

ALABAMA NATIONAL BANCORPORATION

Form 10-K

March 01, 2007

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**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, 2006 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  
(Address of principal executive offices)

35203-4009  
(Zip Code)

205-583-3600

(Registrant's Telephone Number)

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

Title of Each Class  
Common Stock, par value \$1.00 per share

Name of Exchange on Which Registered  
The NASDAQ Stock Market LLC

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

None

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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, 2006 was \$1,037,905,370.

As of February 26, 2007 the registrant had outstanding 20,589,849 shares of its common stock.

**DOCUMENTS INCORPORATED BY REFERENCE IN THIS FORM 10-K:**

Portions of the definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 23, 2007 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 (including Florida Choice Bank and The Peachtree Bank), 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.

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

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.

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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.

**Table of Contents****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 twelve banks (the Banks ), summarized below.

<b>Bank</b>	<b>Principal Markets</b>	<b>Total Assets at December 31, 2006</b>
1. First American Bank	Birmingham Metropolitan Area, Decatur/Huntsville/Athens, Talladega, and Auburn/Opelika, Alabama	\$ 2,998,000,000
2. Indian River National Bank	Indian River and Brevard Counties, Florida	\$ 797,738,000
3. First Gulf Bank, N.A.	Pensacola and Panama City, Florida and Baldwin County, Alabama	\$ 654,227,000
4. The Peachtree Bank	Metropolitan Atlanta, Georgia	\$ 576,749,000
5. Florida Choice Bank	Metropolitan Orlando and Ocala, Florida	\$ 536,358,000
6. Community Bank of Naples, N.A.	Naples, Florida	\$ 428,966,000
7. Public Bank	Metropolitan Orlando and Lake County, Florida	\$ 424,008,000
8. Georgia State Bank	Metropolitan Atlanta, Georgia	\$ 408,920,000
9. CypressCoquina Bank	Ormond Beach, Florida	\$ 310,266,000
10. Millennium Bank	Gainesville, Florida	\$ 189,990,000
11. Bank of Dadeville	Dadeville, Alabama	\$ 83,607,000
12. Alabama Exchange Bank	Tuskegee, Alabama	\$ 80,516,000

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.

**Subsidiary Banks**

Alabama National operates through 12 subsidiary Banks which have a total of 102 banking offices and six 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.

Alabama National's Wealth Management division offers trust, financial planning, investment management, and securities brokerage services to institutional and individual customers. Trust, financial planning, and investment management services are offered through First American Bank's Trust and Asset Management division. In addition, NBC Securities, Inc. offers investment advisory and securities brokerage services at a number of 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.

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### **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 income, at December 31, 2006, were approximately \$5.5 billion, or approximately 80% 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 \$2 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 \$4.6 billion, or 84.1% of total loans, net of unearned income, at December 31, 2006. 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 borrower(s) and/or 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 2006, the Banks sold approximately \$665 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 \$94.6 million, or 1.7% of Alabama National's loan portfolio, at December 31, 2006. 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.



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*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 \$401.1 million, or 7.3% of Alabama National's loan portfolio, at December 31, 2006. 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.

*Risk Ratings.* Loan officers are directly responsible for monitoring the risk in their respective portfolio. On commercial loans, risk grades are assigned by the loan officer for the probability of default and for loss in the event of default following analysis of borrower characteristics and external economic factors. However, on consumer loans, risk grades are determined by a borrower's credit score and personal debt ratio.

*Loan Review.* 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 assigned risk ratings. Alabama National maintains a continuous loan review system for First American Bank, Indian River National Bank, Florida Choice Bank, The Peachtree Bank and First Gulf Bank. For the other Banks, a scheduled review system is in place. 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

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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 its 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 servicing correspondent banks' investment needs. Services provided by the investment department include the sale of fixed income securities, asset/liability consulting, safekeeping and bond accounting.

## **Wealth Management Division**

The Company's Wealth Management division offers trust, financial planning, investment management, and securities brokerage services to institutional and individual customers. Trust, financial planning, and investment management services are offered through First American Bank's Trust and Asset Management Division. In addition, NBC Securities, Inc. offers investment advisory and securities brokerage services at a number of locations of the Banks. These services include the sale of stocks, bonds, mutual funds, annuities, margin loans, other insurance products and financial advisory services including those provided by outside money managers through separately-managed accounts. As of December 31, 2006, NBC Securities had a total of approximately 76 investment representatives and advisors located in 41 offices in Alabama, Florida, Georgia and Tennessee.

## **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

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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, 44 banking locations in Florida and 13 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 13 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 seven principal market areas: Pensacola and Panama City (located in the Florida panhandle); the Gainesville metropolitan area; the Orlando metropolitan area; Ocala; 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, Paulding, Gwinnett and Fulton.

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

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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 2004, Alabama National completed the acquisitions of two additional Florida banks: Cypress Bank in Palm Coast and Indian River National Bank 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.

In April 2006, Alabama National acquired Florida Choice Bank, with six offices in the greater Orlando, Florida market and one office in Ocala, Florida. In October 2006 Alabama National acquired The Peachtree Bank, with four offices in the north central Atlanta metropolitan area.

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.

Alabama National continually explores 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. First American Bank operates a commercial leasing division which currently focuses on machinery and equipment leases to business customers. 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. 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. In September 2005, Alabama National entered the commercial mortgage banking business with the acquisition of Byars and Company, now a division of First American Bank. Byars originates and services commercial mortgage loans for life insurance companies and commercial mortgage conduits.

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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, 2006, Alabama National and the Banks together had approximately 1,789 full-time equivalent employees. None of these employees is a party to a collective bargaining agreement. Alabama National considers its relations with its employees to be good.

### **Supervision and Regulation**

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

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

As a 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 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 the Treasury. Alabama National has not elected financial holding company status. See *Gramm-Leach-Bliley Act* beginning on page 12 below.

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

Under Riegle-Neal, bank holding companies from any state may acquire banks located in any other state, subject to certain conditions, including concentration limits. A bank may establish branches across state lines by merging with a bank in another state (unless applicable state law prohibits such interstate mergers), provided that

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certain conditions are met. A bank may also establish a de novo branch in a state in which the bank does not maintain a branch if that state expressly permits such interstate de novo branching and certain other conditions are met.

### *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 that the depository institution becomes in danger of default or is in default. For example, under a policy of the Federal Reserve with respect to bank holding company operations, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and commit resources to support such institutions in circumstances where it might not do so absent such policy. In addition, the cross-guarantee provisions of federal law require insured depository institutions under common control to reimburse the FDIC for any loss suffered or reasonably anticipated as a result of the default of a commonly controlled insured depository institution or for any assistance provided by the FDIC to a commonly controlled insured depository institution in danger of default. 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 regulations issued by each of the federal banking agencies. In general, the agencies measure capital adequacy within a framework that makes capital requirements sensitive to the risk profiles of individual banking companies. The guidelines define capital as either Tier 1 (primarily common shareholders' equity) or Tier 2 (certain debt instruments and a portion of the allowance for loan losses). Alabama National and the Banks are subject to a minimum Tier 1 capital ratio (Tier 1 capital to risk-weighted assets) of 4%, a total capital ratio (Tier 1 plus Tier 2 to risk-weighted assets) of 8% and a Tier 1 leverage ratio (Tier 1 to average quarterly assets) of 4%. To be considered a well capitalized institution, the Tier 1 capital ratio, the total capital ratio and the Tier 1 leverage ratio must equal or exceed 6%, 10% and 5%, respectively.

The Federal Reserve has adopted rules to incorporate market and interest rate risk components into its risk-based capital standards. Under these market risk requirements, capital is allocated to support the amount of market risk related to a financial institution's ongoing trading activities.

### *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 Sections 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.

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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 shareholders and their related interests. Such extensions of credit 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 must not involve more than the normal risk of repayment or present other unfavorable features.

### *Community Reinvestment Act ( CRA )*

The 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.

### *Dividends*

There are various legal and regulatory limits on the extent to which banks may pay dividends or otherwise supply funds to their holding companies. In addition, federal and state regulatory agencies also have the authority to prevent a bank or bank holding company from paying a dividend or engaging in any other activity that, in the opinion of the agency, would constitute an unsafe or unsound practice. 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. The Banks located and chartered in Alabama, Florida and Georgia are subject to the laws and regulations of those states, which place certain restrictions on the payment of dividends. Additionally, the state chartered Banks that are members of the Federal Reserve System are subject to the regulations of the Federal Reserve Board, while Alabama National's national chartered Banks are subject to the regulations of the OCC. Both the Federal Reserve and OCC place certain restrictions on the payment of dividends.

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.

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Florida law places similar restrictions on the payment of dividends. Florida chartered banks are subject to regulatory restrictions on the payment of dividends, including a prohibition of payment of dividends from their capital under certain circumstances without the prior approval of the Florida Department of Financial Services. Except with the prior approval of the Department of Financial Services, all dividends of any Florida bank must be paid out of retained net profits from the current period and the previous two years, after deducting expenses, including losses and bad debts. In addition, Florida banks are required to transfer at least 20 percent of their net income to surplus until their surplus equals the amount of paid-in capital.

For Georgia chartered banks, a bank must have approval of the Georgia Department of Banking and Finance to pay cash dividends if, at the time of such payment: (i) the ratio of Tier I capital to adjusted total assets is less than 6 percent; (ii) the aggregate amount of dividends to be declared or anticipated to be declared during the current calendar year exceeds 50 percent of its net after-tax profits for the previous calendar year; or (iii) its total classified assets in its most recent regulatory examination exceeded 80 percent of its Tier 1 capital plus its allowance for loan losses, as reflected in the examination.

In addition, the approval of the OCC is required for a national bank to pay dividends in excess of the bank's retained net income for the current year plus retained net income for the preceding two years. Approval of the Federal Reserve Board is required for payment of any dividend by a state chartered bank that is a member of the Federal Reserve System (sometimes referred to as a state member bank), if the total of all dividends declared by the bank in any calendar year would exceed the total of its net profits, as defined by regulatory agencies, for that year combined with its retained net profits for the preceding two years. In addition, a state member bank may not pay a dividend in an amount greater than its net profits then on hand.

Federal and state banking regulations applicable to us and our Bank subsidiaries require minimum levels of capital which limit the amounts available for payment of dividends. See *Regulatory Capital Requirements* on page 10 above and Note 19 to the Consolidated Financial Statements of Alabama National and Subsidiaries included in this Annual Report on Form 10-K beginning at page F-1.

The inability of the Banks to pay dividends may have an adverse effect on Alabama National.

### *FDIC Regulation*

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

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

### *Gramm-Leach-Bliley Act ( Gramm-Leach-Bliley )*

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



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Gramm-Leach-Bliley broadly defines "financial in nature" to include securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking; and activities that the Federal Reserve has determined to be closely related to banking. Gramm-Leach-Bliley also permits the Federal Reserve, in consultation with the Department of the Treasury, to determine that other activities are "financial in nature" and are therefore permissible for financial holding companies. A national bank also may engage, subject to limitations on investment, in activities that are financial in nature (other than insurance underwriting, insurance company portfolio investment, merchant banking, real estate development and real estate investment) through a financial subsidiary of the bank, if the bank is well capitalized, well managed and has at least a satisfactory CRA rating. Subsidiary banks of a financial holding company or national banks with financial subsidiaries must continue to be well capitalized and well managed in order to continue to engage in activities that are financial in nature without regulatory actions or restrictions, which could include divestiture of the financial subsidiary or subsidiaries. In addition, a financial holding company or a bank may not acquire a company that is engaged in activities that are financial in nature unless each of the subsidiary banks of the financial holding company or the bank at issue has a CRA rating of satisfactory or better. Bank holding companies that have not become financial holding companies are prohibited from engaging in activities other than banking or managing or controlling banks or other permissible subsidiaries and from acquiring or retaining direct or indirect control of any company engaged in any activities other than those activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

Gramm-Leach-Bliley 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, Gramm-Leach-Bliley 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.

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

### *USA Patriot Act*

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

### *Other*

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

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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 55 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 to 2005. Effective 2005, Mr. Holcomb began serving as Chairman of the Board of First American Bank.

**Dan M. David** Age 61 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 2005. From 1995 to 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 44 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 2005. Mr. Murray served as Executive Vice President of NBC from 1997 to 2005.

**William E. Matthews, V** Age 42 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 2005. Mr. Matthews served as Executive Vice President and Chief Financial Officer of NBC from 1998 to 2005. Prior to that date, Mr. Matthews served as Senior Vice President of NBC beginning in 1996.

**John R. Bragg** Age 45 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 2005. Mr. Bragg served as Executive Vice President of NBC from 1997 to 2005. Mr. Bragg served as Senior Vice President of NBC from 1992 until 1997.

**James R. Thompson, III** Age 47 First American Bank's President and Chief Executive Officer. Mr. Thompson has served as President and Chief Executive Officer of First American Bank, the largest subsidiary of Alabama National, since 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 44 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 2005. Ms. Williams served as Senior Vice President and Controller of NBC from 2000 to 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 49 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 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 2005.

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**Company Website**

Alabama National's website address is [www.alabamanational.com](http://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.

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### **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 several years from approximately \$2.03 billion in total assets at December 31, 1999 (as restated for a 2001 pooling-of-interests transaction) to approximately \$7.67 billion in total assets at December 31, 2006. 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 17.6% of our common stock outstanding as of February 26, 2007. 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 34.8% of our loan portfolio as of December 31, 2006. 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.

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### ***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.

### ***A decrease in the market for real estate could harm our revenues and profitability.***

A significant percentage of our assets is secured by residential and commercial real estate mortgages. Our financial results may be adversely affected by changes in prevailing economic conditions, particularly decreases in real estate values. Decreases in real estate values could adversely affect the value of property used as collateral for our loans and investments. If poor economic conditions result in decreased demand for real estate loans, our profits may decrease because our alternative investments may earn less income than real estate loans.

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*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 r