MORGAN STANLEY
Form 424B2
February 27, 2019

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Offered	*Maximum Aggregate Offering Price*	*Amount of Registration Fee*
Contingent Income Buffered Auto-Callable Securities due 2021	$350,000	$42.42

February 2019

Pricing Supplement No. 1,570

Registration Statement Nos. 333-221595; 333-221595-01

Dated February 25, 2019

Filed pursuant to Rule 424(b)(2)

Morgan Stanley Finance LLC

Structured Investments

Opportunities in U.S. Equities

Contingent Income Buffered Auto-Callable Securities due March 2, 2021, With 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the SPDR® S&P® Oil & Gas Exploration & Production ETF and the Market Vectors Gold Miners ETF

Fully and Unconditionally Guaranteed by Morgan Stanley

Principal at Risk Securities

The securities are unsecured obligations of Morgan Stanley Finance LLC ("MSFL") and are fully and unconditionally guaranteed by Morgan Stanley. The securities have the terms described in the accompanying product supplement, index supplement and prospectus, as supplemented or modified by this document. The securities do not provide for the regular payment of interest and provide a minimum payment at maturity of only 15% of the stated principal amount. Instead, the securities will pay a contingent monthly coupon **but only if** the determination closing price of **each of the SPDR® S&P® Oil & Gas Exploration & Production ETF and the Market Vectors Gold Miners ETF**, which we refer to as the underlying shares, is **at or above** 85% of its respective initial share price, which we refer to as the coupon barrier level, on the related observation date. If, however, the determination closing price of **either of the underlying shares** is less than its respective coupon barrier level on any observation date, we will pay no interest for the related monthly period. Beginning after six months, the securities will be automatically redeemed if the determination closing price of each of the underlying shares is **greater than or equal to** its respective initial share price on any monthly redemption determination date for the early redemption payment equal to the sum of the stated principal amount plus the related contingent monthly coupon. No further payments will be made on the securities once they have been redeemed. At maturity, if the securities have not previously been redeemed and the final share price of each of the underlying shares is **greater than or equal to** 85% of its respective initial share price, meaning that **neither** of the underlying shares has declined by an amount greater than the buffer amount of 15%, the payment at maturity will be the stated principal amount and the related contingent monthly coupon. However, if the final share price of **either** of the underlying shares is **less than** 85% of its respective initial share price, meaning that **either** of the underlying shares has declined by an amount greater than the buffer amount of 15%, investors will lose 1% for every 1% decline in the final share price of the worst performing underlying shares from its initial share price beyond the buffer amount of 15%. **Accordingly, investors in the securities must be willing to accept the risk of losing up to 85% of their initial investment and also the risk of not receiving any contingent monthly coupons throughout the 2-year term of the securities.** The securities are for investors who are willing to risk their principal and seek an opportunity to earn interest at a potentially above-market rate in exchange for the risk of receiving no monthly interest over the entire 2-year term and in exchange for the possibility of an automatic early redemption prior to maturity. Because the payment of contingent monthly coupons is based on the worst performing of the underlying shares, the fact that the securities are linked to two underlying shares does not provide any asset diversification benefits and instead means that a decline in the price of either of the underlying shares below the relevant coupon barrier level will result in no contingent monthly coupons, even if the other underlying shares closes at or above its respective coupon barrier level. Because all payments on the securities are based on the worst performing of the underlying shares, a decline of either of the underlying shares by an amount greater than the buffer amount as of the final observation date will result in a loss of your investment, even if the other underlying shares has appreciated or has not declined as much. Investors will not participate in any appreciation of either of the underlying shares. The securities are notes issued as part of MSFL's Series A Global Medium-Term Notes program.

All payments are subject to our credit risk. If we default on our obligations, you could lose some or all of your investment. These securities are not secured obligations and you will not have any security interest in, or otherwise have any access to, any underlying reference asset or assets.

FINAL TERMS

Issuer:	Morgan Stanley Finance LLC
Guarantor:	Morgan Stanley
Underlying shares:	SPDR® S&P® Oil & Gas Exploration & Production ETF (the "XOP Shares") and Market Vectors Gold Miners ETF (the "GDX Shares")
Aggregate principal amount:	$350,000
Stated principal amount:	$1,000 per security
Issue price:	$1,000 per security
Pricing date:	February 25, 2019
Original issue date:	February 28, 2019 (3 business days after the pricing date)
Maturity date:	March 2, 2021
Early redemption:	**The securities are not subject to automatic early redemption until approximately six months after the original issue date.** Following this initial 6-month non-call period, if, on any redemption determination date, beginning on August 26, 2019, the determination closing price of **each of the underlying shares** is greater than or equal to its respective initial share price, the securities will be automatically redeemed for an early redemption payment

	on the related early redemption date. No further payments will be made on the securities once they have been redeemed. **The securities will not be redeemed early on any early redemption date if the determination closing price of either of the underlying shares is below its respective initial share price on the related redemption determination date.**
Early redemption payment:	The early redemption payment will be an amount equal to (i) the stated principal amount for each security you hold *plus* (ii) the contingent monthly coupon with respect to the related observation date.
Determination closing price:	With respect to each of the underlying shares, the closing price of such underlying shares on any redemption determination date or observation date (other than the final observation date), *times* the adjustment factor on such redemption determination date or observation date, as applicable
Redemption determination dates:	Monthly, as set forth under "Observation Dates, Redemption Determination Dates, Coupon Payment Dates and Early Redemption Dates" below, subject to postponement for non-trading days and certain market disruption events.
Early redemption dates:	Starting on August 29, 2019 (approximately six months after the original issue date), monthly. See "Observation Dates, Redemption Determination Dates, Coupon Payment Dates and Early Redemption Dates" below. If any such day is not a business day, that early redemption payment, if payable, will be made on the next succeeding business day and no adjustment will be made to any early redemption payment made on that succeeding business day.
Contingent monthly coupon:	A *contingent* monthly coupon at an annual rate of 13.80% (corresponding to approximately $11.50 per month per security) will be paid on the securities on each coupon payment date ***but only if*** the determination closing price of **each of the underlying shares** is at or above its respective coupon barrier level on the related observation date. **If, on any observation date, the determination closing price of either of the underlying shares is less than its respective coupon barrier level, no contingent monthly coupon will be paid with respect to that observation date. It is possible that one or both of the underlying shares will remain below their respective coupon barrier levels for extended periods of time or even throughout the entire 2-year term of the securities so that you will receive few or no contingent monthly coupons.**

Coupon barrier level:	With respect to the XOP Shares, $25.993, which is equal to approximately 85% of its initial share price With respect to the GDX Shares, $19.354, which is equal to approximately 85% of its initial share price
Buffer amount:	With respect to each of the underlying shares, 15%. As a result of the buffer amount of 15%, the price at or above which each of the underlying shares must close on the final observation date so that investors do not suffer a loss on their initial investment in the securities is as follows: With respect to the XOP Shares, $25.993, which is equal to approximately 85% of its initial share price With respect to the GDX Shares, $19.354, which is equal to approximately 85% of its initial share price
Payment at maturity:	If the securities are not redeemed prior to maturity, investors will receive a payment at maturity determined as follows: · If the final share price of **each of the underlying shares** is **greater than or equal to** 85% of its respective initial share price, meaning that **neither** of the underlying shares has decreased by an amount greater than the buffer amount of 15% from its respective initial share price: the stated principal amount and the contingent monthly coupon with respect to the final observation date · If the final share price of **either of the underlying shares is less than** 85% of its respective initial share price, meaning that **either** of the underlying shares has decreased by an amount greater than the buffer amount of 15% from its respective initial share price: $1,000 + [$1,000 x (share percent change of the worst performing underlying shares + 15%)] *Under these circumstances, the payment at maturity will be less than the stated principal amount of $1,000. However, under no circumstances will the securities pay less than the minimum payment at maturity of $150 per security.* ***Terms continued on the following page***
Agent:	Morgan Stanley & Co. LLC ("MS & Co."), an affiliate of MSFL and a wholly owned subsidiary of Morgan Stanley. See "Supplemental information regarding plan of distribution; conflicts of interest."
Estimated value on the pricing date:	$962.40 per security. See "Investment Summary" beginning on page 3.

Commissions and issue price:	**Price to public**	**Agent's commissions[1]**	**Proceeds to us[2]**
Per security	$1,000	$27.50	$972.50

Total	$350,000	$9,625	$340,375

(1) Selected dealers and their financial advisors will collectively receive from the agent, MS & Co., a fixed sales commission of $27.50 for each security they sell. See "Supplemental information regarding plan of distribution; conflicts of interest." For additional information, see "Plan of Distribution (Conflicts of Interest)" in the accompanying product supplement.

(2) See "Use of proceeds and hedging" on page 26.

The securities involve risks not associated with an investment in ordinary debt securities. See "Risk Factors" beginning on page 10.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this document or the accompanying product supplement, index supplement and prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The securities are not deposits or savings accounts and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency or instrumentality, nor are they obligations of, or guaranteed by, a bank.

You should read this document together with the related product supplement, index supplement and prospectus, each of which can be accessed via the hyperlinks below. Please also see "Additional Terms of the Securities" and "Additional Information About the Securities" at the end of this document.

As used in this document, "we," "us" and "our" refer to Morgan Stanley or MSFL, or Morgan Stanley and MSFL collectively, as the context requires.

Product Supplement for Auto-Callable Securities dated November 16, 2017 **Index Supplement dated November 16, 2017**

Prospectus dated November 16, 2017

Morgan Stanley Finance LLC

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All Payments on the Securities Based on the Worst Performing of the SPDR® S&P® Oil & Gas Exploration & Production ETF and the Market Vectors Gold Miners ETF

Principal at Risk Securities

Terms continued from previous page:

Initial share price:	With respect to the XOP Shares, \$30.58, which is its closing price on the pricing date With respect to the GDX Shares, \$22.77, which is its closing price on the pricing date
Coupon payment dates:	Monthly, as set forth under "Observation Dates, Redemption Determination Dates, Coupon Payment Dates and Early Redemption Dates" below. If any such day is not a business day, that coupon payment will be made on the next succeeding business day and no adjustment will be made to any coupon payment made on that succeeding business day; *provided* that the contingent monthly coupon, if any, with respect to the final observation date shall be paid on the maturity date.
Observation dates:	Monthly, as set forth under "Observation Dates, Redemption Determination Dates, Coupon Payment Dates and Early Redemption Dates" below, subject to postponement for non-trading days and certain market disruption events. We also refer to February 25, 2021, which is the third scheduled business day preceding the scheduled maturity date, as the final observation date.
Final share price:	With respect to each of the underlying shares, the closing price of such underlying shares on the final observation date *times* the adjustment factor on such date
Minimum payment at maturity:	\$150 per security (15% of the stated principal amount)
Adjustment factor:	With respect to each of the underlying shares, 1.0, subject to adjustment in the event of certain events affecting such underlying shares
Worst performing underlying shares:	The underlying shares with the larger percentage decrease from the respective initial share price to the respective final share price
Share percent change:	With respect to each of the underlying shares: (final share price – initial share price) / initial share price
CUSIP / ISIN:	61768DN27 / US61768DN278
Listing:	The securities will not be listed on any securities exchange.

Observation Dates, Redemption Determination Dates, Coupon Payment Dates and Early Redemption Dates

Observation Dates / Redemption Determination Dates	Coupon Payment Dates / Early Redemption Dates
3/25/2019*	3/28/2019*
4/25/2019*	4/30/2019*
5/28/2019*	5/31/2019*
6/25/2019*	6/28/2019*
7/25/2019*	7/30/2019*

8/26/2019	8/29/2019
9/25/2019	9/30/2019
10/25/2019	10/30/2019
11/25/2019	11/29/2019
12/26/2019	12/31/2019
1/27/2020	1/30/2020
2/25/2020	2/28/2020
3/25/2020	3/30/2020
4/27/2020	4/30/2020
5/26/2020	5/29/2020
6/25/2020	6/30/2020
7/27/2020	7/30/2020
8/25/2020	8/28/2020
9/25/2020	9/30/2020
10/26/2020	10/29/2020
11/25/2020	12/1/2020
12/28/2020	12/31/2020
1/25/2021	1/28/2021
2/25/2021 (final observation date)	3/2/2021 (maturity date)

* The securities are not subject to automatic early redemption until the sixth coupon payment date, which is August 29, 2019.

Morgan Stanley Finance LLC

Contingent Income Buffered Auto-Callable Securities due March 2, 2021, With 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the SPDR® S&P® Oil & Gas Exploration & Production ETF and the Market Vectors Gold Miners ETF

Principal at Risk Securities

Investment Summary

Contingent Income Buffered Auto-Callable Securities

Principal at Risk Securities

Contingent Income Buffered Auto-Callable Securities due March 2, 2021, With 6-month Initial Non-Call Period All Payments on the Securities Based on the Worst Performing of the SPDR® S&P® Oil & Gas Exploration & Production ETF and the Market Vectors Gold Miners ETF (the "securities") do not provide for the regular payment of interest. Instead, the securities will pay a contingent monthly coupon **but only if** the determination closing price of **each of the SPDR® S&P® Oil & Gas Exploration & Production ETF and the Market Vectors Gold Miners ETF**, which we refer to as the underlying shares, is **at or above** 85% of its respective initial share price, which we refer to as the coupon barrier level, on the related observation date. If, however, the determination closing price of **either of the underlying shares** is less than its respective coupon barrier level on any observation date, we will pay no interest for the related monthly period. Beginning after six months, the securities will be automatically redeemed if the determination closing price of each of the underlying shares is **greater than or equal to** its respective initial share price on any monthly redemption determination date for the early redemption payment equal to the sum of the stated principal amount plus the related contingent monthly coupon. No further payments will be made on the securities once they have been redeemed. At maturity, if the securities have not previously been redeemed and the final share price of each of the underlying shares is **greater than or equal to** 85% of its respective initial share price, meaning that **neither** of the underlying shares has declined by an amount greater than the buffer amount of 15%, the payment at maturity will be the stated principal amount and the related contingent monthly coupon. However, if the final share price of **either** of the underlying shares **is less than** 85% of its respective initial share price, meaning that **either** of the underlying shares has declined by an amount greater than the buffer amount of 15%, investors will lose 1% for every 1% decline in the final share price of the worst performing underlying shares from its initial share price beyond the buffer amount of 15%. **Accordingly, investors in the securities must be willing to accept the risk of losing up to 85% of their initial investment and also the risk of not receiving any contingent monthly coupons throughout the 2-year term of the securities.** Investors will not participate in any appreciation in the price of either of the underlying shares.

Maturity:	Approximately 2 years
Contingent monthly coupon:	A *contingent* monthly coupon at an annual rate of 13.80% (corresponding to approximately $11.50 per month per security) will be paid on the securities on each coupon payment date **but only if** the determination closing price of **each of the underlying shares** is at or above its respective coupon

barrier level on the related observation date.

If on any observation date, the determination closing price of either of the underlying shares is less than its respective coupon barrier level, we will pay no coupon for the applicable monthly period.

Automatic early redemption monthly starting after six months:	The securities are not subject to automatic early redemption until approximately six months after the original issue date. Following this initial 6-month non-call period, if the determination closing price of **each of the underlying shares** is greater than or equal to its respective initial share price on any monthly redemption determination date, beginning on August 26, 2019, the securities will be automatically redeemed for an early redemption payment equal to the stated principal amount *plus* the contingent monthly coupon with respect to the related observation date. No further payments will be made on the securities once they have been redeemed.
Payment at maturity:	If the securities have not previously been redeemed and the final share price of **each of the underlying shares** is **greater than or equal to** 85% of its respective initial share price, meaning that **neither** of the underlying shares has declined by an amount greater than the buffer amount of 15%, the payment at maturity will be the stated principal amount and the related contingent monthly coupon. If the final share price of **either** of the underlying shares is **less than** 85% of its respective initial share price, meaning that **either** of the underlying shares has declined by an amount greater than the buffer amount of 15%, investors will lose 1% for every 1% decline in the final share price of the worst performing underlying shares from its initial share price beyond the buffer amount of 15%. Under these circumstances, the payment at maturity will be less than the stated principal amount of the securities. *However, under no circumstances will the securities pay less than the minimum payment at maturity of $150 per security.* **Accordingly, investors in the securities must be willing to accept the**

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All Payments on the Securities Based on the Worst Performing of the SPDR® S&P® Oil & Gas Exploration & Production ETF and the Market Vectors Gold Miners ETF

Principal at Risk Securities

risk of losing up to 85% of their initial investment.

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Principal at Risk Securities

The original issue price of each security is $1,000. This price includes costs associated with issuing, selling, structuring and hedging the securities, which are borne by you, and, consequently, the estimated value of the securities on the pricing date is less than $1,000. We estimate that the value of each security on the pricing date is $962.40.

What goes into the estimated value on the pricing date?

In valuing the securities on the pricing date, we take into account that the securities comprise both a debt component and a performance-based component linked to the underlying shares. The estimated value of the securities is determined using our own pricing and valuation models, market inputs and assumptions relating to the underlying shares, instruments based on the underlying shares, volatility and other factors including current and expected interest rates, as well as an interest rate related to our secondary market credit spread, which is the implied interest rate at which our conventional fixed rate debt trades in the secondary market.

What determines the economic terms of the securities?

In determining the economic terms of the securities, including the contingent monthly coupon rate, the coupon barrier levels and the buffer amount, we use an internal funding rate, which is likely to be lower than our secondary market credit spreads and therefore advantageous to us. If the issuing, selling, structuring and hedging costs borne by you were lower or if the internal funding rate were higher, one or more terms of the securities would be more favorable to you.

What is the relationship between the estimated value on the pricing date and the secondary market price of the securities?

The price at which MS & Co. purchases the securities in the secondary market, absent changes in market conditions, including those related to the underlying shares, may vary from, and be lower than, the estimated value on the pricing date, because the secondary market price takes into account our secondary market credit spread as well as the bid-offer spread that MS & Co. would charge in a secondary market transaction of this type and other factors. However, because the costs associated with issuing, selling, structuring and hedging the securities are not fully deducted upon issuance, for a period of up to 6 months following the issue date, to the extent that MS & Co. may buy or sell the securities in the secondary market, absent changes in market conditions, including those related to the underlying shares, and to our secondary market credit spreads, it would do so based on values higher than the estimated value. We expect that those higher values will also be reflected in your brokerage account statements.

MS & Co. may, but is not obligated to, make a market in the securities and, if it once chooses to make a market, may cease doing so at any time.

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Principal at Risk Securities

Key Investment Rationale

The securities do not provide for the regular payment of interest. Instead, the securities will pay a contingent monthly coupon **but only if** the determination closing price of **each of the underlying shares** is **at or above its respective coupon barrier level** on the related observation date. The securities have been designed for investors who are willing to forgo market floating interest rates and risk the loss of principal and accept the risk of receiving few or no coupon payments for the entire 2-year term of the securities in exchange for an opportunity to earn interest at a potentially above-market rate if both of the underlying shares close at or above their respective coupon barrier levels on each monthly observation date, unless the securities are redeemed early. The following scenarios are for illustration purposes only to demonstrate how the coupon and the payment at maturity (if the securities have not previously been redeemed) are calculated, and do not attempt to demonstrate every situation that may occur. Accordingly, the securities may or may not be redeemed, the contingent monthly coupon may be payable in none of, or some but not all of, the monthly periods during the 2-year term of the securities, and the payment at maturity may be up to 85% less than the stated principal amount of the securities.

Scenario 1: The securities are redeemed prior to maturity	This scenario assumes that, prior to early redemption, each of the underlying shares closes at or above its respective coupon barrier level on some monthly observation dates, but one or both of the underlying shares close below the coupon barrier level(s) on the others. Investors receive the contingent monthly coupon for the monthly periods for which the determination closing price of each of the underlying shares is at or above its respective coupon barrier level on the related observation date, but not for the monthly periods for which the determination closing price of either of the underlying shares is below the respective coupon barrier level(s) on the related observation date. Beginning after six months, when each of the underlying shares closes at or above its respective initial share price on a monthly redemption determination date, the securities will be automatically redeemed for the stated principal amount *plus* the contingent monthly coupon with respect to the related observation date.
Scenario 2: The securities are not redeemed prior to maturity, and investors receive principal back at maturity	This scenario assumes that each of the underlying shares closes at or above its respective coupon barrier level on some monthly observation dates, but one or both of the underlying shares close below the respective coupon barrier level(s) on the others, and at least one of the underlying shares closes below its initial share price on every monthly redemption determination date. Consequently, the securities are not redeemed early, and investors receive the contingent monthly coupon for the monthly periods for which the determination closing price of each of the underlying shares is at or above its respective coupon barrier level on the related observation date, but not for the monthly periods for which the determination closing price of one or both of the underlying shares is below the

respective coupon barrier level(s) on the related observation date. On the final observation date, each of the underlying shares closes at or above 85% of its respective initial share price, meaning that neither of the underlying shares has declined by an amount greater than the buffer amount of 15%. At maturity investors will receive the stated principal amount and the related contingent monthly coupon.

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Principal at Risk Securities

Scenario 3: The securities are not redeemed prior to maturity, and investors suffer a loss of principal at maturity	This scenario assumes that each of the underlying shares closes at or above its respective coupon barrier level on some monthly observation dates, but one or both of the underlying shares close below the respective coupon barrier level(s) on the others, and at least one of the underlying shares closes below its initial share price on every monthly redemption determination date. Consequently, the securities are not redeemed early, and investors receive the contingent monthly coupon for the monthly periods for which the determination closing price of each of the underlying shares is greater than or equal to its respective coupon barrier level on the related observation date, but not for the monthly periods for which the determination closing price of one or both of the underlying shares is below the respective coupon barrier level(s) on the related observation date. On the final observation date, at least one of the underlying shares closes below 85% of its respective initial share price, meaning that such underlying shares has declined by an amount greater than the buffer amount of 15%. At maturity, investors will lose 1% for every 1% decline in the final share price of the worst performing underlying shares from its initial share price beyond the buffer amount of 15%. Under these circumstances, the payment at maturity will be less than the stated principal amount. Investors may lose up to 85% of their investment in the securities. No coupon will be paid at maturity in this scenario.

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Principal at Risk Securities

Hypothetical Examples

The following hypothetical examples illustrate how to determine whether a contingent monthly coupon is paid with respect to an observation date and how to calculate the payment at maturity, assuming the securities are not redeemed prior to maturity. The following examples are for illustrative purposes only. Whether you receive a contingent monthly coupon will be determined by reference to the determination closing price of each of the underlying shares on each monthly observation date, and the amount you will receive at maturity will be determined by reference to the final share price of each of the underlying shares on the final observation date. The actual initial share price and coupon barrier level for each of the underlying shares are set forth on the cover of this document. All payments on the securities are subject to our credit risk. The below examples are based on the following terms:

Contingent Monthly Coupon:	13.80% per annum (corresponding to approximately $11.50 per month per security)[1] **With respect to each coupon payment date, a contingent monthly coupon is paid but only if the determination closing price of each of the underlying shares is at or above its respective coupon barrier level on the related observation date.**
Payment at Maturity (if the securities are not redeemed prior to maturity):	If the final share price of **each** of the underlying shares is **greater than or equal to** 85% of its respective initial share price: the stated principal amount and the contingent monthly coupon with respect to the final observation date. If the final share price of **either** of the underlying shares is **less than** 85% of its respective initial share price: $1,000 + [$1,000 x (share percent change of the worst performing underlying shares + 15%)]
Stated Principal Amount:	$1,000
Minimum Payment at Maturity:	$150 per security
Hypothetical Initial Share Price:	With respect to the XOP Shares: $26.00 With respect to the GDX Shares: $21.00
Hypothetical Coupon Barrier Level:	With respect to the XOP Shares: $22.10, which is 85% of its hypothetical initial share price With respect to the GDX Shares: $17.85, which is 85% of its hypothetical initial share price

Buffer Amount: With respect to each of the underlying shares: 15%

[1] The actual contingent monthly coupon will be an amount determined by the calculation agent based on the number of days in the applicable payment period, calculated on a 30/360 day-count basis. The hypothetical contingent monthly coupon rate of $11.50 is used in these examples for ease of analysis.

How to determine whether a contingent monthly coupon is payable with respect to an observation date:

	Determination Closing Price		Hypothetical Contingent Monthly Coupon
	XOP Shares	GDX Shares	
Hypothetical Observation Date 1	$25.00 (**at or above** its coupon barrier level)	$20.00 (**at or above** its coupon barrier level)	$11.50
Hypothetical Observation Date 2	$23.00 (**at or above** its coupon barrier level)	$13.50 (**below** its coupon barrier level)	$0
Hypothetical Observation Date 3	$19.00 (**below** its coupon barrier level)	$25.75 (**at or above** its coupon barrier level)	$0
Hypothetical Observation Date 4	$18.00 (**below** its coupon barrier level)	$14.00 (**below** its coupon barrier level)	$0

On hypothetical observation date 1, each of the underlying shares closes at or above its respective coupon barrier level. Therefore, a contingent monthly coupon of $11.50 is paid on the relevant coupon payment date.

On each of hypothetical observation dates 2 and 3, one of the underlying shares closes at or above its respective coupon barrier level but the other underlying shares closes below its respective coupon barrier level. Therefore, no contingent monthly coupon is paid on the relevant coupon payment date.

On hypothetical observation date 4, each of the underlying shares closes below its respective coupon barrier level and accordingly no contingent monthly coupon is paid on the relevant coupon payment date.

You will not receive a contingent monthly coupon on any coupon payment date if the determination closing price of either of the underlying shares is below its respective coupon barrier level on the related observation date.

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Principal at Risk Securities

How to calculate the payment at maturity:

In the following examples, one or both of the underlying shares close below the respective initial share price(s) on each redemption determination date, and, consequently, the securities are not automatically redeemed prior to, and remain outstanding until, maturity.

	Final Share Price		Payment at Maturity
	XOP Shares	GDX Shares	
Example 1:	$35.00 (**at or above** 85% of initial share price)	$28.50 (**at or above** 85% of initial share price)	$1,011.50 (the stated principal amount and the contingent monthly coupon with respect to the final observation date)
Example 2:	$6.50 (**below** 85% of initial share price)	$50.00 (**at or above** 85% of initial share price)	$1,000 + [$1,000 x (share percent change of the worst performing underlying shares + 15%)] = $1,000 + [$1,000 x (-75% + 15%)] = $1,000 + ($1,000 x -60.00%) = $400
Example 3:	$19.00 (**below** 85% of initial share price)	$3.15 (**below** 85% of initial share price)	$1,000 + [$1,000 x (share percent change of the worst performing underlying shares + 15%)] = $1,000 + [$1,000 x (-85% + 15%)] = $1,000 + ($1,000 x -70.00%) = $300

In example 1, the final share prices of each of the underlying shares is at or above 85% of its initial share price. Therefore, investors receive at maturity the stated principal amount of the securities and the contingent monthly coupon with respect to the final observation date. However, investors do not participate in any appreciation of either of the underlying shares.

In example 2, the final share price of one of the underlying shares is at or above 85% of its initial share price, but the final share price of the other underlying shares is below 85% of its initial share price. Therefore, investors are exposed to the downside performance of the XOP Shares, which are the worst performing underlying shares in this example, and investors lose 1% of principal for every 1% decline in the final share price of the XOP Shares from its initial share price beyond the buffer amount of 15%. The payment at maturity in this example is equal to $400 per security. Investors do not receive the contingent monthly coupon for the final observation date.

In example 3, the final share prices of both of the underlying shares are below 85% of their initial share prices. Therefore, investors are exposed to the downside performance of the GDX Shares, which are the worst performing underlying shares in this example, and investors lose 1% of principal for every 1% decline in the final share price of the GDX Shares from its initial share price beyond the buffer amount of 15%. The payment at maturity in this example is equal to $300 per security. Investors do not receive the contingent monthly coupon for the final observation date.

If the final share price of EITHER of the underlying shares is below 85% of its initial share price, you will be exposed to the downside performance of the worst performing underlying shares at maturity, and your payment at maturity will be less than the stated principal amount per security. Under these circumstances, you will lose some, and up to 85%, of your investment in the securities.

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Risk Factors

The following is a list of certain key risk factors for investors in the securities. For further discussion of these and other risks, you should read the section entitled "Risk Factors" in the accompanying product supplement, index supplement and prospectus. We also urge you to consult with your investment, legal, tax, accounting and other advisers in connection with your investment in the securities.

§ **The securities provide a minimum payment at maturity of only 15% of your principal.** The terms of the securities differ from those of ordinary debt securities in that they provide a minimum payment at maturity of only 15% of the stated principal amount at maturity. If the securities have not been automatically redeemed prior to maturity and if the final share price of **either** of the underlying shares is **less than** 85% of its respective initial share price, meaning that either of the underlying shares has declined by an amount greater than the buffer amount of 15%, you will lose 1% for every 1% decline in the final share price of the worst performing underlying shares from its initial share price beyond the buffer amount of 15%. In this case, the payment at maturity will be less than the stated principal amount. **You could lose up to 85% of your investment in the securities.**

§ **The securities do not provide for the regular payment of interest and may pay no interest over the entire term of the securities.** The terms of the securities differ from those of ordinary debt securities in that they do not provide for the regular payment of interest. Instead, the securities will pay a contingent monthly coupon **but only if** the determination closing price of **each of the underlying shares** is **at or above** 85% of its respective initial share price, which we refer to as the coupon barrier level, on the related observation date. If, on the other hand, the determination closing price of **either of the underlying shares** is lower than its respective coupon barrier level on the relevant observation date for any interest period, we will pay no coupon on the applicable coupon payment date. It is possible that the determination closing price of one or both of the underlying shares could remain below the respective coupon barrier level(s) for extended periods of time or even throughout the entire 2-year term of the securities so that you will receive few or no contingent monthly coupons. If you do not earn sufficient contingent monthly coupons over the term of the securities, the overall return on the securities may be less than the amount that would be paid on a conventional debt security of ours of comparable maturity.

§ **You are exposed to the price risk of each of the underlying shares, with respect to both the contingent monthly coupons, if any, and the payment at maturity.** Your return on the securities is not linked to a basket consisting of each of the underlying shares. Rather, it will be contingent upon the independent performance of each of the underlying shares. Unlike an instrument with a return linked to a basket of underlying assets, in which risk is mitigated and diversified among all the components of the basket, you will be exposed to the risks related to each of the underlying shares. Poor performance by **either** of the underlying shares over the term of the securities may negatively affect your return and will not be offset or mitigated by any positive performance by the other underlying shares. To receive **any** contingent monthly coupons, **each of the underlying shares** must close at or above its respective coupon barrier level on the applicable observation date. In addition, if **either** of the underlying shares has declined to below 85% of its respective initial share price as of the final observation date, meaning that either of the underlying shares has declined by an amount greater than the buffer amount of 15%, you will lose 1% for every 1% decline in the final share price of the worst performing underlying shares from its initial share price beyond the buffer amount of 15%, even if the other underlying shares has appreciated or has not declined as much. Under this scenario, the value of any such payment will be less than the stated principal amount. Accordingly, your investment is subject to the price risk of each of the underlying shares.

§ **Investing in the securities exposes investors to risks associated with investments in securities with a concentration in the oil and gas exploration and production industry**. The stocks included in the S&P® Oil & Gas Exploration & Production Select Industry Index® and that are generally tracked by the XOP Shares are stocks of companies whose primary business is associated with the exploration and production of oil and gas. As a result, the value of the securities may be subject to greater volatility and may be more adversely affected by a single economic, political or regulatory occurrence affecting this industry than a different investment linked to securities of a more broadly diversified group of issuers or issuers in a less volatile industry. The oil and gas industry is significantly affected by a number of factors that influence worldwide economic conditions and oil and gas prices, such as natural disasters, supply disruptions, geopolitical events and other factors that may offset or magnify each other, including:

o worldwide and domestic supplies of, and demand for, crude oil and natural gas;

o the cost of exploring for, developing, producing, refining and marketing crude oil and natural gas;

o consumer confidence;

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- changes in weather patterns and climatic changes;
- the ability of the members of Organization of Petroleum Exporting Countries (OPEC) and other producing nations to agree to and maintain production levels;
- the worldwide military and political environment, uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or further acts of terrorism in the United States, or elsewhere;
- the price and availability of alternative and competing fuels;
- domestic and foreign governmental regulations and taxes;
- employment levels and job growth; and
- general economic conditions worldwide.

These or other factors or the absence of such factors could cause a downturn in the oil and natural gas industries generally or regionally and could cause the value of some or all of the component stocks included in the S&P® Oil & Gas Exploration & Production Select Industry Index® to decline during the term of the securities.

§ **Investing in the securities exposes investors to risks associated with investments in securities with a concentration in the gold and silver mining industry.** The securities are subject to certain risks applicable to the gold and silver mining industry. The stocks included in the NYSE Arca Gold Miners Index and that are generally tracked by the GDX Shares are stocks of companies primarily engaged in the mining of gold or silver. The underlying shares may be subject to increased price volatility as they are linked to a single industry, market or sector and may be more susceptible to adverse economic, market, political or regulatory occurrences affecting that industry, market or sector.

Because the GDX Shares primarily invests in stocks, American Depositary Receipts ("ADRs") and Global Depositary Receipts ("GDRs") of companies that are involved in the gold mining industry, the underlying shares are subject to certain risks associated with such companies.

Competitive pressures may have a significant effect on the financial condition of companies in the gold mining industry. Also, gold mining companies are highly dependent on the price of gold. Gold prices are subject to volatile price movements over short periods of time and are affected by numerous factors. These include economic factors, including, among other things, the structure of and confidence in the global monetary system, expectations of the future rate of inflation, the relative strength of, and confidence in, the U.S. dollar (the currency in which the price of gold is generally quoted), interest rates and gold borrowing and lending rates, and global or regional economic, financial, political, regulatory, judicial or other events. Gold prices may also be affected by industry factors such as industrial and jewelry demand, lending, sales and purchases of gold by the official sector, including central banks and other governmental agencies and multilateral institutions which hold gold, levels of gold production and production costs, and short-term changes in supply and demand because of trading activities in the gold market.

The GDX Shares invests to a lesser extent in stocks, ADRs and GDRs of companies involved in the silver mining industry. Silver mining companies are highly dependent on the price of silver. Silver prices can fluctuate widely and may be affected by numerous factors. These include general economic trends, technical developments, substitution issues and regulation, as well as specific factors including industrial and jewelry demand, expectations with respect to the rate of inflation, the relative strength of the U.S. dollar (the currency in which the price of silver is generally quoted) and other currencies, interest rates, central bank sales, forward sales by producers, global or regional political or economic events, and production costs and disruptions in major silver producing countries such as Mexico and Peru. The supply of silver consists of a combination of new mine production and existing stocks of bullion and fabricated silver held by governments, public and private financial institutions, industrial organizations and private individuals. In addition, the price of silver has on occasion been subject to very rapid short-term changes due to speculative activities. From time to time, above-ground inventories of silver may also influence the market. The major end-uses for silver include industrial applications, jewelry, photography and silverware.

§ **The prices of the GDX Shares are subject to currency exchange risk.** Because the prices of the GDX Shares are related to the U.S. dollar value of stocks underlying the NYSE Arca Gold Miners Index, holders of the securities will be exposed to currency exchange rate risk with respect to the currencies in which such component securities trade. Exchange rate movements for a particular currency are volatile and are the result of numerous factors including the supply of, and the demand for, those currencies, as well as relevant government policy, intervention or actions, but are also influenced significantly from time to time by political or economic developments, and by macroeconomic factors and speculative

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actions related to the relevant region. An investor's net exposure will depend on the extent to which the currencies of the component securities strengthen or weaken against the U.S. dollar and the relative weight of each currency. If, taking into account such weighting, the dollar strengthens against the currencies of the component securities represented in the NYSE Arca Gold Miners Index, the price of the GDX Shares will be adversely affected.

§ **The contingent monthly coupon, if any, is based only on the determination closing prices of the underlying shares on the related monthly observation date at the end of the related interest period.** Whether the contingent monthly coupon will be paid on any coupon payment date will be determined at the end of the relevant interest period based on the determination closing price of each of the underlying shares on the relevant monthly observation date. As a result, you will not know whether you will receive the contingent monthly coupon on any coupon payment date until near the end of the relevant interest period. Moreover, because the contingent monthly coupon is based solely on the price of each of the underlying shares on monthly observation dates, if the determination closing price of either of the underlying shares on any observation date is below its respective coupon barrier level, you will receive no coupon for the related interest period even if the price(s) of one or both of the underlying shares were higher on other days during that interest period.

§ **Investors will not participate in any appreciation in the price of either of the underlying shares.** Investors will not participate in any appreciation in the price of the underlying shares from their initial share prices, and the return on the securities will be limited to the contingent monthly coupon that is paid with respect to each observation date on which each determination closing price is greater than or equal to its respective coupon barrier level, if any.

§ **The market price will be influenced by many unpredictable factors.** Several factors, many of which are beyond our control, will influence the value of the securities in the secondary market and the price at which MS & Co. may be willing to purchase or sell the securities in the secondary market. We expect that generally the level of interest rates available in the market and the prices of the underlying shares on any day, including in relation to the respective coupon barrier levels, will affect the value of the securities more than any other factors. Other factors that may influence the value of the securities include:

o the trading price and volatility (frequency and magnitude of changes in value) of the underlying shares and the stocks constituting their respective share underlying indices,

o whether the determination closing price of either of the underlying shares has been below its respective coupon barrier level on any observation date,

o dividend rates on the stocks constituting the share underlying indices,

- o geopolitical conditions and economic, financial, political, regulatory or judicial events that affect the underlying shares or equity markets generally and which may affect the prices of the underlying shares,
- o the time remaining until the securities mature,
- o interest and yield rates in the market,
- o the availability of comparable instruments,
- o the occurrence of certain events affecting the underlying shares that may or may not require an adjustment to the adjustment factor,
- o the composition of the underlyings and changes in the constituents of the underlying shares, and
- o any actual or anticipated changes in our credit ratings or credit spreads.

Some or all of these factors will influence the price that you will receive if you sell your securities prior to maturity. For example, you may have to sell your securities at a substantial discount from the stated principal amount of $1,000 per security if the price of either of the underlying shares at the time of sale is near or below its coupon barrier level or if market interest rates rise.

The price of any or both of the underlying shares may be, and have recently been, volatile, and we can give you no assurance that the volatility will lessen. The prices of one or both of the underlying shares may decrease and be below the respective coupon barrier level(s) on each observation date so that you will receive no return on your investment, and one or both of the underlying shares may decline by an amount greater than the buffer amount as of the final observation date so that you lose some or a significant portion of your initial investment in the securities. There can be no assurance that the closing price of each of the underlying shares will be at or above their respective coupon barrier level on any observation date so that you will receive a coupon payment on the securities for the applicable interest period, or that neither of the

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underlying shares will decline by an amount greater than the buffer amount of 15% as of the final observation date so that you do not suffer a loss on your initial investment in the securities. See "SPDR® S&P® Oil & Gas Exploration & Production ETF Overview" and "Market Vectors Gold Miners ETF Overview" below.

§ **The securities are subject to our credit risk, and any actual or anticipated changes to our credit ratings or credit spreads may adversely affect the market value of the securities.** You are dependent on our ability to pay all amounts due on the securities on each coupon payment date, upon automatic redemption and at maturity and therefore you are subject to our credit risk. The securities are not guaranteed by any other entity. If we default on our obligations under the securities, your investment would be at risk and you could lose some or all of your investment. As a result, the market value of the securities prior to maturity will be affected by changes in the market's view of our creditworthiness. Any actual or anticipated decline in our credit ratings or increase in the credit spreads charged by the market for taking our credit risk is likely to adversely affect the market value of the securities.

§ **As a finance subsidiary, MSFL has no independent operations and will have no independent assets.** As a finance subsidiary, MSFL has no independent operations beyond the issuance and administration of its securities and will have no independent assets available for distributions to holders of MSFL securities if they make claims in respect of such securities in a bankruptcy, resolution or similar proceeding. Accordingly, any recoveries by such holders will be limited to those available under the related guarantee by Morgan Stanley and that guarantee will rank *pari passu* with all other unsecured, unsubordinated obligations of Morgan Stanley. Holders will have recourse only to a single claim against Morgan Stanley and its assets under the guarantee. Holders of securities issued by MSFL should accordingly assume that in any such proceedings they would not have any priority over and should be treated *pari passu* with the claims of other unsecured, unsubordinated creditors of Morgan Stanley, including holders of Morgan Stanley-issued securities.

§ **Reinvestment risk.** The term of your investment in the securities may be shortened due to the automatic early redemption feature of the securities. If the securities are redeemed prior to maturity, you will receive no more contingent monthly coupons and may be forced to invest in a lower interest rate environment and may not be able to reinvest at comparable terms or returns. However, under no circumstances will the securities be redeemed in the six months of the term of the securities.

§ **The antidilution adjustments the calculation agent is required to make do not cover every event that could affect the underlying shares.** MS & Co., as calculation agent, will adjust the adjustment factors for certain events affecting the underlying shares. However, the calculation agent will not make an adjustment for every event that can affect the underlying shares. If an event occurs that does not require the calculation agent to adjust an adjustment factor, the market price of the securities may be materially and adversely affected.

§ **The securities will not be listed on any securities exchange and secondary trading may be limited, and accordingly, you should be willing to hold your securities for the entire 2-year term of the securities.** The securities will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the securities. MS & Co. may, but is not obligated to, make a market in the securities and, if it once chooses to make a market, may cease doing so at any time. When it does make a market, it will generally do so for transactions of routine secondary market size at prices based on its estimate of the current value of the securities, taking into account its bid/offer spread, our credit spreads, market volatility, the notional size of the proposed sale, the cost of unwinding any related hedging positions, the time remaining to maturity and the likelihood that it will be able to resell the securities. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the securities easily. Since other broker-dealers may not participate significantly in the secondary market for the securities, the price at which you may be able to trade your securities is likely to depend on the price, if any, at which MS & Co. is willing to transact. If, at any time, MS & Co. were to cease making a market in the securities, it is likely that there would be no secondary market for the securities. Accordingly, you should be willing to hold your securities to maturity.

§ **The rate we are willing to pay for securities of this type, maturity and issuance size is likely to be lower than the rate implied by our secondary market credit spreads and advantageous to us. Both the lower rate and the inclusion of costs associated with issuing, selling, structuring and hedging the securities in the original issue price reduce the economic terms of the securities, cause the estimated value of the securities to be less than the original issue price and will adversely affect secondary market prices.** Assuming no change in market conditions or any other relevant factors, the prices, if any, at which dealers, including MS & Co., may be willing to purchase the securities in secondary market transactions will likely be significantly lower than the original issue price, because secondary market prices will exclude the issuing, selling, structuring and hedging-related costs that are included in the original issue price and

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borne by you and because the secondary market prices will reflect our secondary market credit spreads and the bid-offer spread that any dealer would charge in a secondary market transaction of this type as well as other factors.

The inclusion of the costs of issuing, selling, structuring and hedging the securities in the original issue price and the lower rate we are willing to pay as issuer make the economic terms of the securities less favorable to you than they otherwise would be.

However, because the costs associated with issuing, selling, structuring and hedging the securities are not fully deducted upon issuance, for a period of up to 6 months following the issue date, to the extent that MS & Co. may buy or sell the securities in the secondary market, absent changes in market conditions, including those related to the underlying shares, and to our secondary market credit spreads, it would do so based on values higher than the estimated value, and we expect that those higher values will also be reflected in your brokerage account statements.

§ **The estimated value of the securities is determined by reference to our pricing and valuation models, which may differ from those of other dealers, and is not a maximum or minimum secondary market price.** These pricing and valuation models are proprietary and rely in part on subjective views of certain market inputs and certain assumptions about future events, which may prove to be incorrect. As a result, because there is no market-standard way to value these types of securities, our models may yield a higher estimated value of the securities than those generated by others, including other dealers in the market, if they attempted to value the securities. In addition, the estimated value on the pricing date does not represent a minimum or maximum price at which dealers, including MS & Co., would be willing to purchase your securities in the secondary market (if any exists) at any time. The value of your securities at any time after the date of this document will vary based on many factors that cannot be predicted with accuracy, including our creditworthiness and changes in market conditions. See also “The market price will be influenced by many unpredictable factors” above.

§ **Adjustments to the underlying shares or the indices tracked by the underlying shares could adversely affect the value of the securities.** The investment advisor to each of the underlying shares (SSGA Funds Management Inc. for the XOP Shares and Van Eck Associates Corporation for the GDX Shares) seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the relevant share underlying index. Pursuant to its investment strategy or otherwise, the investment advisor may add, delete or substitute the stocks composing the respective underlying shares. Any of these actions could adversely affect the price of the respective underlying shares and, consequently, the value of the securities. The publishers of the share underlying indices are responsible for calculating and maintaining the share underlying indices. They may add, delete or substitute the securities constituting the share underlying indices or make other methodological changes that could change the value of the share underlying indices, and, consequently, the price of the underlying shares and the value of the securities. The publishers of the share underlying indices may discontinue or suspend calculation or publication of a share underlying index at any time. In these circumstances, the calculation agent will have the sole discretion to substitute a successor index that is comparable to the discontinued share underlying index and will be permitted to consider indices that are calculated and published by the calculation agent or any of its affiliates.

§ **The performance and market price of either of the underlying shares, particularly during periods of market volatility, may not correlate with the performance of its respective share underlying index, the performance of the component securities of such share underlying index or the net asset value per share of such underlying shares.** The underlying shares do not fully replicate their respective share underlying indices, and each may hold securities that are different than those included in its respective share underlying index. In addition, the performance of each of the underlying shares will reflect additional transaction costs and fees that are not included in the calculation of the share underlying indices. All of these factors may lead to a lack of correlation between the performance of each of the underlying shares and its respective share underlying index. In addition, corporate actions (such as mergers and spin-offs) with respect to the equity securities underlying each of the underlying shares may impact the variance between the performance of each of the underlying shares and its respective share underlying index. Finally, because the shares of each of the underlying shares are traded on an exchange and are subject to market supply and investor demand, the market price of one share of each of the underlying shares may differ from the net asset value per share of such underlying shares.

In particular, during periods of market volatility, or unusual trading activity, trading in the securities underlying each of the underlying shares may be disrupted or limited, or such securities may be unavailable in the secondary market. Under these circumstances, the liquidity of each underlying shares may be adversely affected, market participants may be unable to calculate accurately the net asset value per share of each of the underlying shares, and their ability to create and

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redeem shares of each of the underlying shares may be disrupted. Under these circumstances, the market price of shares of each of the underlying shares may vary substantially from the net asset value per share of each underlying share or the level of its respective share underlying index.

For all of the foregoing reasons, the performance of each of the underlying shares may not correlate with the performance of its respective share underlying index, the performance of the component securities of such share underlying index or the net asset value per share of such underlying shares. Any of these events could materially and adversely affect the prices of each of the underlying shares and, therefore, the value of the securities. Additionally, if market volatility or these events were to occur on the final observation date, the calculation agent would maintain discretion to determine whether such market volatility or events have caused a market disruption event to occur, and such determination would affect the payment at maturity of the securities. If the calculation agent determines that no market disruption event has taken place, the payment at maturity would be based solely on the published closing price per share of each of the underlying shares on the final observation date, even if either of the underlying shares is underperforming its respective share underlying index or the component securities of such share underlying index and/or trading below the net asset value per share of such underlying shares.

§ **Not equivalent to investing in the underlying shares or the stocks composing the share underlying indices.** Investing in the securities is not equivalent to investing in the underlying shares, the share underlying indices or the stocks that constitute the share underlying indices. Investors in the securities will not have voting rights or rights to receive dividends or other distributions or any other rights with respect to the underlying shares or the stocks that constitute the share underlying indices.

§ **Hedging and trading activity by our affiliates could potentially affect the value of the securities.** One or more of our affiliates and/or third-party dealers have carried out, and will continue to carry out, hedging activities related to the securities (and to other instruments linked to the underlying shares and the share underlying indices), including trading in the underlying shares. As a result, these entities may be unwinding or adjusting hedge positions during the term of the securities, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the final observation date approaches. Some of our affiliates also trade the underlying shares and other financial instruments related to the underlying shares and the share underlying indices on a regular basis as part of their general broker-dealer and other businesses. Any of these hedging or trading activities on or prior to the pricing date could have increased the initial share price of either of the underlying shares and, therefore, could have increased (i) the value at or above which such underlying shares must close on the redemption determination dates so that the securities are redeemed prior to maturity for the early redemption payment (depending also on the performance of the other underlying shares), (ii) the coupon barrier level for such underlying shares, which is the value at or above which the underlying shares must close on the observation dates so that you receive a contingent monthly coupon on the securities (depending also on the performance of the other underlying shares), and (iii) the value at or above which such underlying shares must close on the final observation date so that you are not exposed to the negative performance of the worst performing underlying shares at maturity (depending also on the performance of the other underlying shares). Additionally, such hedging or trading activities during the term of the securities could potentially affect the value of either of the underlying shares on the redemption determination dates and the observation dates and, accordingly, whether we redeem the securities prior to maturity, whether we pay a contingent monthly coupon on the securities and the amount of cash you will receive at maturity.

§ **The calculation agent, which is a subsidiary of Morgan Stanley and an affiliate of MSFL, will make determinations with respect to the securities.** As calculation agent, MS & Co. has determined the initial share prices and the coupon barrier levels and will determine the final share prices, the payment at maturity, whether you receive a contingent monthly coupon on each coupon payment date and/or at maturity, whether the securities will be redeemed on any early redemption date, whether a market disruption event has occurred and whether to make any adjustments to the adjustment factors. Moreover, certain determinations made by MS & Co., in its capacity as calculation agent, may require it to exercise discretion and make subjective judgments, such as with respect to the occurrence or non-occurrence of market disruption events or calculation of the determination closing price in the event of a market disruption event. These potentially subjective determinations may affect the payout to you upon an automatic early redemption or at maturity. For further information regarding these types of determinations, see "Description of Auto-Callable Securities—Auto-Callable Securities Linked to Underlying Shares" and "—Calculation Agent and Calculations" in the accompanying product supplement. In addition, MS & Co. has determined the estimated value of the securities on the pricing date.

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§ **The U.S. federal income tax consequences of an investment in the securities are uncertain.** There is no direct legal authority as to the proper treatment of the securities for U.S. federal income tax purposes, and, therefore, significant aspects of the tax treatment of the securities are uncertain.

Please read the discussion under "Additional Information—Tax considerations" in this document concerning the U.S. federal income tax consequences of an investment in the securities. We intend to treat a security for U.S. federal income tax purposes as a single financial contract that provides for a coupon that will be treated as gross income to you at the time received or accrued, in accordance with your regular method of tax accounting. Under this treatment, the ordinary income treatment of the coupon payments, in conjunction with the capital loss treatment of any loss recognized upon the sale, exchange or settlement of the securities, could result in adverse tax consequences to holders of the securities because the deductibility of capital losses is subject to limitations. We do not plan to request a ruling from the Internal Revenue Service (the "IRS") regarding the tax treatment of the securities, and the IRS or a court may not agree with the tax treatment described herein. If the IRS were successful in asserting an alternative treatment for the securities, the timing and character of income or loss on the securities might differ significantly from the tax treatment described herein. For example, under one possible treatment, the IRS could seek to recharacterize the securities as debt instruments. In that event, U.S. Holders (as defined below) would be required to accrue into income original issue discount on the securities every year at a "comparable yield" determined at the time of issuance (as adjusted based on the difference, if any, between the actual and the projected amount of any contingent payments on the securities) and recognize all income and gain in respect of the securities as ordinary income. The risk that financial instruments providing for buffers, triggers or similar downside protection features, such as the securities, would be recharacterized as debt is greater than the risk of recharacterization for comparable financial instruments that do not have such features.

Non-U.S. Holders (as defined below) should note that we currently intend to withhold on any coupon paid to Non-U.S. Holders generally at a rate of 30%, or at a reduced rate specified by an applicable income tax treaty under an "other income" or similar provision, and will not be required to pay any additional amounts with respect to amounts withheld.

In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. While it is not clear whether the securities would be viewed as similar to the prepaid forward contracts described in the notice, it is possible that any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, possibly with retroactive effect. The notice focuses on a number of issues, the most relevant of which for holders of the securities are the character and timing of income or loss and the degree, if any, to which income realized by non-U.S. investors should be subject to withholding tax. Both U.S. and Non-U.S. Holders should consult their tax advisers regarding the U.S. federal income tax consequences of an investment in the securities, including possible alternative treatments, the issues presented by this notice and any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

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Contingent Income Buffered Auto-Callable Securities due March 2, 2021, With 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the SPDR® S&P® Oil & Gas Exploration & Production ETF and the Market Vectors Gold Miners ETF

Principal at Risk Securities

SPDR® S&P® Oil & Gas Exploration & Production ETF Overview

The SPDR® S&P® Oil & Gas Exploration & Production ETF is an exchange-traded fund that seeks to provide investment results that, before fees and expenses, correspond generally to the total return performance of publicly traded equity securities of companies included in the S&P® Oil & Gas Exploration & Production Select Industry Index®. The SPDR® S&P® Oil & Gas Exploration & Production ETF is managed by SPDR® Series Trust (the "Trust"), a registered investment company that consists of numerous separate investment portfolios, including the SPDR® S&P® Oil & Gas Exploration & Production ETF. Information provided to or filed with the Securities and Exchange Commission by the Trust pursuant to the Securities Act of 1933 and the Investment Company Act of 1940 can be located by reference to Commission file numbers 333-57793 and 811-08839, respectively, through the Commission's website at.www.sec.gov. In addition, information may be obtained from other publicly available sources. **Neither the issuer nor the agent makes any representation that any such publicly available information regarding the SPDR® S&P® Oil & Gas Exploration & Production ETF is accurate or complete.**

Information as of market close on February 25, 2019:

Ticker Symbol:	XOP UP
Current Stock Price:	$30.58
52 Weeks Ago:	$34.64
52 Week High (on 10/3/2018):	$44.57
52 Week Low (on 12/24/2018):	$24.12

The following graph sets forth the daily closing values of the XOP Shares for the period from January 1, 2014 through February 25, 2019. The related table sets forth the published high and low closing prices, as well as the end-of-quarter closing prices, of the XOP Shares for each quarter in the same period. The closing price of the XOP Shares on February 25, 2019 was $30.58. We obtained the information in the table and graph below from Bloomberg Financial Markets, without independent verification. The historical performance of the XOP Shares should not be taken as an indication of its future performance, and no assurance can be given as to the price of the XOP Shares at any time, including on the redemption determination dates or the observation dates.

Shares of the SPDR® S&P® Oil & Gas Exploration & Production ETF – Daily Closing Prices
January 1, 2014 to February 25, 2019

February 2019 Page 17

Morgan Stanley Finance LLC

Contingent Income Buffered Auto-Callable Securities due March 2, 2021, With 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the SPDR® S&P® Oil & Gas Exploration & Production ETF and the Market Vectors Gold Miners ETF

Principal at Risk Securities

SPDR® S&P® Oil & Gas Exploration & Production ETF (CUSIP: 78464A730)	High ($)	Low ($)	Period End ($)
2014			
First Quarter	71.83	64.04	71.83
Second Quarter	83.45	71.19	82.28
Third Quarter	82.08	68.83	68.83
Fourth Quarter	66.84	42.75	47.86
2015			
First Quarter	53.94	42.55	51.66
Second Quarter	55.63	46.43	46.66
Third Quarter	45.22	31.71	32.84
Fourth Quarter	40.53	28.64	30.22
2016			
First Quarter	30.96	23.60	30.35
Second Quarter	37.50	29.23	34.81
Third Quarter	39.12	32.75	38.46
Fourth Quarter	43.42	34.73	41.42
2017			
First Quarter	42.21	35.17	37.44
Second Quarter	37.89	30.17	31.92
Third Quarter	34.37	29.09	34.09
Fourth Quarter	37.64	32.25	37.18
2018			
First Quarter	39.85	32.38	35.22
Second Quarter	44.22	34.03	43.06
Third Quarter	44.52	39.10	43.29
Fourth Quarter	44.57	24.12	26.53
2019			
First Quarter (through February 25, 2019)	31.61	27.10	30.58

This document relates only to the securities referenced hereby and does not relate to the XOP Shares. We have derived all disclosures contained in this document regarding the Trust from the publicly available documents described above. In connection with the offering of the securities, neither we nor the agent has participated in the preparation of such documents or made any due diligence inquiry with respect to the Trust. Neither we nor the agent makes any representation that such publicly available documents or any other publicly available information regarding the Trust is accurate or complete. Furthermore, we cannot give any assurance that all events occurring prior to the date hereof (including events that would affect the accuracy or completeness of the publicly available documents described above) that would affect the trading price of the XOP Shares (and therefore the price of the XOP Shares at the time we priced the securities) have been publicly disclosed. Subsequent disclosure of any such events or the disclosure of or failure to disclose material future events concerning the Trust could affect the value received with respect to the securities and therefore the value

of the securities.

Neither we nor any of our affiliates makes any representation to you as to the performance of the XOP Shares.

We and/or our affiliates may presently or from time to time engage in business with the Trust. In the course of such business, we and/or our affiliates may acquire non-public information with respect to the Trust, and neither we nor any of our affiliates undertakes to disclose any such information to you. In addition, one or more of our affiliates may publish research reports with respect to the XOP Shares. The statements in the preceding two sentences are not intended to affect the rights of investors in the securities under the securities laws. As a purchaser of the securities, you should undertake an independent investigation of the Trust as in your judgment is appropriate to make an informed decision with respect to an investment linked to the XOP Shares.

“S&P®”, “SPDR®” and “S&P® Oil & Gas Exploration & Production Select Industry Index®” are trademarks of Standard & Poor’s Financial Services LLC (“S&P”), an affiliate of The McGraw-Hill Companies, Inc. (“MGH”). The securities are not sponsored, endorsed, sold, or promoted by S&P, MGH or the Trust. S&P, MGH and the Trust make no representations or warranties to the owners of the securities or any member of the public regarding the advisability of investing in the Securities. S&P, MGH and the the Trust have no obligation or liability in connection with the operation, marketing, trading or sale of the securities.

The S&P® Oil & Gas Exploration & Production Select Industry Index®. The S&P® Oil & Gas Exploration & Production Select Industry Index® is an equal-weighted index designed to measure the performance of the oil and gas exploration and production sub-industry portion of the S&P® Total Market Index, a benchmark that measures the performance of the U.S. equity market.

Morgan Stanley Finance LLC

Contingent Income Buffered Auto-Callable Securities due March 2, 2021, With 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the SPDR® S&P® Oil & Gas Exploration & Production ETF and the Market Vectors Gold Miners ETF

Principal at Risk Securities

Market Vectors Gold Miners ETF Overview

The Market Vectors Gold Miners ETF is an exchange-traded fund managed by Van Eck Associates Corporation ("Van Eck"), a registered investment company, that seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the NYSE Arca Gold Miners Index. Information provided to or filed with the Securities and Exchange Commission ("the Commission") by Van Eck pursuant to the Securities Act of 1933 and the Investment Company Act of 1940 can be located by reference to Commission file numbers 333-123257 and 811-10325, respectively, through the Commission's website at.www.sec.gov. In addition, information may be obtained from other publicly available sources. **Neither the issuer nor the agent makes any representation that any such publicly available information regarding the VanEck Vectors Oil Services™ ETF is accurate or complete.**

Information as of market close on February 25, 2019:

Ticker Symbol:	GDX UP
Current Share Price:	$22.77
52 Weeks Ago:	$21.97
52 Week High (on 2/20/2019):	$23.36
52 Week Low (on 9/11/2018):	$17.57

The following graph sets forth the daily closing values of the GDX Shares for the period from January 1, 2014 through February 25, 2019. The related table sets forth the published high and low closing prices, as well as the end-of-quarter closing prices, of the GDX Shares for each quarter in the same period. The closing price of the GDX Shares on February 25, 2019 was $22.77. We obtained the information in the table and graph below from Bloomberg Financial Markets, without independent verification. The historical performance of the GDX Shares should not be taken as an indication of its future performance, and no assurance can be given as to the price of the GDX Shares at any time, including on the redemption determination dates or the observation dates.

Shares of the Market Vectors Gold Miners ETF — Daily Closing Prices

January 1, 2014 to February 25, 2019

Morgan Stanley Finance LLC

Contingent Income Buffered Auto-Callable Securities due March 2, 2021, With 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the SPDR® S&P® Oil & Gas Exploration & Production ETF and the Market Vectors Gold Miners ETF

Principal at Risk Securities

Market Vectors Gold Miners ETF (CUSIP 5706U100)	High ($)	Low ($)	Period End ($)
2014			
First Quarter	27.73	21.27	23.60
Second Quarter	26.45	22.04	26.45
Third Quarter	27.46	21.35	21.35
Fourth Quarter	21.94	16.59	18.38
2015			
First Quarter	22.94	17.67	18.24
Second Quarter	20.82	17.76	17.76
Third Quarter	17.85	13.04	13.74
Fourth Quarter	16.90	13.08	13.72
2016			
First Quarter	20.86	12.47	19.98
Second Quarter	27.70	19.53	27.70
Third Quarter	31.32	25.45	26.43
Fourth Quarter	25.96	18.99	20.92
2017			
First Quarter	25.57	21.14	22.81
Second Quarter	24.57	21.10	22.08
Third Quarter	25.49	21.21	22.96
Fourth Quarter	23.84	21.42	23.24
2018			
First Quarter	24.60	21.27	21.98
Second Quarter	23.06	21.81	22.31
Third Quarter	22.68	17.57	18.52
Fourth Quarter	21.09	18.39	21.09
2019			
First Quarter (through February 25, 2019)	23.36	20.31	22.77

This document relates only to the securities referenced hereby and does not relate to the GDX Shares. We have derived all disclosures contained in this document regarding Van Eck from the publicly available documents described above. In connection with the offering of the securities, neither we nor the agent has participated in the preparation of such documents or made any due diligence inquiry with respect to Van Eck. Neither we nor the agent makes any representation that such publicly available documents or any other publicly available information regarding Van Eck is accurate or complete. Furthermore, we cannot give any assurance that all events occurring prior to the date hereof (including events that would affect the accuracy or completeness of the publicly available documents described above) that would affect the trading price of the GDX Shares (and therefore the price of the GDX Shares at the time we priced the securities) have been publicly disclosed. Subsequent disclosure of any such events or the disclosure of or failure to disclose material future events concerning Van Eck could affect the value received with respect to the securities and therefore the value of the securities.

Neither we nor any of our affiliates makes any representation to you as to the performance of the GDX Shares.

We and/or our affiliates may presently or from time to time engage in business with Van Eck. In the course of such business, we and/or our affiliates may acquire non-public information with respect to Van Eck, and neither we nor any of our affiliates undertakes to disclose any such information to you. In addition, one or more of our affiliates may publish research reports with respect to the GDX Shares. The statements in the preceding two sentences are not intended to affect the rights of investors in the securities under the securities laws. As a purchaser of the securities, you should undertake an independent investigation of Van Eck as in your judgment is appropriate to make an informed decision with respect to an investment linked to the GDX Shares.

Market Vectors℠ is a service mark of Van Eck Associates Corporation ("Van Eck"). The securities are not sponsored, endorsed, sold, or promoted by Van Eck. Van Eck makes no representations or warranties to the owners of the securities or any member of the public regarding the advisability of investing in the securities. Van Eck has no obligation or liability in connection with the operation, marketing, trading or sale of the securities.

The NYSE Arca Gold Miners Index. The NYSE Arca Gold Miners Index is a modified market capitalization weighted index comprised of publicly traded companies involved primarily in the mining of gold and silver. The NYSE Arca Gold Miners Index includes common stocks, American depositary receipts or global depositary receipts of selected companies involved in the mining for gold and silver ore and are listed for trading and electronically quoted on a major stock market that is accessible by foreign investors. For additional information about the NYSE Arca Gold Miners Index, please see the information set forth under "NYSE Arca Gold Miners Index" in the accompanying index supplement.

Morgan Stanley Finance LLC

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Principal at Risk Securities

Additional Terms of the Securities

Please read this information in conjunction with the summary terms on the front cover of this document.

Additional Terms:

If the terms described herein are inconsistent with those described in the accompanying product supplement, index supplement or prospectus, the terms described herein shall control.

Interest period:	The monthly period from and including the original issue date (in the case of the first interest period) or the previous scheduled coupon payment date, as applicable, to but excluding the following scheduled coupon payment date, with no adjustment for any postponement thereof.
Record date:	The record date for each coupon payment date shall be the date one business day prior to such scheduled coupon payment date; *provided*, however, that any coupon payable at maturity (or upon early redemption) shall be payable to the person to whom the payment at maturity or early redemption payment, as the case may be, shall be payable.
Share underlying indices:	With respect to the XOP Shares, the S&P® Regional Banks Select Industry Index With respect to the GDX Shares, the NYSE Arca Gold Miners Index
Share underlying index publishers:	With respect to the XOP Shares, S&P Dow Jones Indices LLC, or any successor thereof. With respect to the GDX Shares, NYSE Arca, or any successor thereof.
Day count convention:	Interest will be computed on the basis of a 360-day year of twelve 30-day months.
Postponement of coupon payment dates (including the maturity date) and early redemption dates:	If any observation date or redemption determination date is postponed due to a non-trading day or certain market disruption events with respect to either of the underlying shares so that it falls less than two business days prior to the relevant scheduled coupon payment date (including the maturity date) or early redemption date, as applicable, the coupon payment date (or the maturity date) or the early redemption date will be postponed to the second business day following that observation date or redemption determination date as postponed, and no adjustment will be made to any coupon payment, early redemption payment or payment at maturity made on that postponed date.
Trustee:	The Bank of New York Mellon
Calculation agent:	MS & Co.
Issuer notices to registered security holders, the trustee and the depositary:	In the event that the maturity date is postponed due to postponement of the final observation date, the issuer shall give notice of such postponement and, once it has been determined, of the date to which the maturity date has been rescheduled (i) to each registered holder of the securities by mailing notice of such postponement by first class mail, postage prepaid, to such registered holder's last address as it shall appear upon the registry books, (ii) to the trustee by facsimile, confirmed by mailing such notice to the

trustee by first class mail, postage prepaid, at its New York office and (iii) to The Depository Trust Company (the "depositary") by telephone or facsimile confirmed by mailing such notice to the depositary by first class mail, postage prepaid. Any notice that is mailed to a registered holder of the securities in the manner herein provided shall be conclusively presumed to have been duly given to such registered holder, whether or not such registered holder receives the notice. The issuer shall give such notice as promptly as possible, and in no case later than (i) with respect to notice of postponement of the maturity date, the business day immediately preceding the scheduled maturity date and (ii) with respect to notice of the date to which the maturity date has been rescheduled, the business day immediately following the final observation date as postponed.

In the event that the securities are subject to early redemption, the issuer shall, (i) on the business day following the applicable redemption determination date, give notice of the early redemption and the early redemption payment, including specifying the payment date of the amount due upon the early redemption, (x) to each registered holder of the securities by mailing notice of such early redemption by first class mail, postage prepaid, to such registered holder's last address as it shall appear upon the registry books, (y) to the trustee by facsimile confirmed by mailing such notice to the trustee by first class mail, postage prepaid, at its New York office and (z) to the depositary by telephone or facsimile confirmed by mailing such notice to the depositary by first class mail, postage prepaid, and (ii) on or prior to the early redemption date, deliver the aggregate cash amount due with respect to the securities to the trustee for delivery to the depositary, as holder of the securities. Any notice that is mailed to a registered holder of the securities in the manner herein provided shall be conclusively presumed to have been duly given to such registered holder, whether or not such registered holder receives the notice. This notice shall be given by the issuer or, at the issuer's request, by the trustee in the name and at the expense of the issuer, with any such request to be accompanied by a copy of the notice to be given.

The issuer shall, or shall cause the calculation agent to, (i) provide written notice to the trustee, on which notice the trustee may conclusively rely, and to the depositary of the amount of cash to be delivered as monthly coupon with respect to each security on or prior to 10:30 a.m. (New York City time) on the business day preceding each coupon payment date, and (ii) deliver the aggregate cash amount due with respect to the monthly coupon to the trustee for delivery to the depositary, as holder of the securities, on the applicable coupon payment date.

Morgan Stanley Finance LLC

Contingent Income Buffered Auto-Callable Securities due March 2, 2021, With 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the SPDR® S&P® Oil & Gas Exploration & Production ETF and the Market Vectors Gold Miners ETF

Principal at Risk Securities

The issuer shall, or shall cause the calculation agent to, (i) provide written notice to the trustee, on which notice the trustee may conclusively rely, and to the depositary of the amount of cash to be delivered with respect to each stated principal amount of the securities, on or prior to 10:30 a.m. (New York City time) on the business day preceding the maturity date, and (ii) deliver the aggregate cash amount due with respect to the securities to the trustee for delivery to the depositary, as holder of the securities, on the maturity date.

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Principal at Risk Securities

Additional Information About the Securities

Additional Information:

Minimum ticketing size:	$1,000 / 1 security
Tax considerations:	**Prospective investors should note that the discussion under the section called "United States Federal Taxation" in the accompanying product supplement does not apply to the securities issued under this document and is superseded by the following discussion.**

The following is a general discussion of the material U.S. federal income tax consequences and certain estate tax consequences of the ownership and disposition of the securities. This discussion applies only to investors in the securities who:

· purchase the securities in the original offering; and

· hold the securities as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "Code").

This discussion does not describe all of the tax consequences that may be relevant to a holder in light of the holder's particular circumstances or to holders subject to special rules, such as:

· certain financial institutions;

· insurance companies;

· certain dealers and traders in securities or commodities;

· investors holding the securities as part of a "straddle," wash sale, conversion transaction, integrated transaction or constructive sale transaction;

· U.S. Holders (as defined below) whose functional currency is not the U.S. dollar;

· partnerships or other entities classified as partnerships for U.S. federal income tax purposes;

· regulated investment companies;

· real estate investment trusts; or

· tax-exempt entities, including "individual retirement accounts" or "Roth IRAs" as defined in Section 408 or 408A of the Code, respectively.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds the securities, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partnership holding the securities or a partner in such a partnership, you should consult your tax adviser as to the particular U.S. federal tax consequences of holding and disposing of the securities to you.

As the law applicable to the U.S. federal income taxation of instruments such as the securities is technical and complex, the discussion below necessarily represents only a general summary. The effect of any applicable state, local or non-U.S. tax laws is not discussed, nor are any alternative minimum tax consequences or consequences resulting from the Medicare tax on investment income. Moreover, the discussion below does not address the consequences to taxpayers subject to special tax accounting rules under Section 451(b) of the Code.

This discussion is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof, changes to any of which subsequent to the date hereof may affect the tax consequences described herein. Persons considering the purchase of the securities should consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

General

Due to the absence of statutory, judicial or administrative authorities that directly address the treatment of the securities or instruments that are similar to the securities for U.S. federal income tax purposes, no assurance can be given that the IRS or a court will agree with the tax treatment described herein. We intend to treat a security for U.S. federal income tax purposes as a single financial contract that provides for a coupon that will be treated as gross income to you at the time received or accrued in accordance with your regular method of tax accounting. In the opinion of our counsel, Davis Polk & Wardwell LLP, this treatment of the securities is reasonable under current law; however, our counsel has advised us that it is unable to conclude affirmatively that this treatment is more likely than not to be upheld, and that alternative treatments are

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All Payments on the Securities Based on the Worst Performing of the SPDR® S&P® Oil & Gas Exploration & Production ETF and the Market Vectors Gold Miners ETF

Principal at Risk Securities

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You should consult your tax adviser regarding all aspects of the U.S. federal tax consequences of an investment in the securities (including possible alternative treatments of the securities). Unless otherwise stated, the following discussion is based on the treatment of each security as described in the previous paragraph.

Tax Consequences to U.S. Holders

This section applies to you only if you are a U.S. Holder. As used herein, the term "U.S. Holder" means a beneficial owner of a security that is, for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;

- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state thereof or the District of Columbia; or

- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

Tax Treatment of the Securities

	10.70					
Average loans and leases to average deposits		96.44	97.74	94.04	89.00	83.00

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

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

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

(4) Does not include loans held for sale.

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

(6) Based upon fully phased-in requirements.

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

Basis of Presentation

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

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

Selected Bank Financial Data

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

SELECTED BANK FINANCIAL DATA

(Amounts in thousands, except ratios)

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

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

SELECTED BANK FINANCIAL DATA

(Amounts in thousands, except ratios)

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

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

Critical Accounting Policies and Estimates

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

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

Allowance for Loan and Lease Losses

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

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

Mergers and Acquisitions

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

Income Taxes

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

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Pension and Other Postretirement Benefits

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

Stock-based Compensation

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

Other

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

Results of Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Net Interest Income

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

Average Balances, Income, Expenses and Rates

The following table depicts, on a taxable equivalent basis for the periods indicated, certain information related to Alabama National s average balance sheet and its average yields on assets and average costs of liabilities. Such yields or costs are derived by dividing income or expense by the average daily balances of the associated assets or liabilities.

AVERAGE BALANCES, INCOME AND EXPENSES AND RATES

(Amounts in thousands, except yields and rates)

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

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

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

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

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

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

Analysis of Changes in Net Interest Income

The following table sets forth, on a taxable equivalent basis, the effect which varying levels of earning assets and interest-bearing liabilities and the applicable rates had on changes in net interest income for 2002 and 2001. For purposes of this table, changes that are not solely attributable to volume or rate are allocated to volume and rate on a pro rata basis.

ANALYSIS OF CHANGES IN NET INTEREST INCOME

(Amounts in thousands)

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

Interest Sensitivity and Market Risk

Interest Sensitivity

Alabama National monitors and manages the pricing and maturity of its assets and liabilities in order to diminish the potential adverse impact that changes in interest rates could have on net interest income. The principal monitoring technique employed by Alabama National is simulation analysis, which technique is augmented by gap analysis.

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

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

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

The following table illustrates Alabama National s interest rate sensitivity at December 31, 2002, assuming the relevant assets and liabilities are collected and paid, respectively, based upon historical experience rather than their stated maturities.

INTEREST SENSITIVITY ANALYSIS

(Amounts in thousands, except ratios)

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

(1) Excludes nonaccrual loans of $10,282,000
(2) Excludes investment in equity securities with a fair market value of $19,547,000
(3) Excludes matured certificates which have not been redeemed by the customer and on which no interest is accruing
(4) Includes treasury, tax and loan accounts of $629,000

Alabama National generally benefits from increasing market rates of interest when it has an asset-sensitive gap (a positive number) and generally benefits from decreasing market interest rates when it is liability sensitive (a negative number). As shown in the table above, Alabama National is asset sensitive from the one month through three year periods. It is only beyond the three year period that Alabama National is liability sensitive. Alabama National has traditionally been liability sensitive through the one year time frame. It is now asset sensitive due to a reduction in the average life of the securities and loan portfolios. Also, the loan portfolio contains an increased proportion of variable rate loans and these loans generally reprice more quickly than fixed rate loans. The analysis presents only a static view of the timing and repricing opportunities, without taking into consideration that changes in interest rates do not affect all assets and liabilities equally. For example, rates paid on a substantial portion of core deposits may change contractually within a relatively short time frame, but those are viewed by management as significantly less interest sensitive than market-based rates such as those paid on non-core deposits. For this and other reasons, management relies more upon the simulation analysis (as noted above) in managing interest rate risk. Net interest income may be impacted by other significant factors in a given interest rate environment, including changes in the volume and mix of earning assets and interest-bearing liabilities.

Market Risk

Alabama National s earnings are dependent on its net interest income which is the difference between interest income earned on all earning assets, primarily loans and securities, and interest paid on all interest bearing liabilities, primarily deposits. Market risk is the risk of loss from adverse changes in market prices and rates. Alabama National s market risk arises primarily from inherent interest rate risk in its lending, investing and deposit gathering activities. Alabama National seeks to reduce its exposure to market risk through actively monitoring and managing its interest rate risk. Management relies upon static gap analysis to determine the degree of mismatch in the maturity and repricing distribution of interest earning assets and interest bearing liabilities which quantifies, to a large extent, the degree of market risk inherent in Alabama National s balance sheet. Gap analysis is further augmented by simulation analysis to evaluate the impact of varying levels of prevailing interest rates and the sensitivity of specific earning assets and interest bearing liabilities to changes in those prevailing rates. Simulation analysis consists of evaluating the impact on net interest income given changes from 200 basis points below to 200 basis points above the current prevailing rates. Management makes certain assumptions as to the effect varying levels of interest rates have on certain earning assets and interest bearing liabilities, which assumptions consider both historical experience and consensus estimates of outside sources.

With respect to the primary earning assets, loans and securities, certain features of individual types of loans and specific securities introduce a level of uncertainty as to their expected performance at varying levels of interest rates. In some cases, imbedded options exist whereby the borrower may elect to repay the obligation at any time. These imbedded prepayment options make anticipating the performance of those instruments difficult given changes in prevailing rates. At December 31, 2002, mortgage backed securities with a carrying value totaling $501.7 million, or 15.1% of total assets and essentially every underlying loan, net of unearned income, (totaling $2.19 billion, or 66.1% of total assets), carry such imbedded options. Management believes that assumptions used in its simulation analysis about the performance of financial instruments with such imbedded options are appropriate. However, the actual performance of these financial instruments may differ from management s estimates due to several factors, including the diversity and sophistication of the customer base, the general level of prevailing interest rates and the relationship to their historical and expected levels, and general economic conditions. The difference between those assumptions and actual results, if significant, could cause the actual results to differ from those indicated by the simulation analysis.

Deposits totaled $2.33 billion, or 70.3% of total assets, at December 31, 2002. Since deposits are the primary funding source for earning assets, the associated market risk is considered by management in its simulation analysis. Generally, it is anticipated that deposits will be sufficient to support funding requirements. However, the rates paid for deposits at varying levels of prevailing interest rates have a significant impact on net interest income and therefore, must be quantified by Alabama National in its simulation analysis. Specifically, Alabama National s spread, the difference between the rates earned on earning assets and rates paid on interest bearing liabilities, is generally higher when prevailing rates are higher than current levels. Alabama National s spread is also impacted by the shape of the yield curve, which is a measure of the difference between rates at different maturities. A steep yield curve, implying higher long term rates and lower short term rates, would generally result in a higher net interest margin for Alabama National. As prevailing rates reduce, the spread tends to compress as rates paid on deposit and other liability categories approach their lower limits, with severe compression at very low prevailing interest rates. This characteristic is called spread compression and adversely affects net interest income in the simulation analysis when anticipated prevailing rates are reduced from current rates. Management relies upon historical experience to estimate the degree of spread compression in its simulation analysis. Management believes that such estimates of possible spread compression are reasonable. However, if the degree of spread compression varies from that expected, the actual results could differ from those indicated by the simulation analysis.

The following table illustrates the results of simulation analysis used by Alabama National to determine the extent to which market risk would affect net interest margin for the next twelve months if prevailing interest rates increased or decreased the specified amounts from rates in effect during 2002. Alabama National s simulation analysis indicates limited reduction in net interest margin from a 25 basis point reduction in interest rates from current rate levels. Rate reductions beyond this point, however, would reduce the net interest margin significantly due to the current low interest rate environment. Alabama National s net interest income would decrease significantly if prevailing interest rates were to further decrease 100 or 200 basis points. The current rates paid on interest-bearing accounts cannot decrease below zero, yet rates earned on loans can experience a decrease in the falling rate scenarios, and the interest rate spread would therefore compress. Because of the inherent use of estimates and assumptions in the simulation model used to derive this information, the actual results of the future impact of market risk on Alabama National s net interest margin, may differ from that found in the table.

MARKET RISK

(Amounts in thousands)

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

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

Provision and Allowance for Loan and Lease Losses

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

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

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

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

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

ALLOWANCE FOR LOAN AND LEASE LOSSES

(Amounts in thousands, except percentages)

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

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

(1) Does not include loans held for sale.

Allocation of Allowance

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

Nonperforming Assets

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

NONPERFORMING ASSETS

(Amounts in thousands, except percentages)

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

(1) Does not include loans held for sale.

Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower s financial condition is such that collection of interest is doubtful. In addition to consideration of these factors, Alabama National has a consistent and continuing policy of placing all loans on nonaccrual status if they become 90 days or more past due, regardless of the collateral or the borrower s financial condition. When a loan is placed on nonaccrual status, all interest which is accrued on the loan is reversed and deducted from earnings as a reduction of reported interest. No additional interest is accrued on the loan balance until collection of both principal and interest becomes reasonably certain. When a problem loan is finally resolved, there may ultimately be an actual writedown or charge-off of the principal balance of the loan which would necessitate additional charges to the allowance for loan and lease losses. During the years ending December 31, 2002, 2001 and 2000, approximately $540,000, $406,000, and $498,000, respectively, in additional interest income would have been recognized in earnings if Alabama National s nonaccrual loans had been current in accordance with their original terms.

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

Potential Problem Loans

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

Noninterest Income and Expense

Noninterest income

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

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

NONINTEREST INCOME

(Amounts in thousands)

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

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Noninterest Expense

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

NONINTEREST EXPENSE

(Amounts in thousands)

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

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

Segment Information

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

Investment Services

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

INVESTMENT SERVICES DIVISION

(Amounts in thousands)

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

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

Securities Brokerage and Trust Division

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

SECURITIES BROKERAGE AND TRUST DIVISION

(Amounts in thousands)

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

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

Mortgage Lending Division

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

MORTGAGE LENDING DIVISION

(Amounts in thousands)

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

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

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

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Insurance Services Division

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

INSURANCE SERVICES DIVISION

(Amounts in thousands)

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

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

Earning Assets

Loans and leases

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

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

COMPOSITION OF LOAN AND LEASE PORTFOLIO

(Amounts in thousands, except percentages)

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

(1) Does not include loans held for sale.

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

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

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

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

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

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

LOAN MATURITY AND SENSITIVITY TO CHANGES IN INTEREST RATES

(Amounts in thousands)

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

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

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

Securities

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

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

INVESTMENT SECURITIES

(Amounts in thousands)

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

AVAILABLE FOR SALE SECURITIES

(Amounts in thousands)

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

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

INVESTMENT SECURITIES MATURITY DISTRIBUTION AND YIELDS

(Amounts in thousands, except yields)

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

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

SECURITIES AVAILABLE FOR SALE MATURITY DISTRIBUTION AND YIELDS

(Amounts in thousands, except yields)

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

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

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

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

Short-Term Investments

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

Trading Account Securities

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

Deposits and Other Interest-Bearing Liabilities

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

Deposits

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

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

DEPOSITS

(Amounts in thousands, except percentages)

	December 31,									
	2002		2001		2000		1999		1998	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Demand	$ 336,172	14.43%	$ 306,319	14.82%	$ 244,400	13.52%	$ 227,442	14.87%	$ 245,955	18.29%
NOW	476,721	20.46	384,355	18.60	290,471	16.07	224,037	14.65	193,196	14.36
Savings and money market	378,361	16.24	373,309	18.06	312,886	17.31	315,291	20.62	317,188	23.58
Time less than $100,000	635,827	27.27	668,819	32.36	659,370	36.50	525,788	34.38	429,174	31.91
Time greater than $100,000	503,314	21.60	333,957	16.16	299,968	16.60	236,693	15.48	159,504	11.86
Total deposits	$ 2,330,395	100.00%	$ 2,066,759	100.00%	$ 1,807,095	100.00%	$ 1,529,251	100.00%	$ 1,345,017	100.00%

Core deposits, which exclude time deposits of $100,000 or more, provide for a relatively stable funding source that supports earning assets. Alabama National s core deposits totaled $1.83 billion, or 78.4%, of total deposits at December 31, 2002, and totaled $1.73 billion, or 83.8%, of total deposits at December 31, 2001.

Deposits, in particular core deposits, have historically been Alabama National s primary source of funding and have enabled Alabama National to meet successfully both short-term and long-term liquidity needs. Management anticipates that such deposits will continue to be Alabama National s primary source of funding in the future, although economic factors could affect this funding source. Alabama National s loan-to-deposit ratio was 94.0% at December 31, 2002, and 95.0% at the end of 2001, and the ratio averaged 96.4% during 2002 and 97.7% during 2001. The maturity distribution of Alabama National s time deposits in excess of $100,000 at December 31, 2002, is shown in the following table.

MATURITIES OF CERTIFICATES OF DEPOSIT AND OTHER TIME

DEPOSITS OF $100,000 OR MORE

(Amounts in thousands)

	December 31, 2002						
	Within One Month	After One Through Three Months	After Three Through Six Months	After Six Through Twelve Months	One Through Three Years	Greater Than Three Years	Total
Certificates of deposit of $100,000 or more	$ 27,160	$ 67,847	$ 88,340	$ 109,010	$ 83,243	$ 21,573	$ 397,173
Other time deposits of $100,000 or more	66,221	9,615		13,850	14,000	2,455	106,141
Total	$ 93,381	$ 77,462	$ 88,340	$ 122,860	$ 97,243	$ 24,028	$ 503,314

Approximately 33.9% of Alabama National s time deposits over $100,000 had scheduled maturities within three months. Large certificate of deposit customers tend to be sensitive to interest rate levels, making these deposits less reliable sources of funding for liquidity planning purposes than core deposits. Alabama National had $46.0 million in large certificates of deposit obtained through brokers outstanding at December 31, 2002, compared to $39.0 million at December 31, 2001. Alabama National s use of brokered time deposits fluctuates depending upon funding needs and the pricing and maturity structure of brokered deposits versus other funding sources, including in-market time deposits.

Borrowed Funds

Borrowed funds include five broad categories; (i) Federal funds purchased and securities sold under agreements to repurchase, (ii) treasury, tax and loan balances, (iii) Federal Home Loan Bank (FHLB) borrowings, (iv) borrowings from a third party bank, and (v) trust preferred securities. Because of a relatively high loan-to-deposit ratio, the existence and stability of these funding sources are critical to Alabama National s maintenance of short-term and long-term liquidity.

Federal funds purchased and securities sold under agreements to repurchase represent both an input of excess funds from correspondent bank customers of Alabama National as well as a cash management tool offered to corporate customers. At December 31, 2002, these funds totaled $290.6 million, compared with $240.1 million at December 31, 2001. This balance will vary greatly depending on the liquidity of the downstream correspondent banks of Alabama National and the excess cash of its corporate customers.

At December 31, 2002, treasury, tax and loan balances totaled $0.6 million, compared to $3.5 million at December 31, 2001. Alabama National collects tax deposits from customers and is permitted to retain these balances until established collateral limits are exceeded or until the U.S. Treasury withdraws its balances.

Alabama National s average borrowing from a third party bank under a $35 million credit facility (the Credit Facility) was $18.6 million during 2002, compared with $28.1 million during 2001. As of December 31, 2002, the outstanding balance under the Credit Facility was $19.1 million, leaving a remaining availability under the Credit Facility of $15.9 million. In January 2003, Alabama National made a principal payment of $6.8 million leaving an outstanding balance of $12.4 million. Although Alabama National had the proceeds for the principal reduction prior to year-end the Credit Facility requires that principal repayments occur only on interest pay dates. The Credit Facility bears interest at a rate that varies with LIBOR and is secured by a pledge of stock in the Banks. The Credit Facility is typically renewed on an annual basis and has a current maturity date of May 31, 2003. Alabama National has historically renewed the Credit Facility prior to its due date and anticipates doing so again in 2003.

All of the Banks are members of the FHLB. At December 31, 2002, the Banks had available FHLB lines of $572.0 million, under which $348.0 million was outstanding, including advances classified as short-term of $133.0 million and advances classified as long-term of $215.0 million. This compares to borrowings of $246.0 million at December 31, 2001, of which $52.0 million was short-term and $194.0 million was long-term. The increase in borrowings from the FHLB is attributable to the continued increase in interest bearing assets of Alabama National, as other funding sources such as deposit liabilities were not cost effective to support such growth.

On December 19, 2002, Alabama National, through its wholly owned subsidiary, Alabama National Statutory Trust II, issued Floating Rate Capital Securities, commonly known as trust preferred securities, in the principal amount of $10.0 million. The trust preferred securities issued in 2002, is in addition to $15.0 million of trust preferred securities issued in December 2001. The securities pay distributions at a rate that varies with LIBOR. They are classified as long-term debt for the financial statements but are included as capital for regulatory purposes. The net proceeds of the trust preferred securities issued were used to reduce Alabama National s balance under the Credit Facility and for general corporate expenses.

The following table sets forth, for the periods indicated, the principal components of borrowed funds.

BORROWED FUNDS

(Amounts in thousands, except percentages)

	December 31,		
	2002	2001	2000
Federal funds purchased and securities sold under agreements to repurchase:			
Balance at end of period .	$ 290,637	$ 240,060	$ 166,580
Average balance outstanding	272,689	239,293	156,204
Maximum outstanding at any month s end	353,361	319,333	183,749
Weighted average interest rate at period-end	1.02%	1.56%	5.85%
Weighted average interest rate during the period	1.54	3.63	5.96
Treasury, tax and loan:			
Balance at end of period .	$ 629	$ 3,490	$ 900
Average balance outstanding	1,022	1,263	1,882
Maximum outstanding at any month s end	2,544	3,490	4,932
Weighted average interest rate at period-end	1.00%	1.29%	5.63%
Weighted average interest rate during the period	1.35	3.25	6.16
Notes Payable:			
Balance at end of period .	$ 19,100	$ 16,350	$ 27,439
Average balance outstanding	18,616	28,081	20,842
Maximum outstanding at any month s end	19,100	30,100	27,439
Weighted average interest rate at period-end	2.17%	2.68%	7.41%
Weighted average interest rate during the period	2.57	4.82	7.33
Short-term advances from the Federal Home Loan Bank:			
Balance at end of period	$ 133,000	$ 52,000	$ 64,000
Average balance outstanding	59,320	13,506	42,297
Maximum outstanding at any month s end	133,000	67,000	77,000
Weighted average interest rate at period-end	2.01%	2.16%	5.84%
Weighted average interest rate during the period	2.96	3.31	6.80
Long-term advances from the Federal Home Loan Bank:			
Balance at end of period .	$ 215,000	$ 194,000	$ 83,700
Average balance outstanding	185,103	168,116	96,898
Maximum outstanding at any month s end	215,000	194,000	123,700
Weighted average interest rate at period-end	3.90%	3.83%	5.99%
Weighted average interest rate during the period .	4.44	4.99	5.75
Trust preferred securities:			
Balance at end of period .	$ 25,000	$ 15,000	$
Average balance outstanding	15,356	575	
Maximum outstanding at any month s end	25,000	15,000	
Weighted average interest rate at period-end	4.87%	5.60%	
Weighted average interest rate during the period	5.66	5.60	
Capital leases:			
Balance at end of period	$ 56	$ 77	$ 197
Average balance outstanding	66	165	264
Maximum outstanding at any month s end	75	191	266
Weighted average interest rate at period-end	9.55%	9.55%	9.34%
Weighted average interest rate during the period	9.55	9.09	9.34

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Capital Resources and Liquidity Management

Capital Resources

Alabama National s stockholder s equity increased by $26.6 million from December 31, 2001, to $234.5 million at December 31, 2002. This increase was attributable to the following (in thousands):

Net income	$ 35,702
Dividends	(12,362)
Issuance of stock from treasury	205
Change in unrealized gain or loss on securities available for sale, net of deferred taxes	1,685
Additional paid in capital related to stock based compensation .	1,376
Net increase	$ 26,606

Under the capital guidelines of their regulators, Alabama National and the Banks are currently required to maintain a minimum risk-based total capital ratio of 8%, with at least 4% being Tier I capital. Tier I capital consists of common stockholders equity, qualifying perpetual preferred stock and minority interests in equity accounts of consolidated subsidiaries, less goodwill. In addition, under the guidelines, Alabama National and the Banks must maintain a minimum Tier I leverage ratio of Tier I capital to total assets of at least 3%, but this minimum ratio is typically increased by 100 to 200 basis points for other than the highest rated institutions.

Alabama National exceeded its fully phased-in regulatory capital ratios at December 31, 2002, 2001 and 2000, as set forth in the following table.

ANALYSIS OF CAPITAL

(Amounts in thousands, except percentages)

	December 31,		
	2002	**2001**	**2000**
Tier 1 Capital	$ 236,717	$ 203,527	$ 158,781
Tier 2 Capital	29,617	25,654	22,368
Total qualifying capital(1)	$ 266,334	$ 229,181	$ 181,149
Risk-adjusted total assets (including off-balance sheet exposures) ..	$ 2,366,289	$ 2,049,456	$ 1,791,433
Tier 1 risk-based capital ratio (4.00% required minimum)	10.00%	9.92%	8.86%
Total risk-based capital ratio (8.00% required minimum)	11.26	11.17	10.11

Tier 1 leverage ratio (4.00% required minimum) .	7.52	7.61	6.83

(1) Does not include $3,087,000, $2,865,000 and $182,000 of the Company s allowance for loan losses at December 31, 2002, 2001 and 2000, respectively, in excess of 1.25% of risk-adjusted total assets.

Each of the Banks is required to maintain minimum risk-based and leverage ratios similar to those required for Alabama National. Each of the banks exceeded these regulatory minimum capital ratios at December 31, 2002, as set forth in the following table:

BANK CAPITAL RATIOS

	Tier 1 Risk Based	**Total Risk Based**	**Tier 1 Leverage**
Alabama National BanCorporation	10.00%	11.26%	7.52%
National Bank of Commerce of Birmingham	9.96	11.14	7.51
Alabama Exchange Bank	13.35	14.61	7.27
Bank of Dadeville	12.54	13.79	7.91
Citizens & Peoples Bank, N.A.	9.74	11.00	7.17
Community Bank of Naples, N.A.	9.60	10.85	7.40
First American Bank	9.14	10.39	7.48
First Citizens Bank	13.50	14.71	7.00
First Gulf Bank	10.06	11.31	7.30
Georgia State Bank	11.59	12.85	7.45
Public Bank	9.88	11.13	8.05
Peoples State Bank of Groveland	11.00	12.26	7.15
Required minimums	4.00	8.00	4.00

In addition to meeting the minimum regulatory ratios, the regulatory ratios of Alabama National s subsidiary banks exceeded the ratios for well-capitalized banks as defined by federal banking regulators. To be categorized as well-capitalized, Alabama National s subsidiary banks must maintain Total Qualifying Capital, Tier I Capital and leverage ratios of at least 10%, 6% and 5%, respectively.

Liquidity Management

Liquidity management involves monitoring Alabama National s sources and uses of funds in order to meet its day-to-day cash flow requirements while maximizing profits. Liquidity represents the ability of an entity to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities.

Without proper liquidity management, Alabama National will not be able to perform the primary function of a financial intermediary and would, therefore, not be able to meet the needs of the communities it serves.

Increased liquidity in typical interest rate environments often involves decreasing profits by investing in earning assets with shorter maturities. Liquidity management is made more complex because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of certain securities within the investment portfolio is very predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to nearly the same degree of control.

Assets included in Alabama National s Consolidated Statements of Condition contribute to liquidity management. Federal funds sold and securities purchased under agreements to resell, Alabama National s primary source of immediate liquidity, averaged $45.3 million during 2002 and were $78.0 million at December 31, 2002, and averaged $46.6 million during 2001 and were $32.2 million at December 31, 2001. If required in short-term liquidity management, these assets could be converted to cash immediately. Cash received from the repayment of investment securities and loans provides a repetitive source of cash that contributes to liquidity management. Unpledged securities, with a carrying value of approximately $228.0 million at December 31, 2002, provide Alabama National an opportunity to generate cash by, 1) providing additional collateral by selling securities under agreements to repurchase, 2) providing collateral to obtain public funds or 3) providing collateral to borrow directly from the Federal Reserve Bank or the Federal Home Loan Bank. See ***Earning Assets*** *Loans* and **Earning Assets** *Securities.*

Liquidity can also be managed using liabilities included in Alabama National s Consolidated Statement of Condition, such as Federal funds purchased and securities sold under agreements to repurchase and short-term borrowings. Combined Federal funds purchased and securities sold under agreements to repurchase, treasury, tax and loan, and short-term borrowings averaged $351.6 million during 2002 and were $443.4 million at December 31, 2002, and averaged $282.1 million during 2001 and were $311.9 million at December 31, 2001. Overnight borrowing lines with upstream correspondent banks, totaling $144.5 million at December 31, 2002, of which $99.1 million was unused, provide additional sources of liquidity to Alabama National on an unsecured basis. The Federal Home Loan Bank provides secured and unsecured credit lines to all of Alabama National s Banks totaling approximately $572.0 million as of year-end 2002. At December 31, 2002, advances under these lines totaled $348.0 million, including $133.0 million classified as short-term and $215.0 million classified as long-term. Long-term liquidity needs are met through Alabama National s deposit base (approximately 78.4% of Alabama National s deposits at December 31, 2002, are considered core deposits), and the repayment of loans and other investments as they mature. Alabama National is able to manage its long-term liquidity needs by adjusting the rates it pays on longer-term deposits, long-term borrowings and the amount and mix of longer-term investments in its portfolio.

One of the Banks, NBC, has pledged approximately $59.8 million in loans to the Federal Reserve Bank of Atlanta as collateral for a discount window credit facility, which management views as a backup liquidity facility. At December 31, 2002, NBC had access to approximately $48.6 million under this facility, with no outstanding borrowings.

Alabama National, as a stand-alone corporation, has more limited access to liquidity sources than its Banks and depends on dividends from its subsidiaries as its primary source of liquidity. Alabama National s liquidity is diminished by required payments on its outstanding short-term debt and trust preferred securities. The ability of its subsidiaries to pay dividends is subject to general regulatory restrictions, which may, but are not expected to, have a material negative impact on the liquidity available to Alabama National. (See Note 18 to the Alabama National s Consolidated Financial Statements included in this Annual Report beginning at page F-1). If circumstances warrant, Alabama National s short-term liquidity needs can also be met by additional borrowings of approximately $15.9 million representing the unused portion of Alabama National s credit facility with an unrelated bank. *See* ***Deposits and Other Interest-Bearing Liabilities*** *Borrowed Funds.*

Contractual Obligations

Alabama National has contractual obligations to make future payments on debt and lease agreements. Long-term debt, capital leases and trust preferred securities are reflected on the consolidated statements of financial condition, whereas, operating lease obligations for office space and equipment are not recorded on the consolidated statements of financial condition. Alabama National has no unconditional purchase obligations or other long-term obligations other than as included in the following table. These types of obligations are more fully discussed in Notes 9 and 10 of the Consolidated Financial Statements included in this Annual Report beginning on page F-1. Total contractual obligations of Alabama National as of December 31, 2002, are as follows.

CONTRACTUAL OBLIGATIONS

(Amounts in thousands)

	As of December 31, 2002				
	Due in 1 year or less	**Due after 1 year through**	**Due after 3 years through**	**Due after 5 years**	**Total**

		3 years	5 years		
Long-term debt and capital leases	$ 32	$ 20,033	$ 25,000	$ 195,000	$ 240,065
Trust preferred securities				25,000	25,000
Operating lease obligations	1,926	3,586	3,258	16,526	25,296
Total contractual obligations	$ 1,958	$ 23,619	$ 28,258	$ 236,526	$ 290,361

Credit Extension Commitments

Many of Alabama National s lending relationships, including those with commercial and consumer customers, contain both funded and unfunded elements. The unfunded component of these commitments is not recorded on Alabama National s Consolidated Statements of Financial Condition. These commitments are more fully discussed in Note 11 of the Consolidated Financial Statements included in this Annual Report beginning on page F-1. The table below summarizes the total unfunded credit extension, or off-balance sheet, commitment amounts by expiration date.

CREDIT EXTENSION COMMITMENTS

(Amounts in thousands)

	As of December 31, 2002				
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years	Total
Unfunded lines	$ 327,775	$ 83,973	$ 23,699	$ 100,509	$ 535,956
Letters of credit	27,923	3,187	15		31,125
Total credit extension commitments	$ 355,698	$ 87,160	$ 23,714	$ 100,509	$ 567,081

Accounting Pronouncements

Business Combinations and Goodwill and Other Intangibles

In June 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Pooling-of-interests business combinations initiated prior to June 30, 2001 were grandfathered. SFAS No. 142 requires that goodwill and other intangible assets with indefinite useful lives no longer be amortized, but instead an entity must perform an assessment of whether these assets are impaired as of the date of adoption and test for impairment at least annually in accordance with the provisions of SFAS No. 142. The new standard also requires that intangible assets with definite useful live be amortized over their respective estimated useful lives and reviewed annually for impairment. Alabama National adopted the provisions of SFAS No. 141 on July 1, 2001 and SFAS No. 142 effective January 1, 2002. See Note 3 of the Consolidated Financial Statements included in this Annual Report beginning on page F-1, titled Goodwill and Other Acquired Intangible Assets, for additional discussion of Alabama National s intangible assets.

Acquisitions of Certain Financial Institutions

On October 1, 2002, the FASB issued SFAS No. 147, Acquisitions of Certain Financial Institutions. SFAS No. 147 addresses the treatment of goodwill related to branch acquisitions. SFAS No. 147 requires that goodwill meeting certain criteria be accounted for under SFAS No. 142. The initial adoption of this standard did not have an impact on the financial condition or results of operations of Alabama National.

Accounting for Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 applies to legal obligations associated with the retirement of tangible long-lived assets. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. Alabama National adopted SFAS No. 143 on January 1, 2003. The initial adoption of this standard did not have an impact on the financial condition or results of operations of Alabama National. Management does not believe the provisions of this standard will have a material impact on future operations of Alabama National.

Rescission and Amendment of Certain FASB Statements

On April 30, 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment to FASB Statement No. 13, and Technical Corrections. SFAS No. 145 relates to the recording of gains and losses from the extinguishment of debt to be classified as operating income, as opposed to previous requirements which reflected such gains and losses as extraordinary items. SFAS No. 145 is effective for fiscal years beginning on or after May 15, 2002. Alabama National adopted SFAS No. 145 on January 1, 2003. The initial adoption of this standard did not have an impact on the financial condition or results of operations of Alabama National. Management does not believe the provisions of this standard will have a material impact on future operations of Alabama National.

Accounting for Costs Associated with Exit or Disposal Activities

On July 31, 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The provisions of SFAS No. 146 are effective after December 31, 2002. Alabama National adopted SFAS No. 146 on January 1, 2003. The initial adoption of this standard did not have an impact on the financial condition or results of operations of Alabama National. Management does not believe the provisions of this standard will have a material impact on future operations of Alabama National.

Accounting for Stock-Based Compensation Transition and Disclosure

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, which amends SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. Alabama National had previously adopted all provisions of SFAS No. 123. Accordingly, the initial adoption of SFAS No. 148 did not have an impact on the financial condition or results of operations of Alabama National. Management of Alabama National does not believe the provisions of this standard will have a material impact on future operations of Alabama National.

Guarantor s Accounting and Disclosure Requirements

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34. FIN 45 clarifies the requirements of SFAS No. 5, Accounting for Contingencies, relating to the guarantor s accounting for, and disclosure of, the issuance of certain types of guarantees. The disclosure provisions of the Interpretation are effective for financial statements that end after December 31, 2002. However, the provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002, irrespective of a guarantor s year end. See Note 11 of the Consolidated Financial Statements included in this Annual Report beginning on page F-1, titled Commitments and Contingencies, for additional discussion of the Company s financial guarantees as of December 31, 2002. The initial adoption of this standard did not have an impact on the financial condition or results of operations of Alabama National. Management does not believe the provisions of this standard will have a material impact on future operations of the Company.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. FIN 46 states that if a business enterprise has a controlling financial interest in a variable interest entity, the assets, liabilities and results of the activities of the variable interest entity should be included in the consolidated financial statements of the business enterprise. This Interpretation explains how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. FIN 46 also requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Variable interest entities that effectively disperse risks will not be consolidated unless a single party holds an interest or combination of interests that effectively recombines risks that were previously dispersed. This Interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. This interpretation does not apply to securitization structures that are qualified special purpose entities (QSPE) as defined within SFAS No. 140. Alabama National has investments in entities in the form of limited partnerships that operate qualified multi-family affordable housing projects and generate tax credits. Alabama National s interest in these partnerships was $2.5 million at December 31, 2002. The assets and liabilities of these partnerships primarily consist of apartment complexes and related mortgages. Alabama National accounts for the investments under the equity method, and therefore the carrying value approximates its underlying equity in the net assets of these partnerships. As of December 31, 2002, Alabama National s maximum potential exposure to loss with respect to these partnerships is limited to Alabama National s recorded investment of $2.5 million. While Alabama National has not yet completed its assessment of these investments, it may be required to consolidate a portion of these investments effective July 1, 2003.

Impact of Inflation

Unlike most industrial companies, the assets and liabilities of financial institutions such as Alabama National and its subsidiaries are primarily monetary in nature. Therefore, interest rates have a more significant effect on Alabama National s performance than do the effects of changes in the general rate of inflation and change in prices. In addition, interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. Management seeks to manage the relationships between interest-sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those resulting from inflation. See **Interest Sensitivity and Market Risk.**

Industry Developments

Certain recently enacted and proposed legislation could have an effect on both the costs of doing business and the competitive factors facing the financial institutions industry. Alabama National is unable at this time to assess the impact of this legislation on its financial condition or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is contained in Item 7 herein under the heading **Interest Sensitivity and Market Risk.**

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements and Financial Statement Schedules of Alabama National BanCorporation and subsidiaries listed in ITEM 15 have been included in this Annual Report and should be referred to in their entirety. The Supplementary Financial Information required by Item 302 of Regulation S-K is set forth below.

SELECTED QUARTERLY FINANCIAL DATA

(Amounts in thousands, except per share data)

(Unaudited)

	2002 Quarters				2001 Quarters			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Summary of Operations:								
Interest income	$ 43,957	$ 44,592	$ 45,860	$ 43,738	$ 45,825	$ 45,207	$ 44,885	$ 43,620
Interest expense	16,880	16,293	16,394	15,746	25,486	24,054	22,344	18,509
Net interest income	27,077	28,299	29,466	27,992	20,339	21,153	22,541	25,111
Provision for loan and lease losses	1,270	1,211	2,245	3,230	593	701	919	1,733
Securities gains	30	5					91	155
Noninterest income	13,197	13,361	16,183	18,388	11,807	11,408	11,644	13,602
Noninterest expense	26,455	27,586	30,174	29,390	22,959	21,689	22,349	25,261
Net income	8,608	8,782	9,018	9,294	5,843	6,976	7,508	8,088
Dividends on common stock	3,088	3,090	3,091	3,093	2,712	2,722	2,729	2,840
Per Common Share Data:								
Book Value	$ 17.22	$ 17.92	$ 18.48	$ 18.95	$ 15.07	$ 15.44	$ 15.97	$ 16.84
Tangible book value	15.66	16.35	16.84	17.28	13.93	14.33	14.88	15.31
Net income (diluted)	0.68	0.69	0.71	0.73	0.49	0.58	0.62	0.66
Dividends declared	0.25	0.25	0.25	0.25	0.23	0.23	0.23	0.23
Balance Sheet Highlights								
At Period-End:								
Total assets	$ 2,950,062	$ 3,144,348	$ 3,229,836	$ 3,316,168	$ 2,516,285	$ 2,593,867	$ 2,653,918	$ 2,843,467
Securities(1)	599,922	656,864	627,607	700,333	410,509	428,430	470,919	567,688
Loans held for sale	20,818	20,833	48,835	51,030	27,438	21,197	17,582	36,554
Loans and leases, net of unearned income	2,011,162	2,077,078	2,170,400	2,191,394	1,725,746	1,787,168	1,829,925	1,964,169
Allowance for loan and lease losses .	29,613	30,680	32,674	32,704	22,798	23,277	23,371	28,519

Deposits	2,179,227	2,218,054	2,270,032	2,330,395	1,879,309	1,868,452	1,868,934	2,066,759
Short-term debt	91,100	72,100	77,100	152,100	33,000	30,000	34,600	68,350
Long-term debt	184,631	184,081	189,074	240,065	147,906	159,185	189,104	209,631
Stockholders' equity .	212,705	221,496	228,585	234,492	177,766	182,729	189,480	207,886

(1) Does not include trading securities.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item regarding Executive Officers is included in Part I of this Form 10-K under the caption Executive Officers of the Registrant in accordance with Instruction 3 of the Instructions to Paragraph (b) of Item 401 of Regulation S-K.

The information required by this Item regarding directors is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from Alabama National s definitive Proxy Statement for the 2003 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

ITEM 11. COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

The information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from Alabama National s definitive Proxy Statement for the 2003 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item relating to security ownership of certain beneficial owners and management is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from Alabama National s definitive Proxy Statement for the 2003 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

The following table summarizes the securities that have been authorized for issuance under Alabama National equity compensation plans categorized by those plans approved by security holders and those plans not approved by security holders.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	269,859	$ 17.28(1)	488,372(2)
Equity compensation plans not approved by security holders(3)	43,164	$ 0.00(4)	43,261(5)
Total	313,023	$ 17.28	531,633

(1) Does not include awards deferred pursuant to the Alabama National BanCorporation Plan for the Deferral of Compensation for Directors Who Are Not Employees of the Company as there is no exercise price associated with these deferred awards.

(2) Includes 333,872 shares of common stock reserved for issuance pursuant to the Alabama National BanCorporation Performance Share Plan.

(3) Does not include outstanding options to purchase 98,759 shares of Alabama National common stock granted to employees and directors of banks assumed through various mergers and acquisitions. At December 31, 2002, these assumed options had a weighted average exercise price of $20.82 per share. None of the plans assumed have options that are available for future issuance.

(4) Does not include awards deferred pursuant to the Alabama National BanCorporation Plan for the Deferral of Compensation by Non-Employee Directors of the Subsidiary Banks and the Alabama National BanCorporation Plan for the Deferral of Compensation By Key Employees as there is no exercise price associated with these deferred awards.

(5) Includes 18,261 shares of common stock reserved for issuance pursuant to the Alabama National BanCorporation Performance Share Plan for Certain Directors of Citizens & People s Bank, N.A. and 25,000 shares of common stock reserved for issuance pursuant to the Alabama National BanCorporation Performance Share Plan for Certain Members of the Madison County Advisory Board of Directors of First American Bank.

Features of the Alabama National BanCorporation Plan for the Deferral of Compensation by Non-Employee Directors of the Subsidiary Banks, the Alabama National BanCorporation Performance Share Plan for Certain Directors of Citizens and People s Bank, N.A., the Alabama National BanCorporation Performance Share Plan for Certain Members of the Madison County Advisory Board of Directors of First American Bank and the Farmers National Bank of Opelika Key Personnel Stock Option Plan are described in Note 12 of the Notes to the Consolidated Financial Statements beginning on page F-1.

The Alabama National BanCorporation Plan for the Deferral of Compensation by Key Employees and the Alabama National BanCorporation Plan for the Deferral of Compensation by Key Employees and Employee-Directors of Peoples State Bank of Groveland have generally the same features as the Alabama National BanCorporation Plan for the Deferral of Compensation by Non-Employee Directors of the Subsidiary Banks described in Note 12 of the Notes to the Consolidated Financial Statements beginning on page F-1.

Community Bank of Naples, N.A. 1996 Stock Option Plan. Alabama National assumed the Community Bank of Naples, N.A. 1996 Stock Option Plan in connection with Alabama National s acquisition of Community Bank of Naples in December 1998. Only key employees of Community Bank of Naples identified by its board of directors were eligible to participate. At the time the outstanding options were granted, the options were exercisable for common stock of Community Bank of Naples. All outstanding options were granted prior to Alabama National s acquisition of Community Bank of Naples, and options are no longer granted under the plan.

Under the plan, the exercise price of the options equaled the fair market value of Community Bank of Naples common stock at the time of the grant. Following the merger, these options became exercisable for shares of Alabama National common stock.

First American Bancorp Non-Qualified Stock Option Agreements. Alabama National assumed two First American Bancorp Non-Qualified Stock Option Agreements in connection with Alabama National s merger with First American Bancorp in November 1997. At the time the outstanding options were granted, the options were exercisable for common stock of First American Bancorp. All outstanding options were granted prior to Alabama National s merger with First American Bancorp, and options are no longer granted under the agreements. Under the agreements, the exercise price of the options equaled $14.00 per share of First American Bancorp common stock. Following the merger, these options became exercisable for shares of Alabama National common stock at an exercise price of $15.56 per share.

Community Financial Corporation 1994 Stock Option Plan and Community Financial Corporation 1996 Stock Option Plan. Alabama National assumed the Community Financial Corporation 1994 Stock Option Plan and the Community Financial Corporation 1996 Stock Option Plan in connection with Alabama National s merger with Community Financial Corporation in October 1998. At the time the outstanding options were granted, the options were exercisable for common stock of Community Financial Corporation. All outstanding options were granted prior to Alabama National s merger with Community Financial Corporation, and awards are no longer granted under the plans. Under the plans, the exercise price of the options could not be less than the fair market value of the stock into which the options were exercisable at the time of grant. Following the merger, these options became exercisable for shares of Alabama National common stock.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from Alabama National s definitive Proxy Statement for the 2003 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

ITEM 14. CONTROLS AND PROCEDURES

Within the 90 days prior to this report, Alabama National carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Alabama National s disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Alabama National s disclosure controls and procedures are effective in timely alerting them to material information relating to Alabama National that is required to be included in Alabama National s periodic Securities and Exchange Commission filings. There have been no significant changes in Alabama National s internal controls or in other factors that could significantly affect these controls subsequent to the date of this evaluation.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a)(1) and (2) and (d) **Financial Statements and Financial Statement Schedules.**

Financial Statements: The Consolidated Financial Statements of Alabama National and its subsidiaries, included herein (beginning on page F-1), are as follows:

Report of Independent Auditors PricewaterhouseCoopers LLP

Consolidated Statements of Condition December 31, 2002 and 2001

Consolidated Statements of Income Years ended December 31, 2002, 2001 and 2000

Consolidated Statements of Changes in Stockholders Equity Years ended December 31, 2002, 2001 and 2000

Consolidated Statements of Cash Flows Years ended December 31, 2002, 2001 and 2000

Notes to Consolidated Financial Statements

Financial Statement Schedules: All schedules to the consolidated financial statements required by Article 9 of Regulation S-X are inapplicable and therefore have been omitted.

(b) **Reports on Form 8-K.**

None.

(c) **Exhibits.**

The exhibits listed on the exhibit index beginning on page 59 of this Form 10-K are filed herewith or are incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this the 17th day of March, 2003.

ALABAMA NATIONAL BANCORPORATION

By: /s/ JOHN H. HOLCOMB, III

John H. Holcomb, III

Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ JOHN H. HOLCOMB, III John H. Holcomb, III	Chairman and Chief Executive Officer (principal executive officer)	March 17, 2003
/s/ VICTOR E. NICHOL, JR. Victor E. Nichol, Jr.	Vice Chairman and Director	March 17, 2003
/s/ RICHARD MURRAY, IV Richard Murray, IV	President, Chief Operating Officer and Director	March 17, 2003
/s/ WILLIAM E. MATTHEWS, V William E. Matthews, V	Executive Vice President and Chief Financial Officer	March 17, 2003
/s/ SHELLY S. WILLIAMS Shelly S. Williams	Senior Vice President and Controller (principal accounting officer)	March 17, 2003
/s/ W. RAY BARNES W. Ray Barnes	Director	March 14, 2003
/s/ T. MORRIS HACKNEY	Director	March 17, 2003

T. Morris Hackney		
/s/ JOHN D. JOHNS	Director	March 17, 2003
John D. Johns		
/s/ JOHN J. MCMAHON, JR.	Director	March 17, 2003
John J. McMahon, Jr.		

Name	Title	Date
/s/ C. Phillip McWane C. Phillip McWane	Director	March 17, 2003
/s/ G. Ruffner Page, Jr. G. Ruffner Page, Jr.	Director	March 17, 2003
/s/ W. Stancil Starnes W. Stancil Starnes	Director	March 17 2003
/s/ William D. Montgomery William D. Montgomery	Director	March 17, 2003
/s/ Dan M. David Dan M. David	Vice Chairman and Director	March 17, 2003
/s/ C. Lloyd Nix C. Lloyd Nix	Director	March 17, 2003
/s/ William E. Sexton William E. Sexton	Director	March 17, 2003
/s/ John V. Denson John V. Denson	Director	March 17, 2003

CERTIFICATION

I, John H. Holcomb, III, certify that:

1. I have reviewed this annual report on Form 10-K of Alabama National BanCorporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) Evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and

c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 17, 2003

By: /s/ JOHN H. HOLCOMB, III

John H. Holcomb, III

Chairman and Chief Executive Officer

CERTIFICATION

I, William E. Matthews, V, certify that:

1. I have reviewed this annual report on Form 10-K of Alabama National BanCorporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) Evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and

c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ WILLIAM E. MATTHEWS, V

Date: March 17, 2003

William E. Matthews, V

Executive Vice President and

Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description	Reference
3.1	Restated Certificate of Incorporation	(17)
3.2	ByLaws	(1)
10.1	Alabama National BanCorporation 1994 Stock Option Plan	(1)
10.2	Form of Stock Option Agreement utilized in connection with the 1994 Stock Option Plan	(2)
10.3	Alabama National BanCorporation Plan for the Deferral of Compensation by Non-Employee Directors of the Subsidiary Banks	(19)
10.3A	Amendment Number One to the Alabama National BanCorporation Plan for the Deferral of Compensation by Non-Employee Directors of the Subsidiary Banks	(19)
10.3B	Amendment Number Two to the Alabama National BanCorporation Plan for the Deferral of Compensation by Non-Employee Directors of the Subsidiary Banks	(19)
10.3C	Amendment Number Three to the Alabama National BanCorporation Plan for the Deferral of Compensation by Non-Employee Directors of the Subsidiary Banks.	(19)
10.4	Lease Agreement dated June 1, 2000 between Woodward Properties, LLP and NBC	(11)
10.4A	First Amendment to Lease Agreement dated December 31, 2001 between Woodward Properties, LLP and NBC	(19)
10.4B	Second Amendment to Lease Agreement dated March 1, 2002 between Woodward Properties, LLP and NBC	(19)
10.5	NBC Pension Plan (amended and restated effective January 1, 1997)	(8)
10.6	Credit Agreement between Alabama National BanCorporation and AmSouth Bank of Alabama dated as of December 29, 1995 relating to a $23,000,000 Revolving Loan	(3)
10.6A	Promissory Note between Alabama National BanCorporation and AmSouth Bank of Alabama dated as of December 29, 1995 relating to a $23,000,000 Revolving Loan	(3)
10.6B	Pledge Agreement between Alabama National BanCorporation and AmSouth Bank of Alabama dated as of December 29, 1995 relating to a $23,000,000 Revolving Loan	(3)
10.6C	First Amendment to Credit Agreement between Alabama National BanCorporation and AmSouth Bank dated February 10, 1997	(5)
10.6D	Second Amendment to Credit Agreement between Alabama National BanCorporation and AmSouth Bank dated January 19, 1998	(6)
10.6E	Third Amendment to Credit Agreement between Alabama National BanCorporation and AmSouth Bank dated June 23, 1999	(7)
10.6F	Fourth Amendment to Credit Agreement between Alabama National BanCorporation and AmSouth Bank dated June 20, 2000	(10)
10.6G	Fifth Amendment to Credit Agreement between Alabama National BanCorporation and AmSouth Bank dated May 31, 2001	(14)
10.6H	Sixth Amendment to Credit Agreement between Alabama National BanCorporation and AmSouth Bank dated May 31, 2002	(18)
10.6I	Fourth AmSouth Bank Note Modification Agreement dated May 31, 2002	(19)
10.7	Second Amendment and Restatement of the Alabama National BanCorporation Performance Share Plan	(9)

Exhibit Number	Description	Reference
10.8	Alabama National BanCorporation Deferred Compensation Plan for Directors Who Are Not Employees of the Company	(4)
10.9	Alabama National BanCorporation Plan for the Deferral of Compensation by Key Employees and Employee-Directors of Peoples State Bank of Groveland	(19)
10.10	First American Bancorp Non-Qualified Stock Option Agreement with Dan M. David dated March 7, 1997	(6)
10.11	Alabama National BanCorporation 1999 Long-Term Incentive Plan	(8)
10.11A	Amendment Number One to Alabama National BanCorporation 1999 Long-Term Incentive Plan	(19)
10.12	Agreement and Plan of Merger dated as of September 6, 2001 between Alabama National BanCorporation and Farmers National Bancshares, Inc.	(15)
10.13	Alabama National BanCorporation Employee Capital Accumulation Plan (amended and restated effective January 1, 2000)	(8)
10.14	Non-Qualified Option Agreement dated as of January 1, 2000 between John R. Bragg and Alabama National BanCorporation	(12)
10.15	Non-Qualified Option Agreement dated as of January 1, 2000 between John H. Holcomb, III and Alabama National BanCorporation	(12)
10.16	Non-Qualified Option Agreement dated as of January 1, 2000 between William E. Matthews, V and Alabama National BanCorporation	(12)
10.17	Non-Qualified Option Agreement dated as of January 1, 2000 between Richard Murray, IV and Alabama National BanCorporation	(12)
10.18	Non-Qualified Option Agreement dated as of January 1, 2000 between Dan M. David and Alabama National BanCorporation	(12)
10.19	Non-Qualified Option Agreement dated as of January 1, 2000 between Victor E. Nichol, Jr. and Alabama National BanCorporation	(12)
10.20	Non-Qualified Option Agreement dated as of January 1, 2000 between Shelly S. Williams and Alabama National BanCorporation	(12)
10.21	Employment Continuation Agreement dated as of September 21, 2000 between John R. Bragg and Alabama National BanCorporation	(12)
10.22	Employment Continuation Agreement dated as of September 21, 2000 between John H. Holcomb, III and Alabama National BanCorporation	(12)
10.23	Employment Continuation Agreement dated as of September 21, 2000 between William E. Matthews, V and Alabama National BanCorporation	(12)
10.24	Employment Continuation Agreement dated as of September 21, 2000 between Richard Murray, IV and Alabama National BanCorporation	(12)
10.25	Employment Continuation Agreement dated as of September 21, 2000 between Victor E. Nichol, Jr. and Alabama National BanCorporation	(12)
10.26	Employment Continuation Agreement dated as of September 21, 2000 between Dan M. David and Alabama National BanCorporation	(12)
10.27	Alabama National BanCorporation Plan for the Deferral of Compensation by Key Employees	(13)
10.28	The Farmers National Bank of Opelika Key Personnel Stock Option Plan, effective date October 28, 1992	(16)

Exhibit Number	Description	Reference
10.29	Second Amendment and Restatement of the Alabama National BanCorporation Annual Incentive Plan	(16)
10.30	Amended and Restated Alabama National BanCorporation Performance Share Plan for Certain Directors of Citizens and People s Bank, N.A.	(19)
10.30A	Amendment One to the Alabama National BanCorporation Amended and Restated Performance Share Plan for Certain Directors of Citizens and People s Bank N.A.	(19)
10.31	Alabama National BanCorporation Performance Share Plan for Certain Members of the Madison County Advisory Board of Directors of First American Bank	(19)
10.32	Amended and Restated Declaration of Trust among State Street Bank and Trust Company of Connecticut, N.A., Alabama National BanCorporation, and others dated December 18, 2001	(16)
10.33	Indenture dated December 18, 2001 between Alabama National BanCorporation and State Street Bank and Trust Company of Connecticut, N.A.	(16)
10.34	Guarantee Agreement dated December 18, 2001 between Alabama National BanCorporation and State Street Bank and Trust Company of Connecticut, N.A.	(16)
10.35	Amended and Restated Declaration of Trust dated December 19, 2002 among State Street Bank and Trust Company of Connecticut, N.A., Alabama National BanCorporation, and others	(19)
10.36	Indenture dated December 19, 2002 between Alabama National BanCorporation and State Street Bank and Trust Company of Connecticut, N.A	(19)
10.37	Guarantee Agreement dated December 19, 2002 between Alabama National BanCorporation and State Street Bank and Trust Company of Connecticut, N.A.	(19)
21.1	Subsidiaries of Alabama National BanCorporation	(19)
23.1	Consent of PricewaterhouseCoopers L.L.P.	(19)
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	(19)
99.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	(19)

(1) Filed as an Exhibit to Alabama National s Annual Report on Registration Statement on Form S-1 (Registration No. 33-83800) and incorporated herein by reference.

(2) Filed as an Exhibit to Alabama National s Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference.

(3) Filed as an Exhibit to Alabama National s Annual Report on Form 10-K for the year ended December 31, 1995 and incorporated herein by reference.

(4) Filed as an Exhibit to Alabama National s Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference.

(5) Filed as an Exhibit to Alabama National s Quarterly Report on Form 10-Q for the quarter ended March 31, 1997 and incorporated herein by reference.

(6) Filed as an Exhibit to Alabama National s Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.

(7) Filed as an Exhibit to Alabama National s Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference.

(8) Filed as an Exhibit to Alabama National s Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference.

(9) Filed as an Exhibit to Alabama National s Quarterly Report on Form 10-Q for the quarter ended March 31, 2000 and incorporated herein by reference.

(10) Filed as an Exhibit to Alabama National s Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 and incorporated herein by reference.

(11) Filed as an Exhibit to Alabama National s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 and incorporated herein by reference.

(12) Filed as an Exhibit to Alabama National s Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference.

(13) Filed as an Exhibit to Alabama National s Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference.

(14) Filed as an Exhibit to Alabama National s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 and incorporated herein by reference.

(15) Filed as Appendix A to Alabama National s Registration Statement on Form S-4 (Registration No. 333-71256) and incorporated herein by reference.

(16) Filed as an Exhibit to Alabama National s Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference.

(17) Filed as an Exhibit to Alabama National s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 and incorporated herein by reference.

(18) Filed as an Exhibit to Alabama National s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 and incorporated herein by reference.

(19) Filed herewith.

Alabama National BanCorporation and Subsidiaries

Consolidated Financial Statements

December 31, 2002 and 2001 and the

Three Years Ended December 31, 2002

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors

Alabama National BanCorporation

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of income, comprehensive income, stockholders equity, and cash flows present fairly, in all material respects, the financial position of Alabama National BanCorporation and its subsidiaries (the Company) at December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 1 and 3 to the consolidated financial statements, on January 1, 2002, the Company adopted Statement of Financial Accounting Standards, No. 142, *Goodwill and Other Intangible Assets.*

/s/ PRICEWATERHOUSECOOPERS LLP
Birmingham, Alabama January 15, 2003, except for Note 22 as to which

the date is January 29, 2003

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

As of December 31, 2002 and 2001

(in thousands, except share data)

	2002	2001
ASSETS		
Cash and due from banks	$ 99,561	$ 78,262
Interest-bearing deposits in other banks	12,621	10,813
Federal funds sold and securities purchased under agreements to resell	77,957	32,241
Trading securities, at fair value	1,645	1,341
Investment securities (fair value $357,812 and $234,808 for 2002 and 2001, respectively)	355,445	234,766
Securities available for sale, at fair value	344,888	332,922
Loans held for sale	51,030	36,554
Loans and leases	2,193,702	1,966,631
Unearned income	(2,308)	(2,462)
Loans and leases, net of unearned income	2,191,394	1,964,169
Allowance for loan and lease losses	(32,704)	(28,519)
Net loans and leases	2,158,690	1,935,650
Property, equipment and leasehold improvements, net	72,337	60,821
Goodwill	15,925	14,813
Other intangible assets, net	4,697	4,062
Cash surrender value of life insurance	56,146	53,171
Receivables from investment division customers	28,987	16,551
Other assets	36,239	31,500
Total assets	$ 3,316,168	$ 2,843,467
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits:		
Noninterest bearing	$ 336,172	$ 306,319
Interest bearing	1,994,223	1,760,440
Total deposits	2,330,395	2,066,759
Federal funds purchased and securities sold under agreements to repurchase	290,637	240,060
Treasury, tax and loan accounts	629	3,490
Accrued expenses and other liabilities	42,328	30,863
Payable for securities purchased for investment division customers	25,522	16,428
Short-term borrowings	152,100	68,350
Long-term debt	240,065	209,631
Total liabilities	3,081,676	2,635,581
Commitments and contingencies *(see Notes 10 and 11)*		
Stockholders equity:		

Common stock, $1 par; 27,500,000 and 17,500,000 shares authorized at December 31, 2002 and 2001, respectively; 12,424,544 shares issued at both December 31, 2002 and 2001, respectively	12,425	12,425
Additional paid-in capital	105,355	103,624
Retained earnings	115,281	92,866
Treasury stock at cost, 48,713 and 77,476 shares at December 31, 2002 and 2001, respectively	(1,312)	(2,087)
Accumulated other comprehensive income, net of tax	2,743	1,058
Total stockholders equity	234,492	207,886
Total liabilities and stockholders equity	$ 3,316,168	$ 2,843,467

The accompanying notes are an integral part of these consolidated financial statements.

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2002, 2001 and 2000

(in thousands, except share data)

	2002	2001	2000
Interest income:			
Interest and fees on loans	$ 143,498	$ 147,922	$ 143,664
Interest on securities	33,660	29,055	24,499
Interest on deposits in other banks	165	510	214
Interest on trading securities	81	119	124
Interest on federal funds sold	743	1,931	2,721
Total interest income	178,147	179,537	171,222
Interest expense:			
Interest on deposits	49,772	71,412	71,570
Interest on federal funds purchased	4,187	8,696	9,305
Interest on short-term borrowings	2,246	1,842	4,518
Interest on long-term borrowings	9,108	8,443	5,594
Total interest expense	65,313	90,393	90,987
Net interest income	112,834	89,144	80,235
Provision for loan and lease losses	7,956	3,946	2,506
Net interest income after provision for loan and lease losses	104,878	85,198	77,729
Non interest income:			
Service charges on deposit accounts	12,081	9,497	8,304
Investment services income	13,576	13,717	5,867
Securities brokerage and trust income	13,590	8,800	7,692
Gain on origination and sale of mortgages	10,860	7,431	3,531
Insurance commissions	2,837	2,126	2,099
Bank owned life insurance	3,018	2,412	2,080
Securities gains (losses)	35	246	(119)
Other	5,167	4,478	3,893
Total noninterest income	61,164	48,707	33,347
Non interest expense:			
Salaries and employee benefits	57,687	45,329	39,017
Commission based compensation	16,498	12,868	5,566
Occupancy and equipment expense, net	11,603	9,722	8,906
Amortization of intangibles	832	1,145	879
Other	26,957	23,169	19,743
Total noninterest expense	113,577	92,233	74,111
Income before provision for income taxes and minority interest in earnings of consolidated subsidiaries	52,465	41,672	36,965

Provision for income taxes	16,735	13,232	11,421
Income before minority interest in earnings of consolidated subsidiaries	35,730	28,440	25,544
Minority interest in earnings of consolidated subsidiaries	28	25	26
Net income available for common shares	$ 35,702	$ 28,415	$ 25,518
Weighted average common shares outstanding:			
Basic	12,361	11,853	11,792
Diluted	12,683	12,141	11,973
Earnings per common share:			
Basic	$ 2.89	$ 2.40	$ 2.16
Diluted	$ 2.81	$ 2.34	$ 2.13

The accompanying notes are an integral part of these consolidated financial statements.

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2002, 2001 and 2000

(in thousands)

	2002	2001	2000
Net income	$ 35,702	$ 28,415	$ 25,518
Other comprehensive income:			
Unrealized gains on securities available for sale arising during the period	2,615	3,100	8,897
Less: Reclassification adjustment for net gains (losses) included in net income	35	246	(119)
Other comprehensive income, before taxes	2,580	2,854	9,016
Provision for income taxes related to items of other comprehensive income	895	982	3,048
Other comprehensive income	1,685	1,872	5,968
Comprehensive income	$ 37,387	$ 30,287	$ 31,486

The accompanying notes are an integral part of these consolidated financial statements.

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

For the Years Ended December 31, 2002, 2001 and 2000

(in thousands, except share data)

	Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss) Net of Taxes	Total Equity
Balance, December 31, 1999	11,921,628	$ 11,922	$ 82,056	$ 62,310	$ (3,226)	$ (6,782)	$ 146,280
Net income				25,518			25,518
Common stock dividends declared ($0.84 per share)				(9,664)			(9,664)
Exercise of stock options				(348)	383		35
Stock based compensation			4,059	(4)			4,055
Purchase of treasury stock at cost					(588)		(588)
Change in unrealized gains on available for sale securities, net of taxes						5,968	5,968
Balance, December 31, 2000	11,921,628	11,922	86,115	77,812	(3,431)	(814)	171,604
Net income				28,415			28,415
Common stock dividends declared ($0.92 per share)				(11,003)			(11,003)
Issuance of stock in purchase business combinations	502,916	503	15,729				16,232
Cash in lieu of fractional shares and other			(10)				(10)
Exercise of stock options and issuance of shares related to deferred compensation plans			667	(2,302)	2,007		372
Stock based compensation			1,123	(56)			1,067
Purchase of treasury stock at cost					(663)		(663)
Change in unrealized gains on available for sale securities, net of taxes						1,872	1,872
Balance, December 31, 2001	12,424,544	12,425	103,624	92,866	(2,087)	1,058	207,886
Net income				35,702			35,702
Common stock dividends declared ($1.00 per share)				(12,362)			(12,362)
Exercise of stock options and issuance of shares related to deferred compensation plans			271	(841)	775		205
Stock based compensation			1,460	(84)			1,376
Change in unrealized gains on available for sale securities, net of taxes						1,685	1,685
Balance, December 31, 2002	12,424,544	$ 12,425	$ 105,355	$ 115,281	$ (1,312)	$ 2,743	$ 234,492

The accompanying notes are an integral part of these consolidated financial statements.

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2002, 2001 and 2000

(in thousands)

	2002	2001	2000
Cash flows from operating activities:			
Net income	$ 35,702	$ 28,415	$ 25,518
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	7,956	3,946	2,506
Deferred tax provision	2,963	2,540	2,407
Depreciation and amortization	5,797	5,396	4,757
Loss on disposal of property and equipment	16	5	3
Securities (gains) losses	(35)	(246)	119
(Gain) loss on disposal of other real estate	(572)	(12)	7
Write-down of other real estate owned	374	249	14
Income earned on bank owned life insurance	(3,018)	(2,412)	(2,080)
Stock based compensation	1,453	1,103	1,425
Net amortization of securities	(350)	(323)	(75)
Net (increase) decrease in trading securities	(304)	(764)	2,124
Minority interest in earnings of consolidated subsidiaries	28	25	26
(Increase) decrease in other assets	(22,683)	(1,142)	11,988
Increase (decrease) in other liabilities	20,803	9,310	(22,638)
Other		(19)	(31)
Net cash provided by operating activities	48,130	46,071	26,070
Cash flows from investing activities:			
Purchases of investment securities	(401,806)	(242,211)	(50,028)
Proceeds from calls and maturities of investment securities	281,357	70,348	8,887
Purchases of securities available for sale	(552,999)	(382,780)	(118,734)
Proceeds from sales of securities available for sale	15,508	25,001	4,870
Proceeds from calls and maturities of securities available for sale	528,260	397,444	131,855
Net increase in interest-bearing deposits in other banks	(1,808)	(3,183)	(615)
Net (increase) decrease in federal funds sold and securities purchased under agreements to resell	(45,716)	22,743	5,556
Net increase in loans	(248,346)	(185,686)	(236,904)
Purchases of property, equipment and leasehold improvements	(16,000)	(8,898)	(9,087)
Proceeds from sale of property, equipment and leasehold improvements	88	57	5
Proceeds from sale of other real estate owned	2,436	3,205	741
Costs capitalized on other real estate owned	(284)	(180)	(48)
Cash paid for bank owned life insurance		(1,986)	(9,258)
Net cash (paid) acquired in purchase acquisitions	(551)	7,062	(19,042)
Net cash used in investing activities	(439,861)	(299,064)	(291,802)

The accompanying notes are an integral part of these consolidated financial statements.

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

(in thousands)

	2002	2001	2000
Cash flows from financing activities:			
Net increase in deposits	263,636	84,177	223,828
Increase in federal funds purchased and securities sold under agreements to repurchase	50,577	73,480	34,846
Net increase (decrease) in short-term borrowings and capital leases	80,889	(20,499)	59,751
Proceeds from long-term debt	55,984	125,705	42,921
Repayments of long-term debt	(25,550)		(83,000)
Dividends on common stock	(12,362)	(11,003)	(9,668)
Purchase of treasury stock		(663)	(588)
Other	(144)	(418)	63
Net cash provided by financing activities	413,030	250,779	268,153
Increase (decrease) in cash and cash equivalents	21,299	(2,214)	2,421
Cash and cash equivalents, beginning of year	78,262	80,476	78,055
Cash and cash equivalents, end of year	$ 99,561	$ 78,262	$ 80,476
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 66,851	$ 92,699	$ 86,658
Cash paid for income taxes	$ 15,169	$ 9,796	$ 11,495
Supplemental schedule of noncash investing activities:			
Foreclosure of other real estate owned	$ 2,874	$ 2,465	$ 1,267
Transfer of property to other real estate owned	$	$ 465	
Increase in unrealized holding gains on securities available for sale	$ (1,685)	$ (1,872)	$ (5,968)
Assets acquired and liabilities assumed in merger transactions (Note 2):			
Assets acquired in business combinations	$	$ 188,443	$ 73,659
Liabilities assumed in business combinations	$	$ 177,479	$ 54,361

The accompanying notes are an integral part of these consolidated financial statements.

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2002, 2001 and 2000

1. Nature of Business and Summary of Significant Accounting Policies

Alabama National BanCorporation and Subsidiaries (the Company) provides a full range of banking and bank-related services to individual and corporate customers through its eleven subsidiary banks located in Alabama, Georgia, and Florida.

Basis of Presentation and Principles of Consolidation The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America and with general financial services industry practices. The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the statement of condition dates and revenues and expenses for the periods shown. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan and lease losses, valuation of goodwill, other intangible assets and related impairment analyses, benefit plan obligations and expenses and income tax assets and liabilities.

Cash and Cash Equivalents For purposes of reporting cash flows, cash and cash equivalents include cash on hand and due from banks.

Securities Investment securities are stated at amortized cost as a result of management s ability and intent to hold the securities until maturity. Premiums and discounts are amortized/accreted using the effective interest method.

Securities available for sale are those securities intended to be held for an indefinite period of time. The Company may sell these securities as part of its asset/liability strategy in response to changes in interest rates, changes in prepayment risk, or similar factors. Securities available for sale are recorded at fair value. Unrealized holding gains and losses on securities classified as available for sale are carried as a separate component of stockholders equity, net of taxes.

Trading securities, principally obligations of U.S. government agencies, are securities held for sale and are stated at fair value. Bond purchases and sales are recorded on the trade date. Accounts receivable from and accounts payable to bond customers represent security transactions entered into for which the securities have not been delivered as of the statement of condition dates. Unrealized holding gains and losses on securities classified as trading are reported in earnings during the period in which they occur.

Gains and losses on the sale of securities are computed using the specific identification method.

Loans and Leases Interest income with respect to loans is recognized when earned. Loans are reported at their outstanding principal balances net of any unearned income, charge-offs, and unamortized deferred fees and costs. Loan origination fees and costs are deferred and recognized as adjustments to income over the life of the related loans. Unearned income is amortized to income using the interest method.

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

The Company provides equipment financing to its customers through a variety of lease arrangements. Leases are carried at the aggregate of lease payments received plus estimated residual value of the leased property, less unearned income.

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan s effective interest rate, or as a practical expedient, at the loan s observable market price or the fair value of the collateral if the loan is collateral-dependent. When the fair value of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a specific reserve allocation which is a component of the allowance for loan and lease losses.

Allowance for Loan and Lease Losses The allowance for loan and lease losses is established through a provision for loan and lease losses charged to expense. Loans and leases are charged against the allowance for loan and lease losses when management believes the collection of principal is unlikely. The allowance is management s estimate of probable inherent losses on existing loans and leases, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific loans and leases, and current economic conditions which may affect the borrower s ability to pay. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower s financial condition is such that the collection of interest is doubtful. Payments received on such loans are applied first to principal until the recoverability of the obligation is assured. Any remaining payments are then allocated as additional reductions of principal and interest income.

Property, Equipment, and Leasehold Improvements Property, equipment, and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation is principally computed using the straight-line method over the estimated useful life of each type of asset. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful lives of the improvements or the terms of the related leases. Maintenance and repairs are expensed as incurred; improvements and betterments are capitalized. When items are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any resulting gains or losses are credited or charged to income.

Other Real Estate Other real estate, primarily property acquired by foreclosure, is recorded at the fair value less estimated selling costs. Other real estate is not depreciated. Losses, representing the difference between the sales price and the carrying value of the property, are recorded on the date of the sale, while gains on sales financed by the Company are deferred until the initial and continuing investment by the borrower equals or exceeds specified levels. Gains on all other sales are recorded when realized. Other real estate at December 31, 2002 and 2001 totaled $2,569,000 and $1,680,000, respectively.

Other Intangible Assets Other intangible assets relate to core deposits and insurance customer lists. Other intangibles are amortized over a period based on the expected life of the intangible, generally five to ten years, using either the straight-line or accelerated methods of amortization.

Goodwill The adoption of Statement of Financial Accounting Standards (SFAS) No. 142 resulted in the Company no longer amortizing goodwill. Prior to 2002, goodwill was amortized over periods ranging from 15 to 25 years. After January 1, 2002, the Company tests goodwill for impairment at least annually. There has been no impairment resulting from impairment tests. See Recently Issued Accounting Standards later in this Note for the effect of the Financial Accounting Standards Board s (FASB) recently issued SFAS No. 141, *Business Combinations*, SFAS No. 142, *Goodwill and Other Intangible Assets* and SFAS No. 147, *Acquisitions of Certain Financial Institutions* and the effect these statements have on intangible assets.

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

Software Costs Software costs, which primarily represent costs to acquire third party software packages, have a recorded cost of approximately $5,211,000 and $3,491,000 and related accumulated amortization of approximately $3,307,000 and $2,566,000 are included in other assets at December 31, 2002 and 2001, respectively. Amortization expense related to software costs totaled approximately $421,000, $338,000, and $291,000 during 2002, 2001, and 2000, respectively.

Income Taxes There are two components of income tax expense: current and deferred. Current income tax expense reflects cash to be paid for taxes for the applicable period. Deferred income taxes are recognized due to temporary differences between the financial reporting basis and the income tax basis of assets and liabilities. Recognition of deferred tax assets is based on management s belief that it is more likely than not that the tax benefit associated with certain temporary differences, tax operating loss carryforwards and tax credits will be realized. A valuation allowance is recorded for the amount of the deferred tax items for which it is more likely than not that realization will not occur.

Stock-Based Employee Compensation The Company uses a fair value-based method of accounting for compensation costs. Compensation cost for stock-based employee compensation arrangements is measured at the grant date based on the value of the award and is recognized over the related service period. The Company has fully adopted and implemented the expense recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation,* and has recorded compensation costs in accordance with these provisions. As such, there are no additional pro forma expenses or disclosure requirements. As discussed further under Recently Issued Accounting Standards, the issuance of SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosures,* did not have an impact on the financial condition or results of operations of the Company.

Advertising Costs The Company expenses the costs of advertising when those costs are incurred.

Collateral Requirements The Company requires collateral for certain transactions with retail and commercial customers. Specifically, margin loans made for the purpose of borrowing against marketable investment securities generally do not exceed 50% of the total market value of a customer s marginable securities portfolio at the time of the transaction and no more than 70% at anytime thereafter. Repurchase agreements, limited to commercial customers and correspondent banks, generally do not exceed the market value of securities used to secure such transactions at the time of the transaction or thereafter. Federal funds sold are made to correspondent banks on an unsecured basis and generally do not exceed limits established for each bank resulting from evaluation of the bank s financial position.

Reclassifications Certain reclassifications have been made to the prior year financial statements to conform with the 2002 presentation.

Recently Issued Accounting Standards In June 2001, the FASB issued SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets.* SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Pooling-of-interests business combinations initiated prior to June 30, 2001 were grandfathered. SFAS No. 142 requires that goodwill and other intangible assets with indefinite useful lives no longer be amortized, but instead an entity must perform an assessment of whether these assets are impaired as of the date of adoption and test for impairment at least annually in accordance with the provisions of SFAS No. 142. The new standard also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives and reviewed annually for impairment. The Company adopted the provisions of SFAS No. 141 on July 1, 2001 and SFAS No. 142 effective January 1, 2002. See Note 3, Goodwill and Other Acquired Intangible Assets for additional discussion of the Company s intangible assets.

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

In October 2002, the FASB issued SFAS No. 147, Acquisitions of Certain Financial Institutions. SFAS No. 147 addresses the treatment of goodwill related to branch acquisitions. SFAS No. 147 requires that goodwill meeting certain criteria be accounted for under SFAS No. 142. The initial adoption of this standard did not have an impact on the financial condition or results of operations of the Company.

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 applies to legal obligations associated with the retirement of tangible long-lived assets. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company adopted SFAS No. 143 on January 1, 2003. The initial adoption of this standard did not have an impact on the financial condition or results of operations of the Company. Management does not believe the provisions of this standard will have a material impact on future operations of the Company.

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment to FASB Statement No. 13, and Technical Corrections.* SFAS No. 145 relates to the recording of gains and losses from the extinguishment of debt to be classified as operating income, as opposed to previous requirements which reflected such gains and losses as extraordinary items. SFAS No. 145 is effective for fiscal years beginning on or after May 15, 2002. The Company adopted SFAS No. 145 on January 1, 2003. The initial adoption of this standard did not have an impact on the financial condition or results of operations of the Company. Management does not believe the provisions of this standard will have a material impact on future operations of the Company.

In July 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.* SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The provisions of SFAS No. 146 are effective after December 31, 2002. The Company adopted SFAS No. 146 on January 1, 2003. The initial adoption of this standard did not have an impact on the financial condition or results of operations of the Company. Management does not believe the provisions of this standard will have a material impact on future operations of the Company.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, which amends SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. The Company had previously adopted the expense recognition provisions of SFAS No. 123. Accordingly, the adoption of SFAS No. 148 did not have an impact on the financial condition or results of operations of the Company.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34.* FIN 45 clarifies the requirements of SFAS No. 5, *Accounting for Contingencies*, relating to the guarantor s accounting for, and disclosure of, the issuance of certain types of guarantees. The disclosure provisions of the Interpretation are effective for financial statements that end after December 31, 2002. However, the provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002, irrespective of a guarantor s year end. See Note 11, Commitments and Contingencies for additional discussion of the Company s financial guarantees as of December 31, 2002. The initial adoption of this standard did not have an impact on the financial condition or results of operations of the Company. Management does not believe the provisions of this standard will have a material impact on future operations of the Company.

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NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities.* FIN 46 states that if a business enterprise has a controlling financial interest in a variable interest entity, the assets, liabilities and results of the activities of the variable interest entity should be included in the consolidated financial statements of the business enterprise. This Interpretation explains how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. FIN 46 also requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Variable interest entities that effectively disperse risks will not be consolidated unless a single party holds an interest or combination of interests that effectively recombines risks that were previously dispersed. This Interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. This interpretation does not apply to securitization structures that are qualified special purpose entities (QSPE s) as defined within SFAS No. 140. The Company has investments in entities in the form of limited partnerships that operate qualified multi-family affordable housing projects and generate tax credits. The Company s interest in these partnerships was $2,548,000 at December 31, 2002. The assets and liabilities of these partnerships primarily consist of apartment complexes and related mortgages. The Company accounts for the investments under the equity method, and therefore, the Company s carrying value approximates its underlying equity in the net assets of the partnerships. As of December 31, 2002, the Company s maximum potential exposure to loss with respect to these partnerships is limited to the Company s recorded investment of $2,548,000. While the Company has not yet completed its assessment of these investments, the Company may be required to consolidate a portion of these investments effective July 1, 2003.

2. Business Combinations

During 2002, the Company acquired two small insurance agencies in business combinations accounted for under the purchase method. The total acquisition price was approximately $1,453,000 and was allocated to an insurance customer list intangible asset. The insurance customer list intangible asset is being amortized on a straight-line basis over five years.

On December 14, 2001, the Company acquired Farmers National BancShares, Inc. (Farmers) in a business combination accounted for under the purchase method. The Company issued approximately 550,000 shares of common stock and common stock equivalents to existing Farmers shareholders at an exchange ratio of 0.53125 shares of the Company s common stock for each share of Farmers stock. Subsequent to the completion of the acquisition, the operations of Farmers, which had total assets of approximately $188 million at the date of acquisition, were merged into First American Bank, a subsidiary of the Company.

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Cash	$	8,153
Securities		46,058
Federal funds sold and securities purchased under agreements to resell		24,724
Net loans		99,203
Other assets		10,305
Goodwill		6,175
Core deposit intangible		1,184
Total assets acquired		195,802
Deposits		175,486
Other liabilities		2,993
Total liabilities assumed		178,479
Net assets acquired	$	17,323

The acquisition of Farmers resulted in the recognition of $7,359,000 of intangible assets. The Company allocated $1,184,000 of the total intangible to core deposits. This allocation was based upon the Company s valuation of the core deposits of Farmers. Factors considered in the valuation included: (1) the rate and maturity structure of Farmers interest-bearing liabilities (2) estimated retention rates for each deposit liability category and (3) the current interest rate environment. The core deposit intangible created is being amortized on a straight-line basis over seven years. The remaining intangible was allocated to goodwill.

On January 31, 2001, the Company completed the acquisition of Peoples State Bank of Groveland, Florida (Peoples) in a transaction accounted for as a pooling of interests. The Company issued approximately 735,000 shares of its common stock to existing Peoples shareholders at an exchange ratio of 1.164 shares of the Company s common stock for each share of Peoples stock. Peoples had assets of approximately $123 million at the date of acquisition. Pursuant to pooling of interests accounting treatment, the financial statements for all periods presented have been restated to reflect the results of operations of the companies on a combined basis from the earliest period presented, except for dividends per share.

On August 4, 2000, First American Bank, a subsidiary of the Company, completed the acquisition of two banking branches in Madison and Huntsville, Alabama. The acquisition increased loans and deposits by approximately $68.9 million and $54.0 million, respectively. The acquisition was accounted for as a purchase transaction. The acquisition of these two banking branches resulted in the recognition of $4,497,000 of intangible assets. The Company allocated $2,161,000 of the intangible to core deposits, which is being amortized on an accelerated basis over 10 years. The remaining intangible of $2,336,000 was allocated to goodwill.

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

3. Goodwill and Other Acquired Intangible Assets

The changes in the carrying amounts of goodwill attributable to each of the Company s operating segments for the years ended December 31, 2002 and 2001 are as follows (in thousands):

	Retail and Commercial Banking	Insurance Division
Balance, January 1, 2001	$ 8,002	$ 2,840
Acquired goodwill	4,489	
Amortization expense	(371)	(147)
Balance, December 31, 2001	12,120	2,693
Other goodwill additions	1,112	
Balance, December 31, 2002	$ 13,232	$ 2,693

During the year ended December 31, 2002, goodwill increased $1.1 million within the retail and commercial banking reporting unit due to items related to the December 2001 acquisition of Farmers.

Each segment was tested for impairment on January 1, 2002, when the Company initially adopted SFAS No. 142 and on December 31, 2002. The fair value of each reporting unit was estimated using the present value of expected future cash flows. The impairment test indicated that no impairment charge was required at either test date.

Intangible assets as of December 31, 2002 and 2001 are detailed in the following table (in thousands):

	As of December 31, 2002		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value

Amortizing intangible assets:			
Core deposit intangibles	$ 6,970	$ (3,591)	$ 3,379
Other customer intangibles	1,453	(135)	1,318
Total amortizing intangible assets	$ 8,423	$ (3,726)	$ 4,697

	As of December 31, 2001		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Value**
Amortizing intangible assets:			
Core deposit intangibles	$ 6,970	$ (2,908)	$ 4,062

During the year ended December 31, 2002, the Company recognized no amortization expense related to goodwill, and recognized $518,000 and $501,000 of goodwill amortization expense in the years ended December 31, 2001 and 2000, respectively. The Company recognized $832,000, $627,000 and $378,000 of other intangible amortization expense for the years ended December 31, 2002, 2001 and 2000, respectively. Aggregate amortization expense for the years ending December 31, 2003 through December 31, 2007 is estimated to be $913,000, $863,000, $822,000, $801,000 and $628,000, respectively.

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

The following table presents actual results and adjusted net income and adjusted earnings per share, assuming the nonamortization provisions of SFAS No. 142 were effective at the beginning of the periods presented (in thousands, except per share data):

	For the Year Ended December 31,		
	2002	**2001**	**2000**
Net income:			
Reported net income	$ 35,702	28,415	25,518
Add back:			
Goodwill amortization, net of taxes		487	478
Net income excluding goodwill amortization, net of taxes	$ 35,702	$ 28,902	$ 25,996
Basic net income per common share:			
Reported net income	$ 2.89	$ 2.40	$ 2.16
Add back:			
Goodwill amortization, net of taxes		.04	.04
Net income excluding goodwill amortization, net of taxes	$ 2.89	$ 2.44	$ 2.20
Weighted average shares outstanding (basic)	12,361	11,853	11,792
Diluted net income per common share:			
Reported net income	$ 2.81	$ 2.34	$ 2.13
Add back:			
Goodwill amortization, net of taxes		.04	.04
Net income excluding goodwill amortization, net of taxes	$ 2.81	$ 2.38	$ 2.17
Weighted average shares outstanding (diluted)	12,683	12,141	11,973

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

4. Securities

The amortized costs and estimated market values of investment securities (carried at amortized cost) and securities available for sale (carried at market value) are as follows (in thousands):

	December 31, 2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Investment securities:				
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 42,211	$ 14	$	$ 42,225
Obligations of states and political subdivisions	3,704	132		3,836
Mortgage-backed securities issued or guaranteed by U.S. government agencies	309,530	2,225	4	311,751
Totals	$ 355,445	$ 2,371	$ 4	$ 357,812
Securities available for sale:				
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 100,211	$ 938	$	$ 101,149
Obligations of states and political subdivisions	30,754	1,304	23	32,035
Mortgage-backed securities issued or guaranteed by U.S. government agencies	190,169	2,110	122	192,157
Equity securities	19,547			19,547
Totals	$ 340,681	$ 4,352	$ 145	$ 344,888

	December 31, 2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Investment securities:				
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 2,252	$ 81	$ 6	$ 2,327
Obligations of states and political subdivisions	6,460	144		6,604
Mortgage-backed securities issued or guaranteed by U.S. government agencies	226,054	270	447	225,877

Totals	$ 234,766	$ 495	$ 453	$ 234,808
Securities available for sale:				
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 26,451	$ 866	$ 12	$ 27,305
Obligations of states and political subdivisions	28,606	409	12	29,003
Mortgage-backed securities issued or guaranteed by U.S. government agencies	259,761	818	365	260,214
Equity securities	16,477		77	16,400
Totals	$ 331,295	$ 2,093	$ 466	$ 332,922

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

Maturities of securities at December 31, 2002 are summarized as follows (in thousands):

	Investment Securities		Available for Sale	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in one year or less	$ 630	$ 630	$ 5,468	$ 5,492
Due after one year through five years	44,532	44,628	92,638	93,955
Due after five years through ten years	753	803	26,837	27,427
Due after ten years			6,022	6,310
Mortgage-backed securities	309,530	311,751	190,169	192,157
Equity securities			19,547	19,547
Totals	$ 355,445	$ 357,812	$ 340,681	$ 344,888

Gross gains of $35,000, $246,000 and $1,000 were realized on the sale of securities during 2002, 2001 and 2000, respectively, and there were gross realized losses of $120,000 during 2000.

Equity securities are comprised primarily of Federal Home Loan Bank and Federal Reserve Bank stock. These holdings are required under regulatory guidelines.

5. Loans and Leases

Major classifications of loans and leases at December 31, 2002 and 2001 are summarized as follows (in thousands):

	2002	2001
Commercial, financial, and agricultural	$ 253,569	$ 247,613
Real estate:		
Construction	311,259	231,369
Mortgage residential	616,651	546,730

Mortgage commercial	699,403	637,575
Mortgage other	5,672	5,645
Consumer	78,342	82,909
Lease financing receivables	80,113	73,924
Securities brokerage margin loans	14,502	16,302
Other	134,191	124,564
Gross loans	2,193,702	1,966,631
Less unearned income	(2,308)	(2,462)
Loans, net of unearned income	2,191,394	1,964,169
Less allowance for loan losses	(32,704)	(28,519)
Net loans	$ 2,158,690	$ 1,935,650

In the normal course of business, loans are made to directors, officers, and their affiliates. Such loans are made on substantially the same terms as to other customers of the banks. The aggregate of such loans was $63,250,000 and $45,685,000 at December 31, 2002 and 2001, respectively. During 2002 and 2001, new loans of $47,130,000 and $25,120,000 were funded and repayments totaled $29,565,000 and $36,701,000, respectively.

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

Loans on which the accrual of interest has been discontinued or reduced amounted to approximately $10,282,000 and $7,563,000 at December 31, 2002 and 2001, respectively. If these loans had been current throughout their terms, gross interest income for the years ended December 31, 2002 and 2001, respectively, would have increased by approximately $540,000 and $406,000.

At December 31, 2002 and 2001, the recorded net investment in loans for which impairment has been recognized totaled $10,282,000 and $7,563,000, respectively. Management of the Company believes that the value of these impaired loans on the Company s books is less than the recoverable value of the loans. The Company did not recognize any material interest income on impaired loans during the portion of the year that they were impaired. The impaired loans at December 31, 2002 and 2001 were measured for impairment primarily using the fair value of the collateral. The average investment on these loans for the years ended December 31, 2002 and 2001 amounted to $7,981,000 and $5,517,000, respectively.

The Company grants real estate, commercial, and consumer loans to customers primarily in Alabama, Georgia, and Florida. Although the Company has a diversified loan portfolio, significant concentrations include loans collateralized by improved and undeveloped commercial and residential real estate.

6. Allowance for Loan and Lease Losses

A summary of the allowance for loan and lease losses for the years ended December 31, 2002, 2001 and 2000 is as follows (in thousands):

	2002	2001	2000
Balance, beginning of year	$ 28,519	$ 22,368	$ 19,111
Loans charged off	(6,236)	(3,359)	(1,426)
Recoveries	2,465	1,692	777
Net charge-offs	(3,771)	(1,667)	(649)
Provision charged to operations	7,956	3,946	2,506
Additions to allowance through acquisition		3,872	1,400
Balance, end of year	$ 32,704	$ 28,519	$ 22,368

7. Property, Equipment, and Leasehold Improvements

Major classifications of property, equipment, and leasehold improvements at December 31, 2002 and 2001 are summarized as follows (in thousands):

	Estimated Useful Lives	2002	2001
Land		$ 19,365	$ 16,951
Buildings and improvements	5 45 years	43,678	38,663
Leasehold improvements	10 30 years	7,334	6,606
Furniture, equipment, and vault	3 30 years	38,733	33,163
Construction in progress		4,369	2,939
		113,479	98,322
Less accumulated depreciation and amortization		(41,142)	(37,501)
Property, equipment, and leasehold improvements, net		$ 72,337	$ 60,821

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

8. Deposits

Deposits at December 31, 2002 and 2001 are summarized as follows (in thousands):

	2002	2001
Demand deposit accounts	$ 336,172	$ 306,319
NOW accounts	476,721	384,355
Savings and money market accounts	378,361	373,309
Time deposits less than $100,000	635,827	668,819
Time deposits of $100,000 or more	503,314	333,957
Total deposits	$ 2,330,395	$ 2,066,759

At December 31, 2002, the scheduled maturities of certificates of deposit were as follows (in thousands):

2003	$ 854,391
2004	177,945
2005	47,660
2006	17,170
2007	40,577
Thereafter	1,398
Total	$ 1,139,141

Certain directors of the Company, including their families and affiliated companies, are deposit customers. Total deposits of these persons at December 31, 2002 and 2001 were approximately $31,157,000 and $31,033,000, respectively.

9. Short and Long-Term Borrowings

Short-term borrowings are summarized as follows (in thousands):

	2002	2001
Note payable to third-party bank under secured master note agreement; rate varies with LIBOR and was 2.16938% and 2.68125% at December 31, 2002 and 2001, respectively; collateralized by the Company s stock in subsidiary banks. Matures on May 31, 2003	$ 19,100	$ 16,350
FHLB open ended notes payable; rate varies daily based on the FHLB Daily Rate Credit interest price and was 1.30% and 1.83% at December 31, 2002 and 2001, respectively; collateralized by FHLB stock and certain first real estate mortgages	93,000	5,000
FHLB borrowings due at various maturities ranging from February 11, 2003 through December 3, 2003 at December 31, 2002; at December 31, 2001, maturities ranged from May 31, 2002 to December 31, 2002; bearing interest at fixed and variable rates ranging from 1.93% to 4.74% at December 31, 2002 and ranging from 2.17% to 2.53% at December 31, 2001; collateralized by FHLB stock and certain first real estate mortgages	40,000	47,000
Total short-term borrowings	$ 152,100	$ 68,350

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NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

Long-term borrowings are summarized as follows (in thousands):

	2002	2001
FHLB borrowings due at various maturities ranging from February 2, 2004 through October 23, 2012 at December 31, 2002; at December 31, 2001, maturities ranged from February 11, 2003 to November 7, 2011; bearing interest at fixed rates ranging from 1.175% to 6.00% at December 31, 2002 and bearing interest ranging from 3.31% to 6.00% at December 31, 2001; convertible at the option of the FHLB at dates ranging from January 7, 2003 to November 7, 2006; collateralized by FHLB stock and certain first real estate mortgages	$ 215,000	$ 194,000
Trust preferred securities due December 18, 2031; rate varies with LIBOR and was 5.01% and 5.60% at December 31, 2002 and 2001, respectively	15,000	15,000
Trust preferred securities due December 19, 2032; rate varies with LIBOR and was 4.66% at December 31, 2002	10,000	
Various notes payable and capital leases payable	65	631
Total long-term debt	$ 240,065	$ 209,631

Certain of the amounts are callable at the option of the FHLB at dates earlier than the stated maturities.

Aggregate maturities of long-term debt are as follows for fiscal years (in thousands):

2003	$ 32
2004	10,025
2005	10,008
2006	
2007	25,000
Thereafter	195,000
	$ 240,065

The note payable to a third-party bank at December 31, 2002 is payable in full on May 31, 2003. Maximum borrowing under the secured master note agreement is $35,000,000 and interest is payable quarterly.

At December 31, 2002, the Company has approximately $223,970,000 of unused available credit with the FHLB in addition to the approximately $348,000,000 above, approximately $15,900,000 of available credit with a regional financial institution, and federal funds lines of approximately $144,500,000 with various correspondent banks, of which approximately $99,100,000 remains available.

The Company has also pledged approximately $59,778,000 in loans to the Federal Reserve Bank of Atlanta as collateral for a discount window credit facility. At December 31, 2002, the Company had access to approximately $48,622,000 under this facility, with no outstanding borrowings.

The FHLB has a blanket lien on the Company s 1-4 family mortgage loans in the amount of the outstanding FHLB borrowings. In addition to the blanket lien on the Company s 1-4 family mortgage loans, the Company has pledged available for sale securities as collateral for the outstanding debt. These securities had a carrying value of $17,432,000 at December 31, 2002.

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

Additional details regarding short-term borrowings are shown below (in thousands):

	2002	2001	2000
Average amount outstanding during the year	$ 77,936	$ 41,587	$ 63,139
Maximum amount outstanding at any month end	$ 152,100	$ 97,100	$ 94,389
Weighted average interest rate:			
During year	2.86%	4.33%	6.97%
End of year	2.03%	2.28%	6.32%

10. Operating and Capital Leases

One of the Company s subsidiary banks leases its main office building from a partnership, which is partially owned by certain directors and stockholders of the Company, under a noncancelable operating lease expiring in 2020. Rent expense under the terms of this related party lease was $975,000, $1,004,000 and $999,000, respectively, during 2002, 2001 and 2000. Leases classified as capital leases include branch offices with a net book value of approximately $35,000 at December 31, 2002. Additionally, several subsidiary banks lease branch offices and equipment under operating leases.

Minimum future rental payments for the capital and operating leases are as follows (in thousands):

	Capital Leases	Operating Leases
2003	$ 27	$ 1,926
2004	27	1,804
2005	9	1,782
2006		1,674
2007		1,584
Thereafter		16,526
Total minimum payments	63	$ 25,296
Less amount representing interest	7	
Net capital lease obligation	$ 56	

Rent expense charged to operations under operating lease agreements for the years ended December 31, 2002, 2001, and 2000 was approximately $2,091,000, $1,768,000 and $1,522,000, respectively.

11. Commitments and Contingencies

In the normal course of business, the Company makes commitments to meet the financing needs of its customers. These commitments include commitments to extend credit and standby letters of credit. These instruments include, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated statements of financial condition. The Company s exposure to credit risk is the extent of nonperformance by the counter party to the financial instrument for commitments to extend credit and standby letters of credit and is represented by the contractual amount of those instruments. The Company uses the same credit policies and procedures in making commitments and conditional obligations as it does for loans.

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NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

At December 31, 2002 and 2001, unused commitments under lines of credit aggregated approximately $535,956,000 and $502,299,000, of which approximately $13,810,000 and $15,100,000 pertained to related parties, respectively. The Company evaluates each customer s credit worthiness on an individual basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management s credit evaluation of the borrower. Collateral held varies but may include accounts receivable, inventory, property, plant, and equipment, residential real estate and income-producing commercial properties.

The Company had approximately $31,125,000 and $16,378,000 in irrevocable standby letters of credit outstanding at December 31, 2002 and 2001, of which approximately $281,000 and $87,000 at December 31, 2002 and 2001, respectively, pertained to related parties. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The collateral varies but may include accounts receivable, inventory, property, plant, and equipment, and residential real estate for those commitments for which collateral is deemed necessary.

The Company, in the normal course of business, is subject to various pending and threatened litigation. Based on legal counsel s opinion, management does not anticipate that the ultimate liability, if any, resulting from such litigation will have a material adverse effect on the Company s financial condition or results of operations.

12. Employee Benefit Plans

The Company, through two of its subsidiary banks, sponsors two defined benefit pension plans. Each of these plans has been frozen with regard to future benefit accruals and participation by new employees.

The components of net pension expense (income) for the years ended December 31, 2002, 2001, and 2000 are as follows (in thousands):

	2002	2001	2000
Service cost	$	$	$
Interest cost	372	253	255
Expected return on plan assets	(481)	(370)	(331)
Amortization of transition asset	(2)	(2)	(2)
Recognized net actuarial loss	21		
Net periodic pension benefit	(90)	(119)	(78)

Settlement loss	62		
Pension income	$ (28)	$ (119)	$ (78)

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NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

The reconciliation of the beginning and ending balances of the projected benefit obligation and plan assets, as well as disclosure of the plans funded status for the years ended December 31, 2002 and 2001, is as follows (in thousands):

	2002	2001
Change in plan assets		
Fair value of plan assets at January 1	$ 5,344	$ 4,154
Actual return on plan assets	(67)	367
Employer contributions	1,440	
Acquisition		1,001
Benefits paid	(180)	(178)
Settlements	(255)	
Fair value of plan assets at December 31	$ 6,282	$ 5,344
Change in benefit obligation		
Projected benefit obligation at January 1	$ 5,477	$ 3,826
Service cost		
Interest cost	372	253
Actuarial loss	838	172
Acquisition		1,404
Benefits paid	(180)	(178)
Settlements	(255)	
Projected benefit obligation at December 31	$ 6,252	$ 5,477
Funded status		
Plan assets in excess of (less than) projected benefit obligation	$ 30	$ (132)
Unrecognized net gain	1,737	433
Unrecognized net asset at date of initial application	(2)	(4)
Accrued pension asset	$ 1,765	$ 297

Primary assumptions used to actuarially determine net pension expense are as follows:

	2002	2001	2000
Discount rate	6.00%	6.50%	7.00%

Expected long-term rate of return on plan assets	7.00%	9.00%	9.00%
Salary increase rate	N/A	N/A	4.25%

At December 31, 2002, the fair value of plan assets of the pension plans exceeded both the projected benefit obligation and the accumulated benefit obligation. As of December 31, 2001, the projected benefit obligation, accumulated benefit obligation and the fair value of plan assets for the pension plan with accumulated benefits in excess of plan assets were $1,404,000, $1,404,000 and $1,001,000, respectively.

The Company has a qualified employee benefit plan under Section 401(k) of the Internal Revenue Code covering substantially all employees. Employees can contribute up to 15% of their salary to the plan on a pre-tax basis and the Company matches 100% of participants contributions up to the first 5.5% of each participant s salary. The Company s matching contribution charged to operations related to this plan, as well as other plans of merged banks, was approximately $1,778,000, $1,282,000 and $971,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

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For the Years Ended December 31, 2002, 2001 and 2000

The Company and certain subsidiary banks have deferred compensation plans for the benefit of the Company s former chief executive officer. Payments under the plans commenced March 15, 1997 and March 15, 2002, and continue for a period of 15 years. In connection with the plans, the banks purchased single premium life insurance policies on the life of the officer. At December 31, 2002 and 2001, the cash surrender value of the policies was $2,630,000 and $2,512,000, respectively.

Additionally, the Company and several of its subsidiary banks own life insurance policies to provide for the payment of death benefits related to existing deferred compensation and supplemental income plans maintained for the benefit of certain presidents, employees and directors of such banks. The total cash surrender value of such policies at December 31, 2002 and 2001 was $12,084,000 and $11,416,000, respectively. The Company recorded expense of $240,000 and $93,000 for the years ended December 31, 2002 and 2001, respectively for these plans.

The Company sponsors a Performance Share Plan (the PSP) to offer long-term incentives in addition to current compensation to certain key executives. The criteria for payment of performance share awards is based upon a comparison of the Company s average return on average equity for an award period to that of a comparison group of bank holding companies. If the Company s results are below the median of the comparison group, no portion of the award is earned. If the Company s results are at or above the 90th percentile, the maximum award is earned. The vesting period for awards is four years. Under the plan, 400,000 shares have been reserved for issuances.

In accordance with the terms of the PSP, a base grant of 19,675, 23,600 and 19,450 shares (net of forfeitures) was made in each of the years ended December 31, 2002, 2001 and 2000, respectively. The market value per share was $33.33, $22.00 and $18.88 at each grant date for the years ended December 31, 2002, 2001 and 2000, respectively. During the years ended December 31, 2002 and 2001, 22,859 and 22,186 shares, respectively, were awarded to participants. At December 31, 2002, outstanding awards of expected and maximum payouts were 118,947 and 127,323 shares, respectively. Expense recorded for the PSP was $698,000, $561,000 and $653,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

The Company has a separate Performance Share Plan to provide long-term incentives to non-employee directors of a subsidiary bank (the 1997 Subsidiary PSP) and made a base grant of 20,000 shares, with a market value per share of $25.13, to vest over a sixty-three month period. The actual number of shares to be distributed will be calculated and distributed in 2003 and will depend on the subsidiary bank s performance as well as certain conditions to be met by the directors. At December 31, 2002, the expected and maximum payout was 18,261 shares, net of forfeitures. Expense recorded for the 1997 Subsidiary PSP was $84,000 for each of the years ended December 31, 2002, 2001 and 2000.

During 2000, the Company adopted a separate Performance Share Plan to provide long-term incentives to non-employee directors of a subsidiary bank (the 2000 Subsidiary PSP) and made a base grant of 20,000 shares, with a market value per share of $19.22 to vest over a sixty-four month period. The actual number of shares to be distributed in fiscal 2005 will depend on the subsidiary bank s performance as well as certain conditions to be met by the directors. At December 31, 2002, the expected and maximum payout was 25,000 shares. Expense recorded for the 2000 Subsidiary PSP was $90,000, $90,000 and $30,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

During 1999, the Company adopted the 1999 Long Term Incentive Plan (the LTI Plan) which provides for the award of incentive and non-qualified stock options, stock appreciation rights, restricted stock and

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NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

performance awards to eligible employees of the Company. The total number of shares of common stock reserved and available for distribution under the LTI Plan is 300,000 shares. Any awards under the LTI Plan will be in addition to awards made under the PSP. During 2000, the Company granted 160,500 non-qualified stock options under the LTI Plan, which vest over a sixty-month period. Net of forfeitures, 145,500 stock options were outstanding at December 31, 2002. Expense recorded for the LTI Plan was $143,000, $124,000 and $199,000 for the years ended December 31, 2002, 2001, and 2000, respectively.

In connection with the 2001 business combination of Farmers, the Company assumed certain stock options of the acquired bank. Additionally, the Company had stock option plans with outstanding options granted prior to 1997.

A summary of the status of the Company s stock options as of December 31, 2002, 2001 and 2000, and the changes during each of the three years then ended is presented below:

	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, January 1	326,820	$ 18.78	379,406	$ 14.12	239,371	$ 10.31
Granted					164,018	18.88
Forfeited	(5,313)	33.88	(15,000)	18.88		
Assumed in business combination			75,076	27.45		
Exercised	(42,586)	18.52	(112,662)	8.85	(23,983)	8.60
Outstanding, December 31	278,921	$ 18.53	326,820	$ 18.78	379,406	$ 14.12
Options exercisable, December 31	133,421	$ 18.16	181,320	$ 18.71	218,906	$ 10.64

The following table summarizes information about stock options outstanding at December 31, 2002:

	Options Outstanding		
Exercise Price	Number Outstanding	Remaining Contractual Life	Options Exercisable
$ 5.03	2,110	March 2004	2,110

$ 9.39	16,636	August 2006	16,636
$10.00	27,829	November 2004	27,829
$13.00	6,833	November 2005	6,833
$14.92	1,408	September 2006	1,408
$15.56	26,995	March 2007	26,995
$17.42	1,408	September 2006	1,408
$18.88	145,500	December 2010	
$18.95	1,408	September 2006	1,408
$23.53	11,044	July 2003	11,044
$26.78	1,408	September 2006	1,408
$30.00	34,403	December 2004	34,403
$30.02	1,408	September 2006	1,408
$47.06	531	September 2009	531
	278,921		133,421

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For the Years Ended December 31, 2002, 2001 and 2000

During 2002 and 2001, the Company did not grant any stock options. The per share weighted-average fair value of stock options granted during 2000 was $5.18 on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: expected volatility 25.6%, expected dividend yield 3.5%, risk-free interest rate of 5.9%, and an expected life of 7.0 years. Total compensation expense recorded for the stock option plans was $143,000, $124,000 and $253,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Additionally, the Company and five of its subsidiary banks maintain deferral of compensation plans for certain directors who are not employees of the Company. Under the plans, non-employee directors may choose to have all or part of the cash and/or stock equivalents they would normally receive as compensation deferred for future payment, at such time and in such manner as such directors specify at the time of the election, so long as any annuity payment period does not exceed ten years. The cash portion of the deferral of compensation account earns interest at a rate which approximates the Company s short-term borrowing rate. As of December 31, 2002 and 2001, there were no deferred cash payments under directors deferral of compensation plans. Dividends earned on stock equivalent portions are credited to the deferral of compensation account in the form of additional stock equivalents. At December 31, 2002 and 2001, the amount deferred under the terms of these plans totaled $2,196,000 and $1,730,000, respectively. For the years ending December 31, 2002, 2001 and 2000, approximately $449,000, $445,000 and $410,000, respectively, was expensed under these plans.

One of the Company s subsidiary banks has a deferred compensation plan whereby directors may elect to have all or a portion of their compensation deferred. Compensation eligible for deferral under the plan was $13,000, $17,000 and $18,000 in 2002, 2001 and 2000, respectively. At December 31, 2002, amounts payable under the plan totaled $129,000.

In connection with the Farmers merger during 2001, the Company assumed an employee stock ownership plan with 401(k) provisions. Concurrent with the Farmers merger, the employee stock ownership plan was terminated. The Company intends to liquidate the employee stock ownership plan pending receipt of a determination letter from the Internal Revenue Service.

13. Income Taxes

The components of the provision for income taxes consist of the following for the years ended December 31, 2002, 2001 and 2000 (in thousands):

	2002	2001	2000
Current:			
Federal	$ 13,051	$ 10,277	$ 8,693
State	721	415	321

Total current expense	13,772	10,692	9,014
Deferred:			
Federal	2,429	2,260	2,057
State	534	280	350
Total deferred expense	2,963	2,540	2,407
Total provision for income taxes	$ 16,735	$ 13,232	$ 11,421

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For the Years Ended December 31, 2002, 2001 and 2000

Temporary differences and carryforwards which give rise to a significant portion of the Company s deferred tax assets and liabilities as of December 31, 2002 and 2001 are as follows (in thousands):

	2002	2001
Deferred tax assets:		
Allowance for loan and lease losses	$ 12,714	$ 10,393
Net operating loss	2,149	1,103
Deferred compensation	3,784	3,614
Other	1,621	1,502
Total deferred tax assets	20,268	16,612
Deferred tax liabilities:		
Depreciation	2,147	1,204
Leasing	13,203	9,550
Net unrealized gains on securities	1,447	553
Intangibles and purchase accounting adjustments	2,274	1,549
Other	579	326
Total deferred tax liabilities	19,650	13,182
Net deferred tax assets	$ 618	$ 3,430

The Company did not establish a valuation allowance related to the deferred tax asset recorded at December 31, 2002 and 2001 due to taxes paid within the carryback period being sufficient to offset future deductions resulting from the reversal of these temporary differences.

Total provision for income taxes differs from the amount which would be provided by applying the statutory federal income tax rate of 35% to pretax earnings as illustrated below for the years ended December 31, 2002, 2001 and 2000 (in thousands):

	2002	2001	2000
Provision for income taxes at statutory federal income tax rate	$ 18,353	$ 14,586	$ 12,934
Increase (decrease) resulting from:			
State income taxes, net of federal income tax benefit	813	708	378
Tax exempt income	(1,746)	(1,498)	(1,365)
Goodwill amortization		164	153
Income tax credits	(861)	(861)	(861)

Other, net	176	133	182
Total provision for income taxes	$ 16,735	$ 13,232	$ 11,421

For federal income tax purposes, one of the Company s subsidiaries has a net operating loss carryforward totaling $6,324,000 and $3,164,000 at December 31, 2002 and 2001, respectively, which will expire beginning in 2018. For state income tax purposes, two of the Company s subsidiaries have net operating loss carryforwards and tax credits totaling $704,000 and $685,000 at December 31, 2002 and 2001, respectively.

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NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

14. Noninterest Expense

The following table sets forth, for the years ended December 31, 2002, 2001 and 2000, the principal components of noninterest expense (in thousands):

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

15. Earnings Per Share

The following table reflects the reconciliation of the basic EPS computation to the diluted EPS computation (in thousands, except per share data):

	Year Ended December 31		
	2002	2001	2000
Basic Earnings Per Share:			
Net income available to common shareholders	$ 35,702	$ 28,415	$ 25,518
Weighted average basic common shares outstanding	12,361	11,853	11,792

Basic Earnings Per Share	$ 2.89	$ 2.40	$ 2.16
Diluted Earnings Per Share:			
Net income available to common shareholders	$ 35,702	$ 28,415	$ 25,518
Weighted average common shares outstanding	12,361	11,853	11,792
Effect of dilutive securities	322	288	181
Weighted average diluted common shares outstanding	12,683	12,141	11,973
Diluted Earnings Per Share	$ 2.81	$ 2.34	$ 2.13

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NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

16. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Cash, Due From Banks, Interest-Bearing Cash Balances, and Federal Funds Sold Due to the short-term nature of these assets, the carrying amount is a reasonable estimate of fair value.

Investment, Available for Sale, and Trading Securities Fair value is based on quoted market prices or dealer quotes.

Loans The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits The amount payable on demand at the reporting date is a reasonable estimate of fair value due to the short-term nature of demand deposit, savings accounts, and certain money market deposit liabilities. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Federal Funds Purchased and Short-Term Borrowings The carrying amount is a reasonable estimate of fair value.

Long-Term Debt The fair value of the Company s fixed rate borrowings are estimated using discounted cash flows, based on the Company s current incremental borrowing rates for similar types of borrowing arrangements. The carrying amount of the Company s variable rate borrowings approximates their fair values.

The estimated fair values of financial instruments at December 31, 2002 and 2001 are as follows (in thousands):

	2002	2001

	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	$ 99,561	$ 99,561	$ 78,262	$ 78,262
Interest-bearing deposits in other banks	$ 12,621	$ 12,621	$ 10,813	$ 10,813
Federal funds sold and securities purchased under agreements to resell	$ 77,957	$ 77,957	$ 32,241	$ 32,241
Investment securities and securities available for sale	$ 700,333	$ 702,700	$ 567,688	$ 567,730
Trading securities	$ 1,645	$ 1,645	$ 1,341	$ 1,341
Loans	$ 2,242,424	$ 2,309,815	$ 2,000,723	$ 2,054,886
Financial liabilities:				
Deposits	$ 2,330,395	$ 2,339,974	$ 2,066,759	$ 1,951,359
Federal funds purchased; securities sold under agreements to resell; and treasury, tax, and loan account	$ 291,266	$ 291,266	$ 243,550	$ 243,550
Short-term borrowings	$ 152,100	$ 152,100	$ 68,350	$ 68,350
Long-term debt	$ 240,065	$ 241,467	$ 209,631	$ 211,049

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NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

17. Parent Company

The condensed financial information of the parent company only as of December 31, 2002 and 2001, and for the years ended December 31, 2002, 2001 and 2000 is presented as follows (in thousands):

	2002	2001
Balance Sheets		
Assets:		
Cash	$ 11,941	$ 3,642
Securities available for sale	80	80
Investments in subsidiaries*	256,294	232,003
Goodwill	5,240	5,240
Other intangible assets	479	541
Other assets	9,993	3,398
Total assets	$ 284,027	$ 244,904
Liabilities and stockholders equity:		
Accounts payable	$ 5,299	$ 4,930
Accrued interest payable	136	204
Short and long-term debt	44,100	31,884
Total liabilities	49,535	37,018
Stockholders equity:		
Common stock	12,425	12,425
Additional paid-in capital	105,355	103,624
Retained earnings	115,281	92,866
Treasury stock	(1,312)	(2,087)
Accumulated other comprehensive income net of taxes	2,743	1,058
Total stockholders equity	234,492	207,886
Total liabilities and stockholders equity	$ 284,027	$ 244,904

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	2002	2001	2000
Statements of Income			
Income:			
Dividends from subsidiaries*	$ 16,803	$ 13,001	$ 8,566
Securities gains			1
Other	1	30	40
Total income	16,804	13,031	8,607
Expenses:			
Interest expense	1,449	1,446	1,527
Other expenses	6,179	3,878	3,089
Total expenses	7,628	5,324	4,616
Income before equity in undistributed earnings of subsidiaries and taxes	9,176	7,707	3,991
Equity in undistributed earnings of subsidiaries*	23,742	18,983	19,929
Income before income taxes	32,918	26,690	23,920
Income tax benefit	(2,784)	(1,725)	(1,598)
Net income	$ 35,702	$ 28,415	$ 25,518

* Eliminated in consolidation

	2002	2001	2000
Statements of Cash Flows			
Cash flows from operating activities:			
Net income	$ 35,702	$ 28,415	$ 25,518
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization and depreciation expense	494	342	342
Equity in undistributed earnings of subsidiaries	(23,742)	(18,958)	(19,524)
Deferred tax benefit	(88)	(475)	(1,014)
Stock based compensation	1,453	1,103	1,425
Increase (decrease) in other assets and liabilities	(438)	61	1,531
Net cash provided by operating activities	13,381	10,488	8,278
Cash flows from investing activities:			
Additional investment in subsidiaries	(3,000)	(1,591)	(10,200)
Decrease in loans	563		
Purchases of fixed assets	(2,355)		

Net cash used in investing activities	(4,792)	(1,591)	(10,200)
Cash flows from financing activities:			
Dividends on common stock	(12,362)	(11,003)	(9,668)
Net increase in borrowings	12,216	3,911	11,050
Purchase of treasury stock		(663)	(588)
Other	(144)	(408)	72
Net cash (used in) provided by financing activities	(290)	(8,163)	866
Net increase (decrease) in cash	8,299	734	(1,056)
Cash, beginning of year	3,642	2,908	3,964
Cash, end of year	$ 11,941	$ 3,642	$ 2,908

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NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

18. Regulatory

The subsidiary banks are required by law to maintain reserves in cash or deposits with the Federal Reserve Bank or other banks. At December 31, 2002, the required reserves totaled $19,304,000.

At December 31, 2002 and 2001, securities with carrying values of $313,428,000 and $223,534,000, respectively, were pledged to secure U.S. government deposits and other public funds for purposes as required or permitted by law.

The Company has a policy of collecting amounts from its subsidiaries sufficient to cover expenses of the Company and to service Company debt. Such amounts have been received in the form of dividends declared by the subsidiaries. Payment of dividends is subject to the financial condition of the subsidiaries and the Company s judgment as to the desirability of utilizing alternative sources of funds. The payment of dividends by the subsidiary banks is also subject to various regulatory requirements. At December 31, 2002, $60,723,000 of the retained earnings of the subsidiary banks are available for payment of dividends to the Company under the various regulatory requirements, without special approval from the applicable regulators.

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company s financial condition and operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company maintain minimum amounts and ratios (set forth in the table below) of total qualifying capital and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2002, that the Company meets all capital adequacy requirements to which it is subject.

As of December 31, 2002, the most recent notification from the Federal Reserve Bank categorized the Company as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Company must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution s category.

At December 31, 2002, the regulatory capital ratios of the Company s subsidiary banks exceeded the minimum ratios required for well-capitalized banks as defined by federal banking regulators. To be categorized as well-capitalized, the Company s subsidiary banks must maintain minimum Total Qualifying Capital, Tier I Capital and leverage ratios of at least 10%, 6% and 5%, respectively.

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

The actual capital amounts and ratios of the Company, National Bank of Commerce and First American Bank (the Company s two most significant subsidiaries) at December 31, 2002 and 2001 are presented in the table below (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2002:						
Total qualifying capital (to risk-weighted assets)						
Alabama National BanCorporation	$ 266,334	11.26%	$ 189,225	8.00%	$ 236,531	10.00%
National Bank of Commerce	$ 98,121	11.14%	$ 70,464	8.00%	$ 88,080	10.00%
First American Bank	$ 63,018	10.39%	$ 48,522	8.00%	$ 60,653	10.00%
Tier I capital (to risk-weighted assets)						
Alabama National BanCorporation	$ 236,717	10.00%	$ 94,687	4.00%	$ 142,030	6.00%
National Bank of Commerce	$ 87,704	9.96%	$ 35,222	4.00%	$ 52,834	6.00%
First American Bank	$ 55,416	9.14%	$ 24,252	4.00%	$ 36,378	6.00%
Tier I capital (to average assets)						
Alabama National BanCorporation	$ 236,717	7.52%	$ 125,913	4.00%	$ 157,392	5.00%
National Bank of Commerce	$ 87,704	7.51%	$ 46,713	4.00%	$ 58,391	5.00%
First American Bank	$ 55,416	7.48%	$ 29,634	4.00%	$ 37,043	5.00%
As of December 31, 2001:						
Total qualifying capital (to risk-weighted assets)						
Alabama National BanCorporation	$ 229,181	11.17%	$ 164,140	8.00%	$ 205,175	10.00%
National Bank of Commerce	$ 90,993	11.83%	$ 61,534	8.00%	$ 76,917	10.00%
First American Bank	$ 50,479	10.91%	$ 37,015	8.00%	$ 46,269	10.00%
Tier I capital (to risk-weighted assets)						
Alabama National BanCorporation	$ 203,527	9.92%	$ 82,067	4.00%	$ 123,101	6.00%
National Bank of Commerce	$ 81,544	10.60%	$ 30,771	4.00%	$ 46,157	6.00%
First American Bank	$ 57,012	9.66%	$ 23,607	4.00%	$ 35,411	6.00%
Tier I capital (to average assets)						
Alabama National BanCorporation	$ 203,527	7.61%	$ 106,979	4.00%	$ 133,723	5.00%
National Bank of Commerce	$ 81,544	7.72%	$ 42,251	4.00%	$ 52,513	5.00%
First American Bank	$ 57,012	9.69%	$ 23,534	4.00%	$ 29,418	5.00%

19. Segment Reporting

In addition to traditional commercial and consumer retail banking products, the Company offers mortgage lending services, investment services, securities brokerage and trust services and insurance services to its customers. The securities brokerage and trust division includes a full service broker-dealer operation and also manages the assets and provides custodial and trust services for both corporate and individual customers located primarily in the Birmingham, Alabama market. The mortgage lending division makes home loans to individuals throughout the markets served by the Company. The majority of the loans made are sold to corporate investors, who also service the loans. The investment services division sells fixed income securities and provides trading services to both individual and corporate customers. The insurance division offers a full line of insurance products including life, and property and casualty insurance to individual and corporate customers primarily in the state of Alabama. These four divisions, along with the commercial and retail banking division, are considered the Company s reportable segments for financial disclosure purposes.

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

The accounting policies of the segments are the same as those described in the summary of significant accounting policies except that certain overhead expenses are not allocated among the segments. Additionally, the fixed assets utilized by the various divisions are not separately identified by management. Accordingly, the results of operations for the mortgage lending, investment services, securities brokerage and trust, and insurance segments are not indicative of the results which would be achieved if each of the segments were a separate company. Intersegment transactions are accounted for at fair market value.

The development and application of these methodologies is a dynamic process. Accordingly, prior period financial results have been revised to reflect management accounting enhancements and changes in the Company s organizational structure. The 2001 and 2000 segment information has been revised to conform to the 2002 presentation. In addition, unlike financial accounting, there is no authoritative literature for management accounting similar to generally accepted accounting principles. Consequently, reported results are not necessarily comparable with those presented by other financial institutions.

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

	Investment Services Division	Securities Brokerage and Trust Division	Mortgage Lending Division(2)	Insurance Division	Retail and Commercial Banking	Corporate Overhead(1)	Elimination Entries	Total
Year ended December 31, 2002:								
Interest income	$	$ 1,132	$ 1,631	$	$ 175,612	$ (90)	$ (138)	$ 178,147
Interest expense		133	641	4	63,314	1,359	(138)	65,313
Net interest income		999	990	(4)	112,298	(1,449)		112,834
Provision for loan losses					7,956			7,956
Noninterest income	13,576	13,590	11,334	2,837	19,826	1		61,164
Noninterest expense	9,828	13,036	7,204	2,866	74,464	6,179		113,577
Net income before provision for income taxes and minority interest	$ 3,748	$ 1,553	$ 5,120	$ (33)	$ 49,704	$ (7,627)	$	$ 52,465
Year ended December 31, 2001:								
Interest income	$	$ 1,858	$ 1,117	$ 5	$ 177,028	$ (59)	$ (412)	$ 179,537
Interest expense		407	624	6	88,381	1,387	(412)	90,393
Net interest income		1,451	493	(1)	88,647	(1,446)		89,144
Provision for loan losses					3,946			3,946
Noninterest income	13,717	8,800	7,660	2,126	16,374	30		48,707
Noninterest expense	10,334	8,836	4,924	2,107	61,528	4,504		92,233

Net income before provision for income taxes and minority interest	$ 3,383	$ 1,415	$ 3,229	$ 18	$ 39,547	$ (5,920)	$	$ 41,672
Year ended December 31, 2000:								
Interest income	$	$ 3,700	$ 424	$ 23	$ 168,951	$ (61)	$ (1,815)	$ 171,222
Interest expense		1,805	315	14	89,141	1,527	(1,815)	90,987
Net interest income		1,895	109	9	79,810	(1,588)		80,235
Provision for loan losses					2,506			2,506
Noninterest income	5,867	7,692	3,866	2,099	13,782	41		33,347
Noninterest expense	5,377	7,579	2,746	1,837	53,432	3,140		74,111
Net income before provision for income taxes and minority interest	$ 490	$ 2,008	$ 1,229	$ 271	$ 37,654	$ (4,687)	$	$ 36,965

ALABAMA NATIONAL BANCORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2002, 2001 and 2000

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

(2) Mortgage lending includes allocated intercompany income totaling $474,000, $229,000 and $335,000 at December 31, 2002, 2001, and 2000, respectively.

20. Related Party Transactions

In addition to the previously disclosed related party transactions (see Notes 5, 8, 10, and 11), the Company received trust fees from related parties of approximately $444,000 in 2002, $548,000 in 2001 and $631,000 in 2000.

21. Treasury Stock Repurchase Plan

In the second quarter of 2000, the Board of Directors of the Company authorized the repurchase of up to 250,000 shares of the Company s common stock. On October 10, 2000, this stock repurchase program was rescinded by the Board of Directors. A total of 30,000 shares were repurchased prior to the rescission of this plan. In the third quarter of 2001, the Board of Directors of the Company authorized the repurchase of up to 300,000 shares of the Company s common stock. This plan expired on December 31, 2002 and prior to the plan s expiration a total of 21,000 shares were repurchased.

22. Subsequent Events

On January 23, 2003, the Company announced the renewal of its share repurchase program that expired on December 31, 2002. The Board of Directors of the Company authorized the repurchase of up to 300,000 shares of its common stock.

On January 29, 2003, the Company signed a definitive agreement providing for the acquisition of Millenium Bank in Gainesville, Florida. Under the agreement, Millenium Bank will become a wholly owned subsidiary of the Company and will continue to operate under its existing name, management, and board of directors. Millenium Bank shareholders will receive approximately $1,120,000 in cash and 520,000 of Alabama National BanCorporation common shares and share equivalents. As of December 31, 2002, Millenium Bank has assets of approximately $98.9 million (unaudited) and net income of $758,000 (unaudited) for the year ended December 31, 2002.