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ALABAMA NATIONAL BANCORPORATION
Form 10-Q
November 13, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2001

OR

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

Commission File No. 0-25160

ALABAMA NATIONAL BANCORPORATION

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE

63-1114426

(State of Incorporation)

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

1927 FIRST AVENUE NORTH, BIRMINGHAM, ALABAMA 35203-4009

(Address of principal executive office)

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

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

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

Yes X No
 --- -----

Indicate the number of shares outstanding of each of the registrant's
classes of common stock, as of the latest practicable date.

Class	Outstanding at November 13, 2001
-----	-----
Common Stock, \$1.00 Par Value	11,859,193

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ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

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FORWARD-LOOKING INFORMATION

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

Part I - Financial Information

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

 (In thousands, except share amounts)

Septem

Assets

Cash and due from banks.....	\$
Interest-bearing deposits in other banks.....	
Investment securities (estimated market values of \$185,690 and \$61,485).....	
Securities available for sale.....	
Trading securities.....	
Federal funds sold and securities purchased under resell agreements.....	
Loans held for sale.....	
Loans.....	
Unearned income.....	
Loans, net of unearned income.....	
Allowance for loan losses.....	
Net loans.....	
Property, equipment and leasehold improvements, net.....	
Intangible assets.....	
Cash surrender value of life insurance.....	
Receivable from investment division customers.....	
Other assets.....	
Totals.....	\$

Liabilities and Stockholders' Equity

Deposits:	
Noninterest bearing.....	\$
Interest bearing.....	
Total deposits.....	
Federal funds purchased and securities sold under repurchase agreements.....	
Treasury, tax and loan accounts.....	
Short-term borrowings.....	
Payable for securities purchased for investment division customers.....	
Accrued expenses and other liabilities.....	
Long-term debt.....	
Total liabilities.....	
Common stock, \$1 par, authorized 17,500,000 shares; issued 11,921,669 and 11,921,628 shares at September 30, 2001 and December 31, 2000, respectively.....	
Additional paid-in capital.....	
Retained earnings.....	
Treasury stock at cost, 57,476 and 136,099 shares at September 30, 2001 and December 31, 2000, respectively.....	
Accumulated other comprehensive income (loss), net of tax.....	

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Total stockholders' equity.....	—
Totals.....	\$ =

See accompanying notes to unaudited consolidated financial statements

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

(In thousands, except per share data)

	2001
Interest income:	
Interest and fees on loans.....	\$37,056
Interest on securities.....	7,201
Interest on deposits in other banks.....	162
Interest on trading securities.....	18
Interest on Federal funds sold and securities purchased under resell agreements.....	448
Total interest income.....	44,885
Interest expense:	
Interest on deposits.....	17,60
Interest on Federal funds purchased and securities sold under repurchase agreements.....	2,20
Interest on long and short-term borrowings.....	2,53
Total interest expense.....	22,34
Net interest income.....	22,54
Provision for loan losses.....	91
Net interest income after provision for loan losses.....	21,62
Noninterest income:	
Securities gains.....	9
Gain (loss) on disposition of assets.....	2
Service charges on deposit accounts.....	2,31
Investment services income.....	3,13
Securities brokerage and trust income.....	2,09
Origination and sale of mortgage loans.....	1,95
Bank owned life insurance.....	61
Insurance commissions.....	49
Other.....	1,01
Total noninterest income.....	11,73

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

(In thousands, except per share data)

	For the th ended Sep
	----- 2001 -----
Noninterest expense:	
Salaries and employee benefits.....	11,026
Commission based compensation.....	3,053
Occupancy and equipment expenses.....	2,400
Other.....	5,870

Total noninterest expense.....	22,349

Income before provision for income taxes.....	11,008
Provision for income taxes.....	3,500

Net income.....	\$ 7,508
	=====
Net income per common share (basic).....	\$.63
	=====
Weighted average common shares outstanding (basic).....	11,846
	=====
Net income per common share (diluted).....	\$.62
	=====
Weighted average common and common equivalent shares outstanding (diluted).....	12,135
	=====

See accompanying notes to unaudited consolidated financial statements

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

(In thousands, except per share data)

	For t ended
	----- 2001 -----
Interest income:	
Interest and fees on loans.....	\$112,874
Interest on securities.....	20,833
Interest on deposits in other banks.....	400
Interest on trading securities.....	77

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Interest on Federal funds sold and securities purchased under resell agreements.....	1,733 -----
	135,917
Income expense:	
Interest on deposits.....	57,056
Interest on Federal funds purchased and securities sold under repurchase agreements.....	7,251 -----
Interest on long and short-term borrowings.....	7,577

Total interest expense.....	71,884

Net interest income.....	64,033
Provision for loan losses.....	2,213 -----

Net interest income after provision for loan losses.....	61,820
Noninterest income:	
Securities gains.....	91
Gain (loss) on disposition of assets.....	60
Service charges on deposit accounts.....	6,872
Investment services income.....	9,644
Securities brokerage and trust income.....	6,637
Origination and sale of mortgage loans.....	5,197
Bank owned life insurance.....	1,722
Insurance commissions.....	1,471
Other.....	3,256 -----
Total noninterest income.....	34,950

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

(In thousands, except per share data)

Noninterest expense:	
Salaries and employee benefits.....	
Commission based compensation.....	
Occupancy and equipment expenses.....	
Other.....	
Total noninterest expense.....	
Income before provision for income taxes.....	
Provision for income taxes.....	
Net income.....	

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Net income per common share (basic).....

Weighted average common shares outstanding (basic).....

Net income per common share (diluted).....

Weighted average common and common equivalent shares outstanding (diluted).....

See accompanying notes to unaudited consolidated financial statements

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

 (In thousands)

	For t
	ende

	200

Net income.....	\$7,5
Other comprehensive income:	
Unrealized gains on securities available for sale.....	2,8
Less: Reclassification adjustment for net gains included	
in net income.....	-----
Other comprehensive income, before tax.....	2,7
Provision for income taxes related to	
items of other comprehensive income.....	9
Other comprehensive income, net of tax.....	1,7
Comprehensive income.....	\$9,2
	=====

See accompanying notes to unaudited consolidated financial statements

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

 (In thousands)

For
 e

 2001

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Net income.....	\$20,32
Other comprehensive income:	
Unrealized gains on securities available for sale.....	6,77
Less: Reclassification adjustment for net gains included in net income.....	9
Other comprehensive income, before tax.....	6,68
Provision for income taxes related to items of other comprehensive income.....	2,38
Other comprehensive income, net of tax.....	4,29
Comprehensive income.....	\$24,62

See accompanying notes to unaudited consolidated financial statements

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

(In thousands)

Net cash flows provided by operating activities.....	\$ 4
Cash flows from investing activities:	
Proceeds from maturities of investment securities.....	
Purchases of investment securities.....	(1
Purchases of securities available for sale.....	(1
Proceeds from sale of securities available for sale.....	
Proceeds from maturities of securities available for sale.....	1
Net (increase) decrease in interest bearing deposits in other banks.....	(
Net (increase) decrease in federal funds sold and securities purchased under resell agreements.....	
Net increase in loans.....	(1
Purchases of property, equipment and leasehold improvements.....	
Cash paid for bank-owned life insurance.....	
Costs capitalized on other real estate owned.....	
Proceeds from sale of other real estate owned.....	
Cash paid in purchase business combination, net of cash received.....	
Proceeds from sale of property, equipment and leasehold improvements.....	
Net cash used in investing activities.....	(2
Cash flows from financing activities:	
Net increase in deposits.....	
Increase in federal funds purchased and securities sold under agreements to repurchase.....	
Net increase in short and long-term borrowings and capital leases.....	
Exercise of stock options and other stock based compensation.....	

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Purchase of treasury stock.....	
Changes incidental to merger.....	
Dividends on common stock.....	
Net cash provided by financing activities.....	1
Increase in cash and cash equivalents.....	
Cash and cash equivalents, beginning of period.....	
Cash and cash equivalents, end of period.....	\$
Supplemental schedule of noncash investing and financing activities	
Acquisition of collateral in satisfaction of loans.....	\$
Transfer of property to other real estate owned.....	\$
Adjustment to market value of securities available for sale, net of deferred income taxes.....	\$
Assets acquired in purchase business combination.....	\$
Liabilities assumed in purchase business combination.....	\$

See accompanying notes to unaudited consolidated financial statements

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

NOTE A - BASIS OF PRESENTATION

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

NOTE B - COMMITMENT AND CONTINGENCIES

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

NOTE C - RECENTLY ISSUED PRONOUNCEMENTS

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Derivative Investments and Hedging Activities

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

Business Combinations

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 141, Business Combinations ("Statement 141"), which has an effective date of June 30, 2001 for all business combinations initiated after this date. This statement supercedes Accounting Principles Board Opinion No.16, Business Combinations, and FASB Statement No. 38, Accounting for Preacquisition Contingencies of Purchase Enterprises. This statement requires all business combinations within the scope of Statement 141 to be accounted for using the purchase method of accounting. For business combinations completed prior to June 30, 2001, Statement 141 requires companies to recognize intangible assets apart from goodwill and expand the disclosures relating to assets acquired and liabilities assumed. The adoption of

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Statement 141 precludes Alabama National from accounting for any business acquisition consummated after June 30, 2001, as a pooling of interests.

Goodwill and Other Intangible Assets

In June 2001, the FASB issued Statement of Financial Accounting Standard No. 142, Goodwill and Other Intangible Assets ("Statement 142"), which is effective for all fiscal years beginning after December 31, 2001. This statement addresses the accounting treatment for intangible assets, which are acquired individually or with a group of other assets, in financial statements upon their acquisition. Statement 142 also addresses the accounting for goodwill and other intangible assets for periods after they have been initially recognized in the financial statements. Goodwill will cease to be amortized upon the adoption and implementation of Statement 142 and an annual test for the impairment of existing goodwill balances will be required. Alabama National is currently evaluating the impact that the adoption of Statement 142 will have on Alabama

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National's financial statements.

NOTE D - MERGERS AND ACQUISITIONS

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

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

	Three months ended September 30,	
	2001	2000
	----	----
Net interest income		
Alabama National BanCorporation.....	\$21,161	\$19,086
Peoples State Bank.....	1,380	1,363
	-----	-----
As currently reported.....	\$22,541	\$20,449
	=====	=====
 Net income		
Alabama National BanCorporation (1).....	\$ 7,101	\$ 6,206
Peoples State Bank (2).....	407	350
	-----	-----
As currently reported.....	\$ 7,508	\$ 6,556
	=====	=====

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

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

On September 6, 2001, Alabama National entered into a merger agreement with Farmers National Bancshares, Inc. ("Farmers National"), a one-bank holding company headquartered in Opelika, Alabama. Under the terms of the merger agreement, Farmers National will merge with and into Alabama National, and

Farmers National's bank subsidiary, The Farmers National Bank of Opelika, will merge with and into First American Bank, headquartered in Decatur, Alabama.

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Alabama National will issue shares of its common stock to existing shareholders of Farmers National at an exchange ratio of 0.53125 shares of Alabama National common stock for each share of Farmers National common stock. Instead of Alabama National common stock, shareholders of Farmers National can elect to receive \$17.27 in cash in exchange for each share of Farmers National common stock, subject to certain limitations. As of September 30, 2001, Farmers National had assets of \$194.5 million. The merger with Farmers National is expected to close in the fourth quarter of 2001. The merger is subject to Farmers National shareholder approval and certain regulatory approvals.

NOTE E - EARNINGS PER SHARE

The following table reflects the reconciliation of the numerator and denominator of the basic earnings per share computation to the diluted earnings per share computation for the three months and nine months ended September 30, 2001 and 2000.

	Income -----	Shares -----	Per Share Amount -----
	(In thousands, except per share amount)		
THREE MONTHS ENDED SEPTEMBER 30, 2001			
Basic EPS net income.....	\$ 7,508	11,846	\$ 0.63 =====
Effect of dilutive securities.....	--	289	
Diluted EPS.....	\$ 7,508 =====	12,135 =====	\$ 0.62 =====
THREE MONTHS ENDED SEPTEMBER 30, 2000			
Basic EPS net income.....	\$ 6,556	11,782	\$ 0.56 =====
Effect of dilutive securities.....	--	172	
Diluted EPS.....	\$ 6,556 =====	11,954 =====	\$ 0.55 =====
NINE MONTHS ENDED SEPTEMBER 30, 2001			
Basic EPS net income.....	\$ 20,327	11,819	\$ 1.72 =====
Effect of dilutive securities.....	--	297	
Diluted EPS.....	\$ 20,327 =====	12,116 =====	\$ 1.68 =====
NINE MONTHS ENDED SEPTEMBER 30, 2000			
Basic EPS net income.....	\$ 18,730	11,794	\$ 1.59 =====
Effect of dilutive securities.....	--	162	
Diluted EPS.....	\$ 18,730 =====	11,956 =====	\$ 1.57 =====

NOTE F - TREASURY STOCK REPURCHASE PLAN

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On October 17, 2001, the board of directors of Alabama National authorized the repurchase of up to 300,000 shares of its common stock either through open market purchases, private transactions, or both. The repurchased shares may be used for general corporate purposes, including potential future acquisitions and re-issuance under certain stock benefit plans of Alabama National. The number of shares actually acquired will be subject to management discretion and will depend on subsequent developments, market availability and other factors. The repurchase program does not obligate Alabama National to acquire any particular number of shares and may be suspended at any time at the company's discretion.

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NOTE G - SEGMENT REPORTING

Alabama National's reportable segments represent the distinct major product lines it offers and are viewed separately for strategic planning purposes by management. The following table is a reconciliation of the reportable segment revenues, expenses, and profit to Alabama National's consolidated totals (in thousands).

	Investment Services Division	Securities Brokerage & Trust Division	Mortgage Lending Division	Insurance Division	Retail and Commercial Banking
Nine months ended					
September 30, 2001:					
Interest income.....	\$ --	\$ 1,601	\$ 788	\$ 5	\$ 133,936
Interest expenses.....		364	507	4	70,244
Net interest income.....		1,237	281	1	63,692
Provision for loan losses....					2,213
Noninterest income.....	9,644	6,637	5,307	1,471	11,867
Noninterest expense.....	7,253	6,623	3,135	1,514	44,914
Net income (loss) before tax	\$ 2,391	\$ 1,251	\$ 2,453	\$ (42)	\$ 28,432
Nine months ended					
September 30, 2000:					
Interest income.....	\$ --	\$ 2,793	\$ 318	\$ 11	\$ 122,747
Interest expenses.....		1,500	201	10	63,501
Net interest income.....		1,293	117	1	59,246
Provision for loan losses....					1,753
Noninterest income.....	3,949	5,454	2,840	1,504	10,215
Noninterest expense.....	3,764	5,387	2,060	1,421	39,693
Net income (loss) before tax	\$ 185	\$ 1,360	\$ 897	\$ 84	\$ 28,015

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	Investment Services Division	Securities Brokerage & Trust Division	Mortgage Lending Division	Insurance Division	Retail and Commercial Banking
Three months ended					

September 30, 2001:					

Interest income.....	\$ --	\$ 423	\$ 253	\$ --	\$ 44,295
Interest expenses.....		68	135		21,891

Net interest income.....		355	118		22,404
Provision for loan losses....					919
Noninterest income.....	3,132	2,092	2,016	499	3,992
Noninterest expense.....	2,362	2,163	1,154	539	15,292

Net income (loss) before tax	\$ 770	\$ 284	\$ 980	\$ (40)	\$ 10,185
=====					
Three months ended					

September 30, 2000:					

Interest income.....	\$ --	\$ 1,158	\$ 129	\$ --	\$ 44,081
Interest expenses.....		683	87	4	23,692

Net interest income.....		475	42	(4)	20,389
Provision for loan losses....					490
Noninterest income.....	1,603	1,855	1,030	407	3,458
Noninterest expense.....	1,395	1,885	768	423	13,512

Net income (loss) before tax	\$ 208	\$ 445	\$ 304	\$ (20)	\$ 9,845
=====					

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

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

Basis of Presentation

The following is a discussion and analysis of the consolidated financial condition of Alabama National and results of operations as of the dates and for the periods indicated. On January 31, 2001, Peoples State Bank of Groveland merged with a newly formed subsidiary of Alabama National, whereby Peoples State Bank became a wholly owned subsidiary of Alabama National. Pursuant to the Peoples State Bank merger each share of Peoples State Bank common stock was converted into 1.164 shares of Alabama National common stock. A total of 734,609 shares of Alabama National common stock were issued to Peoples State Bank shareholders. The Peoples State Bank merger was accounted for as a pooling of interests and, accordingly, financial statements for all periods have been

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restated to reflect the results of operations of the companies on a combined basis from the earliest period presented, except dividends per share. All significant intercompany accounts and transactions have been eliminated. The accounting and reporting policies of Alabama National conform with generally accepted accounting principles and with general financial services industry practices.

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

Performance Overview

Alabama National's net income was \$7.51 million for the third quarter of 2001 (the "2001 third quarter"), compared to \$6.56 million for the third quarter of 2000 (the "2000 third quarter"). Net income for the nine months ended September 30, 2001 (the "2001 nine months") was \$20.33 million, compared to \$18.73 million for the nine months ended September 30, 2000 (the "2000 nine months"). Net income per diluted common share for the 2001 and 2000 third quarters was \$0.62 and \$0.55, respectively. For the 2001 nine months, net income per diluted common share was \$1.68, compared to \$1.57 for the 2000 nine months. Excluding after tax merger-related charges incurred during the first quarter of 2001 relating to the Peoples State Bank merger, Alabama National's net income for the 2001 nine months was \$21.11 million, compared to \$18.73 million for the 2000 nine months, and net income per diluted common share for the 2001 nine months and 2000 nine months was \$1.74 and \$1.57, respectively.

The annualized return on average assets for Alabama National was 1.16% for the 2001 third quarter, compared to 1.17% for the 2000 third quarter. The annualized return on average assets for Alabama National was 1.09% for the 2001 nine months, compared to 1.17% for the 2000 nine months. The annualized return on average stockholders' equity decreased for the 2001 third quarter to 16.07%, as compared to 16.37% for the 2000 third quarter. The annualized return on average stockholders' equity decreased for the 2001 nine months to 15.03%, as compared to 16.36% for the 2000 nine months. Excluding the after tax merger-related charges incurred during the first quarter of 2001 relating to the Peoples State Bank merger, the annualized return on average assets and annualized return on stockholders' equity for the 2001 nine months were 1.14% and 15.61%, respectively. Book value per share at September 30, 2001 was \$15.97, an increase of \$1.41 from year-end 2000. Tangible book value per share at September 30, 2001 was \$14.88, an increase of \$1.54 from year-end 2000. Alabama National paid cash dividends totaling \$0.69 on common shares during the 2001 nine months, compared to \$0.63 paid on common shares during the 2000 nine months.

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Net Income

The principal reason for the increase in net income for each of the 2001 third quarter and the 2001 nine months, compared to the same periods in 2000, was the growth in noninterest income. During the 2001 third quarter noninterest income totaled \$11.7 million, compared to \$8.4 million in the 2000 third quarter, an increase of 40.4%. During the 2001 nine months, Alabama National recorded noninterest income of \$35.0 million compared to \$24.0 million during the 2000 nine months, an increase of 45.8%. During each of the 2001 third quarter, and 2001 nine months, the increase in noninterest income was attributable to

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increased production and volume from the investment services division, securities brokerage division and from fees earned from the origination and sale of mortgages. Net interest income also increased slightly in each of the 2001 third quarter and 2001 nine months compared to the same periods in 2000. Net interest income is the difference between the income earned on interest bearing assets and the interest paid on deposits and borrowings used to support such assets. Net interest income increased by \$2.1 million, or 10.2%, to \$22.5 million during the 2001 third quarter, from \$20.4 million during the 2000 third quarter. Net interest income increased to \$64.0 million during the 2001 nine months, from \$59.6 million during the 2000 nine months, representing an increase of \$4.4 million, or 7.4%. The increases in noninterest income and net interest income were offset by increases in noninterest expense of \$3.6 million, to \$22.3 million for the 2001 third quarter, and \$12.3 million, to \$67.0 million for the 2001 nine months, compared to \$18.8 million and \$54.7 million, respectively for the same periods in 2000. The net income for the 2001 nine months includes after-tax merger-related charges relating to the Peoples State Bank merger totaling \$781,000. These charges on a pre-tax basis consist of approximately \$135,000 in legal and accounting fees, \$385,000 in employment-related expenses, \$300,000 in advisory fees/commissions, \$121,000 in technology conversion charges, and \$57,000 in other charges. These pre-tax charges increased noninterest expense for the 2001 nine months by \$997,000.

Average earning assets for the 2001 third quarter and nine months increased by \$312.3 million and \$331.9 million, respectively, as compared to the same periods in 2000. Average interest-bearing liabilities increased by \$263.2 million and \$289.6 million during the 2001 third quarter and nine months, respectively, as compared to the same periods in 2000. The average taxable equivalent rate earned on assets was 7.63% and 8.03% for the 2001 third quarter and 2001 nine months, compared to 8.78% and 8.60% for the 2000 third quarter and 2000 nine months, respectively. The average rate paid on interest-bearing liabilities was 4.30% and 4.80% for the 2001 third quarter and 2001 nine months, respectively, compared to 5.35% and 5.05% for the 2000 third quarter and 2000 nine months, respectively. The net interest margin was 3.81% and 3.76% for the 2001 third quarter and 2001 nine months, respectively, compared to 4.00% and 4.10% for the 2000 third quarter and 2000 nine months. The reduction in net interest margin is largely due to the effects of interest rate reductions by the Federal Reserve during the first nine months of 2001. Alabama National's interest earning assets have repriced more quickly than its interest-bearing liabilities. During the third quarter of 2001 Alabama National's net interest margin improved 7 basis points when compared to the net interest margin recorded in the 2001 second quarter. Management anticipates that as more interest-bearing liabilities mature and reprice that the net interest margin will continue to improve, absent any additional rate reductions by the Federal Reserve or significant changes in the general interest rate environment.

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

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

Nine months ended September 30

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	2001			
	Average Balance	Income/ Expense	Yield/ Cost	Average Balance
Assets:				
Earning assets:				
Loans (1) (3).....	\$1,785,507	\$113,102	8.47%	\$1,538,124
Securities:				
Taxable.....	396,226	19,734	6.66	327,874
Tax exempt.....	29,417	1,665	7.57	32,736
Cash balances in other banks.....	13,313	400	4.02	3,650
Funds sold.....	49,738	1,733	4.66	39,754
Trading account securities.....	1,699	77	6.06	1,891
Total earning assets (2).....	2,275,900	136,711	8.03	1,944,029
Cash and due from banks.....	79,705			74,501
Premises and equipment.....	51,793			48,430
Other assets.....	101,074			90,996
Allowance for loan losses.....	(22,939)			(20,241)
Total assets.....	\$2,485,533			\$2,137,715
Liabilities:				
Interest-bearing liabilities:				
Interest-bearing transaction accounts.....	\$ 306,897	6,766	2.95	247,781
Savings deposits.....	319,224	7,736	3.24	324,189
Time deposits.....	952,014	42,554	5.98	825,202
Funds purchased.....	225,508	7,251	4.30	153,125
Other short-term borrowings.....	36,216	1,476	5.45	56,307
Long-term debt	160,371	6,101	5.09	104,012
Total interest-bearing liabilities....	2,000,230	71,884	4.80	1,710,616
Demand deposits.....	257,834			242,066
Accrued interest and other liabilities.....	46,622			32,095
Stockholders' equity.....	180,847			152,938
Total liabilities and stockholders' equity.....	\$2,485,533			\$2,137,715
Net interest spread.....			3.23%	
Net interest income/margin on a taxable equivalent basis.....		64,827	3.81%	
Tax equivalent adjustment (2).....		794		
Net interest income/margin.....		\$ 64,033	3.76%	

- (1) Average loans include nonaccrual loans. All loans and deposits are domestic.
- (2) Tax equivalent adjustments are based upon assumed tax rate of 34%, and do not reflect the disallowance for Federal income tax purposes of interest expense related to certain tax exempt assets.
- (3) Fees in the amount of \$3,227,000 and \$2,627,000 are included in interest

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and fees on loans for the nine months ended September 30, 2001 and 2000, respectively.

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

	Three months ended September 30			
	2001			
	Average Balance -----	Income/ Expense -----	Yield/ Cost -----	Average Balance -----
Assets:				
Earning assets:				
Loans (1) (3).....	\$1,835,876	\$37,138	8.03%	\$1,639,850
Securities:				
Taxable.....	415,038	6,841	6.54	322,831
Tax exempt.....	28,882	546	7.50	33,203
Cash balances in other banks.....	16,016	162	4.01	2,423
Funds sold.....	50,767	448	3.50	35,277
Trading account securities.....	1,304	18	5.48	1,965
	2,347,883	45,153	7.63	2,035,549
Cash and due from banks.....	75,365			73,421
Premises and equipment.....	51,400			49,726
Other assets.....	106,614			97,166
Allowance for loan losses.....	(23,183)			(21,390)
	\$2,558,079			\$2,234,472
	=====			=====
Liabilities:				
Interest-bearing liabilities:				
Interest-bearing transaction accounts.....	\$ 320,600	2,091	2.59	250,699
Savings deposits.....	334,349	2,433	2.89	327,313
Time deposits.....	937,711	13,079	5.53	893,515
Funds purchased.....	255,648	2,209	3.43	159,942
Other short-term borrowings.....	38,762	347	3.55	89,597
Long-term debt.....	176,781	2,185	4.90	79,571
	2,063,851	22,344	4.30	1,800,637
Demand deposits.....	266,229			242,636
Accrued interest and other liabilities.....	42,658			31,834
Stockholders' equity.....	185,341			159,365
	\$2,558,079			\$2,234,472
	=====			=====
Net interest spread.....			3.33%	=====
Net interest income/margin on a taxable equivalent basis.....		22,809	3.85%	=====

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Tax equivalent adjustment (2).....	268	

Net interest income/margin.....	\$22,541	3.81%
	=====	=====

-
- (1) Average loans include nonaccrual loans. All loans and deposits are domestic.
 - (2) Tax equivalent adjustments are based upon assumed tax rate of 34%, and do not reflect the disallowance for Federal income tax purposes of interest expense related to certain tax exempt assets.
 - (3) Fees in the amount of \$1,143,000 and \$906,000 are included in interest and fees on loans for the three months ended September 30, 2001 and 2000, respectively.

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

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

	Nine Months Ended Sep	
	2001 Compared to	
	Variance Due	
	Volume	Yield/Rat

Earning assets:		
Loans.....	\$19,131	\$ (10,21
Securities:		
Taxable.....	3,732	(91)
Tax exempt.....	(191)	-
Cash balances in other banks.....	326	(7
Funds sold.....	573	(72
Trading account securities.....	(9)	(1
	-----	-----
Total interest income.....	23,562	(11,94
Interest-bearing liabilities:		
Interest-bearing transaction accounts.....	1,528	(64
Savings and money market deposits.....	(130)	(72
Time deposits.....	5,577	80
Funds purchased.....	3,408	(2,90
Other short-term borrowings.....	(901)	(53
Long-term debt.....	2,435	(76
	-----	-----
Total interest expense.....	11,917	(4,75

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Net interest income on a taxable equivalent basis.....	\$11,645 =====	\$ (7,18 =====
Taxable equivalent adjustment.....		
Net interest income.....		

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

	Three Months Ended Sep	
	2001 Compared to	
	Variance Due	
	Volume	Yield/Rate
Earning assets:		
Loans.....	\$18,426	\$ (19,317)
Securities:		
Taxable.....	2,907	(1,642)
Tax exempt.....	(81)	(11)
Cash balances in other banks.....	159	(25)
Funds sold.....	1,047	(1,208)
Trading account securities.....	(10)	(7)
	-----	-----
Total interest income.....	22,448	(22,210)
Interest-bearing liabilities:		
Interest-bearing transaction accounts.....	2,164	(2,213)
Savings and money market deposits.....	411	(969)
Time deposits.....	3,439	(4,225)
Funds purchased.....	4,745	(4,971)
Other short-term borrowings.....	(661)	(576)
Long-term debt.....	2,397	(1,417)
	-----	-----
Total interest expense.....	12,495	(14,371)
	-----	-----
Net interest income on a taxable equivalent basis.....	\$ 9,953 =====	\$ (7,839) =====
Taxable equivalent adjustment.....		
Net interest income.....		

The provision for loan losses represents a charge to current earnings necessary to maintain the allowance for loan losses at an appropriate level based on management's analysis of the potential risk in the loan portfolio. The amount of the provision is a function of the level of loans outstanding, the level of

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non-performing loans, historical loan loss experience, the amount of loan losses actually charged against the allowance during a given period and current economic conditions. The provision for loan losses was \$919,000 for the 2001 third quarter, an increase of \$429,000 when compared with \$490,000 recorded in the 2000 third quarter. The provision for loan losses was \$2.2 million for the 2001 nine months, compared to \$1.8 million in the 2000 nine months. The increase during the 2001 third quarter and nine months is attributable to a higher level of net charge-offs, growth in the loan portfolio and an increase in nonperforming loans. The allowance for loan losses as a percentage of outstanding loans, net of unearned income, was 1.28% at September 30, 2001, compared to 1.31% at December 31, 2000.

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

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Total noninterest income for the 2001 third quarter was \$11.7 million, compared to \$8.4 million for the 2000 third quarter, an increase of 40.4%. For the 2001 nine months, noninterest income increased to \$35.0 million, compared to \$24.0 million for the 2000 nine months, an increase of 45.8%. The components of noninterest income include service charges on deposits, investment services revenue, securities brokerage and trust revenue, insurance commissions, and fees relating to the origination and sale of mortgage loans. Service charges on deposits for the 2001 third quarter and 2000 third quarter were \$2.3 million and \$2.1 million, respectively. For the 2001 nine months, service charge income increased to \$6.9 million, from \$6.1 million for the 2000 nine months. Revenue from the investment division totaled \$3.1 million in the 2001 third quarter, an increase of \$1.5 million, or 95.4%, as compared to \$1.6 million recorded in the 2000 third quarter. During the 2001 nine months, the investment division revenue totaled \$9.6 million, an increase of \$5.7 million, or 144.2%, as compared to \$3.9 million in the 2000 nine months. The substantial increase in revenue in the investment division was due to increased liquidity of community banks served by this division and the decline of interest rates during 2001, both of which led to increased demand for fixed income securities by its customers. Securities brokerage and trust revenue increased 12.8%, to \$2.1 million in the 2001 third quarter, compared to \$1.9 million in the 2000 third quarter. For the 2001 nine months, securities brokerage and trust revenue totaled \$6.6 million, as compared to \$5.5 million during the 2000 nine months, an increase of 21.7%. The increase in the securities brokerage and trust division during each period of 2001 is attributable to continued expansion in the number of customers and total customer assets under management by these departments. Insurance commissions totaled \$499,000 and \$1.5 million during the 2001 third quarter and 2001 nine months, respectively, as compared to \$402,000 and \$1.5 million recorded in the same periods during 2000. Fees generated from the origination and sale of mortgages increased to \$2.0 million for the 2001 third quarter, from \$890,000 in the 2000 third quarter, representing a 119.1% increase. During the 2001 nine months mortgage fees increased to \$5.2 million, from \$2.6 million during the 2000 nine months, an increase of 98.0%. This increase is primarily a result of declining interest rates and the impact the interest rate environment has on refinancing and new mortgage origination activity. Other noninterest income totaled \$1.0 million during each of the 2001 and 2000 third quarters. Other noninterest income increased to \$3.3 million during the 2001 nine months, an increase of 15.4%, compared to \$2.8 million recorded in the 2000 nine months.

Noninterest expense was \$22.3 million for the 2001 third quarter, compared to

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\$18.8 million for the 2000 third quarter. For the 2001 nine months, noninterest expense was \$67.0 million, compared to \$54.7 million for the 2000 nine months. Noninterest expense includes salaries and employee benefits, commission based compensation, occupancy and equipment expenses and other expenses. Salaries and employee benefits were \$11.0 million for the 2001 third quarter, compared to \$9.8 million for the 2000 third quarter. For the 2001 nine months, salaries and employee benefits were \$33.1 million, compared to \$28.9 million in the 2000 nine months. The increase in salaries and employee benefits represents general staffing increases concurrent with expansion of offices and business lines and merit compensation increases. Commission based compensation was \$3.1 million for the 2001 third quarter, compared to \$1.5 million for the 2000 third quarter. For the 2001 nine months, commission based compensation was \$8.9 million, compared to \$3.6 million in the 2000 nine months. The increase in commission based compensation during these periods is attributable to increased production in the mortgage, securities brokerage and investment divisions. A significant portion of compensation in these areas is incentive based. Occupancy and equipment expense totaled \$2.4 million in the 2001 third quarter and \$2.3 million in the 2000 third quarter. Occupancy and equipment expense totaled \$7.4 million in the 2001 nine months and \$6.6 million in the 2000 nine months. The 2001 third quarter and nine months include expenses related to two banking branches opened in third and fourth quarters of 2000 and expenses related to two banking branches acquired during August of 2000, which expenses were not incurred for the full periods in 2000. Other noninterest expense increased to \$5.9 million in the 2001 third quarter, compared with \$5.2 million in the 2000 third quarter. Other noninterest expense was \$17.6 million in the 2001 nine months and \$15.5 million in the 2000 nine months.

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Because of an increase in pre-tax income, income tax expense was \$3.5 million for the 2001 third quarter, compared to \$3.0 million for the 2000 third quarter. For the 2001 nine months, income tax expense was \$9.4 million, compared to \$8.4 million for the 2000 nine months. The effective tax rates for the 2001 third quarter and the 2001 nine months were 31.8% and 31.7%, respectively, compared to 31.1% for each of the same periods of 2000. These effective tax rates are impacted by items of income and expense that are not subject to federal or state taxation.

Earning Assets

Loans comprised the largest single category of Alabama National's earning assets on September 30, 2001. Loans, net of unearned income, were \$1.83 billion, or 69.0% of total assets at September 30, 2001, compared to \$1.71 billion, or 72.5%, at December 31, 2000. Loans grew \$119.1 million, or 7.0%, during the 2001 nine months, compared to the 2000 year-end. Average loans grew \$247.4 million, or 16.1%, during the 2001 nine months, compared to the 2000 nine months. The following table details the composition of the loan portfolio by category at the dates indicated:

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

September 30, 2001	December 31, 2000
-----	-----
Percent	Percent

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	Amount -----	of Total -----	Amount -----	of -----
Commercial, financial and agricultural.....	\$ 252,023	13.77%	\$ 275,107	
Real estate:				
Construction.....	217,270	11.87	185,814	
Mortgage - residential.....	530,087	28.95	490,152	
Mortgage - commercial.....	562,286	30.71	498,858	
Mortgage - other.....	4,254	.22	4,238	
Consumer.....	81,106	4.43	79,458	
Lease financing receivables.....	72,113	3.94	58,668	
Securities brokerage margin loans.....	15,702	.86	29,901	
Other.....	96,127	5.25	89,700	
	-----	-----	-----	
Total gross loans.....	1,830,968	100.00%	1,711,896	1
		=====		=
Unearned income.....	(1,043)		(1,086)	
	-----		-----	
Total loans, net of unearned income.....	1,829,925		1,710,810	
Allowance for loan losses.....	(23,371)		(22,368)	
	-----		-----	
Total net loans.....	\$1,806,554		\$1,688,442	
	=====		=====	

The carrying value of investment securities increased \$121.9 million in the 2001 nine months, from \$60.8 million at December 31, 2000, to \$182.7 million at September 30, 2001. During the 2001 nine months, Alabama National purchased \$162.1 million of investment securities and received \$40.2 million from maturities, including principal paydowns of mortgage backed securities.

The carrying value of securities available for sale decreased \$37.1 million in the 2001 nine months from \$325.3 million at December 31, 2000, to \$288.2 million at September 30, 2001. Purchases of available for sale securities totaled \$112.9 million and maturities, calls, and sales of available for sale securities totaled \$156.9 million. During the 2001 nine months, unrealized gains on available for sale securities totaled \$4.3 million net of income taxes.

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Trading account securities, which had a balance of \$2.8 million at September 30, 2001, are securities owned by Alabama National prior to sale and delivery to Alabama National's customers. It is the policy of Alabama National to limit positions in such securities to reduce its exposure to market and interest rate changes. Federal funds sold and securities purchased under agreements to resell totaled \$24.0 million at September 30, 2001 and \$30.3 million at December 31, 2000.

Deposits and Other Funding Sources

Deposits increased by \$61.8 million from year-end 2000, to \$1.87 billion at September 30, 2001. All categories of deposits experienced growth during the 2001 nine months, except time deposits greater than \$100,000. Included in time deposits greater than \$100,000 at September 30, 2001 and December 31, 2000, were \$34.0 million and \$87.1 million of brokered deposits, respectively. During the 2001 nine months, Alabama National decreased its reliance on brokered deposits

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due to increases in the other categories of deposits and other funding sources. Excluding brokered deposits, time deposits greater than \$100,000 actually increased during the 2001 nine months.

Federal funds purchased and securities sold under agreements to repurchase totaled \$256.1 million at September 30, 2001, an increase of \$89.5 million from December 31, 2000. The treasury, tax and loan account increased to \$3.3 million at September 30, 2001, compared with \$900,000 at December 31, 2000. Short-term borrowings at September 30, 2001 totaled \$34.6 million, including a note payable to a third party bank of \$29.6 million and advances from the Federal Home Loan Bank ("FHLB") totaling \$5.0 million.

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

SHORT-TERM BORROWINGS
(Amounts in thousands)

Note payable to third party bank under secured master note agreement; rate varies with LIBOR and was 3.36375% and 7.4318% at September 30, 2001 and December 31, 2000, respectively; collateralized by Alabama National's stock in subsidiary banks.

FHLB debt due at various maturities ranging from April 23, 2001 through October 12, 2001; bearing interest at fixed and variable rates ranging from 5.08375% to 6.40% and 6.40% to 6.7575% at June 30, 2001 and December 31, 2000, respectively; collateralized by FHLB stock and certain first mortgages. All of these notes were called, matured or refinanced during the nine month period ended September 30, 2001.

FHLB open ended note payable; rate varies daily based on the FHLB Daily Rate Credit interest price and was 3.59% and 6.35% at September 30, 2001 and December 31, 2000, respectively; collateralized by FHLB stock and certain first mortgage loans.

Total short-term borrowings

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

LONG-TERM DEBT
(Amounts in thousands)

FHLB debt due April 23, 2004; rate varies with LIBOR and was

Septe

\$2

\$3

==

Septem

20

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

\$

FHLB debt due at various maturities ranging from November 5, 2003 through August 11, 2011; bearing interest at fixed rates ranging from 3.31% to 6.00% and 4.74% to 6.00% at September 30, 2001 and December 31, 2000, respectively; convertible at the option of the FHLB at dates ranging from October 9, 2001 to March 26, 2003; collateralized by FHLB stock, certain first mortgage loans and pledged available for sale securities.

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FHLB debt due February 11, 2003; interest rate varies with LIBOR and was 5.6275% and 6.5275% at September 30, 2001 and December 31, 2000, respectively; collateralized by FHLB stock and certain first mortgage loans.

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Various notes payable

Capital leases payable

Total long-term debt

\$189
=====

Asset Quality

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

At September 30, 2001, nonperforming assets totaled \$10.1 million, compared to \$5.1 million at year-end 2000. Nonperforming assets as a percentage of loans plus other real estate were 0.55% at September 30, 2001, compared to 0.30% at December 31, 2000. The increase in nonperforming assets is attributable to the current slowdown in the national economy. Although the level of nonperforming assets has increased since year-end 2000, the current levels are still below industry averages. The following table presents Alabama National's nonperforming assets for the dates indicated.

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NONPERFORMING ASSETS
(Amounts in thousands, except percentages)

	September 30, 2001

Nonaccrual loans.....	\$ 8,224
Restructured loans.....	--
Loans past due 90 days or more and still accruing.....	--

Total nonperforming loans.....	8,224
Other real estate owned.....	1,911

Total nonperforming assets.....	\$10,135
	=====
Allowance for loan losses to period-end loans.....	1.28%
Allowance for loan losses to period-end nonperforming loans.....	284.18
Allowance for loan losses to period-end nonperforming assets.....	230.60
Net charge-offs to average loans.....	0.09
Nonperforming assets to period-end loans and other real estate owned.....	0.55
Nonperforming loans to period-end loans.....	0.45

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Net loan charge-offs for the 2001 nine months totaled \$2.1 million or 0.09% (annualized) of average loans for the period. The allowance for loan losses as a percentage of total loans, net of unearned income, was 1.28% at September 30, 2001, compared to 1.31% at December 31, 2000. The following table analyzes activity in the allowance for loan losses for the 2001 nine months.

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

Allowance for loan losses at beginning of period.....	\$22,368
Charge-offs:	
Commercial, financial and agricultural.....	866
Real estate - mortgage.....	262
Consumer.....	949

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Total charge-offs.....	2,077
<hr/>	
Recoveries:	
Commercial, financial and agricultural.....	208
Real estate - mortgage.....	162
Consumer.....	497
<hr/>	
Total recoveries.....	867
<hr/>	
Net charge-offs.....	1,210
<hr/>	
Provision for loan losses.....	2,213
<hr/>	
Allowance for loan losses at end of period.....	\$23,371
	<hr/> <hr/>

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

Interest Rate Sensitivity

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

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

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rate during the life of an asset or liability.

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

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

INTEREST SENSITIVITY ANALYSIS
(Amounts in thousands, except ratios)

	September 30,		
	Zero Through Three Months	After Three Through Twelve Months	One Through Three Years
Assets:			
Earning assets:			
Loans (1).....	\$895,138	\$ 198,154	\$322,188
Securities (2).....	25,561	60,322	123,909
Trading securities.....	2,769	-	-
Interest-bearing deposits in other banks.....	23,373	-	-
Funds sold.....	24,033	-	-
Total interest-earning assets.....	\$970,874	\$ 258,486	\$446,097
Liabilities:			
Interest-bearing liabilities:			
Interest-bearing deposits:			
Demand deposits.....	\$125,878	\$ -	\$ -
Savings and money market deposits.....	121,575	-	-
Time deposits (3).....	279,389	520,591	102,732
Funds purchased.....	256,105	-	-
Short-term borrowings (4).....	37,925	-	-
Long-term debt.....	90,003	40,014	59,036
Total interest-bearing liabilities.....	\$910,875	\$ 560,605	\$161,768
Period gap.....	\$ 59,999	\$ (302,119)	\$284,329
Cumulative gap.....	\$ 59,999	\$ (242,120)	\$ 42,209
Ratio of cumulative gap to total earning assets.....	2.56%	-10.31%	1.80%

-
- (1) Excludes nonaccrual loans of \$8,224,000.
 - (2) Excludes available for sale equity securities of \$12,681,000.
 - (3) Excludes matured certificates which have not been redeemed by the customer and on which no interest is accruing.
 - (4) Includes treasury, tax and loan account of \$3,325,000.

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

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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 uncertainty as to their expected performance at varying levels of interest rates. In some cases, prepayment options exist whereby the borrower may elect to repay the obligation at any time. These prepayment options make anticipating

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the performance of those instruments difficult given changes in prevailing rates. At September 30, 2001, mortgage backed securities with a carrying value of \$384.1 million, or 14.5% of total assets, and essentially every loan, net of unearned income, (totaling \$1.83 billion, or 69.0% of total assets), carried such prepayment options. Management believes that assumptions used in its simulation analysis about the performance of financial instruments with such prepayment options are appropriate. However, the actual performance of these financial instruments may differ from management's estimates due to several factors, including the diversity and financial sophistication of the customer base, the general level of prevailing interest rates and the relationship to their historical levels, and general economic conditions. The difference between those assumptions and actual results, if significant, could cause the actual results to differ from those indicated by the simulation analysis.

Deposits totaled \$1.87 billion, or 70.4% of total assets, at September 30, 2001. Since deposits are the primary funding source for earning assets, the associated market risk is considered by management in its simulation analysis. Generally, it is anticipated that deposits will be sufficient to support funding requirements. However, the rates paid for deposits at varying levels of prevailing interest rates have a significant impact on net interest income and therefore, must be quantified by Alabama National in its simulation analysis. Specifically, Alabama National's spread, the difference between the rates earned on earning assets and rates paid on interest bearing liabilities, is generally higher when prevailing rates are higher. As prevailing rates reduce, the spread tends to compress, with severe compression at very low prevailing interest rates. This characteristic is called "spread compression" and adversely effects net interest income in the simulation analysis when anticipated prevailing rates are reduced from current rates. Management relies upon historical experience to estimate the degree of spread compression in its simulation analysis. Management believes that such estimates of possible spread compression are reasonable. However, if the degree of spread compression varies from that expected, the actual results could differ from those indicated by the simulation analysis.

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The following table illustrates the results of simulation analysis used by Alabama National to determine the extent to which market risk would affect net interest margin for the next twelve months if prevailing interest rates increased or decreased the specified amounts from current rates. Because of the inherent use of estimates and assumptions in the simulation model used to derive this information, the actual results of the future impact of market risk on Alabama National's net interest margin may differ from that found in the table.

MARKET RISK (Amounts in thousands)

Change in Prevailing Interest Rates (1)	As of September 30, 2001		As of December 31, 2000	
	Net Interest Income Amount	Change from Income Amount	Net Interest Income Amount	Change Income A
+200 basis points.....	\$ 105,405	3.65%	\$ 91,547	5.06%
+100 basis points.....	104,157	2.42	89,413	2.61
0 basis points.....	101,695	--	87,136	--

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-100 basis points.....	97,728	(3.90)	84,039	(3.55)
-200 basis points.....	92,903	(8.65)	81,948	(5.95)

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

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Liquidity and Capital Adequacy

Alabama National's net loan to deposit ratio was 97.9% at September 30, 2001, compared to 94.7% at year-end 2000. Alabama National's liquid assets as a percentage of total deposits were 7.3% at September 30, 2001, compared to 6.6% at year-end 2000. At September 30, 2001, Alabama National had unused federal funds lines of approximately \$120.7 million, unused lines at the Federal Home Loan Bank of \$115.6 million and an unused credit line with a third party bank of \$5.4 million. During the 2001 second quarter, the maximum credit amount under this third party bank facility was increased from \$32.0 million to \$35.0 million. Alabama National also has access to approxima