

ALABAMA NATIONAL BANCORPORATION  
Form 10-Q  
August 05, 2005  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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**QUARTERLY REPORT**

**PURSUANT TO SECTION 13 or 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTER ENDED JUNE 30, 2005**

**0-25160**

(Commission File No.)

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**ALABAMA NATIONAL BANCORPORATION**

(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**  
(State of incorporation)

**63-1114426**  
(IRS employer identification number)

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1927 First Avenue North, Birmingham, Alabama  
(Address of principal executive offices)

35203-4009  
(Zip Code)

205-583-3600

(Registrant's Telephone Number)

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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  No

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

The registrant has 17,030,033 shares of common stock, par value \$1.00 per share, outstanding at August 4, 2005.

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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 within the meaning of the Private Securities Litigation Reform Act of 1995. 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, 2004. With respect to the adequacy of the allowance for loan and lease 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.



**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Financial Statements (Unaudited)****Alabama National BanCorporation and Subsidiaries****Consolidated Statements of Financial Condition****(In thousands, except share amounts)**

	<u>June 30, 2005</u>	<u>December 31, 2004</u>
<b>Assets</b>		
Cash and due from banks	\$ 171,355	\$ 155,027
Interest-bearing deposits in other banks	19,036	21,274
Federal funds sold and securities purchased under resell agreements	101,587	100,970
Trading securities, at fair value		590
Investment securities (fair values of \$559,178 and \$566,602)	564,172	568,493
Securities available for sale, at fair value	607,109	631,914
Loans held for sale	32,247	22,313
Loans and leases	3,851,855	3,499,353
Unearned income	(3,168)	(3,652)
	<u>3,848,687</u>	<u>3,495,701</u>
Loans and leases, net of unearned income	3,848,687	3,495,701
Allowance for loan and lease losses	(49,637)	(46,584)
	<u>3,799,050</u>	<u>3,449,117</u>
Net loans and leases	3,799,050	3,449,117
Property, equipment and leasehold improvements, net	105,092	99,455
Goodwill	144,638	144,396
Other intangible assets, net	9,690	11,286
Cash surrender value of life insurance	72,947	71,535
Receivable from investment division customers	7,625	2,223
Other assets	51,579	37,276
	<u>\$ 5,686,127</u>	<u>\$ 5,315,869</u>
<b>Total assets</b>	<b>\$ 5,686,127</b>	<b>\$ 5,315,869</b>
<b>Liabilities and Stockholders Equity</b>		
Deposits:		
Noninterest bearing	\$ 737,153	\$ 683,245
Interest bearing	3,447,014	3,251,478
	<u>4,184,167</u>	<u>3,934,723</u>
Total deposits	4,184,167	3,934,723
Federal funds purchased and securities sold under repurchase agreements	501,734	379,114
Treasury, tax and loan accounts		2,217
Accrued expenses and other liabilities	48,962	43,861
Payable for securities purchased for investment division customers	7,230	2,223

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Short-term borrowings	83,225	30,500
Long-term debt	311,512	393,688
	<u>          </u>	<u>          </u>
Total liabilities	\$ 5,136,830	\$ 4,786,326
Commitments and contingencies (Note B)		
Common stock, \$1 par; 50,000,000 and 27,500,000 shares authorized at June 30, 2005 and December 31, 2004, respectively; 17,024,647 and 16,998,918 shares outstanding at June 30, 2005 and December 31, 2004, respectively	17,025	16,999
Additional paid-in capital	341,635	340,161
Retained earnings	193,337	173,345
Accumulated other comprehensive loss, net of tax	(2,700)	(962)
	<u>          </u>	<u>          </u>
Total stockholders' equity	549,297	529,543
	<u>          </u>	<u>          </u>
Total liabilities and stockholders' equity	\$ 5,686,127	\$ 5,315,869
	<u>          </u>	<u>          </u>

*See accompanying notes to unaudited consolidated financial statements*

**Table of Contents****Alabama National BanCorporation and Subsidiaries****Consolidated Statements of Income (Unaudited)****(In thousands, except per share data)**

	<b>For the Three Months</b>	
	<b>Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Interest income:</b>		
Interest and fees on loans and leases	\$ 61,054	\$ 44,099
Interest on securities	12,224	11,097
Interest on deposits in other banks	77	17
Interest on trading securities	5	17
Interest on federal funds sold and securities purchased under resell agreements	713	167
<b>Total interest income</b>	<b>74,073</b>	<b>55,397</b>
<b>Interest expense:</b>		
Interest on deposits	\$ 17,537	\$ 11,263
Interest on federal funds purchased and securities sold under repurchase agreements	3,261	963
Interest on short-term borrowings	870	285
Interest on long-term debt	3,318	3,252
<b>Total interest expense</b>	<b>24,986</b>	<b>15,763</b>
<b>Net interest income</b>	<b>49,087</b>	<b>39,634</b>
Provision for loan and lease losses	1,991	1,278
<b>Net interest income after provision for loan and lease losses</b>	<b>47,096</b>	<b>38,356</b>
<b>Noninterest income:</b>		
Service charges on deposit accounts	\$ 4,154	\$ 4,520
Investment services income	858	3,273
Securities brokerage and trust income	4,920	4,197
Gain on sale of mortgages	3,417	3,491
Insurance commissions	833	779
Bank owned life insurance	745	683
Gain on disposition of assets	283	57
Other	3,019	2,288
<b>Total noninterest income</b>	<b>18,229</b>	<b>19,288</b>

**Table of Contents****Alabama National BanCorporation and Subsidiaries****Consolidated Statements of Income (Unaudited) (Continued)****(In thousands, except per share data)**

	<b>For the Three Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Noninterest expense:</b>		
Salaries and employee benefits	\$ 20,953	\$ 18,992
Commission based compensation	4,011	4,784
Occupancy and equipment expenses	4,342	3,867
Amortization of intangibles	769	842
Other	10,640	9,127
<b>Total noninterest expense</b>	<b>40,715</b>	<b>37,612</b>
<b>Income before provision for income taxes</b>	<b>24,610</b>	<b>20,032</b>
Provision for income taxes	8,415	6,788
<b>Net income</b>	<b>\$ 16,195</b>	<b>\$ 13,244</b>
<b>Weighted average common shares outstanding:</b>		
Basic	17,184	15,555
Diluted	17,394	15,806
<b>Earnings per common share:</b>		
Basic	\$ 0.94	\$ 0.85
Diluted	\$ 0.93	\$ 0.84
<b>Cash dividends per common share</b>	<b>\$ 0.3375</b>	<b>\$ 0.3125</b>

*See accompanying notes to unaudited consolidated financial statements*

**Table of Contents****Alabama National BanCorporation and Subsidiaries****Consolidated Statements of Income (Unaudited)****(In thousands, except per share data)**

	<b>For the Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Interest income:</b>		
Interest and fees on loans and leases	\$ 116,220	\$ 84,312
Interest on securities	24,326	19,852
Interest on deposits in other banks	125	28
Interest on trading securities	9	35
Interest on federal funds sold and securities purchased under resell agreements	1,237	300
<b>Total interest income</b>	<b>141,917</b>	<b>104,527</b>
<b>Interest expense:</b>		
Interest on deposits	\$ 32,395	\$ 21,479
Interest on federal funds purchased and securities sold under repurchase agreements	5,629	1,960
Interest on short-term borrowings	1,276	579
Interest on long-term debt	6,625	6,205
<b>Total interest expense</b>	<b>45,925</b>	<b>30,223</b>
<b>Net interest income</b>	<b>95,992</b>	<b>74,304</b>
Provision for loan and lease losses	3,535	2,506
<b>Net interest income after provision for loan and lease losses</b>	<b>92,457</b>	<b>71,798</b>
<b>Noninterest income:</b>		
Service charges on deposit accounts	\$ 8,084	\$ 8,331
Investment services income	2,003	7,180
Securities brokerage and trust income	9,441	8,296
Gain on sale of mortgages	6,087	6,033
Insurance commissions	1,628	1,737
Bank owned life insurance	1,399	1,410
Securities gains	72	
Gain on disposition of assets	711	37
Other	5,587	3,904
<b>Total noninterest income</b>	<b>35,012</b>	<b>36,928</b>

**Table of Contents****Alabama National BanCorporation and Subsidiaries****Consolidated Statements of Income (Unaudited)(Continued)****(In thousands, except per share data)**

	<b>For the Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Noninterest expense:</b>		
Salaries and employee benefits	\$ 41,406	\$ 36,671
Commission based compensation	7,505	9,549
Occupancy and equipment expenses	8,481	7,365
Amortization of intangibles	1,594	1,324
Other	20,390	16,874
<b>Total noninterest expense</b>	<b>79,376</b>	<b>71,783</b>
Income before provision for income taxes	48,093	36,943
Provision for income taxes	16,418	12,392
<b>Net income</b>	<b>\$ 31,675</b>	<b>\$ 24,551</b>
<b>Weighted average common shares outstanding:</b>		
Basic	17,178	14,751
<b>Diluted</b>	<b>17,391</b>	<b>14,994</b>
<b>Earnings per common share:</b>		
Basic	\$ 1.84	\$ 1.66
<b>Diluted</b>	<b>\$ 1.82</b>	<b>\$ 1.64</b>
Cash dividends per common share	\$ 0.6750	\$ 0.6250

*See accompanying notes to unaudited consolidated financial statements*

**Table of Contents****Alabama National BanCorporation and Subsidiaries****Consolidated Statements of Comprehensive Income (Unaudited)****(In thousands)**

	<b>For the Three Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
Net income	\$ 16,195	\$ 13,244
Other comprehensive income:		
Unrealized gains (losses) on securities available for sale arising during the period	8,398	(19,605)
Less: Reclassification adjustment for net gains included in net income		
	<u>8,398</u>	<u>(19,605)</u>
Other comprehensive income (loss), before tax	8,398	(19,605)
Provision for (benefit of) income taxes related to items of other comprehensive income (loss)	3,013	(6,948)
	<u>5,385</u>	<u>(12,657)</u>
Other comprehensive income (loss)	5,385	(12,657)
Comprehensive income	<u>\$ 21,580</u>	<u>\$ 587</u>

*See accompanying notes to unaudited consolidated financial statements*

**Table of Contents****Alabama National BanCorporation and Subsidiaries****Consolidated Statements of Comprehensive Income (Unaudited)****(In thousands)**

	<b>For the Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
Net income	\$ 31,675	\$ 24,551
Other comprehensive income:		
Unrealized losses on securities available for sale arising during the period	(2,620)	(11,985)
Less: Reclassification adjustment for net gains included in net income	72	
	<u>(2,692)</u>	<u>(11,985)</u>
Other comprehensive loss, before tax	(2,692)	(11,985)
Benefit of income taxes related to items of other comprehensive loss	(954)	(4,234)
	<u>(1,738)</u>	<u>(7,751)</u>
Other comprehensive loss	(1,738)	(7,751)
Comprehensive income	<u>\$ 29,937</u>	<u>\$ 16,800</u>

*See accompanying notes to unaudited consolidated financial statements*

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

(In thousands)

	<b>For the Six Months</b>	
	<b>ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Net cash flows provided by operating activities</b>	\$ 20,103	\$ 26,424
<b>Cash flows from investing activities:</b>		
Proceeds from calls and maturities of investment securities	45,911	70,597
Purchases of investment securities	(41,577)	(316,817)
Purchases of securities available for sale	(106,536)	(372,950)
Proceeds from sale of securities available for sale	11,306	5,162
Proceeds from calls and maturities of securities available for sale	117,139	504,519
Net decrease (increase) in interest bearing deposits in other banks	2,238	(4,419)
Net increase in federal funds sold and securities purchased under resell agreements	(617)	(29,314)
Net increase in loans and leases	(354,403)	(177,179)
Purchase acquisitions, net of cash acquired	(325)	28,866
Purchases of property, equipment and leasehold improvements	(8,994)	(7,990)
Cash paid for bank owned life insurance	(27)	
Proceeds from sale of other real estate owned and fixed assets	2,796	734
<b>Net cash used in investing activities</b>	<b>(333,089)</b>	<b>(298,791)</b>
<b>Cash flows from financing activities:</b>		
Net increase in deposits	249,444	312,531
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	122,620	(25,963)
Net increase (decrease) in short-term borrowings	31,508	(10,755)
Repayments of long-term debt	(63,000)	
Proceeds from long-term debt		24,000
Dividends on common stock	(11,487)	(9,619)
Other	229	1,754
<b>Net cash provided by financing activities</b>	<b>329,314</b>	<b>291,948</b>
<b>Increase in cash and cash equivalents</b>	<b>16,328</b>	<b>19,581</b>
Cash and cash equivalents, beginning of period	155,027	123,086
<b>Cash and cash equivalents, end of period</b>	<b>\$ 171,355</b>	<b>\$ 142,667</b>
<b>Supplemental schedule of noncash investing and financing activities</b>		
Acquisition of collateral in satisfaction of loans	\$ 935	\$ 2,001
Adjustment to market value of securities available for sale, net of deferred income taxes	\$ (1,738)	\$ (7,751)
Assets acquired in business combinations	\$	\$ 781,225

Liabilities assumed in business combinations	\$	\$ 641,764
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*See accompanying notes to unaudited consolidated financial statements.*

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ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

**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 only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months and six months ended June 30, 2005 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, 2005. 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, 2004.

**NOTE B - COMMITMENTS 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 financial condition. As of June 30, 2005, the total unfunded commitments which are not reflected in the consolidated statements of financial condition totaled \$1.2 billion. A majority of these commitments will expire in less than one year.

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

Alabama National has received preliminary tax assessments for certain state taxes from a taxing authority for subsidiaries holding investments outside of the state. Based upon review of the assessments and the relevant tax laws and based on review and consultation with accountants and counsel, management does not anticipate that the ultimate liability, if any, resulting from such assessments will have a material adverse effect on Alabama National's financial condition or results of operations.

**NOTE C - RECENTLY ISSUED PRONOUNCEMENTS**

In December 2003, the American Institute of Certified Public Accountants issued Statement of Position 03-3, *Accounting for Certain Loans and Debt Securities Acquired in a Transfer* (SOP 03-3). SOP 03-3 addresses accounting for differences between contractual cash flows expected to be collected and an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. SOP 03-3's application includes loans and debt securities acquired in purchase business combinations. SOP 03-3 limits the yield that may be accreted (accretable yield) to the excess of the investor's estimate of undiscounted expected principal, interest and other cash flows (cash flows expected at acquisition to be collected) over the investor's initial investment in the loan. SOP 03-3 requires that the excess of contractual cash flows over cash flows to be collected (nonaccretable difference) not be recognized as an adjustment of yield, loss accrual or

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valuation allowance. SOP 03-3 prohibits investors from displaying accretable yield and nonaccretable difference in the balance sheet. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as impairment. SOP 03-3 prohibits carrying over or creation of valuation allowances in the initial accounting of all loans acquired in a transfer that are within the scope of SOP 03-3. The prohibition of the valuation allowance carryover applies to the purchase of an individual loan, a pool of loans, a group of loans, and loans acquired in a purchase business combination. SOP 03-3 is effective for loans acquired in fiscal years beginning after December 15, 2004. The changes required by this SOP have not had and are not expected to have a material impact on Alabama National's financial condition or results of operations.

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In March 2004, the Emerging Issues Task Force (EITF) reached a final consensus on Issue 03-1, *The Meaning of Other-Than-Temporary and Its Application to Certain Investments*. The issue applies to debt and equity securities within the scope of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, certain debt and equity securities within the scope of SFAS 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, and equity securities that are not subject to the scope of SFAS 115 and not accounted for under the equity method of accounting (i.e., cost method investments). Issue 03-1 outlines a three step model for assessing other-than-temporary impairment. The model involves first determining whether an investment is impaired, then evaluating whether the impairment is other-than-temporary, and if it is, recognizing an impairment loss equal to the difference between the investment's cost and its fair value. The model was to be applied prospectively to all current and future investments in interim or annual reporting periods beginning after June 15, 2004. However, in September 2004 the Financial Accounting Standards Board (FASB) staff issued FASB Staff Position (FSP) EITF Issue 03-1-1 which delayed the effective date for measurement and recognition guidance contained in Issue 03-1 until such time as additional implementation guidance could be provided. In June 2005, the FASB decided not to provide additional guidance on the meaning of other-than-temporary impairment, but directed the staff to draft and submit for vote FSP FAS 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, which will replace the measurement and recognition guidance set forth in Issue 03-1 with references to existing other-than-temporary impairment guidance. FSP FAS 115-1 will also codify the guidance set forth in EITF Topic D-44 and clarify that an investor should recognize an impairment loss no later than when the impairment is deemed other-than-temporary, even if a decision to sell has not been made. The FSP is expected to be voted on in the third quarter of 2005 and would likely be effective for other-than-temporary impairment analysis conducted in periods beginning after September 15, 2005. The disclosure guidance of Issue 03-1 remains effective. See Note H for Alabama National's disclosures under Issue 03-1. The changes required by Issue 03-1 are not expected to have a material impact on Alabama National's financial statements.

On December 16, 2004, the FASB issued SFAS 123(R), *Share-Based Payment*, which is a revision of SFAS 123, *Accounting for Stock-Based Compensation*. SFAS 123(R) supersedes APB Opinion 25, *Accounting for Stock Issued to Employees*, and amends SFAS 95, *Statement of Cash Flows*. Generally the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on fair values. SFAS 123(R) was originally effective for interim or annual periods beginning after June 15, 2005. However, in April 2005 the Securities and Exchange Commission (SEC) amended this requirement allowing companies to adopt the standard at the beginning of their next fiscal year that begins after June 15, 2005. Early adoption will be permitted in periods in which financial statements have not yet been issued. Alabama National currently uses a fair value-based method of accounting for compensation costs and has fully adopted and implemented the expense recognition provisions of SFAS 123. Accordingly, Alabama National does not expect the changes required by SFAS 123(R) to have a material impact on Alabama National's financial condition or results of operations.

In May 2005, the FASB issued SFAS 154, *Accounting Changes and Error Corrections*, which replaces APB Opinion No. 20, *Accounting Changes*, and SFAS 3, *Reporting Accounting Changes in Interim Financial Statements-An Amendment of APB Opinion No. 28*. SFAS 154 changes the requirements for the accounting and reporting of a change in accounting principle. It applies to all voluntary changes in accounting principle as well as to changes required by an accounting pronouncement that does not include specific transition provisions. SFAS 154 eliminates the requirement in APB Opinion No. 20 to include the cumulative effect changes in accounting principle in the income statement in the period of change. Instead, to enhance comparability of prior period financial statements, SFAS 154 requires that changes in accounting principle be retrospectively applied. Under retrospective application, the new accounting principle is applied as of the beginning of the first period presented as if that principle had always been used. The cumulative effect of the change is reflected in the carrying value of assets and liabilities as of the first period presented and the offsetting adjustments are recorded to opening retained earnings. Each period presented is adjusted to reflect the period specific effects of applying the change. Although retrospective application is similar to restating prior periods, SFAS 154 gives the treatment a new name to differentiate it from restatement for correction of an error. Only direct effects of the change will be included in the retrospective application; all indirect effects will be recognized in the period of change. If it is impracticable to determine the cumulative effect for all periods, the new accounting principle should be applied as if it were adopted prospectively from the earliest date practicable. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after the date SFAS 154 was issued. The changes required by SFAS 154 are not expected to have a material impact on Alabama National's financial condition or results of operations.

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The following table reflects the reconciliation of the numerator and denominator of the basic earnings per share computation to the diluted earnings per share computation for the three months and six months ended June 30, 2005 and 2004 (in thousands except per share data).

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2005	2004	2005	2004
(In thousands, except per share data)				
<b>Basic Earnings Per Share:</b>				
Net income available to common shareholders	\$ 16,195	\$ 13,244	\$ 31,675	\$ 24,551
Weighted average basic common shares outstanding	17,184	15,555	17,178	14,751
<b>Basic Earnings Per Share</b>	<b>\$ 0.94</b>	<b>\$ 0.85</b>	<b>\$ 1.84</b>	<b>\$ 1.66</b>
<b>Diluted Earnings Per Share:</b>				
Net income available to common shareholders	\$ 16,195	\$ 13,244	\$ 31,675	\$ 24,551
Weighted average common shares outstanding	17,184	15,555	17,178	14,751
Effect of dilutive securities	210	251	213	243
<b>Weighted average diluted common shares outstanding</b>	<b>17,394</b>	<b>15,806</b>	<b>17,391</b>	<b>14,994</b>
<b>Diluted Earnings Per Share</b>	<b>\$ 0.93</b>	<b>\$ 0.84</b>	<b>\$ 1.82</b>	<b>\$ 1.64</b>

**NOTE E 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 Services Division	Retail and Commercial Banking	Corporate Overhead	Elimination Entries	Total
<b>Three Months Ended June 30, 2005:</b>								
Interest income	\$	\$ 372	\$ 379	\$	\$ 73,406	\$ (29)	\$ (55)	\$ 74,073
Interest expense		55	168		23,928	890	(55)	24,986
<b>Net interest income</b>		317	211		49,478	(919)		49,087
Provision for loan and lease losses					1,991			1,991
Noninterest income	858	4,920	3,691	846	7,886	28		18,229

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Noninterest expense	1,167	4,637	2,584	868	29,263	2,196	40,715
Net income (loss) before tax	\$ (309)	\$ 600	\$ 1,318	\$ (22)	\$ 26,110	\$ (3,087)	\$ 24,610
Total assets as of June 30, 2005	\$ 7,791	\$ 33,151	\$ 33,107	\$ 3,705	\$ 5,596,711	\$ 11,662	\$ 5,686,127
<b>Three Months Ended June 30, 2004:</b>							
Interest income	\$	\$ 277	\$ 273	\$	\$ 54,886	\$ (28)	\$ 55,397
Interest expense		26	75		15,024	649	15,763
Net interest income		251	198		39,862	(677)	39,634
Provision for loan and lease losses					1,278		1,278
Noninterest income	3,273	4,197	3,335	779	7,685	19	19,288
Noninterest expense	2,512	3,934	2,253	853	26,386	1,674	37,612
Net income (loss) before tax	\$ 761	\$ 514	\$ 1,280	\$ (74)	\$ 19,883	\$ (2,332)	\$ 20,032
Total assets as of June 30, 2004	\$ 50,110	\$ 29,019	\$ 20,771	\$ 4,063	\$ 4,826,007	\$ 9,479	\$ 4,939,449
<b>Six Months Ended June 30, 2005:</b>							
Interest income	\$	\$ 716	\$ 654	\$	\$ 140,698	\$ (58)	\$ 141,917
Interest expense		93	245		43,984	1,696	45,925
Net interest income		623	409		96,714	(1,754)	95,992
Provision for loan and lease losses					3,535		3,535
Noninterest income	2,003	9,441	6,501	1,645	15,362	60	35,012
Noninterest expense	2,305	8,914	4,773	1,697	57,144	4,543	79,376
Net income (loss) before tax	\$ (302)	\$ 1,150	\$ 2,137	\$ (52)	\$ 51,397	\$ (6,237)	\$ 48,093
<b>Six Months Ended June 30, 2004:</b>							
Interest income	\$	\$ 545	\$ 475	\$	\$ 103,605	\$ (57)	\$ 104,527
Interest expense		56	131		28,864	1,213	30,223
Net interest income		489	344		74,741	(1,270)	74,304
Provision for loan and lease losses					2,506		2,506
Noninterest income	7,180	8,296	5,989	1,737	13,691	35	36,928
Noninterest expense	5,365	7,802	4,060	1,776	49,713	3,067	71,783
Net income (loss) before tax	\$ 1,815	\$ 983	\$ 2,273	\$ (39)	\$ 36,213	\$ (4,302)	\$ 36,943

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.

**NOTE F GOODWILL AND OTHER ACQUIRED INTANGIBLES**

The changes in the carrying amounts of goodwill attributable to the Retail and Commercial Banking segment and the Insurance Services Division for the six months ended June 30, 2005 are as follows (in thousands):

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	<b>Retail and Commercial Banking</b>	<b>Insurance Division</b>
Balance, December 31, 2004	\$ 141,703	\$ 2,693
Acquired goodwill	216	
Other goodwill adjustments	26	
Balance, June 30, 2005	\$ 141,945	\$ 2,693

During the first quarter of 2005 Alabama National purchased the minority interest in one of its bank subsidiaries. The total purchase price was \$325,000. This transaction resulted in the recognition of \$216,000 of additional goodwill. Other goodwill adjustments relate to the refinement of the fair values assigned to the assets and liabilities of a previous acquisition.

Intangible assets as of June 30, 2005 and December 31, 2004 are as follows (in thousands):

	<b>As of June 30, 2005</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Value</b>
Amortizing intangible assets			
Core deposit intangibles	\$ 18,130	\$ (8,703)	\$ 9,427
Other customer intangibles	803	(540)	263
Total amortizing intangible assets	\$ 18,933	\$ (9,243)	\$ 9,690

  

	<b>As of December 31, 2004</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Value</b>
Amortizing intangible assets:			
Core deposit intangibles	\$ 18,130	\$ (7,172)	\$ 10,958
Other customer intangibles	803	(475)	328
Total amortizing intangible assets	\$ 18,933	\$ (7,647)	\$ 11,286

During the six months ended June 30, 2005 and 2004, Alabama National recognized \$1.6 million and \$1.3 million of other intangible amortization expense, respectively, and during the three months ended June 30, 2005 and 2004, Alabama National recognized \$769,000 and \$842,000 of other intangible expense, respectively. Based upon recorded intangible assets as of June 30, 2005, aggregate amortization expense for each of the next five years is estimated to be \$2.9 million, \$2.5 million, \$1.9 million, \$1.2 million and \$0.9 million, respectively.

**NOTE G DEFINED BENEFIT PENSION PLAN**

The following table provides certain information with respect to Alabama National's defined benefit pension plans for the periods indicated (amounts in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004	2005	2004
Service cost	\$	\$	\$	\$
Interest cost	91	92	182	183
Expected return on plan assets	(122)	(118)	(243)	(235)
Amortization of prior service cost				
Amortization of transition asset				
Amortization of net loss	8	8	16	17
Net periodic pension income	\$ (23)	\$ (18)	\$ (45)	\$ (35)

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As of June 30, 2005, Alabama National has not made any 2005 contributions to the defined benefit pension plan because the plan is fully funded and Alabama National does not anticipate making any contributions in the year ended December 31, 2005. If needed in the future, Alabama National will contribute any amounts necessary to satisfy funding requirements of the Employee Retirement Income Security Act.

**NOTE H SECURITIES**

Information pertaining to securities with gross unrealized losses at June 30, 2005, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows (in thousands):

	Less Than Twelve Months		Over Twelve Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>Investment securities</b>						
Debt securities:						
U.S. treasury securities and obligations of U.S. government corporations and agencies	\$ 1,707	\$ 7	\$ 18,613	\$ 360	\$ 20,320	\$ 367
Obligations of states and political subdivisions	268	1	1,100	17	1,368	18
Mortgage-backed securities issued or guaranteed by U.S. government corporations and agencies	106,781	1,072	259,290	4,834	366,071	5,906
<b>Total investment securities</b>	<b>\$ 108,756</b>	<b>\$ 1,080</b>	<b>\$ 279,003</b>	<b>\$ 5,211</b>	<b>\$ 387,759</b>	<b>\$ 6,291</b>
<b>Securities Available for Sale</b>						
Debt securities:						
U.S. treasury securities and obligations of U.S. government corporations and agencies	\$ 7,972	\$ 35	\$ 175,083	\$ 2,659	\$ 183,055	\$ 2,694
Obligations of states and political subdivisions	863	2	5,991	146	6,854	148
Mortgage-backed securities issued or guaranteed by U.S. government corporations and agencies	27,844	181	216,056	3,176	243,900	3,357
<b>Total debt securities</b>	<b>36,679</b>	<b>218</b>	<b>397,130</b>	<b>5,981</b>	<b>433,809</b>	<b>6,199</b>
Equity securities	369	33			369	33
<b>Total securities available for sale</b>	<b>\$ 37,048</b>	<b>\$ 251</b>	<b>\$ 397,130</b>	<b>\$ 5,981</b>	<b>\$ 434,178</b>	<b>\$ 6,232</b>

Management evaluates securities for other-than-temporary impairment no less than quarterly and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) length of time and the extent to which fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) the intent and ability of Alabama National to retain its investment in the issuer for a period sufficient to allow for any anticipated recovery in fair value.

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As of June 30, 2005, 304 debt securities have been in a loss position for more than twelve months and 74 debt securities have been in a loss position for less than twelve months. The unrealized losses for all securities are a direct result of rising interest rates and the effect that rising rates has on the value of debt securities and not the credit worthiness of the issuers. Further, Alabama National has the current intent and ability to hold the securities to an expected recovery in market value. Therefore Alabama National has not recognized any other-than-temporary impairments.

### **NOTE I TREASURY STOCK REPURCHASE PLAN**

On December 15, 2004, the Board of Directors of Alabama National renewed its share repurchase program that was to expire on December 31, 2004. The renewed plan authorizes Alabama National to repurchase up to 300,000 shares of its common stock and will expire on December 31, 2005. There were no shares repurchased during the six months ended June 30, 2005.

### **NOTE J SUBSIDIARY MERGERS**

On February 18, 2005, Alabama National merged two wholly owned subsidiaries, National Bank of Commerce and First American Bank. The combined bank now operates under the name First American Bank, headquartered in Birmingham, Alabama. On May 20, 2005, Alabama National merged another wholly owned subsidiary, First Citizens Bank, with First American Bank. At June 30, 2005, the merged bank had \$2.6 billion in assets with locations throughout central and north Alabama.

On March 18, 2005, Alabama National merged Citizens & Peoples Bank, N.A. and First Gulf Bank, both of which are also subsidiaries of Alabama National. The merged bank, with total assets of \$538.3 million as of June 30, 2005, is headquartered in Pensacola, Florida and operates under the First Gulf Bank, N.A. name.

Since each of these mergers involved entities under common control, each of these mergers was accounted for at historical costs.

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### **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. 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.

Many of the comparisons of financial data from period to period presented in the following discussion have been rounded from actual values reported in the financial statements. The percentage changes presented herein are based on a comparison of the actual values recorded in the financial statements, not the rounded values.

Alabama National acquired Cypress Bankshares, Inc. on February 20, 2004, Indian River Banking Company on February 27, 2004 and Coquina Bank on July 9, 2004, using the purchase method of accounting in each transaction. Accordingly, the results of operations of Alabama National for the six months ended June 30, 2004 include the results of Cypress Bank and Indian River National Bank for the period since the acquisition date. The results of operations of Coquina Bank are not included in the three or six month periods ended June 30, 2004.

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, 2004.

#### **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 detail in the notes to the consolidated financial statements and in 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, 2004.

#### **Performance Overview**

Alabama National's net income was \$16.2 million for the second quarter of 2005 (the 2005 second quarter), compared to \$13.2 million for the second quarter of 2004 (the 2004 second quarter). Net income for the six months ended June 30, 2005 (the 2005 six months) was \$31.7 million, compared to \$24.6 million for the six months ended June 30, 2004 (the 2004 six months). Net income per diluted common share for the 2005 and 2004 second quarters was \$0.93 and \$0.84, respectively. For the 2005 six months, net income per diluted common share was \$1.82, compared to \$1.64 for the 2004 six months.

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The annualized return on average assets for Alabama National was 1.17% for the 2005 second quarter, compared to 1.10% for the 2004 second quarter. For the 2005 six months the annualized return on average assets for Alabama National was 1.17%, compared to 1.09% for the 2004 six months. The annualized return on average stockholders' equity decreased for the 2005 second quarter to 11.93%, as compared to 12.55% for the 2004 second quarter. The annualized return on average stockholders' equity decreased for the 2005 six months to 11.83%, as compared to 12.80% for the 2004 six months. Each of the ratios has been negatively impacted by the 2004 acquisitions due to the amount of goodwill and other intangible assets recorded, and the return on average equity has also been reduced by the additional capital that was raised through an underwritten public offering of common stock during the third quarter of 2004. Book value per share at June 30, 2005 was \$32.26, an increase of \$1.11 from year-end 2004. Alabama National declared cash dividends totaling \$0.675 per share on common stock during the 2005 six months, compared to \$0.625 per share declared on common stock during the 2004 six months.

**Table of Contents****Net Income**

The primary reason for the increased net income during the 2005 second quarter and 2005 six months, compared to the same periods in 2004, is an increase in net interest income. Net interest income for the 2005 second quarter totaled \$49.1 million, a 23.9% increase over the \$39.6 million recorded in the 2004 second quarter. During the 2005 six months, net interest income totaled \$96.0 million, a 29.2% increase compared to \$74.3 million recorded in the 2004 six months. The increased net interest income was offset by a slight decline in total noninterest income recorded during the 2005 second quarter and six months. During the 2005 second quarter, total noninterest income was \$18.2 million, a decrease of \$1.1 million as compared to the 2004 second quarter. For the 2005 six months, noninterest income was \$35.0 million, a decrease of 5.2% from \$36.9 million recorded in the 2004 six months. The income from the investment services division experienced the largest decrease of any component of noninterest income in each of the 2005 three months and six months. During the 2005 three months, income from this division totaled \$0.9 million as compared to \$3.3 million during the 2004 three months. For the 2005 six months, income in the investment services division decreased \$5.2 million, or 72.1%, to \$2.0 million.

Average earning assets for the 2005 second quarter and six months increased by \$642.1 million and \$834.2 million, respectively, as compared to the same periods in 2004. Average interest-bearing liabilities increased by \$428.6 million and \$587.9 million during the 2005 second quarter and six months, respectively, as compared to the same periods in 2004. The average taxable equivalent rate earned on assets was 5.91% and 5.80% for the 2005 second quarter and 2005 six months, respectively, compared to 5.08% and 5.12% for the 2004 second quarter and 2004 six months, respectively. The average rate paid on interest-bearing liabilities was 2.36% and 2.22% for the 2005 second quarter and 2005 six months, respectively, compared to 1.66% and 1.69% for the 2004 second quarter and 2004 six months, respectively. The net interest margin was 3.90% for each of the 2005 second quarter and 2005 six months, compared to 3.61% and 3.62% for the 2004 second quarter and 2004 six months, respectively. The net interest margin of 3.90% for the 2005 second quarter was identical to the net interest margin recorded in the first quarter of 2005. The yield earned on earning assets, specifically loans has increased during the last three quarters due to the rate increases by the Federal Reserve, but the latest rate increases have also increased deposit costs considerably. Time deposits originated in a lower interest rate environment are repricing at higher current rates. Also, to remain competitive, Alabama National has increased rates on interest-bearing transaction accounts and savings deposits due to continued rate increases by the Federal Reserve.

The following tables depict, on a taxable equivalent basis for the 2005 and 2004 second quarter and six months, certain information related to Alabama National's average balance sheet and its average yields on assets and average costs of liabilities. Such yields or costs are derived by dividing income or expense by the average daily balance of the associated assets or liabilities.

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

	<b>Three Months Ended June 30,</b>					
	<b>2005</b>			<b>2004</b>		
	<b>Average Balance</b>	<b>Income/ Expense</b>	<b>Yield/ Cost</b>	<b>Average Balance</b>	<b>Income/ Expense</b>	<b>Yield/ Cost</b>
<b>Assets:</b>						
Earning assets:						
Loans and leases (1)(2)(3)	\$ 3,787,893	\$ 61,184	6.48%	\$ 3,194,216	\$ 44,211	5.57%
Securities:						

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Taxable	1,119,105	11,639	4.17	1,088,577	10,571	3.91
Tax exempt (2)	54,335	886	6.54	52,522	797	6.10
Cash balances in other banks	9,836	77	3.14	7,936	17	0.86
Funds sold	82,579	713	3.46	67,373	167	1.00
Trading account securities	379	5	5.29	1,381	17	4.95
	<u>5,054,127</u>	<u>74,504</u>	<u>5.91</u>	<u>4,412,005</u>	<u>55,780</u>	<u>5.08</u>
Cash and due from banks	169,650			141,724		
Premises and equipment	108,542			94,599		
Other assets	285,830			253,477		
Allowance for loan and lease losses	(48,371)			(43,188)		
	<u>\$ 5,569,778</u>			<u>\$ 4,858,617</u>		
<b>Liabilities:</b>						
Interest-bearing liabilities:						
Interest-bearing transaction accounts	\$ 915,333	\$ 3,247	1.42%	\$ 728,049	\$ 1,319	0.73%
Savings deposits	896,612	3,167	1.42	767,314	2,408	1.26
Time deposits	1,527,293	11,123	2.92	1,479,325	7,536	2.05
Funds purchased	483,536	3,261	2.71	384,820	963	1.01
Other short-term borrowings	98,924	870	3.53	64,036	285	1.79
Long-term debt	323,410	3,318	4.12	392,998	3,252	3.33
	<u>4,245,108</u>	<u>24,986</u>	<u>2.36</u>	<u>3,816,542</u>	<u>15,763</u>	<u>1.66</u>
Demand deposits	720,769			564,352		
Accrued interest and other liabilities	59,236			53,204		
Stockholders' equity	544,665			424,519		
	<u>\$ 5,569,778</u>			<u>\$ 4,858,617</u>		
Net interest spread			<u>3.55%</u>			<u>3.42%</u>
Net interest income/margin on a taxable equivalent basis		<u>49,518</u>	<u>3.93%</u>		<u>40,017</u>	<u>3.65%</u>
Tax equivalent adjustment (2)		<u>431</u>			<u>383</u>	
Net interest income/margin		<u>\$ 49,087</u>	<u>3.90%</u>		<u>\$ 39,634</u>	<u>3.61%</u>

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

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

(3) Fees in the amount of \$2.3 million and \$1.8 million are included in interest and fees on loans for the three months ended June 30, 2005 and 2004, respectively.

**AVERAGE BALANCES, INCOME AND EXPENSES AND RATES**

(Amounts in thousands, except yields and rates)

Six Months Ended June 30,

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	2005			2004		
	Average Balance	Income/ Expense	Yield/ Cost	Average Balance	Income/ Expense	Yield/ Cost
<b>Assets:</b>						
Earning assets:						
Loans and leases (1)(2)(3)	\$ 3,690,992	\$ 116,481	6.36%	\$ 3,031,870	\$ 84,520	5.61%
Securities:						
Taxable	1,120,771	23,180	4.17	983,153	18,868	3.86
Tax exempt (2)	54,782	1,736	6.39	47,599	1,491	6.30
Cash balances in other banks	9,629	125	2.62	6,707	28	0.84
Funds sold	87,703	1,237	2.84	59,078	300	1.02
Trading account securities	345	9	5.26	1,593	35	4.42
<b>Total earning assets (2)</b>	<b>4,964,222</b>	<b>142,768</b>	<b>5.80</b>	<b>4,130,000</b>	<b>105,242</b>	<b>5.12</b>
Cash and due from banks	166,102			131,672		
Premises and equipment	104,582			87,228		
Other assets	281,246			218,530		
Allowance for loan and lease losses	(47,847)			(41,172)		
<b>Total assets</b>	<b>\$ 5,468,305</b>			<b>\$ 4,526,258</b>		
<b>Liabilities:</b>						
Interest-bearing liabilities:						
Interest-bearing transaction accounts	\$ 895,591	\$ 5,791	1.30%	\$ 666,699	\$ 2,428	0.73%
Savings deposits	893,916	5,805	1.31	679,707	3,643	1.08
Time deposits	1,512,993	20,799	2.77	1,416,340	15,408	2.19
Funds purchased	454,708	5,629	2.50	385,038	1,960	1.02
Other short-term borrowings	72,671	1,276	3.54	68,223	579	1.71
Long-term debt	346,208	6,625	3.86	372,195	6,205	3.35
<b>Total interest-bearing liabilities</b>	<b>4,176,087</b>	<b>45,925</b>	<b>2.22</b>	<b>3,588,202</b>	<b>30,223</b>	<b>1.69</b>
Demand deposits	697,697			506,548		
Accrued interest and other liabilities	54,495			45,661		
Stockholders' equity	540,026			385,847		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 5,468,305</b>			<b>\$ 4,526,258</b>		
Net interest spread			3.58%			3.43%
Net interest income/margin on a taxable equivalent basis		96,843	3.93%		75,019	3.65%
Tax equivalent adjustment (2)		851			715	
<b>Net interest income/margin</b>		<b>\$ 95,992</b>	<b>3.90%</b>		<b>\$ 74,304</b>	<b>3.62%</b>

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

(2) Tax equivalent adjustments are based upon an 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 \$4.5 million and \$3.6 million are included in interest and fees on loans for the six months ended June 30, 2005 and 2004, 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 interest rates had on changes in net interest income for each of the 2005 second quarter and six months compared to the 2004 second quarter and six months, respectively. For the purposes of these tables, changes which are not solely attributable to volume or rate are allocated to volume and rate on a pro rata basis.

**ANALYSIS OF CHANGES IN NET INTEREST INCOME**

(Amounts in thousands)

	<b>Three Months Ended June 30,</b>		
	<b>2005 Compared to 2004</b>		
	<b>Variance Due to</b>		
	<b>Volume</b>	<b>Yield/Rate</b>	<b>Total</b>
<b>Earning assets:</b>			
Loans and leases	\$ 9,033	\$ 7,940	\$ 16,973
<b>Securities:</b>			
Taxable	317	751	1,068
Tax exempt	29	60	89
Cash balances in other banks	5	55	60
Funds sold	46	500	546
Trading account securities	(20)	8	(12)
<b>Total interest income</b>	<b>9,410</b>	<b>9,314</b>	<b>18,724</b>
<b>Interest-bearing liabilities:</b>			
Interest-bearing transaction accounts	412	1,516	1,928
Savings and money market deposits	433	326	759
Time deposits	255	3,332	3,587
Funds purchased	304	1,994	2,298
Other short-term borrowings	210	375	585
Long-term debt	(2,626)	2,692	66
<b>Total interest expense</b>	<b>(1,012)</b>	<b>10,235</b>	<b>9,223</b>
<b>Net interest income on a taxable equivalent basis</b>	<b>\$ 10,422</b>	<b>\$ (921)</b>	<b>9,501</b>
Taxable equivalent adjustment			(48)
<b>Net interest income</b>			<b>\$ 9,453</b>

**ANALYSIS OF CHANGES IN NET INTEREST INCOME**

(Amounts in thousands)

	Six Months Ended June 30,		
	2005 Compared to 2004		
	Variance Due to		
	Volume	Yield/Rate	Total
<b>Earning assets:</b>			
Loans and leases	\$ 19,791	\$ 12,170	\$ 31,961
<b>Securities:</b>			
Taxable	2,740	1,572	4,312
Tax exempt	224	21	245
Cash balances in other banks	17	80	97
Funds sold	200	737	937
Trading account securities	(42)	16	(26)
<b>Total interest income</b>	<b>22,930</b>	<b>14,596</b>	<b>37,526</b>
<b>Interest-bearing liabilities:</b>			
Interest-bearing transaction accounts	1,027	2,336	3,363
Savings and money market deposits	1,290	872	2,162
Time deposits	1,105	4,286	5,391
Funds purchased	407	3,262	3,669
Other short-term borrowings	40	657	697
Long-term debt	(1,062)	1,482	420
<b>Total interest expense</b>	<b>2,807</b>	<b>12,895</b>	<b>15,702</b>
<b>Net interest income on a taxable equivalent basis</b>	<b>\$ 20,123</b>	<b>\$ 1,701</b>	<b>21,824</b>
<b>Taxable equivalent adjustment</b>			<b>(136)</b>
<b>Net interest income</b>			<b>\$ 21,688</b>

The provision for loan and lease losses represents a charge to current earnings necessary to maintain the allowance for loan and lease losses at an appropriate level based on management's analysis of loss inherent in the loan and lease portfolio. The amount of the provision is a function of the level of loans and leases outstanding, the level of non-performing loans and adversely rated loans, credit and collateral administration trends, historical loan and lease loss experience, the amount of loan and lease charge-offs during a given period, and current economic conditions. The provision for loan and lease losses was \$2.0 million and \$3.5 million for the 2005 second quarter and six months, respectively, compared to \$1.3 million and \$2.5 million recorded during the 2004 second quarter and six months, respectively. The allowance for loan and lease losses as a percentage of outstanding loans and leases, net of unearned income (excluding loans held for sale), was 1.29% at June 30, 2005, compared to 1.33% at December 31, 2004.

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

Total noninterest income for the 2005 second quarter was \$18.2 million, compared to \$19.3 million for the 2004 second quarter, a decrease of 5.5%. For the 2005 six months, noninterest income decreased to \$35.0 million, compared to \$36.9 million for the 2004 six months, a decrease of

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5.2%. The major components of noninterest income include service charges on deposits, investment services revenue, securities brokerage and trust revenue, insurance commissions, gains from the sale of mortgage loans and income earned on bank owned life insurance.

The primary reason for the decrease in total noninterest income is decreased revenue from the investment services division. Revenue from this division totaled \$0.9 million in the 2005 second quarter, a decrease of \$2.4 million, or 73.8%, as compared to \$3.3 million recorded in the 2004 second quarter. During the 2005 six months, the investment services division revenue totaled \$2.0 million, a decrease of \$5.2 million, or 72.1%, as compared to \$7.2 million in the 2004 six months. The decrease during the 2005 second quarter and six months is primarily due to two factors: the current interest rate environment and the departure of a group of salespeople in this division during the 2004 fourth quarter. The majority of the customers of the investment services division are correspondent banks. The revenue from this division generally decreases in a rising interest rate environment and also in a flat yield curve environment, as yields on most investment securities have a reduced spread above customers deposit costs. Service charges on deposits for the 2005 second quarter and 2004 second quarter were \$4.2 million and \$4.5 million, respectively. For the 2005 six months, service charge income decreased to \$8.1 million, from \$8.3 million for the 2004 six months. The decrease in service charges in the 2005 periods versus the 2004 periods is primarily related to increases in the earnings credit rate ( ECR ) attributed to commercial deposit accounts. The ECR, which generally varies with short term interest rates, is used by commercial customers to offset service charges on deposit accounts. As interest rates have risen in 2005, the higher ECR has resulted in fewer service charges.

The decreased revenue recorded by the investment services division and decreased service charge income was offset somewhat by increased revenue in the securities brokerage and trust division. Securities brokerage and trust revenue increased during the 2005 second quarter and six months as compared with the same periods of 2004. This division recorded revenue of \$4.9 million during the 2005 second quarter, an increase of \$0.7 million, or 17.2%, as compared to \$4.2 million recorded during the 2004 second quarter. During the 2005 six months the securities brokerage and trust division recorded revenue of \$9.4 million, an increase of \$1.1 million, or 13.8%, as compared to \$8.3 million recorded in the 2004 six months. The increase in the securities brokerage and trust division revenue during each period of 2005 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. The gain generated from the sale of mortgages recorded during the 2005 second quarter and six months is almost identical to the amounts recorded during the same periods of 2004. The volume of loans originated and sold in the secondary market remains strong due to the

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interest rate environment for mortgage loans and the strong economies in the markets served by Alabama National. During the first six months of 2005, Alabama National recognized gains of approximately \$711,000 resulting primarily from the sale of other real estate. Other noninterest income increased to \$3.0 million for the 2005 second quarter, compared to \$2.3 million during the 2004 second quarter. Other noninterest income increased to \$5.6 million during the 2005 six months, an increase of 43.1%, compared to \$3.9 million recorded in the 2004 six months. Contributing to this increase is revenue generated from debit card and credit card activity.

Noninterest expense was \$40.7 million for the 2005 second quarter, compared to \$37.6 million for the 2004 second quarter. For the 2005 six months, noninterest expense was \$79.4 million, compared to \$71.8 million for the 2004 six months. Noninterest expense includes salaries and employee benefits, commission based compensation, occupancy and equipment expenses, amortization of intangibles, and other expenses. Salaries and employee benefits were \$21.0 million for the 2005 second quarter, compared to \$19.0 million for the 2004 second quarter. For the 2005 six months, salaries and employee benefits were \$41.4 million, compared to \$36.7 million in the 2004 six months. Contributing to the increase in salaries and employee benefits were general staffing increases concurrent with expansion of branches and business lines, increases in health insurance costs, higher incentive compensation accruals, and merit compensation increases. Commission based compensation was \$4.0 million for the 2005 second quarter, compared to \$4.8 million for the 2004 second quarter. For the 2005 six months, commission based compensation totaled \$7.5 million, compared to \$9.5 million in the 2004 six months. The decrease in commission based compensation recorded for each period of 2005 is attributable to decreased production in the investment services division, as a significant portion of the compensation in this division is production-based. Occupancy and equipment expense totaled \$4.3 million in the 2005 second quarter and \$3.9 million in the 2004 second quarter. Occupancy and equipment expense totaled \$8.5 million in the 2005 six months and \$7.4 million in the 2004 six months. The primary reason for the increased occupancy and equipment expense for the 2005 second quarter and six months is due to branch expansion. Other noninterest expense increased to \$10.6 million in the 2005 second quarter, compared with \$9.1 million in the 2004 second quarter. Other noninterest expense was \$20.4 million in the 2005 six months and \$16.9 million in the 2004 six months. Other expenses that contributed to this increase during the 2005 second quarter and six months included advertising and professional fees associated with the subsidiary bank mergers during the first six months of 2005.

Because of an increase in pre-tax income, income tax expense was \$8.4 million for the 2005 second quarter, compared to \$6.8 million for the 2004 second quarter. For the 2005 six months, income tax expense was \$16.4 million, compared to \$12.4 million for the 2005 six months. The effective tax rates for the 2005 second quarter and the 2005 six months were 34.2% and 34.1%, respectively, compared to 33.9% and 33.5% for the same periods of 2004. These effective tax rates are affected by items of income and expense that are not subject to federal or state taxation. The effective rate in the 2005 second quarter and six months is higher than the 2004 periods due to higher pre-tax income without a corresponding increase in income items not subject to federal or state taxation.

**Earning Assets**

Loans and leases comprised the largest single category of Alabama National's earning assets on June 30, 2005. Loans and leases, net of unearned income, were \$3.85 billion, or 67.7% of total assets at June 30, 2005, compared to \$3.50 billion, or 65.8% at December 31, 2004. Loans and leases grew \$353.0 million, or 10.1%, during the 2005 six months, compared to year-end 2004. The following table details the composition of the loan and lease portfolio by category at the dates indicated:

**COMPOSITION OF LOAN AND LEASE PORTFOLIO**

(Amounts in thousands, except percentages)

**June 30, 2005****December 31, 2004**

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	<u>Amount</u>	<u>Percent of Total</u>	<u>Amount</u>	<u>Percent of Total</u>
Commercial, financial and agricultural	\$ 288,805	7.50%	\$ 282,212	8.06%
Real estate:				
Construction	968,631	25.15	776,594	22.20
Mortgage - residential	1,052,969	27.33	963,083	27.52
Mortgage - commercial	1,111,167	28.85	1,046,622	29.91
Mortgage - other	10,469	.27	10,644	.30
Consumer	80,876	2.10	88,653	2.53
Lease financing receivables	62,046	1.61	70,289	2.01
Securities brokerage margin loans	16,982	.44	14,517	.41
Other	259,910	6.75	246,739	7.06
	<u>3,851,855</u>	<u>100.00%</u>	<u>3,499,353</u>	<u>100.00%</u>
Unearned income	(3,168)		(3,652)	
Total loans and leases, net of unearned income	<u>3,848,687</u>		<u>3,495,701</u>	
Allowance for loan and lease losses	(49,637)		(46,584)	
Total net loans and leases	<u>\$ 3,799,050</u>		<u>\$ 3,449,117</u>	

The carrying value of investment securities decreased \$4.3 million during the 2005 six months from \$568.5 million at December 31, 2004. During the 2005 six months, Alabama National purchased \$41.6 million of investment securities and received \$45.9 million from maturities and calls, including principal paydowns of mortgage backed securities.

The carrying value of securities available for sale decreased \$24.8 million in the 2005 six months compared to year-end 2004. During the 2005 six months, purchases of available for sale securities totaled \$106.5 million, and maturities, calls, and sales of available for sale securities totaled \$128.4 million. During the 2005 six months, the available for sale portfolio experienced an unrealized loss, net of taxes, totaling \$1.7 million.

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Trading account securities, which had a balance of -0- at June 30, 2005, 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 \$101.6 million at June 30, 2005 and \$101.0 million at December 31, 2004.

**Deposits and Other Funding Sources**

Deposits increased by \$249.4 million from December 31, 2004, to \$4.18 billion at June 30, 2005. Deposits continue to increase due to recent branch expansions, successful business development efforts by the Company and an overall growth in the economies in the markets served by Alabama National. At June 30, 2005, deposits included \$160.6 million of brokered time deposits, compared to \$177.7 million at December 31, 2004.

Federal funds purchased and securities sold under agreements to repurchase totaled \$501.7 million at June 30, 2005, an increase of \$122.6 million from December 31, 2004. Alabama National continues to focus on expanding its relationships with downstream correspondent banks. The majority of the increase in federal funds purchased is related to federal funds sold to Alabama National by downstream correspondents. These balances typically vary with liquidity, loan demand, and investment securities purchases at downstream correspondents. Short-term borrowings at June 30, 2005 totaled \$83.2 million and consisted entirely of advances from the Federal Home Loan Bank ( FHLB ).

Alabama National's short-term borrowings at June 30, 2005 and December 31, 2004 are summarized as follows:

**SHORT-TERM BORROWINGS**

(Amounts in thousands)

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
Note payable to third party bank under secured master note agreement; rate varies with LIBOR and was 2.17625% at December 31, 2004; collateralized by the Company's stock in subsidiary banks. Matures on May 31, 2006.	\$	\$ 500
FHLB open ended notes payable; rate varies daily based on the FHLB Daily Rate Credit interest price and was 3.63% and 2.44% at June 30, 2005 and December 31, 2004, respectively.	39,225	15,000
FHLB borrowings due at dates ranging from September 13, 2005 to May 12, 2006; bearing interest at fixed and variable rates ranging from 3.06% to 3.65%.	34,000	5,000
FHLB borrowing due November 10, 2005; interest at a fixed rate of 5.85%; convertible at the option of the FHLB on August 10, 2005, to a three month LIBOR advance.	10,000	10,000
<b>Total short-term borrowings</b>	<b>\$ 83,225</b>	<b>\$ 30,500</b>

Alabama National's long-term debt at June 30, 2005 and December 31, 2004 is summarized as follows:

**LONG-TERM DEBT**

(Amounts in thousands)

	<u>June 30,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
FHLB borrowings due at various maturities ranging from March 8, 2008 through November 7, 2012 at June 30, 2005; at December 31, 2004, maturities ranged from February 11, 2008 to November 7, 2012; bearing interest at fixed rates ranging from 2.05% to 6.00% at June 30, 2005, and bearing interest ranging from 1.89% to 6.00% at December 31, 2004; convertible to variable rate advances at the option of the FHLB at dates ranging from July 7, 2005 to November 7, 2007.	\$ 227,902	\$ 263,078
FHLB borrowing due November 5, 2008; rate varies quarterly with LIBOR and was 3.21938% and 2.20% at June 30, 2005 and December 31, 2004, respectively. During the second quarter of 2005 an advance was reclassified to short-term.	30,000	49,000
FHLB borrowing due September 12, 2006; rate was fixed at 2.54% at December 31, 2004; during the first quarter of 2005 the advance was called and was repaid by the Company.		28,000
Junior subordinated debentures payable to unconsolidated trusts due at dates ranging from December 18, 2031 to September 26, 2033; rates vary quarterly with LIBOR and ranged from 6.54% to 7.03% at June 30, 2005; at December 31, 2004 rates ranged from 5.61% to 6.11%.	53,610	53,610
<b>Total long-term debt</b>	<b>\$ 311,512</b>	<b>\$ 393,688</b>

**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 June 30, 2005, 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 and lease losses.

At June 30, 2005, nonperforming assets totaled \$7.4 million, compared to \$9.6 million at year-end 2004. Nonperforming assets as a percentage of loans plus other real estate were 0.19% at June 30, 2005, compared to 0.28% at December 31, 2004. The following table presents Alabama National's nonperforming assets for the dates indicated.

**NONPERFORMING ASSETS**

(Amounts in thousands, except percentages)

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	June 30, 2005	December 31, 2004
Nonaccrual loans	\$ 6,949	\$ 8,091
Restructured loans		
Loans past due 90 days or more and still accruing interest		
<b>Total nonperforming loans</b>	<b>6,949</b>	<b>8,091</b>
Other real estate owned	450	1,531
<b>Total nonperforming assets</b>	<b>\$ 7,399</b>	<b>\$ 9,622</b>
Allowance for loan and lease losses to period-end loans	1.29%	1.33%
Allowance for loan and lease losses to period-end nonperforming loans	714.30	575.75
Allowance for loan and lease losses to period-end nonperforming assets	670.86	484.14
Net charge-offs to average loans (1)	0.03	0.06
Nonperforming assets to period-end loans and other real estate owned	0.19	0.28
Nonperforming loans to period-end loans	0.18	0.23

(1) - Excludes average loans held for sale

Net loan charge-offs for the 2005 six months totaled \$482,000, or 0.03% (annualized) of average loans and leases for the period (excluding loans held for sale). The allowance for loan and lease losses as a percentage of total loans, net of unearned income, was 1.29% at June 30, 2005, compared to 1.33% at December 31, 2004. The following table analyzes activity in the allowance for loan and lease losses for the periods indicated.

**ANALYSIS OF THE ALLOWANCE FOR LOAN AND LEASE LOSSES**

(Amounts in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Allowance for loan and lease losses at beginning of period	\$ 47,826	\$ 42,392	\$ 46,584	\$ 36,562
Charge-offs:				
Commercial, financial and agricultural	102	1,540	269	2,629
Real estate - mortgage	96	41	259	102
Consumer	331	209	490	388
<b>Total charge-offs</b>	<b>529</b>	<b>1,790</b>	<b>1,018</b>	<b>3,119</b>
Recoveries:				
Commercial, financial and agricultural	184	341	267	421
Real estate - mortgage	31	223	41	272
Consumer	134	1,040	228	1,301
<b>Total recoveries</b>	<b>349</b>	<b>1,604</b>	<b>536</b>	<b>1,994</b>

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Net charge-offs	180	186	482	1,125
Provision for loan and lease losses	1,991	1,278	3,535	2,506
Additions to allowance through acquisitions				5,541
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Allowance for loan and lease losses at end of period	\$ 49,637	\$ 43,484	\$ 49,637	\$ 43,484
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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The loan and lease 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 and lease 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 and lease losses at June 30, 2005 to be adequate to cover probable loan and lease 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 and lease losses in future periods will not exceed the allowance for loan and lease 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 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 June 30, 2005, assuming relevant assets and liabilities are collected and paid, respectively, based upon historical experience rather than their stated maturities.

### **INTEREST SENSITIVITY ANALYSIS**

**(Amounts in thousands, except ratios)**

**June 30, 2005**

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	Zero Through Three Months	After Three Through Twelve Months	One Through Three Years	Greater Than Three Years	Total
<b>Assets:</b>					
Earning assets:					
Loans and leases (1)	\$ 2,417,016	\$ 624,545	\$ 511,886	\$ 320,538	\$ 3,873,985
Securities (2)	78,810	155,999	362,798	541,600	1,139,207
Trading securities					
Interest-bearing deposits in other banks	19,036				19,036
Funds sold	101,587				101,587
<b>Total interest-earning assets</b>	<b>\$ 2,616,449</b>	<b>\$ 780,544</b>	<b>\$ 874,684</b>	<b>\$ 862,138</b>	<b>\$ 5,133,815</b>
<b>Liabilities:</b>					
Interest-bearing liabilities:					
Interest-bearing deposits:					
Demand deposits	\$ 538,333	\$	\$	\$ 436,893	\$ 975,226
Savings and money market deposits	471,695			422,464	894,159
Time deposits (3)	351,703	704,014	363,978	157,934	1,577,629
Funds purchased	501,734				501,734
Short-term borrowings	78,225	5,000			83,225
Long-term debt	270,610	27,000	12,000	1,902	311,512
<b>Total interest-bearing liabilities</b>	<b>\$ 2,212,300</b>	<b>\$ 736,014</b>	<b>\$ 375,978</b>	<b>\$ 1,019,193</b>	<b>\$ 4,343,485</b>
<b>Period gap</b>	<b>\$ 404,149</b>	<b>\$ 44,530</b>	<b>\$ 498,706</b>	<b>\$ (157,055)</b>	
<b>Cumulative gap</b>	<b>\$ 404,149</b>	<b>\$ 448,679</b>	<b>\$ 947,385</b>	<b>\$ 790,330</b>	<b>\$ 790,330</b>
<b>Ratio of cumulative gap to total earning assets</b>	<b>7.87%</b>	<b>8.74%</b>	<b>18.45%</b>	<b>15.39%</b>	

(1) Excludes nonaccrual loans of \$6.9 million.

(2) Excludes available for sale equity securities of \$32.1 million.

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

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. As shown in the table above, Alabama National is asset sensitive on a cumulative basis throughout all periods but is liability sensitive in the greater than three years time frame. 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 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.

**Table of Contents****Market Risk**

Alabama National's earnings are dependent, to a large degree, 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 interest 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 (adjusted in the current period due to current interest rate levels) 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 prior to maturity. These prepayment options make anticipating the performance of those instruments difficult given changes in prevailing interest rates. At June 30, 2005, mortgage backed securities with a carrying value of \$837.4 million, or 14.7% of total assets and essentially every loan and lease, net of unearned income, (totaling \$3.85 billion, or 67.7% 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 \$4.18 billion, or 73.6%, of total assets at June 30, 2005. 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 decrease, the spread tends to compress, 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 tables illustrate 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. Due to current interest rate levels, Alabama National has elected to model interest rate decreases of 50 and 100 basis points. As noted above, this model uses estimates and assumptions in both balance sheet growth and asset and liability account rate reactions to changes in prevailing interest rates. Because of the inherent use of these estimates and assumptions in the simulation model used to derive this market risk 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 tables.

**MARKET RISK****(Amounts in thousands)**

Change in Prevailing Interest Rates (1)	As of June 30, 2005 % Change in Net Interest Income	As of December 31, 2004 % Change in Net Interest Income
+200 basis points	2.51%	5.12%
+100 basis points	1.68	1.98
0 basis points		
-50 basis points	(1.69)	0.13
-100 basis points	(3.31)	(2.74)

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

**Table of Contents****Liquidity and Capital Adequacy**

Alabama National's net loan and lease to deposit ratio was 92.0% at June 30, 2005, compared to 88.8% at year-end 2004. Alabama National's liquid assets as a percentage of total deposits were 7.0% at June 30, 2005, which is unchanged from year-end 2004. At June 30, 2005, Alabama National had unused federal funds lines of approximately \$234.2 million, unused lines at the Federal Home Loan Bank of Atlanta of \$1.2 billion and a credit line with a third party bank of \$10.0 million with no principal balance outstanding. Alabama National elected to reduce the size of the credit line at its May, 2005 renewal due to its anticipated funding needs associated with this facility and the unused commitment fee it pays on amounts not borrowed under the credit line. Alabama National also has access to approximately \$75.7 million via a credit facility with the Federal Reserve Bank of Atlanta. At June 30, 2005 and year-end 2004 there were no outstanding borrowings under this credit facility. Management analyzes the level of off-balance sheet assets such as unfunded loan commitments and outstanding letters of credit as they relate to the levels of cash, cash equivalents, liquid investments, and available funds lines in an attempt to minimize the possibility that a potential liquidity shortfall will exist. Based on this analysis, management believes that Alabama National has adequate liquidity to meet short-term operating requirements. However, no assurances can be given in this regard.

Alabama National's stockholders' equity increased by \$19.8 million from December 31, 2004, to \$549.3 million at June 30, 2005. This increase was attributable to the following components (in thousands):

Net income	\$ 31,675
Dividends	(11,487)
Issuance of stock for option exercises and other stock based compensation	229
Additional paid in capital related to stock based compensation	1,075
Change in unrealized gain or loss on securities available for sale, net of deferred taxes	(1,738)
	<hr/>
Net increase	\$ 19,754
	<hr/>

A strong capital position is vital to the continued profitability of Alabama National because it promotes depositor and investor confidence and provides a solid foundation for future growth of the organization. The capital of Alabama National and its subsidiary banks (the Banks) exceeded all prescribed regulatory capital guidelines at June 30, 2005. Under the capital guidelines of their regulators, Alabama National and the Banks are currently required to maintain a minimum risk-based total capital ratio of 8%, with at least 4% being Tier 1 capital. Tier 1 capital consists of common stockholders' equity, qualifying perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, less goodwill. In addition, Alabama National and the Banks must maintain a minimum Tier 1 leverage ratio (Tier 1 capital to total assets) of at least 3%, but this minimum ratio is increased by 100 to 200 basis points for other than the highest rated institutions. The following table sets forth the risk-based and leverage ratios of Alabama National and each Bank at June 30, 2005:

	<u>Tier 1 Risk Based</u>	<u>Total Risk Based</u>	<u>Tier 1 Leverage</u>
Alabama National BanCorporation	11.03%	12.25%	8.31%
First American Bank	10.84	12.04	8.40
Indian River National Bank	11.90	12.98	7.61
First Gulf Bank, N.A.	9.42	10.67	7.14
Public Bank	10.67	11.92	8.32
Community Bank of Naples, N.A.	8.98	10.23	7.47
Georgia State Bank	10.71	11.89	7.62
CypressCoquina Bank	10.06	11.26	7.68

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Millennium Bank	10.40	11.63	7.73
Alabama Exchange Bank	15.84	17.10	7.50
Bank of Dadeville	13.72	14.97	7.40
Required minimums	4.00	8.00	4.00

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

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

**Item 4. Controls and Procedures.**

As of June 30, 2005, the end of the quarter covered by this report, Alabama National carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Alabama National's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Alabama National's disclosure controls and procedures are effective.

There was no significant change in Alabama National's internal controls over financial reporting during the quarter ended June 30, 2005 that has materially affected, or is reasonably likely to materially affect, Alabama National's internal controls over financial reporting.

**Part II. OTHER INFORMATION****Item 4 Submission of Matters to a Vote of Security-Holders.**

Alabama National held its Annual Meeting of Stockholders on May 4, 2005. At the meeting, the stockholders of Alabama National were asked to vote on several matters, including the election of 16 directors to serve until the next annual meeting of stockholders. The results of the stockholder voting on all matters submitted to stockholder vote are summarized as follows:

**Proposal 1 - Election of Directors:**

	<b>VOTES FOR</b>	<b>WITHHOLD AUTHORITY</b>
W. Ray Barnes	14,506,683	50,115
Bobby A. Bradley	14,504,427	52,371
Dan M. David	14,233,402	323,396
John V. Denson	14,304,975	251,823
Griffin A. Greene	14,509,549	47,249
John H. Holcomb, III	14,242,744	314,054
John D. Johns	12,890,030	1,666,768
John J. McMahan, Jr.	14,192,483	364,315
C. Phillip McWane	11,417,149	3,139,649
William D. Montgomery	14,323,142	233,656

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Richard Murray, IV	14,234,144	322,654
C. Lloyd Nix	14,333,844	222,954
G. Ruffner Page, Jr.	14,234,292	322,506
John M. Plunk	14,509,549	47,249
W. Stancil Starnes	14,298,291	258,507
W. Edgar Welden	14,315,676	241,122

### Proposal 2 - Approval of Increase to the Number of Authorized Shares of Common Stock:

VOTES FOR	VOTES AGAINST	ABSTAIN
13,886,557	627,118	43,123

### Proposal 3 - Approval of the Third Amendment and Restatement of the Alabama National Bancorporation Performance Share Plan:

VOTES FOR	VOTES AGAINST	ABSTAIN	BROKER NON-VOTES
11,612,720	385,206	61,580	2,497,292

### Proposal 4 - Ratification of Appointment of Independent Registered Public Accounting Firm:

VOTES FOR	VOTES AGAINST	ABSTAIN
14,496,144	42,447	18,207

## Item 6. Exhibits

- Exhibits:
- Exhibit 3.1 Restated Certificate of Incorporation (filed as an exhibit to Alabama National's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 and incorporated herein by reference).
  - Exhibit 3.2 First Amendment to Restated Certificate of Incorporation (filed as an exhibit to Alabama National's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 and incorporated herein by reference).
  - Exhibit 3.3 Amended and Restated Bylaws (filed as an exhibit to Alabama National's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).
  - Exhibit 10.1 Third Amendment and Restatement of the Alabama National BanCorporation Performance Share Plan (filed as an exhibit to Alabama National's Current Report on Form 8-K dated May 4, 2005 and incorporated herein by reference).
  - Exhibit 10.2 Form of Amended Notice of Award under the Third Amendment and Restatement of the Alabama National BanCorporation Performance Share Plan (filed as an exhibit to Alabama National's Current Report on Form 8-K dated May 4, 2005 and incorporated herein by reference).
  - Exhibit 10.3 Ninth Amendment to Credit Agreement between Alabama National BanCorporation and AmSouth Bank, effective May 31, 2005 (filed as an exhibit to Alabama National's Current Report on Form 8-K dated June 6, 2005 and incorporated herein by reference).
  - Exhibit 10.4 Seventh Note Modification Agreement between Alabama National BanCorporation and AmSouth Bank, effective May 31, 2005 (filed as an exhibit to Alabama National's Current Report on Form 8-K dated June 6, 2005 and incorporated herein by reference).

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Exhibit 10.5 Summary of Compensation Payable to Non-Employee Directors (filed as an exhibit to Alabama National's Current Report on Form 8-K dated April 20, 2005 and incorporated herein by reference).

Exhibit 31.1 - Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 - Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 - Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALABAMA NATIONAL BANCORPORATION

**Date:** August 5, 2005

/s/ John H. Holcomb, III

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John H. Holcomb, III, its Chairman and Chief Executive Officer

**Date:** August 5, 2005

/s/ William E. Matthews, V.

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William E. Matthews, V., its Executive Vice President and  
Chief Financial Officer