokerage and trust division experienced a revenue increase of $4.8 million, or 54.4%, to $13.6 million in 2002, from $8.8 million in 2001. The commissions generated by the insurance division totaled $2.8 million in 2001, compared with $2.1 million recorded in 2001. Service charges on deposit accounts increased by $2.6 million, or 27.2%, to $12.1 million in 2002, from $9.5 million in 2001. Earnings on bank owned life insurance totaled $3.0 million in 2002, compared with $2.4 million in 2001. Noninterest expense increased $21.3 million, or 23.1%, to $113.6 million in 2002, compared with $92.3 million during 2001. For a detailed discussion of these income and expense categories, s*ee* **Noninterest Income and Expense.**

Alabama National, through two of its subsidiary banks, sponsors two defined benefit pension plans. Each of these plans has been frozen with regard to future benefit accruals and participation by new employees. During 2002, due to the current interest rate environment and poor performance of the equity markets, the discount rate and expected return on plan assets were lowered by management. The discount rate and expected return on plan assets were 6.00% and 7.00%, respectively, for 2002, compared to 6.50% and 9.00%, respectively for 2001. Due to these changes, the pension plans obligations exceeded the fair value of the plan assets and Alabama National chose to fully fund the obligations and contributed $1.4 million to the plans. As of December 31, 2002, the fair value of plan assets exceeds the projected and accumulated benefit obligation for each pension plan. See Note 12 to the Consolidated Financial Statements beginning on page F-1 included in this Annual Report on Form 10K.

Income before the provision for income taxes increased $10.8 million, or 25.9%, to $52.4 million in 2002, from $41.6 million in 2001. Net income totaled $35.7 million in 2002, an increase of $7.3 million, or 25.6%, compared to $28.4 million during 2001.

Year ended December 31, 2001, compared with year ended December 31, 2000

Alabama National s net income increased by $2.9 million, or 11.4%, to $28.4 million in the year ended December 31, 2001, from $25.5 million for the year ended December 31, 2000. Return on average assets during 2001 was 1.12%, compared with 1.17% during 2000, and return on average equity was 15.40% during 2001, compared with 16.29% during 2000.

Net interest income increased $8.9 million, or 11.1%, to $89.1 million in 2001, from $80.2 million in 2000, as interest income increased by $8.3 million and interest expense decreased $0.6 million. The increase in net interest income is attributable to a $233.8 million increase in average loans to $1.81 billion during 2001, from $1.58 billion in 2000, as a result of continued management emphasis on loan growth. In general, loans are Alabama National s highest yielding earning asset. Alabama National also experienced a growth in its securities portfolio that also contributed to the increase in net interest income in 2001. Average securities totaled $449.9 million in 2001, compared to $365.3 in 2000. Despite an increase in average interest bearing liabilities of $285.8 million, to $2.04 billion in 2001, interest expense decreased slightly during 2001. This is a result of the interest rate cuts during 2001 by the Federal Reserve Bank and the effect these cuts had on rates paid on Alabama National s deposits and other funding sources. Except for other short-term borrowings, all categories of average interest-bearing liabilities increased during 2001. Average time deposits increased $88.9 million, to $948.2 million in 2001, compared to $859.4 million in 2000. The interest rate paid on time deposits decreased 32 basis points to 5.68% in 2001. Also, average long-term and short-term debt increased a combined $49.5 million, to $211.7 million during 2001, from $162.2 million in 2000. The increases in the above liability categories are due to Alabama National s need to fund loan and asset growth. These funding sources generally bear higher interest rates than interest-bearing transaction accounts, resulting in higher interest expense.

Alabama National s net interest spread and net interest margin were 3.33% and 3.83%, respectively, in 2001, compared to 3.47% and 4.03%, respectively, in 2000. These decreases resulted because the rate paid on interest-bearing liabilities did not reprice as rapidly as the yield earned on average loans. During 2001, as the Federal Reserve cut interest rates, Alabama National s loans repriced more rapidly than the deposits and other funding sources used to fund loans and other earning assets.

Alabama National recorded a provision for loan and lease losses of $3.9 million during 2001, compared to $2.5 million in 2000. Management believes that both loan and lease loss experience and asset quality indicate that the allowance for loan and lease losses is maintained at an adequate level, although there can be no assurance that economic or regulatory factors will not require further increases in the allowance. Alabama National s allowance for loan and lease losses as a percentage of period-end loans and leases (excluding loans held for sale) was 1.45% at December 31, 2001, compared with 1.31% at December 31, 2000. The allowance for loan and lease losses as a percentage of period-end nonperforming assets was 308.55% at December 31, 2001, compared with 437.73% at December 31, 2000. Alabama National experienced net charge-offs of $1.7 million in 2001, equating to a ratio of net charge-offs to average loans of 0.09%, compared with net charge-offs of $0.6 million in 2000, equating to a ratio of net charge-offs to average loans of 0.04%. *See* **Provision and Allowance for Loan and Lease Losses.**

Noninterest income, including net securities gains and losses, increased $15.4 million, or 46.1%, to $48.7 million in 2001, compared with $33.3 million in 2000. Each component of noninterest income experienced increases during 2001. The most significant increases were recorded in the investment services division and mortgage division. Revenue from the investment services division increased $7.9 million, or 133.8%, to $13.7 million in 2001, from $5.9 million in 2000. Total revenue earned from the mortgage division increased $3.9 million, or 110.5%, to $7.4 million in 2001, from $3.5 million in 2000. The securities brokerage and trust division experienced a revenue increase of $1.1 million, or 14.4%, to $8.8 million in 2001, from $7.7 million in 2000. The commissions generated by the insurance division totaled $2.1 million in each of 2001 and 2000. Service charges on deposit accounts increased by $1.2 million, or 14.4%, to $9.5 million in 2001, from $8.3 million in 2000. Earnings on bank owned life insurance totaled $2.4 million in 2001, compared with $2.1 million in 2000. The increase reflects earnings on a larger bank owned life insurance asset base due to reinvestment of policy earnings and additional investments in bank owned life insurance policies during 2001. Noninterest expense increased $18.1 million, or 24.5%, to $92.2 million in 2001, compared with $74.1 million during 2000. For a detailed discussion of these income and expense categories, s*ee* **Noninterest Income and Expense.**

Income before the provision for income taxes increased $4.7 million, or 12.8%, to $41.7 million in 2001, from $37.0 million in 2000. Net income totaled $28.4 million in 2001, an increase of $2.9 million, or 11.4%, compared to $25.5 million during 2000.

Net Interest Income

The largest component of Alabama National s net income is its net interest income the difference between the income earned on assets and interest paid on deposits and borrowed funds used to support its assets. Net interest income is determined by the yield earned on Alabama National s earning assets and rates paid on its interest-bearing liabilities, the relative amounts of earning assets and interest-bearing liabilities and the maturity and repricing characteristics of its earning assets and interest-bearing liabilities. Net interest income divided by average earning assets represents Alabama National s net interest margin.

Average Balances, Income, Expenses and Rates

The following table depicts, on a taxable equivalent basis for the periods indicated, 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 balances of the associated assets or liabilities.

AVERAGE BALANCES, INCOME AND EXPENSES AND RATES

(Amounts in thousands, except yields and rates)

	Year ended December 31,								
	2002			2001			2000		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
ASSETS:									
Earning assets:									
Loans and leases(1)(3)	$ 2,123,778	$ 143,770	6.77%	$ 1,812,715	$ 148,239	8.18%	$ 1,578,940	$ 143,883	9.11%
Securities:									
Taxable .	558,052	32,116	5.76	420,582	27,593	6.56	332,717	22,876	6.88
Tax exempt	31,216	2,339	7.49	29,340	2,215	7.55	32,617	2,459	7.54
Cash balances in other banks	9,607	165	1.72	15,137	510	3.37	3,781	214	5.66
Funds sold	45,348	743	1.64	46,630	1,931	4.14	41,856	2,721	6.50
Trading account securities	2,059	81	3.93	2,021	119	5.89	1,795	124	6.91
Total earning assets(2)	2,770,060	179,214	6.47	2,326,425	180,607	7.76	1,991,706	172,277	8.65
Cash and due from banks	89,935			81,705			74,276		
Premises and equipment .	66,802			53,716			49,156		
Other assets	134,192			97,829			93,489		
llowance for loan losses	(31,183)			(23,284)			(20,747)		
Total assets	$ 3,029,806			$ 2,536,391			$ 2,187,880		
LIABILITIES:									
Interest-bearing liabilities:									
Interest-bearing transaction accounts	$ 404,587	5,228	1.29	$ 316,004	8,166	2.58	$ 255,534	8,383	3.28
Savings and money market deposits	391,008	5,457	1.40	326,474	9,355	2.87	322,590	11,612	3.60
Time deposits	1,087,937	39,087	3.59	948,242	53,891	5.68	859,366	51,575	6.00
Funds purchased	272,689	4,187	1.54	239,293	8,696	3.63	156,204	9,305	5.96
Other short-term borrowings	78,958	2,246	2.84	42,850	1,842	4.30	65,021	4,518	6.95
Long-term debt	200,686	9,108	4.54	168,857	8,443	5.00	97,162	5,594	5.76
Total interest-bearing liabilities	2,435,865	65,313	2.68	2,041,720	90,393	4.43	1,755,877	90,987	5.18
Demand deposits	318,724			263,876			241,527		
Accrued interest and other liabilities	52,170			46,244			33,795		
Stockholders equity	223,047			184,551			156,681		
Total liabilities and stockholders equity	$ 3,029,806			$ 2,536,391			$ 2,187,880		
Net interest spread			3.79%			3.33%			3.47%

Net interest income/margin on a taxable equivalent basis	113,901	4.11%	90,214	3.88%	81,290	4.08%
Tax equivalent adjustment(2)	1,067		1,070		1,055	
Net interest income/margin	$ 112,834	4.07%	$ 89,144	3.83%	$ 80,235	4.03%

(1) Average loans include nonaccrual loans. All loans and deposits are domestic.

(2) Tax equivalent adjustments are based on the assumed rate of 34%, and do not give effect to the disallowance for Federal income tax purposes of interest expense related to certain tax-exempt assets.

(3) Fees in the amount of $5,267,000, $4,427,000, and $3,574,000 are included in interest and fees on loans for 2002, 2001, and 2000, respectively.

During 2002, Alabama National experienced an increase in net interest income of $23.7 million, or 26.6%, to $112.8 million, compared with $89.1 million in 2001. Net interest income increased due to an increase in the net interest spread of 46 basis points to 3.79% in 2002, from 3.33% in 2001, and an increase in the net interest margin of 24 basis points to 4.07% in 2002, compared with 3.83% in 2001. The net interest margin for 2001 was negatively impacted by the Federal Reserve s interest rate deductions. During 2002 Alabama National s time deposits repriced at the current interest rates and this repricing improved the net interest margin. The net interest margin for the fourth quarter of 2002 was 3.85%, as compared to 4.13% recorded in the third quarter of 2002. The fourth quarter of 2002 was negatively impacted by the Federal Reserve s 50 basis point rate reduction during the quarter and by the accelerated repayment on securities owned by Alabama National. As the securities being repaid were at higher interest rates than the rates earned on Federal funds sold and new securities purchased, the net interest margin declined. Alabama National did not fully invest the cash flow received from the accelerated repayment on securities owned immediately upon its receipt in an attempt to reinvest appropriately given the changing rate environment. Much of the reinvestment of this cash flow did not take place until the end of December. This is reflected in higher ending securities balances than average securities balances in the 2002 fourth quarter. As management wishes to be more conservative on the maturity and average life extension risk of new securities purchases in the current environment (due to the low absolute level of interest rates), Alabama National is willing to accept lower yields on new securities purchases in return for reduced extension risk. Management anticipates the net interest margin to remain at reduced levels absent any additional rate reductions by the Federal Reserve or significant changes in the general interest rate environment. During 2002, net average earning assets increased by $443.6 million, or 19.1%, to $2.77 billion, from $2.33 billion in 2001. The major components of this increase included average loans and leases, which increased $311.1 million, or 17.2%, to $2.12 billion in 2002, from $1.81 billion in 2001, and securities, which increased $139.3 million, or 31.0%, to $589.3 million in 2002, from $449.9 million in 2001.

Analysis of Changes in Net Interest Income

The following table sets 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 2002 and 2001. For purposes of this table, changes that 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)

	December 31,					
	2002 Compared to 2001 Variance Due to			2001 Compared to 2000 Variance Due to		
	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
Earning assets:						
Loans and leases	$ 23,272	$ (27,741)	$ (4,469)	$ 19,961	$ (15,605)	$ 4,356
Securities:						
Taxable	8,195	(3,672)	4,523	5,821	(1,104)	4,717
Tax exempt	142	(18)	124	(247)	3	(244)
Cash balances in other banks	(147)	(198)	(345)	413	(117)	296
Funds sold	(52)	(1,136)	(1,188)	283	(1,073)	(790)
Trading account securities	2	(40)	(38)	15	(20)	(5)
Total interest income	31,412	(32,805)	(1,393)	26,246	(17,916)	8,330
Interest-bearing liabilities:						
Interest-bearing transaction accounts	1,873	(4,811)	(2,938)	1,767	(1,984)	(217)
Savings and money market deposits	1,587	(5,485)	(3,898)	137	(2,394)	(2,257)
Time deposits	7,100	(21,904)	(14,804)	5,157	(2,841)	2,316
Funds purchased	1,072	(5,581)	(4,509)	3,845	(4,454)	(609)
Other short-term borrowings	1,180	(776)	404	(1,263)	(1,413)	(2,676)
Long-term debt	1,491	(826)	665	3,670	(821)	2,849
Total interest expense	14,303	(39,383)	(25,080)	13,313	(13,907)	(594)
Net interest income on a taxable equivalent basis	$ 17,109	$ 6,578	23,687	$ 12,933	$ (4,009)	8,924
Taxable equivalent adjustment			3			(15)
Net interest income			$ 23,690			$ 8,909

Interest Sensitivity and Market Risk

Interest Sensitivity

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 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 their 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 projections 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.*

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 or trading securities, 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.

The following table illustrates Alabama National s interest rate sensitivity at December 31, 2002, assuming the 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)

	December 31, 2002						
	Within One Month	**After One Through Three Months**	**After Three Through Twelve Months**	**Within One Year**	**One Through Three Years**	**Greater Than Three Years**	**Total**
ASSETS:							
Earning assets:							
Loans and leases(1)	$ 1,063,340	$ 224,081	$ 402,752	$ 1,690,173	$ 397,315	$ 144,654	$ 2,232,142
Securities(2)	85,466	150,602	146,703	382,771	93,453	204,562	680,786
Trading securities	1,645			1,645			1,645
Interest-bearing deposits in other banks	12,621			12,621			12,621
Funds sold	77,957			77,957			77,957
Total interest-earning assets	$ 1,241,029	$ 374,683	$ 549,455	$ 2,165,167	$ 490,768	$ 349,216	$ 3,005,151
LIABILITIES:							
Interest-bearing liabilities:							
Interest-bearing deposits:							
Demand deposits	$ 156,589	$	$	$ 156,589	$	$ 320,132	$ 476,721
Savings and money market deposits	148,259			148,259		230,102	378,361
Time deposits(3)	178,230	203,682	481,870	863,782	218,777	56,582	1,139,141
Funds purchased	290,637			290,637			290,637
Short-term borrowings(4)	133,100	15,000	4,000	152,100			152,100
Long-term debt	204,630	12,003	9,012	225,645	10,018	5,031	240,694
Total interest-bearing liabilities	$ 1,111,445	$ 230,685	$ 494,882	$ 1,837,012	$ 228,795	$ 611,847	$ 2,677,654
Period gap	$ 129,584	$ 143,998	$ 54,573	$ 328,155	$ 261,973	$ (262,631)	
Cumulative gap	$ 129,584	$ 273,582	$ 328,155	$ 328,155	$ 590,128	$ 327,497	$ 327,497
Ratio of cumulative gap to total interest-earning assets	4.31%	9.10%	10.92%	10.92%	19.64%	10.90%	

(1) Excludes nonaccrual loans of $10,282,000
(2) Excludes investment in equity securities with a fair market value of $19,547,000
(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 accounts of $629,000

Alabama National generally benefits from increasing market rates of interest when it has an asset-sensitive gap (a positive number) and generally benefits from decreasing market interest rates when it is liability sensitive (a negative number). As shown in the table above, Alabama National is asset sensitive from the one month through three year periods. It is only beyond the three year period that Alabama National is liability sensitive. Alabama National has traditionally been liability sensitive through the one year time frame. It is now asset sensitive due to a reduction in the average life of the securities and loan portfolios. Also, the loan portfolio contains an increased proportion of variable rate loans and these loans generally reprice more quickly than fixed rate loans. The analysis presents only a static view of the timing 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 are viewed by management as significantly less interest sensitive than market-based rates such as those paid on non-core deposits. For this and other reasons, management relies more upon the simulation analysis (as noted above) in managing interest rate risk. Net interest income may be impacted 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 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 a level of uncertainty as to their expected performance at varying levels of interest rates. In some cases, imbedded options exist whereby the borrower may elect to repay the obligation at any time. These imbedded prepayment options make anticipating the performance of those instruments difficult given changes in prevailing rates. At December 31, 2002, mortgage backed securities with a carrying value totaling $501.7 million, or 15.1% of total assets and essentially every underlying loan, net of unearned income, (totaling $2.19 billion, or 66.1% of total assets), carry such imbedded options. Management believes that assumptions used in its simulation analysis about the performance of financial instruments with such imbedded 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 sophistication of the customer base, the general level of prevailing interest rates and the relationship to their historical and expected 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.

Deposits totaled $2.33 billion, or 70.3% of total assets, at December 31, 2002. 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 than current levels. Alabama National s spread is also impacted by the shape of the yield curve, which is a measure of the difference between rates at different maturities. A steep yield curve, implying higher long term rates and lower short term rates, would generally result in a higher net interest margin for Alabama National. As prevailing rates reduce, the spread tends to compress as rates paid on deposit and other liability categories approach their lower limits, with severe compression at very low prevailing interest rates. This characteristic is called spread compression and adversely affects 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 rates in effect during 2002. Alabama National s simulation analysis indicates limited reduction in net interest margin from a 25 basis point reduction in interest rates from current rate levels. Rate reductions beyond this point, however, would reduce the net interest margin significantly due to the current low interest rate environment. Alabama National s net interest income would decrease significantly if prevailing interest rates were to further decrease 100 or 200 basis points. The current rates paid on interest-bearing accounts cannot decrease below zero, yet rates earned on loans can experience a decrease in the falling rate scenarios, and the interest rate spread would therefore compress. Because of the 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)

	Year ended December 31, 2002		Year ended December 31, 2001	
Change in Prevailing Interest Rates(1)	**Net Interest Income Amount**	**Change from Income Amount**	**Net Interest Income Amount**	**Change from Income Amount**
+200 basis points	$ 132,477	9.85%	$ 117,465	5.47%
+100 basis points	126,884	5.21	115,562	3.76
0 basis points	120,599		111,375	
100 basis points	107,155	(11.15)	101,536	(8.83)
200 basis points	100,608	(16.58)	96,871	(13.02)

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

Provision and Allowance for Loan and Lease Losses

Alabama National has policies and procedures for evaluating the overall credit quality of its loan and lease portfolio including timely identification of potential problem credits. On a monthly basis, management reviews the appropriate level for the allowance for loan and lease losses. This review and analysis is based on the results of the internal monitoring and reporting system, analysis of economic conditions in its markets and a review of historical statistical data, current trends regarding the volume and severity of past due and problem loans and leases, the existence and effect of concentrations of credit, and changes in national and local economic conditions for both Alabama National and other financial institutions. Management also considers in its evaluation of the adequacy of the allowance for loan and lease losses the results of regulatory examinations conducted for each Bank, including evaluation of Alabama National s policies and procedures and findings from Alabama National s independent loan review department.

The provision for loan and lease losses increased by $4.0 million, or 101.6%, to $8.0 million in 2002, from $3.9 million in 2001. The increased provision expense during 2002 is primarily attributable to an increase in net charge-offs. During 2002, net charge-offs increased by $2.1 million, or 126.2% to $3.7 million, from $1.7 million in 2001. Recoveries for 2002 include approximately $1.1 million in recoveries from loans that Farmers National Bancshares had charged off prior to its acquisition by Alabama National. In spite of these recoveries, management s assessment is that the loans purchased in this acquisition continue to pose a higher overall risk than the Alabama National loan and lease portfolio as a whole, consistent with management s assessment prior to the acquisition. A significant portion of the net charge-offs for 2002 related to one loan relationship which management had previously identified as a potential problem loan. Also contributing to the increased provision expense for 2002 is an increase in the level of nonperforming loans, the current economic environment, and general growth in the loan and lease portfolio.

Management s periodic evaluation of the adequacy of the allowance for loan and lease losses is based on Alabama National s past loan and lease loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrowers ability to repay, estimated value of any underlying collateral, and an analysis of current economic conditions. Management believes the allowance for loan and lease losses, at its current level, adequately covers Alabama National s exposure to loan and lease losses. While management believes that it has established the allowance in accordance with accounting principles generally accepted in the United States of America and has taken into account the views of its regulators and the current economic environment, there can be no assurance that in the future Alabama National s regulators or its economic environment will not require further increases in the allowance.

Additions to the allowance for loan and lease losses, which are expensed as the provision for loan and lease losses on Alabama National s income statement, are made periodically to maintain the allowance for loan and lease losses at an appropriate level as determined by management. Loan and lease losses and recoveries are charged or credited directly to the allowance for loan and lease losses.

The following table presents the information associated with Alabama National s allowance and provision for loan and lease losses for the dates indicated.

ALLOWANCE FOR LOAN AND LEASE LOSSES

(Amounts in thousands, except percentages)

	Year ended December 31,				
	2002	**2001**	**2000**	**1999**	**1998**
Total loans and leases outstanding at end of period, net of unearned income(1)	$ 2,191,394	$ 1,964,169	$ 1,710,810	$ 1,403,489	$ 1,147,100
Average amount of loans and leases outstanding, net of unearned income(1)	$ 2,092,829	$ 1,790,083	$ 1,571,760	$ 1,264,689	$ 1,058,770
Allowance for loan and lease losses at beginning of period	$ 28,519	$ 22,368	$ 19,111	$ 17,465	$ 15,780
Charge-offs:					
Commercial, financial and agricultural	1,573	1,875	397	215	424
Real estate mortgage	1,463	730	145	403	215
Consumer	3,200	754	884	694	1,254
Total charge-offs	6,236	3,359	1,426	1,312	1,893
Recoveries:					
Commercial, financial and agricultural	991	949	167	188	1,027
Real estate mortgage	754	226	228	348	298
Consumer	720	517	382	315	457

Total recoveries	2,465	1,692	777	851	1,782
Net charge-offs	3,771	1,667	649	461	111
Provision for loan and lease losses	7,956	3,946	2,506	2,107	1,796
Additions to allowance through acquisition		3,872	1,400		
Allowance for loan and lease losses at period-end	$ 32,704	$ 28,519	$ 22,368	$ 19,111	$ 17,465
Allowance for loan and lease losses to period-end loans(1)	1.49%	1.45%	1.31%	1.36%	1.52%
Net charge-offs to average loans and leases(1)	0.18	0.09	0.04	0.04	0.01

(1) Does not include loans held for sale.

Allocation of Allowance

There is no formal allocation of the allowance for loan and lease losses by loan category.

Nonperforming Assets

The following table presents Alabama National s nonperforming assets for the dates indicated.

NONPERFORMING ASSETS

(Amounts in thousands, except percentages)

	At December 31,				
	2002	**2001**	**2000**	**1999**	**1998**
Nonaccrual loans	$ 10,282	$ 7,563	$ 3,642	$ 4,428	$ 4,768
Restructured loans				5	499
Loans past due 90 days or more and still accruing.					13
Total nonperforming loans	10,282	7,563	3,642	4,433	5,280
Other real estate owned	2,569	1,680	1,468	867	1,234
Total nonperforming assets	$ 12,851	$ 9,243	$ 5,110	$ 5,300	$ 6,514
Allowance for loan and lease losses to period-end loans(1)	1.49%	1.45%	1.31%	1.36%	1.52%
Allowance for loan and lease losses to period-end nonperforming loans	318.07	377.09	614.17	431.11	330.78
Allowance for loan and lease losses to period-end nonperforming assets	254.49	308.55	437.73	360.58	268.11
Net charge-offs to average loans and leases(1)	0.18	0.09	0.04	0.04	0.01
Nonperforming assets to period-end loans and leases and foreclosed property(1)	0.59	0.47	0.30	0.38	0.57
Nonperforming loans and leases to period-end loans(1)	0.47	0.39	0.21	0.32	0.46

(1) Does not include loans held for sale.

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 collection of interest is doubtful. In addition to consideration of these factors, Alabama National has a consistent and continuing policy of placing all loans on nonaccrual status if they become 90 days or more past due, regardless of the collateral or the borrower s financial condition. When a loan is placed on nonaccrual status, all interest which 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 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 and lease losses. During the years ending December 31, 2002, 2001 and 2000, approximately $540,000, $406,000, and $498,000, respectively, in additional interest income would have been recognized in earnings if Alabama National s nonaccrual loans had been current in accordance with their original terms.

Total nonperforming assets increased $3.6 million, to $12.9 million at December 3l, 2002, from $9.2 million at December 31, 2001. The increase in nonperforming assets is attributable to weaknesses in certain credits and to the current slowdown in the national economy. The allowance for loan and lease losses to period-end nonperforming assets was 254.49% at December 31, 2002, compared with 308.55% at December 31, 2001. This ratio will generally fluctuate from period to period depending upon nonperforming asset levels at period end. Total nonperforming loans increased $2.7 million during 2002, to $10.3 million and other real estate owned increased $0.9 million, to $2.6 million at December 31, 2002.

Potential Problem Loans

A potential problem loan is one that management has concerns as to the borrower s future performance under terms of the loan contract. These loans are current as to principal and interest, and accordingly, they are not included in the nonperforming asset categories. Management monitors these loans closely in order to ensure that Alabama National s interests are protected. At December 31, 2002, Alabama National had certain loans considered by management to be potential problem loans totaling $50.3 million as compared with $75.8 million at December 31, 2001. The primary reason for the decrease in potential problem loans relates to management s upgrade of one loan relationship that totaled approximately $18.0 million at December 31, 2001. Alabama National believes early identification of potential problem loans is an important factor in its ability to successfully collect such loans. As such, it encourages early identification of potential problem loans both with its loan officers and loan review staff. The level of potential problem loans is factored into the determination of the adequacy of the allowance for loan and lease losses.

Noninterest Income and Expense

Noninterest income

Alabama National relies on five distinct product lines for the production of recurring noninterest income: traditional retail and commercial banking, mortgage banking, securities brokerage and trust services, investment services, and insurance services. Combined fees associated with Alabama National s five product lines totaled $53.1 million in 2002, compared with $41.6 million in 2001, an increase of $11.6 million, or 27.8%. An analysis of this increase is provided below.

The following table sets forth, for the periods indicated, the principal components of noninterest income.

NONINTEREST INCOME

(Amounts in thousands)

	Year ended December 31,		
	2002	**2001**	**2000**
Service charges on deposit accounts	$ 12,081	$ 9,497	$ 8,304
Investment services income	13,576	13,717	5,867
Securities brokerage and trust income	13,590	8,800	7,692
Origination and sale of mortgage loans	10,860	7,431	3,531
Bank owned life insurance	2,837	2,412	2,080
Insurance commissions	3,018	2,126	2,099
Securities gains (losses)	35	246	(119)
Other	5,167	4,478	3,893
Total noninterest income	$ 61,164	$ 48,707	$ 33,347

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Noninterest Expense

The following table sets forth, for the periods indicated, the principal components of noninterest expense.

NONINTEREST EXPENSE

(Amounts in thousands)

	Year ended December 31,		
	2002	**2001**	**2000**
Salaries and employee benefits	$ 57,687	$ 45,329	$ 39,017
Commission based compensation	16,498	12,868	5,566
Occupancy and equipment expense, net	11,603	9,722	8,906
Amortization of goodwill		518	501
Amortization of other intangibles	832	627	378
Advertising .	1,637	1,254	1,039
Banking assessments	785	771	660
Data processing expenses .	1,596	1,562	1,453
Legal and professional fees .	3,602	3,331	2,337
Postage and courier services .	2,140	1,776	1,776
Supplies and printing .	2,329	1,926	1,740
Telephone	1,435	1,224	1,167
Other	13,433	11,325	9,571
Total noninterest expense	$ 113,577	$ 92,233	$ 74,111

Noninterest expense increased $21.3 million, or 23.1%, to $113.6 million in 2002, from $92.2 million in 2001. Salaries and employee benefits increased $12.4 million, or 27.3%, in 2002. The 2002 amount includes the salaries and employee benefit expense for Farmers National Bank of Opelika which was acquired during the fourth quarter of 2001 and accounted for as a purchase transaction. Also contributing to the increase in salaries and employee benefits were general staffing increases concurrent with expansion of offices and business lines, increases in health insurance costs, and increases in 401(k) matching expenses. Performance based (or bonus) compensation increases in the salaries and employee benefits category were also higher in the 2002 due to the achievement of higher performance levels at virtually all of the Alabama National s operating units. Commission based compensation increased $3.6 million, or 28.2%, in 2002. The increase in commission based compensation during 2002 is attributable to increased production in the mortgage and securities brokerage and trust divisions, as a significant portion of the compensation in these divisions is production based. Net occupancy expense increased $1.9 million, or 19.3%, in 2002. A majority of the increase during these periods is due to the effect of the Farmers National acquisition, but also contributing to the increase is the effect of recent branch expansions. Alabama National s Banks also opened six full service branches and one limited service branch during 2002. Alabama National also experienced higher insurance costs during 2002 due to the higher premium environment and the expansion of its facilities and employee base.

Segment Information

In addition to traditional commercial and consumer retail banking products, Alabama National offers investment services, securities brokerage and trust services, mortgage lending services and insurance services to its customers. Please refer to Note 19 to Alabama National s consolidated financial statements included in this annual report for disclosures related to Alabama National s operating segments. The results of the operating segments include certain income and expense items that are allocated by management to the operating segments. Further, the results of each operating segment are not necessarily the same as would be expected if these activities were conducted by a stand-alone entity because certain corporate overhead expenses are not allocated directly to each operating segment.

Investment Services

The following table sets forth, for the periods indicated, the summary of operations for the investment services division of Alabama National:

INVESTMENT SERVICES DIVISION

(Amounts in thousands)

	Year ended December 31,		
	2002	**2001**	**2000**
Investment services revenue	$ 13,576	$ 13,717	$ 5,867
Expenses and allocated charges	9,828	10,334	5,377
Net investment services income	$ 3,748	$ 3,383	$ 490

National Bank of Commerce of Birmingham operates an investment department devoted primarily to handling correspondent banks investment needs. Investment services revenue consists primarily of commission income from the sale of fixed income securities to correspondent banks. A small portion of investment services revenue is generated from fee based services including asset/liability consulting, bond accounting and security safekeeping. Investment services revenue decreased slightly to $13.6 million during 2002, from $13.7 million in 2001. Although the revenue decreased slightly it remained relatively high as compared with historical levels. 2001 was Alabama National s Investment division s highest revenue year ever, and 2002 was its second highest. The revenue remained high due to increased liquidity of community banks resulting from decreased loan demand and increased cash flow from their existing securities portfolio. Alabama National has also expanded the number of correspondent banks using the services of the Investment division. Investment services revenue increased dramatically during 2001, to $13.7 million, or 133.8%, from $5.9 million in 2000. The substantial increase in revenue was also due to increased liquidity of community banks served by this division and the decline of interest rates during 2001, both of which lead to increased demand for fixed income securities by its customers.

Securities Brokerage and Trust Division

The following table sets forth, for the periods indicated, the summary of operations for the securities brokerage and trust division of Alabama National:

SECURITIES BROKERAGE AND TRUST DIVISION

(Amounts in thousands)

	Year ended December 31,		
	2002	2001	2000
Securities brokerage and trust revenue	$ 13,590	$ 8,800	$ 7,692
Interest income	1,132	1,858	3,700
Total securities brokerage and trust revenue	14,722	10,658	11,392
Interest expense	133	407	1,805
Expenses and allocated charges	13,036	8,836	7,579
Net securities brokerage and trust income	$ 1,553	$ 1,415	$ 2,008

National Bank of Commerce of Birmingham has a wholly owned subsidiary, NBC Securities, Inc. (NBC Securities), that is a full service licensed broker-dealer. The trust department of NBC and NBC Securities manage the assets of both corporate and individual customers located primarily in the markets served by Alabama National. The revenue generated by this division consists primarily of commission income generated from the sale of equity securities and other investment products to individual and corporate customers, from fees paid for assets under management or custody and from fees related to investment consulting work performed for clients. NBC Securities also recognizes interest income from margin loans. Revenue for this division increased $4.8 million, or 54.4%, to $13.6 million in 2002. Revenue for this division increased $1.1 million, or 14.4%, to $8.8 million in 2001. The increase in revenue during both 2002 and 2001, in spite of the generally poor performance of equity markets in these years, is attributable to continued expansion in the number of customers and total customer assets under management by these departments, as well as an increase in the number of registered representatives. NBC Securities expanded its retail investment platform in 2002 with the addition of several registered representatives and the opening of several new offices during the year. NBC Securities also benefited from increased customer demand for fixed rate annuity products during 2002. The decrease in interest income in both 2002 and 2001 is due to decreased margin loan activity during each year. Consistent with the securities industry in general, NBC Securities had fewer customers using margin loans in 2002 than in 2001 and 2000. NBC Securities net interest income (the difference between its interest income and interest expense) was $1.0 million in 2002, down from $1.45 million in 2001 and $1.9 million in 2000. This reduced net interest income negatively impacted profitability in this division. The additional registered representatives and new offices opened combined with higher commission expense on the higher revenue base led to an increase in the expenses and allocated charges for this division.

Mortgage Lending Division

The following table sets forth, for the periods indicated, the summary of operations for the mortgage lending division of Alabama National:

MORTGAGE LENDING DIVISION

(Amounts in thousands)

	Year ended December 31,		
	2002	**2001**	**2000**
Origination and sale of mortgage loans(1)	$ 11,334	$ 7,660	$ 3,866
Interest income	1,631	1,117	424
Total revenue	12,965	8,777	4,290
Expenses and allocated charges	7,845	5,548	3,061
Net mortgage lending division income	$ 5,120	$ 3,229	$ 1,229

(1) Includes intercompany income allocated to mortgage lending division totaling $474,000, $229,000, and $335,000 at December 31, 2002, 2001 and 2000, respectively.

Fees earned in connection with the origination and resale of mortgages increased $3.7 million, or 48.0%, to $11.3 million, from $7.7 million in 2001. During 2001, fees earned in connection with the origination and resale of mortgages increased $3.8 million, or 98.1%, to $7.7 million, from $3.9 million in 2000. The increased revenue for both 2002 and 2001 is primarily a result of historically low interest rates and the impact that the interest rate environment has on mortgage origination and refinancing activity. Expenses and allocated charges totaled $7.8 million and $5.5 million during 2002 and 2001, respectively. The increase is due to higher commission compensation and other expenses associated with a greater volume of origination activity.

Insurance Services Division

The following table sets forth, for the periods indicated, a summary of operations for the insurance services division of Alabama National:

INSURANCE SERVICES DIVISION

(Amounts in thousands)

	Year ended December 31,		
	2002	**2001**	**2000**
Commission income	$ 2,837	$ 2,126	$ 2,099
Other income		5	23
Total revenue	2,837	2,131	2,122
Expenses and allocated charges	2,870	2,113	1,851
Net insurance division income	$ (33)	$ 18	$ 271

Commission income earned from the sale of insurance products increased $0.7 million, or 33.4 %, to $2.8 million, from $2.1 million during 2001. During the 2002 third quarter, Alabama National purchased two small insurance agencies. The addition of these agencies and the continued expansion of the network of salesmen in many of the markets served by Alabama National resulted in the increased revenue during 2002. This expansion has resulted in increased expenses as new employees are hired, trained and distribution networks are established. In addition, amortization of the intangible assets created in these acquisitions totaled $135,000 in 2002. Alabama National s plan is for these new hires to begin producing revenue exceeding their compensation and other expenses such that this expansion will eventually result in increased profitability from the insurance services division.

Earning Assets

Loans and leases

Loans and leases are the largest category of earning assets and typically provide higher yields than the other types of earning assets. Associated with the higher loan yields are the inherent credit and liquidity risks which management attempts to control and counterbalance. Total loans and leases averaged $2.12 billion in 2002, compared to $1.81 billion in 2001, an increase of $311.1 million, or 17.2%. At December 31, 2002, total loans and leases, net of unearned income, were $2.19 billion, compared to $1.96 billion at the end of 2001, an increase of $227.2 million, or 11.6%. Average loans grew more than year-end balances due to the purchase method acquisition of Farmers National Bancshares, Inc. in December 2001.

The growth in Alabama National s loan and lease portfolio is attributable to Alabama National s ability to attract new customers while maintaining consistent underwriting standards. Loan growth is also impacted by general economic conditions that may result in increased loan demand from existing customers. The following table details the composition of the loan portfolio by category at the dates indicated.

COMPOSITION OF LOAN AND LEASE PORTFOLIO

(Amounts in thousands, except percentages)

	December 31,									
	2002		2001		2000		1999		1998	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Commercial and financial	$ 253,569	11.56%	$ 247,613	12.59%	$ 275,107	16.07%	$ 268,829	19.14%	$ 263,102	22.91%
Real estate:										
Construction	311,259	14.19	231,369	11.76	185,814	10.85	154,023	10.96	78,558	6.84
Mortgage residential	616,651	28.11	546,730	27.80	490,152	28.63	392,986	27.98	318,745	27.76
Mortgage commercial	699,403	31.88	637,575	32.42	498,858	29.14	396,312	28.21	310,610	27.04
Mortgage other	5,672	.26	5,645	.29	4,238	.25	4,284	.30	3,824	.33
Consumer	78,342	3.57	82,909	4.22	79,458	4.64	76,150	5.42	79,106	6.89
Lease financing receivables	80,113	3.65	73,924	3.76	58,668	3.43	22,046	1.57	9,109	.79
Securities brokerage margin loans	14,502	.66	16,302	.83	29,901	1.75	22,551	1.61	30,025	2.61
Other	134,191	6.12	124,564	6.33	89,700	5.24	67,517	4.81	55,528	4.83
Total gross loans and leases	2,193,702	100.00%	1,966,631	100.00%	1,711,896	100.00%	1,404,698	100.00%	1,148,607	100.00%
Unearned income	(2,308)		(2,462)		(1,086)		(1,209)		(1,507)	
Total loans and leases, net of unearned income(1)	2,191,394		1,964,169		1,710,810		1,403,489		1,147,100	
Allowance for loan and lease losses	(32,704)		(28,519)		(22,368)		(19,111)		(17,465)	
Total net loans and leases(1)	$ 2,158,690		$ 1,935,650		$ 1,688,442		$ 1,384,378		$ 1,129,635	

(1) Does not include loans held for sale.

In the context of this discussion, a real estate mortgage loan is defined as any loan, other than loans for construction purposes, secured by real estate, regardless of the purpose of the loan. It is common practice for financial institutions in Alabama National s market areas, and for Alabama National in particular, to obtain a security interest or lien in real estate whenever possible, in addition to any other available collateral. This collateral is taken to reinforce the likelihood of the ultimate repayment of the loan and tends to increase the magnitude of the real estate loan portfolio component.

The principal component of Alabama National s loan portfolio is real estate mortgage loans. At year-end 2002, this category totaled $1.32 billion and represented 60.0% of the total loan portfolio, compared to $1.20 billion, or 60.5%, of the total loan portfolio, at year-end 2001.

Residential mortgage loans increased $69.9 million, or 12.8%, to $616.7 million at December 31, 2002, compared with $546.7 million at December 31, 2001. Commercial mortgage loans increased $61.8 million, or 9.7%, to $699.4 million at December 31, 2002. Increases in both of these categories of loans are primarily the result of Alabama National s expertise in and appetite for these commercial and residential real estate loans. In addition, the general economic conditions in Alabama National s markets, which generate such lending opportunities, are partially responsible for this growth.

Real estate construction loans increased $79.9 million, or 34.5%, to $311.3 million at December 31, 2002, compared with $231.4 million at December 31, 2001. Alabama National s focus on the home construction market and strong construction activity in markets it serves caused this increase.

Consumer loans decreased $4.6 million, or 5.5%, during 2002 to $78.3 million, from $82.9 million in 2001. Lease financing receivables increased $6.2 million, or 8.4%, during 2002 to $80.1 million, from $73.9 in 2001 million as a result of a successful marketing efforts and business development efforts of individuals in this area. Alabama National engages in no foreign lending operations.

The repayment of loans is a source of additional liquidity for Alabama National. The following table sets forth Alabama National s loans maturing within specific intervals at December 31, 2002.

LOAN MATURITY AND SENSITIVITY TO CHANGES IN INTEREST RATES

(Amounts in thousands)

	December 31, 2002			
	One year or less	Over one year Through five Years	Over five years	Total
Commercial, financial and agricultural	$ 159,182	$ 84,134	$ 10,253	$ 253,569
Real estate construction	228,988	58,154	24,117	311,259
Real estate residential	143,762	180,243	292,646	616,651
Real estate commercial	119,432	410,586	169,385	699,403
Consumer	26,985	49,184	2,173	78,342

	Predetermined Rates	Floating Rates
Maturing after one year but within five years	$ 492,226	$ 290,074
Maturing after five years	106,916	391,659
	$ 599,142	$ 681,733

The information presented in the above table is based upon the contractual maturities of the individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon their maturity. Consequently, management believes this treatment presents fairly the maturity and repricing structure of the loan portfolio.

Securities

Securities, including securities classified as held to maturity (or investment securities) and available for sale, represent a significant portion of Alabama National s earning assets. Securities averaged $589.3 million during 2002, compared with $449.9 million during 2001, an increase of $139.3 million, or 30.8%. Growth in the securities portfolio is generally a function of growth in funding sources net of lending opportunities. During 2002, as loan demand experienced a relative decrease as compared with recent years, Alabama National had excess liquidity with which to purchase securities. Management attempts to maintain earning asset growth commensurate with its funding growth and with its overall growth plans. During 2002, Alabama National experienced increasing liquidity and a reduction in its rate of loan growth and increased the size of the securities portfolio through purchases. At December 31, 2002, the securities portfolio totaled $700.3 million, including securities held to maturity with an amortized cost of $355.4 million and securities available for sale with a market value of $344.9 million.

The following tables set forth the carrying value of securities held by Alabama National at the dates indicated.

INVESTMENT SECURITIES

(Amounts in thousands)

	December 31,					
	2002		2001		2000	
	Cost	Market	Cost	Market	Cost	Market
U.S. Treasury securities	$	$	$	$	$	$
U.S. Government Agencies	42,211	42,225	2,252	2,327	3,263	3,263
State and political subdivisions	3,704	3,836	6,460	6,604	7,652	7,791
Mortgage backed securities	309,530	311,751	226,054	225,877	49,847	50,431
Total	$ 355,445	$ 357,812	$ 234,766	$ 234,808	$ 60,762	$ 61,485

AVAILABLE FOR SALE SECURITIES

(Amounts in thousands)

	December 31,					
	2002		2001		2000	
	Cost	Market	Cost	Market	Cost	Market
U.S. Treasury securities	$ 350	$ 356	$ 599	$ 618	$ 4,578	$ 4,586
U.S. Government Agencies	99,861	100,793	25,852	26,687	110,534	110,489
State and political subdivisions	30,754	32,035	28,606	29,003	25,291	25,632
Mortgage backed securities	190,169	192,157	259,761	260,214	175,317	173,862
Equity	19,547	19,547	16,477	16,400	10,804	10,728
Total	$ 340,681	$ 344,888	$ 331,295	$ 332,922	$ 326,524	$ 325,297

The following tables show the scheduled maturity and average yields of securities owned by Alabama National at December 31, 2002.

INVESTMENT SECURITIES MATURITY DISTRIBUTION AND YIELDS

(Amounts in thousands, except yields)

	December 31, 2002									
	Within one year		After one but Within five years		After five but Within ten years		After ten years		Other securities	
	Amount	Yield (1)	Amount	Yield (1)	Amount	Yield (1)	Amount	Yield (1)	Amount	Yield (1)
U.S. Treasury securities	$		$		$		$		$	
U.S. Government Agencies			42,211	3.54%						
State and political subdivisions	630	5.17%	2,321	5.30%	753	4.89				
Mortgage backed securities									$ 309,530	5.39%
Total	$ 630	5.17%	$ 44,532	3.63%	$ 753	4.89%	$		$ 309,530	5.39%

(1) Computed on a tax-equivalent basis utilizing a 34% tax rate, without giving effect to the disallowance for Federal income tax purposes of interest related to certain tax-exempt assets.

SECURITIES AVAILABLE FOR SALE MATURITY DISTRIBUTION AND YIELDS

(Amounts in thousands, except yields)

	December 31, 2002									
	Within one year		After one but Within five years		After five but Within ten years		After ten years		Other securities	
	Amount	Yield (1)	Amount	Yield (1)	Amount	Yield (1)	Amount	Yield (1)	Amount	Yield (1)
U.S. Treasury securities .	$ 356	5.89%	$		$		$		$	
U.S. Government Agencies .	2,996	1.25	81,521	4.12%	16,276	4.63%				
State and political subdivisions	2,140	4.90	12,434	4.75%	11,151	4.45	6,310	4.84%		
Mortgage backed securities .									192,157	5.52%
Equity securities								5.07	19,547	5.07
Total	$ 5,492	2.97%	$ 93,955	4.20%	$ 27,427	4.56%	$ 6,310	4.84%	$ 211,704	5.48%

(1) Computed on a tax-equivalent basis utilizing a 34% tax rate, without giving effect to the disallowance for Federal income tax purposes of interest related to certain tax-exempt assets.

At December 31, 2002, mortgage-backed securities consisting of collateralized mortgage obligations and pass-through mortgage obligations had a carrying value totaling $501.7 million. These mortgage-backed securities include $309.5 million classified as investment securities and $192.2 million classified as securities available for sale. Management expects the annual repayment of the underlying mortgages to vary as a result of monthly repayment of principal and/or interest required under terms of the underlying promissory notes. Further, the actual rate of repayment is subject to changes depending upon the terms of the underlying mortgages, the relative level of mortgage interest rates, and the structure of the securities. When relative interest rates decline to levels below that of the underlying mortgages, acceleration of principal repayment is expected as some borrowers on the underlying mortgages refinance to lower rates. When the underlying rates on mortgage loans are comparable to, or in excess of, market rates, repayment more closely conforms to scheduled amortization in accordance with terms of the promissory note with additional repayment as a result of sales of homes collateralizing the mortgage loans constituting the security. Accordingly, management generally expects repayment of the collateralized mortgage obligations over a one to three year period, and repayment of the pass-through mortgage obligations over a two to four year period. These periods have shortened considerably due to the current interest rate environment.

Other attributes of securities are discussed in **Interest Sensitivity and Market Risk.**

Short-Term Investments

Alabama National utilizes overnight investment of funds in Federal funds sold and securities purchased under agreements to resell to ensure that adequate liquidity will be maintained, while at the same time minimizing the level of uninvested cash reserves. Short-term investments are also utilized by Alabama National when the level of funds committed to lending and investment portfolio programs changes or the level of deposit generation changes. During 2002, Federal funds sold and securities purchased under agreements to resell averaged $45.3 million, compared to $46.6 million during 2001, representing a slight decrease of $1.3 million.

Trading Account Securities

An important aspect of investment department operations, but less so to Alabama National overall, are trading account securities, which represent securities owned by Alabama National prior to sale and delivery to Alabama National s customers. Trading account securities averaged approximately $2.0 million in both 2002 and 2001. This small dollar amount reflects management s policy of limiting positions in such securities to reduce its exposure to market and interest rate changes.

Deposits and Other Interest-Bearing Liabilities

Average interest-bearing liabilities increased $394.1 million, or 19.3%, to $2.44 billion in 2002, from $2.04 billion in 2001. Average interest-bearing deposits increased $292.8 million, or 18.4%, to $1.88 billion in 2002, from $1.59 billion in 2001. This increase is attributable to competitive rate and product offerings by Alabama National and successful marketing efforts. Average Federal funds purchased and securities sold under agreements to repurchase increased $33.4 million, or 14.0%, to $272.7 million in 2002, from $239.3 million in 2001, due in part, to additional liquidity provided by downstream correspondent banks. Average short-term borrowings increased by $36.1 million, or 84.3%, to $79.0 million in 2002, compared to $42.9 million in 2001. Average long-term borrowings increased $31.8 million or 18.8%, to $200.7 million in 2002, from $168.9 million in 2001. The increase in the combined short and long-term average debt outstanding is due to utilizing more borrowing programs offered to Alabama National s Federal Home Loan Bank member subsidiaries.

Deposits

Average total deposits increased $347.7 million, or 18.7%, to $2.20 billion during 2002, from $1.85 billion during 2001. At December 31, 2002, total deposits were $2.33 billion, compared with $2.07 billion at December 31, 2001.

The following table sets forth the deposits of Alabama National by category at the dates indicated.

DEPOSITS

(Amounts in thousands, except percentages)

	December 31,									
	2002		2001		2000		1999		1998	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Demand	$ 336,172	14.43%	$ 306,319	14.82%	$ 244,400	13.52%	$ 227,442	14.87%	$ 245,955	18.29%
NOW	476,721	20.46	384,355	18.60	290,471	16.07	224,037	14.65	193,196	14.36
Savings and money market	378,361	16.24	373,309	18.06	312,886	17.31	315,291	20.62	317,188	23.58
Time less than $100,000	635,827	27.27	668,819	32.36	659,370	36.50	525,788	34.38	429,174	31.91
Time greater than $100,000	503,314	21.60	333,957	16.16	299,968	16.60	236,693	15.48		