

ALABAMA NATIONAL BANCORPORATION
Form 10-K
March 15, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

- x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005 OR
- .. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____.
COMMISSION FILE NUMBER: 0-25160

ALABAMA NATIONAL BANCORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

63-1114426
(IRS employer identification number)

1927 First Avenue North, Birmingham, Alabama 35203-4009
(Address of principal executive offices) (Zip Code)
205-583-3600

(Registrant's Telephone Number)

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

None

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

Common Stock, \$1.00 par value

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of voting stock held by non-affiliates of the registrant at June 30, 2005 was \$888,660,372.

As of March 10, 2006 the registrant had outstanding 17,151,146 shares of its common stock.

DOCUMENTS INCORPORATED BY REFERENCE IN THIS FORM 10-K:

Portions of the definitive Proxy Statement for the 2006 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, other periodic reports filed by Alabama National Bancorporation (the Company or Alabama National) under the Securities Exchange Act of 1934, as amended, and any other written or oral statements made by or on behalf of Alabama National, may include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 which reflect Alabama National's current views with respect to future events and financial performance. Such forward-looking statements are based on general assumptions and are subject to various risks, uncertainties, and other factors that may cause actual results to differ materially from the views, beliefs and projections expressed in such statements.

These risks, uncertainties and other factors include, but are not limited to, those risks discussed under Item 1A. Risk Factors and the following:

Some factors are specific to Alabama National, including:

Alabama National's ability to expand into new markets and to maintain profit margins in the face of pricing pressures.

Alabama National's ability to keep pace with technological changes.

Alabama National's ability to develop competitive new products and services in a timely manner and the acceptance of such products and services by Alabama National's customers and potential customers.

Alabama National's ability to effectively manage interest rate risk and other market risk, credit risk and operational risk.

Alabama National's ability to manage fluctuations in the value of assets and liabilities so as to maintain sufficient capital and liquidity to support Alabama National's business.

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

The cost and other effects of legal and administrative cases and proceedings, claims, settlements and judgments.

Other factors which may affect Alabama National apply to the financial services industry more generally, including:

Further easing of restrictions on participants in the financial services industry, such as banks, securities brokers and dealers, investment companies and finance companies, may increase competitive pressures.

Possible changes in interest rates may increase funding costs and reduce earning asset yields, thus reducing margins.

The threat or occurrence of war or acts of terrorism and the existence or exacerbation of general geopolitical instability and uncertainty.

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Possible changes in consumer and business spending and saving habits could affect Alabama National's ability to increase assets and to attract deposits.

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

Possible changes in monetary and fiscal policies, laws and regulations, and other activities of governments, agencies and similar organizations.

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

PART I
ITEM 1. BUSINESS

Alabama National Bancorporation (Alabama National or the Company) is a Delaware bank holding company with its principal place of business in Birmingham, Alabama, and its main office located at 1927 First Avenue North, Birmingham, Alabama 35203 (Telephone Number: (205) 583-3600). Alabama National is currently the parent of ten banks (the Banks), summarized below.

Bank	Principal Markets	Total Assets at December 31, 2005
1. First American Bank	Birmingham Metropolitan Area, Decatur/Huntsville/Athens, Talladega, and Auburn/Opelika, Alabama	\$ 2,779,982,000
2. Indian River National Bank	Indian River and Brevard Counties, Florida	\$ 752,914,000
3. First Gulf Bank, N.A.	Pensacola and Panama City, Florida and Baldwin County, Alabama	\$ 586,199,000
4. Community Bank of Naples, N.A.	Naples, Florida	\$ 385,371,000
5. Public Bank	Metropolitan Orlando and Lake County, Florida	\$ 382,850,000
6. Georgia State Bank	Metropolitan Atlanta, Georgia	\$ 379,005,000
7. CypressCoquina Bank	Ormond Beach, Florida	\$ 296,889,000
8. Millennium Bank	Gainesville, Florida	\$ 168,682,000
9. Alabama Exchange Bank	Tuskegee, Alabama	\$ 82,612,000
10. Bank of Dadeville	Dadeville, Alabama	\$ 78,080,000

In addition, Alabama National is currently the ultimate parent of one securities brokerage firm, NBC Securities, Inc. (Birmingham, Alabama); one receivables factoring company, Corporate Billing, Inc. (Decatur, Alabama); and one insurance agency, ANB Insurance Services, Inc. (headquartered in Birmingham, Alabama). Alabama National also offers commercial brokerage services through a division of First American Bank.

Recent Developments

On October 27, 2005, Alabama National signed a definitive agreement providing for the purchase of Florida Choice Bankshares, Inc. (Florida Choice). Under the terms of the agreement, Florida Choice will be merged with and into Alabama National, and Florida Choice's bank subsidiary, Florida Choice Bank, will become a wholly-owned subsidiary of Alabama National. Alabama National will issue approximately 1.5 million total shares of common stock and common stock equivalents plus \$5.12 million in cash to Florida Choice shareholders. Florida Choice shareholders who do not elect all cash will receive approximately 0.6079 Alabama National common shares for each share of Florida Choice common stock converted to Alabama National common stock. Florida Choice is headquartered in Mt. Dora, Florida, and operates six offices in the greater Orlando and Ocala, Florida area. At September 30, 2005, Florida Choice had assets of approximately \$325 million. The transaction is expected to close in the beginning of the second quarter of 2006.

Subsidiary Banks

Alabama National operates through 10 subsidiary Banks which have a total of 87 banking offices and eight loan/mortgage origination offices in the states of Alabama, Georgia and Florida. The Banks focus on traditional consumer, residential mortgage, commercial and real estate construction lending, and equipment leasing to customers in their market areas. The Banks also offer a variety of deposit programs to individuals and small businesses and other organizations at interest rates generally consistent with local market conditions.

First American Bank offers trust and investment management services to corporations and individuals. Investment services and securities brokerage services are offered through NBC Securities, Inc. at a number of the locations of the Banks. Commercial mortgage services, including the origination of permanent commercial real estate mortgage loans for various lenders, are provided by Byars and Company, a division of First American Bank. Property and casualty insurance services are offered at a number of the locations of the Banks by ANB Insurance Services, Inc., a subsidiary of First American Bank. In addition, the Banks offer individual retirement and KEOGH accounts, safe deposit and night depository facilities and additional services such as the sale of traveler's checks, money orders and cashier's checks.

Lending Activities

General

Through the Banks, Alabama National offers a range of lending services, including real estate, consumer and commercial loans, to individuals and small businesses and other organizations that are located in or conduct a substantial portion of their business in the Banks' market areas. Alabama National's total loans, net of unearned interest, at December 31, 2005, were approximately \$4.1 billion, or approximately 76.9% of total earning assets. The interest rates charged on loans vary with the degree of risk, maturity and amount of the loan and are further subject to competitive pressures, money market rates, availability of funds and government regulations. Alabama National has no foreign loans (other than approximately \$1.5 million of factored receivables) or loans for highly leveraged transactions, as such terms are defined by applicable banking regulations.

Loan Portfolio

Real Estate Loans. Loans secured by real estate are the primary component of Alabama National's loan portfolio, constituting approximately \$3.4 billion, or 82.7% of total loans, net of unearned interest, at December 31, 2005. The Banks originate consumer and commercial related real estate purpose loans. Also, the Banks often take real estate as an additional source of collateral to secure commercial and industrial loans. Such loans are classified as real estate loans rather than commercial and industrial loans if the real estate collateral is considered significant as a secondary source of repayment for the loan. Loans are typically made on a recourse basis supported by financial statements and a review of the repayment ability of the guarantor(s). Origination fees are charged for most real estate secured loans. Furthermore, the Banks have adopted the Interagency Supervisory Real Estate Loan-to-Value Limits issued by the federal regulators as the maximum allowable loan-to-value ratio; however, exceptions are permitted provided justification is supported by sufficient mitigating factors.

Real estate lending activities consist of the following:

The primary type of residential mortgage loan is the single-family first mortgage, typically structured with fixed or adjustable interest rates, based on market conditions. These loans usually have fixed rates for up to five years, with maturities of 25 to 30 years. Also the Banks originate home equity lines of credit secured by residential property. These loans are typically made on a variable rate basis with maturities up to 15 years.

The Banks' commercial real estate term loans accrue at either variable or fixed rates. The variable rates approximate current market rates. Amortizations are typically no more than 25 years with maturity dates generally five years or less.

Construction and land development loans are typically made on a variable rate basis. Loan terms usually do not exceed twenty-four months.

The Banks originate residential loans for sale into the secondary market. Such loans are made in accordance with underwriting standards set by the purchaser of the loan, normally as to loan-to-value ratio, interest rate, borrower qualification and documentation. Such loans are generally made under a

commitment to purchase from a loan purchaser. The Banks generally collect from the borrower or purchaser a combination of the origination fee, discount points and/or service release fee. During 2005, the Banks sold approximately \$723 million in loans to such purchasers.

Consumer Loans. Consumer lending includes installment lending to individuals in the Banks' market areas and generally consists of loans to purchase automobiles and other consumer durable goods. Consumer loans constituted \$82.9 million, or 2.0% of Alabama National's loan portfolio at December 31, 2005. Consumer loans are underwritten based on the borrower's income, current debt level, past credit history and collateral. Consumer rates are both variable and fixed, with terms negotiable. Terms generally range from one to five years depending on the nature and condition of the collateral. Periodic amortization, generally monthly, is typically required.

Commercial and Financial Loans. The Banks make loans for commercial purposes in various lines of business. These loans are typically made on terms up to five years at fixed or variable rates. The loans are secured by various types of collateral including accounts receivable, inventory or, in the case of equipment loans, the financed equipment. The Banks attempt to reduce their credit risk on commercial loans by underwriting the loan based on the borrower's cash flow and its ability to service the debt from earnings, and by limiting the loan-to-value ratio. Historically, the Banks have typically loaned up to 80% on loans secured by accounts receivable, up to 50% on loans secured by inventory, and up to 100% on loans secured by equipment. The Banks also make some unsecured commercial loans and offer equipment leasing. Commercial and financial loans constituted \$287.0 million, or 6.9% of Alabama National's loan portfolio at December 31, 2005. Interest rates are negotiable based upon the borrower's financial condition, credit history, management stability and collateral.

Credit Procedures and Review

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

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

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

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

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

Deposits

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

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

Investment Services

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

Securities Brokerage and Trust Division

First American Bank's wholly owned subsidiary, NBC Securities, Inc. (NBC Securities), is a broker-dealer registered with the National Association of Securities Dealers and the Securities Investors Protection Corporation. NBC Securities provides investment services to individuals and institutions. These services include the sale of stocks, bonds, mutual funds, annuities, margin loans, other insurance products and financial advisory services. NBC Securities has a total of approximately 78 investment representatives and advisors located in 44 offices in Alabama, Florida, Georgia and Tennessee. First American Bank also operates a trust division that manages the assets of institutional and individual customers, primarily in the Birmingham, Alabama market.

Mortgage Lending Division

Substantially all of the Banks operate mortgage lending divisions that make home loans to individuals located in the markets served by the Banks. The majority of these loans are sold to corporate investors, who also service the loans. In addition to selling traditional residential mortgages, with the 2005 acquisition of Byars and Company, Alabama National now has a commercial mortgage banking operation. Through this division of First American Bank, Alabama National arranges permanent financing with outside investors for commercial real estate transactions. First American Bank earns a fee for this service. Alabama National also services many of the loans for the permanent investors and earns a fee for this service as well.

Insurance Services Division

ANB Insurance Services, Inc., a subsidiary of Alabama National's First American Bank, is a full service independent property and casualty insurance agency headquartered in Birmingham, Alabama. Agents are located at many of the Banks.

Competition

Alabama National encounters strong competition in all of its businesses. The Banks compete with other commercial banks, savings and loan associations, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking companies, and other financial intermediaries operating in Alabama, Florida, Georgia and elsewhere. Many of these competitors, some of which are affiliated with large bank holding companies, have substantially greater resources and lending limits, and may offer certain services that the Banks do not currently provide. In addition, many of Alabama National's non-bank competitors are not subject to the same extensive federal regulations that govern bank holding companies and federally insured banks.

Customers for banking services are generally influenced by convenience, quality of service, personal contacts, prices of services and availability of products. Alabama National believes that its affiliates effectively compete with others banks and financial institutions in their relevant market areas.

Market Areas and Growth Strategy

Alabama National currently conducts business through 45 banking locations in Alabama, 34 banking locations in Florida and 8 banking locations in Georgia. Approximately 99% of the Banks' deposits are in metropolitan statistical areas.

Alabama National intends to pursue expansion into attractive, high growth markets in Florida, Georgia and Alabama through acquisitions of community banks and branch locations and through bank expansions. Since 1995, Alabama National has successfully integrated eleven bank acquisitions and two separate branch acquisitions. Alabama National focuses its acquisition strategy on high quality community banks with proven management teams that view Alabama National as a partner, rather than as an exit strategy. Alabama National's strategy is to maintain the management team of each acquired bank, allowing it to retain its local entrepreneurial identity and decision making, while simultaneously creating efficiencies in the administrative and back office operations of the bank.

In Alabama, Alabama National focuses its operations in three principal market areas: north Alabama (Decatur-Huntsville market); the metropolitan Birmingham area and east central Alabama; and Baldwin County (located on the Gulf Coast between Mobile, Alabama and Pensacola, Florida). In Florida, Alabama National focuses its operations in six principal market areas: Pensacola and Panama City (located in the Florida panhandle); the Gainesville metropolitan area; the Orlando metropolitan area; the coastal Atlantic counties of Indian River and Brevard (including the Port St. Lucie metropolitan area); the Palm Coast / Ormond Beach region; and the Naples and Fort Myers metropolitan areas. In Georgia, Alabama National focuses its operations in the greater-Atlanta counties of Cobb, Douglas and Paulding.

Through First American Bank, Alabama National serves the metropolitan Birmingham market, which includes portions of Jefferson, Shelby and St. Clair Counties. First American Bank also serves Morgan, Limestone and Madison Counties in north Alabama, Talladega County in central Alabama and Lee County in east central Alabama. The Decatur-Huntsville, Alabama market has demonstrated a growing economic base in recent years. First American entered the Lee County market, which includes the communities of Auburn and Opelika, with the 2001 acquisition of Farmers National Bancshares, Inc. Lee County is also one of Alabama's higher growth counties.

Through First Gulf Bank, N.A., Alabama National serves Baldwin County, Alabama, as well as Pensacola and Panama City, Florida. Baldwin County, located between Mobile, Alabama and Pensacola, Florida, has a broad base of economic activity in the retail and service, agriculture, seafood, tourism and manufacturing industries. Baldwin County includes the popular tourism and retirement resort communities of Gulf Shores, Orange Beach and Fairhope. Shelby, Baldwin, Lee and St. Clair Counties have been named in statistical surveys as four of the fastest growing counties in Alabama.

In 1997, Alabama National expanded outside of Alabama with the opening of Citizens & Peoples Bank, N.A. in Escambia County, Florida. In May 2005, Alabama National's First Gulf Bank merged with and into Citizens & Peoples Bank, N.A., which now operates under the name First Gulf Bank, N.A. and serves Pensacola and Panama City, Florida, as well as Baldwin County, Alabama. In 1998, Alabama National further expanded its presence in markets outside of Alabama with two acquisitions in Florida and one in Georgia. Community Bank of Naples, N.A., located in Collier County, Florida, and Georgia State Bank, located in the greater-Atlanta counties of Cobb, Douglas and Paulding, are located in markets that are among the fastest growing in their respective states. Public Bank is located in the fast-growing greater Orlando area, with offices in Altamonte Springs, Kissimmee and St. Cloud, Florida. In 2001, Alabama National expanded its presence in the greater-Orlando area with the acquisition of Peoples State Bank of Groveland (Peoples State Bank), serving customers in the communities of Groveland, Leesburg and Clermont, Florida. Peoples State Bank merged with Public Bank in 2004. In 2003, Alabama National further expanded in Florida with the acquisition of Millennium Bank in Gainesville. Home to the University of Florida, Gainesville has experienced solid economic activity and good population growth.

In February 2004, Alabama National completed the acquisitions of two additional Florida bank holding companies: Cypress Bankshares, Inc. in Palm Coast and Indian River Banking Company in Vero Beach. Palm Coast, located in Flagler County, has experienced strong growth in population and bank deposits. Indian River serves the coastal Atlantic counties of Indian River and Brevard through eight locations in Vero Beach, Sebastian, Melbourne, Palm Bay and Rockledge, Florida. In July 2004, Alabama National acquired Coquina Bank of Ormond Beach, Florida. Coquina Bank subsequently merged with Cypress Bank in August 2004 to form CypressCoquina Bank.

The other subsidiary Banks, Alabama Exchange Bank and Bank of Dadeville, are located in non-metropolitan areas. Each of these Banks, while experiencing lower growth due to limited market growth, typically operates at a high level of profitability. As a result, these Banks tend to produce capital for growth in many of the high growth markets served by the other Banks. Alabama National's strategy is to focus on maximization of profitability for these non-metropolitan banks, since market growth has not been as significant.

Due to continuing consolidation within the banking industry, particularly in the Southeastern United States, Alabama National may in the future seek to combine with other banks or thrifts (or their holding companies) that may be of smaller, equal or greater size than Alabama National. Alabama National currently intends to concentrate on acquisitions of additional banks or thrifts (or their holding companies) which operate in attractive market areas in Florida, Georgia and Alabama. In addition to price and terms, the factors considered by Alabama National in determining the desirability of a business acquisition or combination are financial condition, asset quality, earnings potential, quality of management, market area and competitive environment.

In addition to its strategy of expansion through combinations with other banks or thrifts, Alabama National intends to continue to expand organically where possible by growing its existing banks in their respective market areas and nearby attractive markets.

During 1998, First American Bank formed a commercial leasing division which currently focuses on machinery and equipment leases to business customers. Also, Alabama National is exploring expansion into lines of business closely related to banking and will pursue such expansion if it believes such lines could be profitable without causing undue risk to Alabama National. ANB Insurance Services, Inc., Alabama National's full service independent property and casualty insurance agency headquartered in Decatur, Alabama, has agents in most of the markets serviced by the Banks and has sought to expand its footprint through internal growth and acquisitions. Alabama National has also expanded its securities brokerage unit, NBC Securities, Inc., by locating investment representatives in offices of several of Alabama National's subsidiary Banks as well as in offices of some correspondent banks. It has also added investment representatives in other non-bank locations when opportunities have arisen.

While Alabama National plans to continue its growth as described above, there is no assurance that its efforts will be successful.

Employees

As of December 31, 2005, Alabama National and the Banks together had approximately 1,524 full-time equivalent employees. None of these employees is a party to a collective bargaining agreement. Alabama National considers its relations with its employees to be good.

Supervision and Regulation

Alabama National and the Banks are subject to extensive supervision, regulation and examination by various bank regulatory authorities and other governmental agencies. State and federal banking laws have as their principal objective either the maintenance of the safety and soundness of financial institutions and the federal deposit insurance system or the protection of consumers or classes of consumers, and depositors in particular, rather than the specific protection of stockholders of a bank or its parent company.

Set forth below is a brief description of certain laws and regulations that relate to the regulation of Alabama National, the Banks and our broker-dealer and insurance company subsidiaries. To the extent that the following material describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in applicable laws or regulations may have a material effect on the business and prospects of Alabama National.

As a registered bank holding company, Alabama National is subject to regulation under the Bank Holding Company Act of 1956, as amended (BHCA), and to inspection, examination and supervision by the Federal Reserve. The Banks are subject to supervision, examination and regulation by applicable state and federal banking agencies, including the Federal Reserve, the Office of the Comptroller of the Currency (the OCC) and the Federal Deposit Insurance Corporation (the FDIC). The Banks are also subject to various requirements and restrictions under federal and state law, including requirements to maintain allowances against deposits, restrictions on the types and amounts of loans that may be granted and the interest that may be charged thereon, and limitations on the types of investments that may be made and the types of services that may be offered. Various consumer laws and regulations also affect the operations of the Banks. In addition to the impact of regulation, commercial banks are affected significantly by the actions of the Federal Reserve as it attempts to control the money supply and credit availability in order to influence the economy.

Under the BHCA, Alabama National may not generally engage in activities, or acquire more than 5% of any class of voting securities of any company engaged in activities, other than banking or activities that are closely related to banking. However, a bank holding company that has elected to be treated as a financial holding company may engage in activities that are financial in nature or incidental or complementary to such financial activities, as determined by the Federal Reserve alone, or together with the Secretary of the Department of Treasury. Alabama National has not elected financial holding company status. See *Gramm-Leach Bliley Act* below.

Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Riegle-Neal)

Riegle-Neal permits adequately capitalized and adequately managed bank holding companies, as determined by the Federal Reserve, to acquire banks in any state subject to concentration limits and other conditions. Riegle-Neal also generally authorizes the interstate merger of banks. In addition, Riegle-Neal permits banks to establish new branches on an interstate basis, provided that the law of the host state specifically authorizes such action.

Dividends

The Federal Reserve has authority to prohibit bank holding companies from paying dividends if such payment is deemed to be an unsafe or unsound practice. The Federal Reserve has indicated generally that it may

be an unsafe or unsound practice for bank holding companies to pay dividends unless the bank holding company's net income over the preceding year is sufficient to fund the dividends, and the expected rate of earnings retention is consistent with the organization's capital needs, asset quality and overall financial condition.

In addition to the limitations placed on the payment of dividends at the holding company level, there are various legal and regulatory limits on the extent to which the Banks may pay dividends or otherwise supply funds to Alabama National. Under Alabama law, a bank may not pay a dividend in excess of 90 percent of its net earnings until the bank's surplus is equal to at least 20 percent of capital. Also, under Alabama law, a bank is required to obtain approval of the Superintendent of Banking prior to the payment of dividends if the total of all dividends declared by the bank in any calendar year will exceed the total of (a) the bank's net earnings (as defined by statute) for the year, plus (b) its retained net earnings for the preceding two years, less any required transfers to surplus. Also, no dividends may be paid from the bank's surplus without the prior written approval of the Superintendent of Banking. All of the Banks that are chartered under Alabama law are subject to these dividends restrictions. The Banks located and chartered in Florida and Georgia are subject to the laws and regulations of those states which also place certain restrictions on the payment of dividends.

In addition, federal and state regulatory agencies have the authority to prevent a bank or bank holding company from paying a dividend or engaging in any other activity that, in the opinion of the agency, would constitute an unsafe or unsound practice. The inability of the Banks to pay dividends may have an adverse effect on Alabama National.

FDIC Regulation

The Banks pay deposit insurance premiums to the FDIC based on an assessment rate established by the FDIC for Bank Insurance Fund-member institutions. The FDIC uses a risk-based assessment system for insured depository institutions that takes into account the risks attributable to different categories and concentrations of assets and liabilities and assesses higher rates on those institutions that pose greater risks to the federal deposit insurance funds. The FDIC recently has proposed changes to its assessment system that are designed to require premium payments by a greater number of banks and other FDIC-insured depository institutions and that also would provide rebates to some institutions. If any of these changes were to take effect, the assessment obligations of the Banks could change.

Bank Holding Company Support of Subsidiary Banks

There are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by federal law and regulatory policy that are designed to reduce potential loss exposure to the depositors of such depository institutions and to the FDIC insurance fund in the event the depository institution becomes in danger of default or is in default. For example, under a policy of the Federal Reserve with respect to bank holding company operations, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such policy. In addition, the cross guarantee provisions of federal law require insured depository institutions under common control to reimburse the FDIC for any loss suffered or reasonably anticipated as a result of the default of a commonly controlled insured depository institution or for any assistance provided by the FDIC to a commonly controlled insured depository institution in danger of default. All of the Banks are FDIC-insured depository institutions. Any capital loans by a bank holding company to its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Regulatory Capital Requirements

Alabama National is required to comply with the capital adequacy standards established by the Federal Reserve, and the Banks must comply with similar capital adequacy standards established by the OCC, FDIC and

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

Affiliate Transactions

The Banks are subject to Regulation W, which comprehensively implemented statutory restrictions on transactions between a bank and its affiliates. Regulation W combines the Federal Reserve's interpretations and exemptions relating to Section 23A and 23B of the Federal Reserve Act. Regulation W and Section 23A of the Federal Reserve Act place limits on the amount of loans or extensions of credit to, investments in or certain other transactions with affiliates, and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. In general, the Banks' affiliates are Alabama National and Alabama National's non-bank subsidiaries.

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

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

Gramm-Leach Bliley Act

The Gramm Leach Bliley Act of 1999 (GLB Act) permits bank holding companies that meet certain management, capital and community reinvestment standards to engage in a substantially broader range of non-banking activities than were permitted previously, including insurance underwriting and merchant banking activities. Under the GLB Act, a bank holding company that elects to become a financial holding company may engage in any activity that the Federal Reserve, in consultation with the Secretary of the Department of the Treasury, determines by regulation or order is: (i) financial in nature; (ii) incidental to any such financial activity; or (iii) complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. Alabama National has not elected to become a financial holding company.

The GLB Act preserves the role of the Federal Reserve as the umbrella supervisor for holding companies while at the same time incorporating a system of functional regulation designed to take advantage of the strengths of the various federal and state regulators. In particular, the Act replaces the broad exemption from

Securities and Exchange Commission regulation that banks previously enjoyed with more limited exemptions, and it reaffirms that states are the regulators for the insurance activities of all persons, including federally-chartered banks.

Privacy

The GLB Act and the applicable regulations issued by the various federal regulatory agencies require financial institutions (including banks, insurance agencies and broker/dealers) to implement policies and procedures regarding the disclosure of nonpublic personal information about their customers with non-affiliated third parties. In general, financial institutions are required to explain to consumers their policies and procedures regarding the disclosure of such nonpublic personal information, and, unless otherwise required or permitted by law, financial institutions are prohibited from disclosing such information except as provided in their policies and procedures. Specifically, the Information Security Guidelines established by the GLB Act require each financial institution, under the supervision and ongoing oversight of its board of directors or an appropriate committee thereof, to develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, to protect against anticipated threats or hazards to the security or integrity of such information; and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer.

Bank Secrecy Act/USA Patriot Act

The Bank Secrecy Act is the centerpiece of the federal government's efforts to prevent banks and other financial institutions from being used to facilitate the transfer or deposit of money derived from criminal activity. Under the Bank Secrecy Act, financial institutions are obligated to file Suspicious Activity Reports, or SARs, on suspicious activities involving the institution, including certain attempted or actual violations of law as well as certain transactions that do not appear to have a lawful purpose or are not the sort of transaction in which the particular customer would normally be expected to engage.

The Bank Secrecy Act was amended by the USA Patriot Act of 2001, expanding the important role the government expects banks to play in detecting and reporting suspicious activity. The USA Patriot Act broadened the application of anti-money laundering regulations to apply to additional types of financial institutions, such as broker-dealers, and strengthened the ability of the U.S. government to detect and prosecute international money laundering and the financing of terrorism. The principal provisions of Title III of the USA Patriot Act require that regulated financial institutions, including state member banks: (i) establish an anti-money laundering program that includes training and audit components; (ii) comply with regulations regarding the verification of the identity of any person seeking to open an account; (iii) take additional required precautions with non-U.S. owned accounts; and (iv) perform certain verification and certification of money laundering risk for their foreign correspondent banking relationships. The USA Patriot Act also expanded the conditions under which funds in a U.S. interbank account may be subject to forfeiture and increased the penalties for violation of anti-money laundering regulations.

Failure of a financial institution to comply with the Bank Secrecy Act, as amended by the USA Patriot Act, could have serious legal and reputational consequences for the institution. Alabama National has adopted policies, procedures and controls to address compliance with the these regulations and will continue to revise and update its policies, procedures and controls to reflect changes required by the USA Patriot Act and all applicable implementing regulations.

The Community Reinvestment Act

The Community Reinvestment Act (CRA) requires that, in connection with examinations of financial institutions within their respective jurisdictions, the Federal Reserve, the FDIC or the OCC shall evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those institutions. The CRA

does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. These factors are considered in evaluating mergers, acquisitions and applications to open a branch or facility. The CRA also requires all institutions to make public disclosure of their CRA ratings. Each of the Banks received at least a satisfactory rating in its most recent evaluation.

Other

As a registered broker-dealer and investment advisor, NBC Securities is subject to regulation by the Securities and Exchange Commission and the National Association of Securities Dealers, Inc., and other self-regulatory organizations, which may affect its manner of operation and profitability.

ANB Insurance Services, Inc., a subsidiary of First American Bank, is subject to regulation in the various states and jurisdictions in which it transacts business.

Executive Officers of the Registrant

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

John H. Holcomb, III Age 54 Chairman and Chief Executive Officer. Mr. Holcomb has served as Chairman and Chief Executive Officer of Alabama National since 1996. Mr. Holcomb served as Chief Executive Officer of National Bank of Commerce of Birmingham (NBC) from 1990 through February 2005. Effective February 2005, Mr. Holcomb began serving as Chairman of the Board of First American Bank.

Dan M. David Age 60 Vice Chairman. Mr. David has served as Vice Chairman of Alabama National since 1997 when First American Bancorp merged with and into Alabama National. Mr. David also serves as Vice Chairman of First American Bank, a position he has held since February 2005. From 1995 to February 2005, Mr. David served as Chairman and Chief Executive Officer of First American Bank. Mr. David served as Chairman and Chief Executive Officer of First American Bancorp from 1995 through 1997.

Richard Murray, IV Age 43 President and Chief Operating Officer. Mr. Murray has served as President and Chief Operating Officer of Alabama National since 2000. Prior to such time, Mr. Murray served as Executive Vice President of Alabama National beginning in 1998. Mr. Murray also serves as Vice Chairman of First American Bank, a position he has held since February 2005. Mr. Murray served as Executive Vice President of NBC from 1997 to February 2005.

William E. Matthews, V Age 41 Executive Vice President and Chief Financial Officer. Mr. Matthews has served as Executive Vice President and Chief Financial Officer of Alabama National since 1998. Mr. Matthews also serves as Executive Vice President and Chief Financial Officer of First American Bank, positions he has held since February 2005. Mr. Matthews served as Executive Vice President and Chief Financial Officer of NBC from 1998 to February 2005. Prior to that date, Mr. Matthews served as Senior Vice President of NBC beginning in 1996.

John R. Bragg Age 44 Executive Vice President. Mr. Bragg has served as Executive Vice President of Alabama National since 1998. Mr. Bragg also serves as Executive Vice President of First American Bank, a position he has held since February 2005. Mr. Bragg served as Executive Vice President of NBC from 1997 to February 2005. Mr. Bragg served as Senior Vice President of NBC from 1992 until 1997.

James R. Thompson, III Age 46. Mr. Thompson has served as President and Chief Executive Officer of First American Bank, the largest subsidiary of Alabama National, since February 2005. Prior to that date, Mr. Thompson served as President and Chief Operating Officer of First American Bank beginning in 1994.

Shelly S. Williams Age 42 Senior Vice President and Controller. Ms. Williams has served as Senior Vice President and Controller of Alabama National since 2000. Ms. Williams also serves as Senior Vice President and Chief Accounting Officer of First American Bank, positions she has held since February 2005. Ms. Williams served as Senior Vice President and Controller of NBC from 2000 to February 2005. Ms. Williams served as Vice President and Controller of NBC from 1997 through 2000, and as Assistant Vice President and Assistant Controller of NBC from 1996 to 1997.

William R. Ireland, Jr. Age 48 Executive Vice President and Chief Risk Management Officer. Mr. Ireland has served as Executive Vice President and Chief Risk Management Officer of Alabama National and Executive Vice President of First American Bank since February 2005. Mr. Ireland also serves as Loan Review and Compliance Officer of First American Bank, a position he has held since 1990. Mr. Ireland served as Senior Vice President of Alabama National from 1993 through February 2005.

Company Website

Alabama National's website address is www.alabamanational.com. The information contained on our website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this report. Alabama National makes available free of charge through its website its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material has been filed with or furnished to the Securities and Exchange Commission.

ITEM 1A. RISK FACTORS

Making or continuing an investment in securities issued by Alabama National, including our common stock, involves certain risks that you should carefully consider. The risks and uncertainties described below are not the only risks that may have a material adverse effect on Alabama National. Additional risks and uncertainties also could adversely affect our business and our results. If any of the following risks actually occur, our business, financial condition or results of operations could be negatively affected, the market price for your securities could decline, and you could lose all or a part of your investment. Further, to the extent that any of the information contained in this Annual Report constitutes forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause Alabama National's actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of Alabama National.

We may not be able to maintain our historical growth rate, which may adversely affect our results of operations and financial condition.

We have grown substantially in the past few years from approximately \$2.03 billion in total assets at December 31, 1999 (as restated for a 2001 pooling-of-interests transaction) to approximately \$5.93 billion in total assets at December 31, 2005. This growth has been achieved through a combination of internal growth and acquisitions. Our future profitability will depend in part on our continued ability to grow. We may not be able to sustain our historical rate of growth or may not be able to grow our business at all in the future. We may also not be able to obtain the financing necessary to fund additional growth and may not be able to find suitable candidates for additional acquisitions in the future. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may impede or prohibit our ability to acquire additional bank subsidiaries or open or acquire new branch offices.

We may need to raise additional capital in the future, but that capital may not be available when it is needed or on favorable terms.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that our capital resources will satisfy our capital requirements for the immediate future. We may, however, need to raise additional capital to support our continued growth or for other capital needs. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital, if needed, on terms acceptable to us or at all. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired.

Our directors and executive officers own a significant portion of our common stock.

Our directors and executive officers, as a group, beneficially owned approximately 21.09% of our common stock outstanding as of March 10, 2006. As a result of their beneficial ownership, directors and executive officers will have the ability, by voting their shares in concert, to significantly influence the outcome of all matters submitted to our stockholders for approval, including the election of directors.

We make and hold in our loan portfolio a significant number of construction loans, which may pose more credit risk than other types of real estate loans.

We offer residential and commercial construction programs for builders and developers, which constituted 29.6% of our loan portfolio as of December 31, 2005. Builder construction loans are considered more risky than other types of real estate loans. While we believe we have established adequate reserves to cover the credit risk associated with our construction loan portfolio, there can be no assurance that losses will not exceed our reserves, which could adversely affect our earnings.

Competition in the banking industry is intense.

Competition in the banking and financial services industry is intense. In their primary market areas, our subsidiary banks compete with other commercial banks, savings and loan associations, credit unions, finance companies, insurance companies, brokerage and investment banking firms and other financial intermediaries that offer similar services, operating locally and elsewhere. Many of these competitors have substantially greater resources and lending limits than our subsidiary banks and may offer certain services that our subsidiary banks do not or cannot provide. Additionally, some of our non-bank competitors are not subject to the same regulations that govern Alabama National or the Banks and may have greater flexibility in competing for business. Our profitability depends upon the subsidiary banks' continued ability to compete effectively in their market areas.

We operate in a heavily regulated environment.

The banking industry is heavily regulated under both federal and state law. We are subject, in certain respects, to regulation by the Federal Reserve Board, the Federal Depository Insurance Corporation, the Office of the Comptroller of the Currency, the Alabama State Banking Department, the Florida Department of Financial Services and the Georgia State Banking Department. Our success depends not only on competitive factors but also on state and federal regulations affecting banks and bank holding companies. The regulations are primarily intended to protect depositors, not stockholders. The ultimate effect of recent and proposed changes to the regulation of the financial institution industry cannot be predicted. Regulations now affecting us may be modified at any time, and there is no assurance that such modifications, if any, will not adversely affect our business.

Changes in the policies of monetary authorities and other government action could adversely affect our profitability.

Our results of operations are affected by credit policies of monetary authorities, particularly the Federal Reserve. The instruments of monetary policy employed by the Federal Reserve include open market operations in United States government securities, changes in the discount rate or the federal funds rate on bank borrowings and changes in reserve requirements against bank deposits. In view of changing conditions in the national economy and in the money markets, particularly in light of the continuing threat of terrorist acts and the current military operations in the Middle East, no prediction can be made as to possible future changes in interest rates, deposit levels, loan demand or the business and earnings of Alabama National. Furthermore, the actions of the United States government and other governments in responding to such terrorist attacks and the military operations in the Middle East may result in currency fluctuations, exchange controls, market disruption and other adverse effects.

Our success depends upon local economic conditions.

Our success depends to a certain extent on the general economic conditions of the geographic markets served by our subsidiary banks in the states of Alabama, Georgia and Florida. The local economic conditions in these areas have a significant impact on the subsidiary banks' commercial, real estate and construction loans, the ability of borrowers to repay these loans and the value of the collateral securing these loans. Adverse changes in the economic conditions of the Southeastern United States in general or any one or more of these local markets could negatively impact the financial results of our banking operations and have a negative effect on our profitability.

We cannot guarantee that we will pay dividends to stockholders in the future.

Our principal business operations are conducted through our subsidiary banks. Cash available to pay dividends to our stockholders is derived primarily, if not entirely, from dividends paid by the subsidiary banks. The ability of the subsidiary banks to pay dividends, as well as our ability to pay dividends to our stockholders, will continue to be subject to and limited by the results of operations of the subsidiary banks and by certain legal

and regulatory restrictions. Further, any lenders making loans to us may impose financial covenants that may be more restrictive than regulatory requirements with respect to our payment of dividends to stockholders. There can be no assurance of whether or when we may pay dividends to our stockholders after this offering.

Changes in the allowances for loan and lease losses of our subsidiary banks could affect our profitability.

Management of each of our subsidiary banks maintains an allowance for loan and lease losses based upon, among other things, (1) historical experience, (2) an evaluation of local and national economic conditions, (3) regular reviews of delinquencies and loan portfolio quality, (4) current trends regarding the volume and severity of past due and problem loans, (5) the existence and effect of concentrations of credit, (6) growth rates in the loan portfolio and (7) results of regulatory examinations. Based upon such factors, management makes various assumptions and judgments about the ultimate collectibility of the respective loan portfolios. Although we believe that the allowance for loan and lease losses at each of the subsidiary banks is adequate, there can be no assurance that such allowances will prove sufficient to cover future losses. Future adjustments may be necessary if economic conditions differ or adverse developments arise with respect to nonperforming or performing loans. Material additions to the allowance for loan and lease losses would result in a material decrease in our net income, and possibly our capital, and could result in the inability to pay dividends, among other adverse consequences.

Changes in interest rates could have an adverse effect on our income.

Our profitability depends to a significant extent upon our net interest income. Net interest income is the difference between interest income on interest-earning assets, such as loans and investments, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Our net interest income will be adversely affected if market interest rates change such that the interest we pay on deposits and borrowings increases faster than the interest earned on loans and investments. Changes in interest rates could also adversely affect the income of certain of our non-interest income businesses. For example, if mortgage interest rates increase, the demand for residential mortgage loans will likely decrease, and this would have an adverse effect on our gain on the sale of mortgages.

The performance of our investment portfolio is subject to fluctuations due to changes in interest rates and market conditions.

Changes in interest rates can negatively affect the performance of most of our investments. Interest rate volatility can reduce unrealized gains or create unrealized losses in our portfolios. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. Fluctuations in interest rates affect our returns on, and the market value of, our investment securities.

The fair market value of the securities in our portfolio and the investment income from these securities also fluctuate depending on general economic and market conditions. In addition, actual net investment income and/or cash flows from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, may differ from those anticipated at the time of investment as a result of interest rate fluctuations.

Future acquisitions may disrupt our business, dilute stockholder value and adversely affect our operating results.

We may grow by acquiring banks or branches of other banks that we believe provide a strategic fit with our business. To the extent that we grow through acquisitions, we cannot assure you that we will be able to adequately or profitably manage this growth. Acquiring other banks or branches involves risks commonly associated with acquisitions, including:

potential exposure to unknown or contingent liabilities of acquired banks;

exposure to potential asset quality issues of acquired banks;

difficulty and expense of integrating the operations and personnel of acquired banks;

potential disruption to our business;

possible loss of key employees and customers of acquired banks;

potential short-term decrease in profitability; and

potential diversion of our management's time and attention.

We continually encounter technological change, and we may have fewer resources than our competition to continue to invest in technological improvements.

The banking and financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that enhance customer convenience, as well as create additional efficiencies in our operations. Many of our competitors have greater resources to invest in technological improvements, and we may not be able to effectively implement new technology-driven products and services, which could reduce our ability to effectively compete.

Hurricanes could cause a disruption in our operations which could have an adverse impact on the results of operations.

A significant portion of our operations are located in the areas bordering the Gulf of Mexico, a region that is susceptible to hurricanes. Such weather events can cause disruption to our operations and could have a material adverse effect on our overall results of operations. We maintain hurricane insurance including coverage for lost profits and extra expense. However, there is no insurance against the loss of market share that a catastrophic hurricane could produce. Further, a hurricane in any of our market areas could adversely impact the ability of borrowers to timely repay their loans and may adversely impact the value of any collateral held by us.

Substantial sales of our common stock could cause our stock price to fall.

If we or our stockholders sell substantial amounts of our common stock in the public market, the market price of our common stock could fall. Such sales also might make it more difficult for us to raise capital through the sale of common stock or use our common stock as currency in future acquisitions.

Certain state and federal laws and certain provisions in our certificate of incorporation and bylaws may deter potential acquirors and may depress our stock price.

Certain provisions of state and federal law, our certificate of incorporation and our bylaws might have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of us. Under federal law, subject to certain exemptions, a person, entity, or group must notify the federal banking agencies before acquiring 10% or more of the outstanding voting stock of a bank holding company, including our shares. Banking agencies review the acquisition to determine if it will result in a change of control. The banking agencies have 60 days to act on the notice, and take into account several factors, including the resources of the acquiror and the antitrust effects of the acquisition. There also are provisions in our certificate of incorporation and bylaws that may be used to delay or block a takeover attempt. As a result, these statutory provisions and provisions in our certificate of incorporation and bylaws may have anti-takeover effects and may delay, defer or prevent a tender offer or takeover attempt that a shareholder might consider to be in such shareholder's best interest, including those attempts that might result in a premium over the market price for the shares held by shareholders and may make removal of management more difficult.

Securities issued by Alabama National, including our common stock, are not insured deposits.

Securities issued by Alabama National, including our common stock, are not savings or deposit accounts or other obligations of any bank and are not insured by the FDIC, the Bank Insurance Fund, or any other governmental agency or instrumentality, or any private insurer, and are subject to investment risk, including the possible loss of principal.

We may issue additional securities, which could result in dilution of your ownership.

We may determine from time to time to issue additional securities to raise additional capital or finance acquisitions or upon the exercise or conversion of outstanding options. These issuances of our securities will dilute the ownership interests of our stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Alabama National, through the Banks, currently operates 87 banking offices, eight loan/mortgage origination offices, five operations offices and two insurance offices. Of these offices, Alabama National, through the Banks, owns 70 banking offices without encumbrance and leases an additional 17 banking offices and its eight loan/mortgage origination offices. Of its five operations offices, three are owned without encumbrance and two are leased. ANB Insurance Services, Inc. owns one of its offices without encumbrance, and leases its other office. Alabama National, through First American Bank, leases its principal administrative offices, which are located at 1927 First Avenue North, Birmingham, Alabama. *See* Notes 7 and 10 to the Consolidated Financial Statements of Alabama National and Subsidiaries included in this Annual Report on Form 10-K beginning at page F-1 for additional information regarding Alabama National's premises and equipment.

ITEM 3. LEGAL PROCEEDINGS

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

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

None.

PART II
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

At March 10, 2006 Alabama National had approximately 2,086 stockholders of record (including shares held in street names by nominees who are record holders) and 17,151,146 shares of common stock outstanding. Alabama National's common stock is traded in the over-the-counter market and prices are quoted on the NASDAQ/NMS under the symbol ALAB.

The following table sets forth, for the calendar quarters indicated, the high and low sales prices per share for Alabama National's common stock on the Nasdaq National Market, and the cash dividends declared per share in each such quarter:

	High	Low	Dividends Declared Per Share
2004			
First Quarter	\$ 55.52	\$ 50.14	\$ 0.3125
Second Quarter	56.98	50.18	0.3125
Third Quarter	61.89	53.02	0.3125
Fourth Quarter	65.74	58.45	0.3125
2005			
First Quarter	\$ 65.59	\$ 59.61	\$ 0.3375
Second Quarter	66.44	55.51	0.3375
Third Quarter	70.49	62.26	0.3375
Fourth Quarter	68.00	59.35	0.3375

Dividends are paid at the discretion of Alabama National's Board of Directors, based on Alabama National's operating performance and financial position, including earnings, capital and liquidity. Dividends from the subsidiary Banks are Alabama National's primary source of funds for the payment of dividends to its stockholders, and there are various legal and regulatory limits on the extent to which the subsidiary Banks may pay dividends or otherwise supply funds to Alabama National. In addition, federal and state regulatory agencies have the authority to prevent Alabama National from paying a dividend to its stockholders. Thus, while Alabama National intends to continue paying dividends, it can make no assurances that it will be able to or be permitted to do so in the future.

The last reported sales price of Alabama National's common stock as reported on the NASDAQ/NMS on March 10, 2006 was \$68.81. The prices shown do not reflect retail mark-ups and mark-downs.

ITEM 6. SELECTED FINANCIAL DATA**FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA**

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

	Year Ended December 31,				
	2005	2004	2003	2002	2001
Income Statement Data:					
Interest income	\$ 309,260	\$ 229,186	\$ 178,631	\$ 178,147	\$ 179,537
Interest expense	109,413	65,934	57,668	65,313	90,393
Net interest income	199,847	163,252	120,963	112,834	89,144
Provision for loan and lease losses	7,615	4,949	5,931	7,956	3,946
Net interest income after provision for loan and lease losses	192,232	158,303	115,032	104,878	85,198
Net securities gains	72	46	35	246	246
Noninterest income	71,651	72,785	78,258	61,129	48,461
Noninterest expense	162,480	148,322	131,892	113,605	92,258
Income before income taxes	101,475	82,766	61,444	52,437	41,647
Provision for income taxes	34,802	28,122	20,398	16,735	13,232
Net income	\$ 66,673	\$ 54,644	\$ 41,046	\$ 35,702	\$ 28,415
Balance Sheet Data:					
Total assets	\$ 5,931,673	\$ 5,315,869	\$ 3,820,112	\$ 3,316,168	\$ 2,843,497
Earning assets	5,385,824	4,841,255	3,512,744	3,034,980	2,612,806
Securities	1,136,487	1,200,407	810,227	700,333	567,688
Loans held for sale	14,940	22,313	16,415	51,030	36,554
Loans and leases, net of unearned income	4,144,095	3,495,701	2,659,440	2,191,394	1,964,169
Allowance for loan and lease losses	52,815	46,584	36,562	32,704	28,519
Deposits	4,343,264	3,934,723	2,753,749	2,330,395	2,066,759
Short-term debt	34,700	30,500	41,150	152,100	68,350
Long-term debt	369,246	393,688	332,393	240,065	209,631
Stockholders equity	571,879	529,543	279,418	234,492	207,886
Weighted Average Shares Outstanding Diluted	17,445	16,100	12,957	12,683	12,141
Per Common Share Data:					
Net income diluted	\$ 3.82	\$ 3.39	\$ 3.17	\$ 2.81	\$ 2.34
Book value (period end)	33.40	31.15	21.76	18.95	16.84
Tangible book value (period end) (4)	24.20	21.99	18.99	17.28	15.31
Dividends declared	1.35	1.25	1.14	1.00	0.92
Dividend payout ratio diluted	35.34%	36.87%	35.96%	35.59%	39.32%
Performance Ratios:					
Return on average assets	1.18%	1.13%	1.14%	1.18%	1.12%
Return on average equity	12.11	12.15	15.89	16.01	15.40
Net interest margin (1)	3.90	3.71	3.65	4.07	3.83
Net interest margin (taxable equivalent) (1)	3.93	3.74	3.68	4.11	3.88
Asset Quality Ratios:					
Allowance for loan and lease losses to period end loans (2)	1.27%	1.33%	1.37%	1.49%	1.45%
Allowance for loan and lease losses to period end nonperforming loans (3)	819.35	575.75	372.44	318.07	377.09
Net charge-offs to average loans and leases (2)	0.04	0.06	0.13	0.18	0.09
Nonperforming assets to period end loans and leases and foreclosed property (2)(3)	0.17	0.28	0.40	0.59	0.47

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Capital and Liquidity Ratios:

Average equity to average assets	9.76%	9.29%	7.17%	7.36%	7.28%
Leverage (4.00% required minimum)	8.29	8.44	7.73	7.52	7.61
Risk-based capital					
Tier 1 (4.00% required minimum)	10.89	11.49	10.47	10.00	9.92
Total (8.00% required minimum)	12.10	12.74	11.73	11.26	11.17
Average loans and leases to average deposits	94.41	92.30	94.38	96.44	97.74

- (1) Net interest income divided by average earning assets.
- (2) Does not include loans held for sale.
- (3) Nonperforming loans and nonperforming assets include loans past due 90 days or more that are still accruing interest. It is Alabama National's policy to place all loans on nonaccrual status when over ninety days past due.
- (4) Tangible book value per share, a financial measure determined other than in accordance with generally accepted accounting principles, is computed by dividing tangible book value by the total number of common shares outstanding. Tangible book value equals book value less goodwill and other intangible assets. Management believes that this measure is useful because it provides book value exclusive of goodwill and other intangible assets and because it is a measure used by many investors as part of their analysis of Alabama National. The following table sets forth a reconciliation of book value per share to tangible book value per share:

	Year Ended December 31,				
	2005	2004	2003	2002	2001
Book value (stockholders' equity)	\$ 571,879	\$ 529,543	\$ 279,418	\$ 234,492	\$ 207,886
Deduct: goodwill and other intangible assets	(157,429)	(155,682)	(35,587)	(20,622)	(18,875)
Tangible book value	414,450	373,861	243,831	213,870	189,011
Book value per common share	33.40	31.15	21.76	18.95	16.84
Effect of goodwill and intangible assets per share	(9.20)	(9.16)	(2.77)	(1.67)	(1.53)
Tangible book value per common share	\$ 24.20	\$ 21.99	\$ 18.99	\$ 17.28	\$ 15.31

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis contains forward-looking statements that involve inherent risks and uncertainties. Actual results may differ materially from those contained in forward-looking statements. For additional information regarding forward-looking statements, see the section titled "SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS" on page 1 of this Annual Report.

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 accounting principles generally accepted in the United States of America and with general financial service industry practices.

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

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.

Executive Summary

The purpose of this section is to provide a brief summary overview of 2005. Additional detail about the income statement and balance sheet is provided in the pages following this summary.

Income Statement

Alabama National reported \$66.7 million in 2005 net income, a 22.0% increase from 2004, with diluted earnings per share growing 12.6% from \$3.39 in 2004 to \$3.82 in 2005. Alabama National has two components of revenue - net interest income and noninterest income. The primary reasons for increased net income in 2005 are the increase in net interest income and the impact of having a full twelve months performance for banks that were acquired during 2004. Strong loan growth during 2005 and an increase in the net interest margin generated much of the increased net interest income.

Net interest income grew 22.4% to \$199.8 million in 2005. The Company experienced growth in its net interest spread and in its net interest margin of 0.05% and 0.19%, respectively. Alabama National experienced some margin improvement beginning in the second half of 2004, when the Federal Reserve began taking actions to increase short term interest rates. As short term rates rose, the spread between the rate earned on loans, investments, and other earning assets and the rate paid on deposits and other interest-bearing liabilities expanded. Alabama National's loan portfolio (excluding loans held for sale) grew by \$648.4 million, or 18.5%, during 2005. Because loans are typically the Company's highest yielding asset, this loan growth aided net interest income growth.

Noninterest income in 2005 decreased by \$1.1 million, or 1.5%, from 2004 levels. This category of income includes mortgage banking, securities brokerage and trust services, investment services, insurance services, and service charges and other fees associated with traditional retail and commercial banking. The decline was centered in the investment services area (down \$7.4 million, or 63.9%) and in service charges (down \$0.8 million, or 4.6%). The decline in the investment services area is attributed to two factors: a more difficult interest rate environment in 2005, with the flattening of the yield curve (due to rising short term rates and declining long term rates), and the November 2004 departure of several fixed income salespeople from the Company. Securities brokerage and trust services income offset some of this decline, with \$2.4 million (14.0%) in increased revenue. This division continues to experience growth in numbers of customers and client assets. The residential mortgage banking area showed revenue growth of \$1.0 million, or 8.3%, in 2005. Other noninterest income, which includes debit and credit card income, the commercial mortgage banking area (which was acquired in September 2005), letter of credit fees, and other items, grew \$2.9 million (31.5%) over 2004. Other areas of noninterest income that experienced increases in 2005 include gains on disposal of assets (\$0.7 million) and bank owned life insurance income (\$0.2 million). Insurance commissions were down slightly (\$0.1 million) from 2004.

On the expense side, Alabama National's noninterest expenses grew \$14.2 million, or 9.5%, during 2005 as compared with 2004. The largest increase in noninterest expense was in salaries and employee benefits, which grew \$10.4 million, or 13.9%. Occupancy and equipment expense grew by \$2.2 million, or 14.0%. Increases in both of these areas are partially attributable to the Company's growth, as new locations lead to increased staffing and occupancy expenses. In addition, the Company's performance-based incentive compensation expense also grew in 2005, contributing to the increase in salary and employee benefits. Another factor affecting the increase in noninterest expenses is that the three bank acquisitions completed in 2004 were part of Alabama National's operating expense base for a full year in 2005 and only part of the year in 2004. Other operating expenses, which category includes such expenses as advertising, supplies and printing, and communication expenses, increased \$3.4 million, or 9.3%, during 2005 as compared with 2004. As a partial offset to these increases, commission-based compensation expenses declined for a second straight year with the decline in commission based revenue.

Balance Sheet

Alabama National's total assets grew \$616 million, or 11.6%, during 2005. While the Company acquired three banks in 2004, accounting for much of that year's growth, no bank acquisitions were completed in 2005. The 2005 asset growth was largely attributable to the \$648 million growth in loans and leases (up 18.5%). This loan growth was somewhat offset by a \$64 million, or 5.3%, reduction in securities balances. Deposits grew \$409 million (10.4%) during 2005.

Asset Quality

Alabama National reported 2005 net charge-offs of \$1.4 million, or 0.04% of average loans and leases, down from 2004's \$1.8 million, or 0.06% of average loans and leases. Nonperforming assets at December 31, 2005 were \$7.1 million (0.17% of period end loans and leases and foreclosed property), down from year end 2004's \$9.6 million (0.28% of period end loans and leases and foreclosed property). Potential problem loans fell to \$24.5 million at December 31, 2005 from year end 2004's \$30.8 million. Alabama National's provision for loan and lease losses rose from \$4.9 million in 2004 to \$7.6 million in 2005. This increase was due largely to the 18.5% growth in loans and leases during the year. As a result of loan growth, net chargeoffs and the provision for loan and lease losses, Alabama National's allowance for loan and lease losses as a percentage of period-end loans and leases declined to 1.27% at December 31, 2005 from 1.33% at December 31, 2004.