ALFA CORP
Form 10-Q
August 13, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

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

For Quarter Ended June 30, 2001 Commission File Number 0-11773

ALFA CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	063-0838024
(State of Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

2108 East South Boulevard, Montgomery, Alabama 36116
(Mail: P. O Box 11000, Montgomery, Alabama 36191-0001)
(Address and Zip Code of Principal Executive Offices)

Registrant's Telephone Number
Including Area Code (334) 288-3900

None

Former name, former address and former fiscal year if changed since last report

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

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the close of the period covered by this report.

Class	Outstanding June 30, 2001
Common Stock, $1.00 par value	39,208,628 shares

ALFA CORPORATION

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ALFA CORPORATION
CONSOLIDATED BALANCE SHEETS

	June 30, 2001 (Unaudited)
Assets	
Investments:	
Fixed Maturities Held for Investment, at amortized cost	

(fair value $691,959 in 2001 and $792,959 in 2000)	$652,206
Fixed Maturities Available for Sale, at fair value (amortized cost $965,210,724 in 2001 and $937,730,993 in 2000)	980,130,841
Equity Securities, at fair value (cost $57,285,628 in 2001 and $53,687,943 in 2000)	109,882,163
Mortgage Loans on Real Estate	159,300
Investment Real Estate (net of accumulated depreciation of $1,387,999 in 2001 and $1,299,407 in 2000)	2,019,050
Policy Loans	48,345,675
Collateral Loans	75,100,595
Other Long-term Investments	143,176,956
Short-term Investments	63,853,328
Total Investments	1,423,320,114
Cash	6,313,926
Accrued Investment Income	15,550,524
Accounts Receivable	14,761,075
Reinsurance Balances Receivable	3,264,264
Due from Affiliates	7,105,156
Deferred Policy Acquisition Costs	149,443,616
Other Assets	5,060,388
Total Assets	$1,624,819,063
Liabilities	
Policy Liabilities and Accruals - Property and Casualty Insurance	$143,418,465
Policy Liabilities and Accruals - Life Insurance	538,232,727
Unearned Premiums	136,680,338
Dividends to Policyholders	10,105,571
Premium Deposit and Retirement Deposit Funds	5,149,559
Deferred Income Taxes	42,238,030
Other Liabilities	72,780,468
Due to Affiliates	16,057,073
Commercial Paper	136,828,538
Notes Payable	-
Notes Payable to Affiliates	30,358,972
Total Liabilities	1,131,849,741
Commitments and Contingencies	
Stockholders' Equity	
Preferred Stock, $1 par value	
Shares authorized: 1,000,000	
Issued: None	
Common Stock, $1 par value	
Shares authorized: 110,000,000	
Issued: 41,891,512	
Outstanding: 2001 - 39,208,628; 2000 - 39,148,527	41,891,512
Capital in Excess of Par Value	25,529,903
Accumulated Other Comprehensive Income	43,140,978
Retained Earnings	419,860,173
Treasury Stock: at cost (2001-2,682,884 shares; 2000-2,742,985 shares)	(37,453,244)
Total Stockholders' Equity	492,969,322
Total Liabilities and Stockholders' Equity	$1,624,819,063

The accompanying notes are an integral part of these consolidated unaudited

financial statements.

ALFA CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Six Months Ended June 30,	
	2001	2000
Revenues		
Premiums - Property and Casualty Insurance	$195,227,850	$185,395,246
Premiums and Policy Charges - Life Insurance	28,652,937	26,816,538
Net Investment Income	39,576,356	34,690,547
Realized Investment Gains	1,151,136	5,618,755
Other Income	1,448,140	1,549,446
Total Revenues	266,056,419	254,070,532
Benefits and Expenses		
Benefits & Settlement Expenses	154,843,981	145,954,192
Dividends to Policyholders	1,904,250	1,849,121
Amortization of Deferred Policy Acquisition Costs	36,713,343	32,002,272
Other Operating Expenses	27,761,170	21,694,494
Total Expenses	221,222,744	201,500,079
Income Before Provision for Income Taxes	44,833,675	52,570,453
Provision for Income Taxes	12,827,158	15,385,024
Net Income Before Cumulative Effect of Change in Accounting Principle, Net of Tax Benefit	32,006,517	37,185,429
Cumulative Effect of Change in Accounting Principle, Net of Income Tax Benefit of $139,344	(258,781)	0
Net Income	$31,747,736	$37,185,429
Operating Income	$31,258,279	$33,533,238
Earnings Per Share:		
Operating Income		

- Basic	$0.80	$0.85
- Diluted	$0.79	$0.85
Net Income Before Cumulative Effect of Change in Accounting Principle, Net of Tax Benefit		
- Basic	$0.82	$0.95
- Diluted	$0.81	$0.94
Cumulative Effect of Change in Accounting Principle, Net of Tax Benefit		
- Basic	($0.01)	$0.00
- Diluted	($0.01)	$0.00
Net Income		
- Basic	$0.81	$0.95
- Diluted	$0.80	$0.94
Average Shares Outstanding		
- Basic	39,160,202	39,267,605
- Diluted	39,451,134	39,483,252

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

ALFA CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Six Months Ended June 30,		Thr
	2001	2000	2
Net Income	$31,747,736	$37,185,429	$17,41
Other Comprehensive (Loss) Income, net of tax:			
Unrealized Investment (Losses) Gains on Securities Available for Sale	(1,554,933)	4,181,754	(4,51
Less: Reclassification Adjustment for Realized Investment Gains	748,238	3,652,191	6
Total Other Comprehensive (Loss) Income	(2,303,171)	529,563	(4,57
Total Comprehensive Income	$29,444,565	$37,714,992	$12,83

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

ALFA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months E 2001
Cash Flows From Operating Activities:	
Net Income	$31,747,736
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Policy Acquisition Costs Deferred	(43,375,345)
Amortization of Deferred Policy Acquisition Costs	36,713,343
Depreciation and Amortization	201,602
Provision for Deferred Taxes	1,873,379
Interest Credited on Policyholders' Funds	11,110,206
Net Realized Investment Gains	(1,151,136)
Other	(1,087,602)
Changes in Operating Assets and Liabilities:	
(Increase) in Accrued Investment Income	(1,529,539)
(Increase) Decrease in Accounts Receivable	(3,106,831)
(Increase) in Reinsurance Balances Receivable	(328,743)
(Increase) in Amounts Due From Affiliates	(1,351,965)
Increase in Amounts Due to Affiliates	648,085
Decrease in Other Assets	573,546
Increase in Liability for Policy Reserves	2,222,933
Increase in Liability for Unearned Premiums	14,991,528
(Decrease) in Amounts Held for Others	(142,351)
Increase in Other Liabilities	10,360,593
Net Cash Provided by Operating Activities	58,369,439
Cash Flows From Investing Activities:	
Maturities and Redemptions of Fixed Maturities Held for Investment	102,220
Maturities and Redemptions of Fixed Maturities Available for Sale	38,358,056
Maturities and Redemptions of Other Investments	153,854,323
Sales of Fixed Maturities Available for Sale	21,046,368
Sales of Other Investments	36,577,604
Purchase of Fixed Maturities Available for Sale	(87,665,016)
Purchase of Other Investments	(226,617,720)
Net (Increase) Decrease in Short-term Investments	(7,919,618)
Net (Increase) in Receivable/Payable on Securities	(14,289,892)
Net Cash (Used in) Investing Activities	(86,553,675)
Cash Flows From Financing Activities:	
Increase in Commercial Paper	19,185,977

(Decrease) in Notes Payable	(103,806)
Increase in Notes Payable to Affiliates	4,925,993
Stockholder Dividends Paid	(10,795,977)
Purchase of Treasury Stock	(1,527,821)
Proceeds from Exercise of Stock Options	1,730,269
Deposits of Policyholders' Funds	40,542,399
Withdrawal of Policyholders' Funds	(23,934,544)
Net Cash Provided by Financing Activities	30,022,490
Net Increase in Cash	1,838,254
Cash - Beginning of Period	4,475,672
Cash - End of Period	$ 6,313,926

Supplemental Disclosures of Cash Flow Information	
Cash Paid During the Year for:	
Interest	$4,364,304
Income Taxes	$10,681,000

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

ALFA CORPORATION
NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS
June 30, 2001

1. Significant Accounting Policies

In the opinion of the Company, the accompanying consolidated unaudited financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly its financial position, results of operations and cash flows. The accompanying financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America. A summary of the more significant accounting policies related to the Company's business is set forth in the notes to its audited consolidated financial statements for the fiscal year ended December 31, 2000. The results of operations for the six month and three month periods ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year. For purposes of this report, the Company has defined operating income as income excluding net realized investment gains, net of related tax effects. Certain reclassifications have been made to conform previous classifications to June 30, 2001 classifications and descriptions.

2. Pooling Agreement

Effective August 1, 1987, the Company entered into a property and casualty insurance Pooling Agreement (the "Pooling Agreement") with Alfa Mutual Insurance Company (Mutual), and other members of the Mutual Group (See Note 3). On January 1, 2001, Alfa Specialty Insurance Corporation (Specialty), a subsidiary of Mutual, also became a participant in the Pooling Agreement. The Mutual Group is a direct writer primarily of personal lines of property and casualty insurance in Alabama. The Company's subsidiaries similarly are direct writers in Georgia and Mississippi. Both the Mutual Group and the Company write preferred risk automobile, homeowner, farmowner and mobile home insurance, fire

and allied lines, standard risk automobile and homeowner insurance, and a limited amount of commercial insurance, including church and businessowner insurance. Specialty is a direct writer primarily of nonstandard risk automobile insurance. Under the terms of the Pooling Agreement, the Company cedes to Mutual all of its property and casualty business. Substantially all of the Mutual Group's direct property and casualty business (together with the property and casualty business ceded by the Company) is included in the pool. Mutual currently retrocedes 65% of the pool to the Company and retains 35% within the Mutual Group. Effective January 1, 2001, Specialty's property and casualty business likewise became included in the pool. On October 1, 1996, the Pooling Agreement was amended in conjunction with the restructuring of the Alfa Insurance Group's catastrophe protection program. Effective November 1, 1996, the allocation of catastrophe costs among the members of the pool was changed to better reflect the economics of catastrophe finance. The amendment limited Alfa Corporation's participation in any single catastrophic event or series of storms to its pool share (65%) of $10 million unless the loss exceeded $249 million on a 100% basis in which case the Company's share in the loss would be based upon its amount of surplus relative to the other members of the group. Due to increases in insured property risks, an amendment was made increasing the Company's participation limits from its pool share of the $10 million level to $11 million beginning July 1, 1999. This limit has been amended effective January 1, 2001 to $11.4 million. During 2000, the Company's share of losses exceeding $249 million would have been 13%. During the first six months of 2001, the Alfa Group incurred catastrophic losses of approximately $29.2 million, resulting in a reduction in the Company's net income of approximately $0.12 per diluted share, after reinsurance and taxes. These parameters have been amended to $284 million and 14% as of January 1, 2001. The Company's participation in the Pooling Agreement may be changed or terminated without the consent or approval of the Company's shareholders. The Pooling Agreement may be terminated by any party thereto upon 90 days notice.

(Note 2. Continued)

The following table sets forth the premiums and losses ceded to and assumed from the pool for the six and three month periods ended June 30, 2001 and 2000:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2001	2000	2001	2000
	(in thousands)			
Premiums ceded to pool	$ 34,613	$ 31,534	$17,606	$15,996
Premiums assumed from pool	$195,992	$186,063	$98,745	$94,138
Losses ceded to pool	$ 27,782	$ 20,734	$13,825	$ 9,865
Losses assumed from pool	$122,005	$113,114	$58,607	$54,418

The Company incurred $7.4 million and $2.5 million in storm losses in the first three months of 2001 and 2000, respectively. No storm losses were incurred in the second quarter of either year.

3. Contingent Liabilities

The property and casualty subsidiaries have entered into the reinsurance

pooling agreement with Alfa Mutual Insurance Company and its affiliates as discussed in Note 2. Should any member of the affiliated group be unable to meet its obligation on a claim for a policy written by the Company's property and casualty subsidiaries, the obligation to pay the claim would remain with the Company's subsidiaries.

The liability for estimated unpaid property and casualty losses and loss adjustment expenses is based upon an evaluation of reported losses and on estimates of incurred but not reported losses. Adjustments to the liability based upon subsequent developments are included in current operations.

Certain legal proceedings are in process at June 30, 2001. Costs for these and similar legal proceedings, including accruals for outstanding cases, totaled approximately $352,000 in the first six months of 2001, $3.0 million in 2000, $6.5 million in 1999 and $5.2 million in 1998. These proceedings involve alleged breaches of contract, torts, including bad faith and fraud claims, and miscellaneous other causes of action. These lawsuits involve claims for mental anguish and punitive damages. Approximately 17 legal proceedings against Alfa Life Insurance Corporation (Life) are in process at June 30, 2001. Of the 17 proceedings, three were filed in 2001, five were filed in 2000, seven were filed in 1999, one was filed in 1997, and one was filed in 1996. In a case tried in January 2001, in Barbour County, Alabama, the jury returned a verdict for the plaintiff against Life for $500,000 in compensatory damages and $5,000,000 in punitive damages. After Life filed post-trial motions, the trial court reduced the punitive damage award to $1,500,000. Life has appealed the award to the Alabama Supreme Court. Two of the 17 pending legal proceedings against Life were filed as purported class actions. At present, only one class action has been certified against Life. The trial court order certifying that class action has been appealed to the Alabama Supreme Court. In addition, one purported class action lawsuit is pending against both Alfa Builders, Inc. and Alfa Mutual Fire Insurance Company. Additionally, four purported class action lawsuits are pending against the property and casualty mutual companies involving a number of issues and allegations which could affect the Company because of a pooling agreement between the companies. No class has been certified in any of these five purported class action cases. It should be noted that in Alabama, where the Company has substantial business, the likelihood of a judgment in any given suit, including a large mental anguish and/or punitive damage award by a jury, bearing little or no relation to actual damages, continues to exist, creating the potential for unpredictable material adverse financial results.

4. Segment Information

The following table sets forth the components of property and casualty insurance earned premiums, net underwriting income, GAAP basis loss, expense and combined ratios, underwriting margin, net investment income and operating income for the six month and three month periods ended June 30, 2001 and 2000:

	Six Months Ended June 30,			Three M
	2001	2000	% Change	2001
	(in thousands)			
Earned premiums				

Personal lines	$186,930	$177,338	5%	$94,162
Commercial lines	6,909	6,709	3%	3,503
Pools, associations and fees	2,153	2,016	7%	1,080
Reinsurance ceded	(764)	(668)	(14%)	(422)
Total	$195,228	$185,935	5%	$98,323
Net underwriting income	$ 14,821	$ 21,078	(30%)	$ 9,980
Loss ratio	62.1%	60.4%		58.8%
LAE ratio	4.0%	5.7%		4.2%
Expense ratio	26.3%	22.6%		26.8%
GAAP basis combined ratio	92.4%	88.6%		89.8%
Underwriting margin	7.6%	11.4%		10.2%
Net investment income	$ 14,258	$ 14,000	2%	$ 7,331
Pre-tax operating income	$ 29,215	$ 35,250	(17%)	$17,382
Operating income, net of tax	$ 21,610	$ 26,379	(18%)	$12,497

(Note 4. Continued)

The following table sets forth life insurance premiums and policy charges, by type of policy, net investment income, benefits and expenses and life insurance operating income for the six month and three month periods ended June 30, 2001 and 2000:

	Six Months Ended June 30,			Three Months Ended	
	2001	2000	% Change	2001	2000
	(in thousands)				
Premiums and policy charges					
Universal life policy charges	$ 7,938	$ 7,305	9%	$ 3,992	$ 3,712
Universal life policy charges - COLI	1,732	1,610	8%	475	426
Interest sensitive life policy charges	5,052	5,018	1%	2,545	2,516
Traditional life insurance premiums	13,732	12,682	8%	6,642	6,273
Group life insurance premiums	199	202	(1%)	0	0
Total	$28,653	$26,817	7%	$13,654	$12,927
Net investment income	$22,906	$20,225	13%	$11,636	$10,269

Benefits and expenses	$32,920	$30,297	9%	$16,193	$14,454
Pre-tax operating income	$14,616	$13,112	11%	$ 7,091	$ 6,926
Operating income, net of tax	$10,431	$ 9,551	9%	$ 5,078	$ 5,064

5. Acquisition of Commercial Lease Portfolio

During the first quarter of 2000, the Company signed a definitive agreement and completed the transaction to acquire the leasing portfolio and assets of OFC Capital (OFC), an Atlanta-based business unit of First Liberty Bank, that provides financing for commercial equipment leases. The transaction involved a cash purchase price of approximately $23.1 million, which is primarily for the portfolio of leases. OFC operates as a business unit of Alfa Financial Corporation, a subsidiary of the Company. OFC's operating results for the six month and three month periods ended June 30, 2001 were income of approximately $256,000 and $237,000, respectively.

6. Financial Accounting Developments

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" in June 1998. This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in investment securities and other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The accounting for changes in the fair value of a derivative will be included in either earnings or other comprehensive income depending on the intended use of the derivative instrument. This standard, as amended by SFAS No. 137 and SFAS No. 138, became effective for the Company January 1, 2001. At this time, the Company does not anticipate this standard having a significant impact on the Company's financial position or income as it does not use derivative instruments in the normal course of business. On January 1, 2001, the Company recorded approximately $259,000, net of tax, as the effect upon adoption of this standard.

(Note 6. Continued)

The FASB also issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (a replacement of SFAS No. 125)" in September 2000. At this time, the Company does not anticipate this standard having a significant impact on the Company's financial position or income.

The FASB recently issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets," in June 2001. Based on current information available and the fact that the Company has not engaged in material transactions covered by these standards, the Company does not anticipate these standards having a significant impact on the Company's financial position or income.

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors
Alfa Corporation:

We have reviewed the consolidated balance sheet of Alfa Corporation and subsidiaries as of June 30, 2001, and the related consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2001 and 2000 and the consolidated statement of cash flows for the six-month periods ended June 30, 2001 and 2000. These consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying consolidated balance sheet of Alfa Corporation and subsidiaries as of December 31, 2000, and the related consolidated statements of income, stockholders' equity, cash flows and comprehensive income for the year then ended (not presented herein); and in our report dated February 6, 2001, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2000, is fairly stated in all material respects, in relation to the consolidated balance sheet from which it has been derived.

KPMG LLP
August 10, 2001
Birmingham, Alabama

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

The following table sets forth consolidated summarized income statement information for the six month and three month periods ended June 30, 2001 and 2000:

	Six Months Ended June 30,	Three Months E

	2001	2000	% Change	2001	200
	(in thousands, except share and per share data				
Revenues					
Property and casualty insurance premiums	$195,228	$185,395	5%	$ 98,323	$
Life insurance premiums and policy charges	28,653	26,817	7%	13,654	
Total premiums and policy charges	$223,881	$212,212	5%	$111,977	$
Net investment income	$ 39,576	$ 34,691	14%	$ 20,414	$
Total Revenues	$266,056	$254,071	5%	$133,125	$
Net income					
Property and casualty insurance	$ 21,610	$ 26,379	(18%)	$ 12,497	$
Life insurance	10,431	9,551	9%	5,078	
Total insurance operations	32,041	35,930	(11%)	17,575	
Noninsurance operations	1,347	1,045	29%	535	
Net realized investment gains	748	3,652	(80%)	68	
Corporate expenses	(2,129)	(3,442)	38%	(764)	
Cumulative effect of change in accounting principle	(259)	0	NM	0	
Net income	$ 31,748	$ 37,185	(15%)	$ 17,414	$
Net income per share- Basic	$0.81	$0.95	(14%)	$0.44	
Diluted	$0.80	$0.94	(15%)	$0.44	
Weighted average shares outstanding - Basic	39,160,202	39,267,605		39,166,321	39,
Diluted	39,451,134	39,483,252		39,480,690	39,

Total premiums and policy charges increased 5% in the first six months of 2001 as a result of increased production in both property casualty and life business and continued good persistency. Net investment income

increased 14% in the first six months of 2001 while invested assets have grown 5.0% in the six months since December 31, 2000.

Operating income for the first six months decreased by 18% in the property casualty subsidiaries due primarily to an increased level of storm activity

during the first quarter of 2001. The 9% increase in income in the life subsidiary is due to greater premium production and increased investment income. Noninsurance operations were up 29% due primarily to solid growth in the loan and lease portfolios. With an improved interest rate spread, the finance subsidiary was the primary contributor to the approximately $300,000 increase in noninsurance net income.

The Company's net income was negatively impacted by a decrease in realized investment gains. Corporate expenses decreased in the first half of 2001 due to lower interest expense on corporate-related debt primarily used to fund the Company's stock repurchase program.

PROPERTY AND CASUALTY INSURANCE OPERATIONS

The following table sets forth the components of property and casualty insurance earned premiums, net underwriting income, GAAP basis loss, expense and combined ratios, underwriting margin, net investment income and operating income for the six month and three month periods ended June 30, 2001 and 2000:

	Six Months Ended June 30,			Three Months En	
	2001	2000	% Change	2001	2000
	(in thousands)				
Earned premiums					
Personal lines	$186,930	$177,338	5%	$94,162	$89,73
Commercial lines	6,909	6,709	3%	3,503	3,38
Pools, associations and fees	2,153	2,016	7%	1,080	1,02
Reinsurance ceded	(764)	(668)	(14%)	(422)	(34
Total	$195,228	$185,395	5%	$98,323	$93,79
Net underwriting income	$ 14,821	$ 21,078	(30%)	$ 9,980	$11,63
Loss ratio	62.1%	60.4%		58.8%	58.
LAE ratio	4.0%	5.7%		4.2%	6.
Expense ratio	26.3%	22.6%		26.8%	23.
GAAP basis combined ratio	92.4%	88.6%		89.8%	87.
Underwriting margin	7.6%	11.4%		10.2%	12.
Net investment income	$ 14,258	$ 14,000	2%	$ 7,331	$ 7,01
Pre-tax operating income	$ 29,215	$ 35,250	(17%)	$17,382	$18,75
Operating income, net of tax	$ 21,610	$ 26,379	(18%)	$12,497	$14,43

Earned premiums increased 4.8% in the second quarter of 2001 and 5.3% for the first six months of 2001 due to increased production in the number of new homeowner policies written and from continued good persistency in both the automobile and homeowner lines.

The Company's core underwriting results continued to be favorable in comparison to other insurance carriers due in part to a continued good loss ratio in the automobile line of 60%, compared to the 59% loss ratio experienced in the first six months of 2000. The overall loss ratio decreased to 62.1% for the first two quarters of 2001 as the ratio fell to 58.8% for the second quarter following $7.4 million of storm losses in the first quarter of 2001. Approximately $2.5 million of storm losses were incurred in the first quarter of 2000. Loss adjustment expenses in the first six months of 2001 were 4.0% of earned premiums compared to 5.7% in the same period of 2000. This improvement resulted from a decrease in loss adjustment expense reserves made following a review of reserve levels. The increase in business resulting from the mandatory insurance law becoming effective in Alabama in June 2000 has not resulted in the emergence of additional claims cost at the anticipated levels. Consequently, reserves have been adjusted in 2001 to a more normal level. Another factor in the lower underwriting margin was an increase in expenses from 2000 levels created by the inclusion of Specialty in the pool. Another item contributing to the increased expense level was the higher costs related to technology initiatives.

Net investment income increased 2% in the first six months of 2001 in the property casualty subsidiaries due to continued positive cash flow from profitable underwriting results which increased invested assets 7.1% since June 30, 2000.

LIFE INSURANCE OPERATIONS

The following table sets forth life insurance premiums and policy charges, by type of policy, net investment income, benefits and expenses and life insurance operating income for the six month and three month periods ended June 30, 2001 and 2000:

	Six Months Ended June 30,			Three Months Ended Ju	
	2001	2000	% Change	2001	2000	%
	(in thousands)				
Premiums and policy charges					
Universal life policy charges	$ 7,938	$ 7,305	9%	$ 3,992	$ 3,712
Universal life policy charges - COLI	1,732	1,610	8%	475	426
Interest sensitive life policy charges	5,052	5,018	1%	2,545	2,516
Traditional life insurance premiums	13,732	12,682	8%	6,642	6,273
Group life insurance premiums	199	202	(1%)	0	0
Total	$28,653	$26,817	7%	$13,654	$12,927
Net investment income	$22,906	$20,225	13%	$11,636	$10,269
Benefits and expenses	$32,920	$30,297	9%	$16,193	$14,454

Pre-tax operating income	$14,616	$13,112	11%	$ 7,091	$ 6,926
Operating income, net of tax	$10,431	$ 9,551	9%	$ 5,078	$ 5,064

The Company's life insurance premiums and policy charges increased 7% in the first six months of 2001 due to new business and good persistency. First year collected premiums have increased over 29% in the first half of 2001 due to a continuation of increases in sales of term products including the Company's new 30-year level term product which was first offered in January 2001. Written premiums on this product totaled approximately $2.2 million in the first six months of 2001. Total new annualized premium increased 11.5% in the first half of 2001 and 12.1% in all of 2000.

Life insurance operating income increased approximately 9% in the first six months of 2001. This increase was the result of continuing increases in production, good persistency and increased investment income. The mortality ratio of actual to expected death claims increased to 107% in the first six months of 2001 from 97% in the first two quarters of 2000. As a result of the increase in earnings, positive cash flows resulted in a 13.4% increase in invested assets since June 30, 2000, increasing investment income approximately 13%.

NONINSURANCE OPERATIONS

Noninsurance operations were up 29% due primarily to improved operating results of Alfa Financial Corporation, the Company's finance subsidiary. Growth in both the loan and lease portfolios combined with more favorable interest rate spreads contributed to an increase in net income of $819,000 from the finance subsidiary. Noninsurance operations were negatively impacted by the timing of fluctuations in the market value of assets held by the Company's subsidiary covering certain employee benefits while earnings from the real estate and construction subsidiaries were down a total of $325,000 in the first six months of 2001 from the same period in 2000.

CORPORATE

Corporate expenses decreased 38%, or approximately $1.3 million, due to favorable trends in short-term interest rates. This reduction in rates allowed the Company's interest expense to decline from levels experienced in the first six months of 2000 despite an overall increase in commercial paper borrowings since June 30, 2000 of $3.0 million.

INVESTMENTS

The Company has historically produced positive cash flow from operations which has resulted in increasing amounts of funds available for investment and, consequently, higher investment income. Investment income is also affected by yield rates. Information about cash flows, invested assets and yield rates is presented below for the six months ended June 30, 2001 and 2000:

Six Months Ended

	June 30, 2001	June 30, 2000
Increase in invested assets since January 1, 2001 and 2000	5.0%	9.7%
Investment yield rate (annualized)	6.8%	6.6%
Increase in net investment income since June 30, 2000 and 1999	14.1%	6.2%

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The marginal increase in positive cash flow from operations is due primarily to continued profitable operating results in the Company's property and casualty subsidiaries, which had $14.8 million in underwriting income in the first six months of 2001 and to the improved operating results of the Company's life subsidiary, which had $10.4 million in operating income in the same period. The premium from the COLI plan in the life insurance subsidiary is collected in February and provided positive cash flow in the first quarter of both periods. Increases in cash resulting from increased commercial paper borrowings were primarily used to support growth in the loan and lease portfolios of the finance subsidiary, and to fund the Company's stock repurchase program. As a result of the overall positive cash flows from operations, invested assets grew 5.0% since January 1, 2001 and 12.3% since June 30, 2000 (based on amortized cost, which excludes the impact of SFAS 115), and net investment income increased 14.1%. In addition to the increased investment income created by positive cash flow from operations, the Company also had improved investment income results from its finance subsidiary including approximately $900,000 from its commercial lease portfolio purchased on March 31, 2000. The overall yield rate, calculated using amortized cost, has increased slightly to 6.8%. The Company had net realized investment gains of approximately $1.2 million in the first six months of 2001 and $5.6 million in the similar period in 2000. These net gains are primarily from sales of equity securities. Such realized gains are the result of market conditions and therefore can fluctuate from period to period.

The composition of the Company's investment portfolio is as follows at June 30, 2001 and December 31, 2000:

	June 30, 2001	December 31, 2000
Fixed maturities		
Taxable		
Mortgage backed (CMO's)	25.5%	25.4%
Corporate bonds	29.7	30.5
Total taxable	55.2	55.9
Tax exempts	13.7	14.0
Total fixed maturities	68.9	69.9
Equity securities	7.7	8.5
Real estate	0.1	0.2
Policy loans	3.4	3.4
Collateral loans	5.3	5.2
Other long term investments	10.1	8.7

Short term investments	4.5	4.1
	100.0%	100.0%

The majority of the Company's investment portfolio consists of fixed maturities which are diverse as to both industry and geographic concentration. Since December 31, 2000, the overall mix of investments has remained relatively stable with changes due to a shift from fixed maturities to other long term investments and to market value fluctuations in fixed maturities.

The rating of the Company's portfolio of fixed maturities using the Standard & Poor's rating categories is as follows at June 30, 2001 and December 31, 2000:

RATING	June 30, 2001	December 31, 2000
AAA to A-	91.2%	90.6%
BBB+ to BBB-	8.1	8.3
BB+ and Below (Below investment grade)	0.7	1.1
	100.0%	100.0%

The Company considers bonds with a quality rating of BB+ and below to be below investment grade or high yield bonds (also called junk bonds).

At June 30, 2001, approximately 37.0% of fixed maturities were mortgage-backed securities. Such securities are comprised of Collateralized Mortgage Obligations (CMO's) and pass through securities. Based on reviews of the Company's portfolio of mortgage-backed securities, the impact of prepayment risk on the Company's financial position is not believed to be significant. At June 30, 2001, the Company's total portfolio of fixed maturities had gross unrealized gains of $32,522,555 and gross unrealized losses of $17,562,685. Securities are priced by nationally recognized pricing services or by broker/dealer securities firms. No securities were priced by the Company.

During the first six months of 2001, the Company sold approximately $21.0 million in fixed maturities available for sale. These sales resulted in gross realized gains of $115,669 and gross realized losses of $548,624. During the same period in 2000, the Company sold approximately $29.0 million in fixed maturities available for sale. These sales resulted in gross realized gains of $120,365 and gross realized losses of $982,019.

The Company monitors its level of investments in high yield fixed maturities and equity investments held in issuers of high yield debt securities. Management believes the level of such investments is not significant to the Company's financial condition. At June 30, 2001, the Company had unrealized gains of approximately $11.9 million in such investments.

In the first six months of 2001, the Company wrote down four equity

securities totaling $2,080,968, whose declines in value were deemed to be other than temporary and were recorded as a reduction in realized investment gains. In addition, the Company wrote down four bonds during the same period totaling $1,100,243, whose declines in value were also deemed to be other than temporary and were recorded as a reduction in realized investment gains.

The Company's investment in other long term investments consists primarily of consumer loans and commercial leases originated by the finance subsidiary. These loans and leases are collateralized by automobiles, equipment and other property. At June 30, 2001, the delinquency ratio on the loan portfolio was 2.01%, up from 1.81% at December 31, 2000. The delinquency ratio on the lease portfolio at June 30, 2001 was 2.94%, down from 4.68% at December 31, 2000. Credit losses of approximately $275,000 were incurred in the first six months of 2001 including an increase of approximately $50,000 in general reserves attributable to

growth of the consumer loan portfolio. Leases charged off in the first two quarters of 2001 were approximately $101,000. At June 30, 2001, the Company maintained an allowance for loan losses of $732,363 or approximately 1.1% of the outstanding loan balance. In addition, at June 30, 2001, the Company maintained an allowance for lease losses of $857,075 or approximately 1.7% of the outstanding lease balance. Other significant long term investments include assets leased under operating leases, partnership investments and certain other investments.

INCOME TAXES

The effective tax rate in the first six months of 2001 was 28.6% compared to 29.5% for the full year 2000 and 29.3% for the first six months of 2000. The decrease in the effective tax rate in the first six months of 2001 is due primarily to the reduction in income due to increased storm activity. The effective rate has also been impacted by increased tax preference credits on certain investments. Based on information available at June 30, 2001, the Company currently anticipates the effective tax rate for all of 2001 to be approximately 28.9%.

IMPACT OF INFLATION

Inflation increases consumers' needs for both life and property and casualty insurance coverage. Inflation increases claims incurred by property and casualty insurers as property repairs, replacements and medical expenses increase. Such cost increases reduce profit margins to the extent that rate increases are not maintained on an adequate and timely basis. Since inflation has remained relatively low in recent years, financial results have not been significantly impacted by inflation.

LIQUIDITY AND CAPITAL RESOURCES

The Company receives funds from its subsidiaries consisting of dividends, payments for funding federal income taxes, and reimbursement of expenses incurred at the corporate level for the subsidiaries. These funds are used for paying dividends to stockholders, corporate interest and expenses, federal income taxes, and for funding additional investments in its subsidiaries' operations.

The Company's subsidiaries require cash in order to fund policy acquisition

costs, claims, other policy benefits, interest expense, general operating expenses, and dividends to the Company. The major sources of the Company's liquidity are operations and cash provided by maturing or liquidated investments. A significant portion of the Company's investment portfolio consists of readily marketable securities which can be sold for cash. Based on a review of the Company's matching of asset and liability maturities and on the interest sensitivity of the majority of policies in force, management believes the ultimate exposure to loss from interest rate fluctuations is not significant.

On October 25, 1993, the Company established a Stock Incentive Plan, pursuant to which a maximum aggregate of 2,000,000 shares of common stock were reserved for grant to key personnel. On April 26, 2001, the plan was amended to increase the maximum aggregate number of shares available for grant to 3,200,000 shares. Under the plan, options ratably become exercisable annually over three years and may not be exercised after ten years after the date of the award. During March 2001, the Company issued 202,000 options.

The Company's Board of Directors has approved stock repurchase programs authorizing the repurchase of up to 4,000,000 shares of its outstanding common stock in the open market or in negotiated transactions in such quantities and at such times and prices as management may decide. During the first six months of 2001, the Company repurchased 81,150 shares at a cost of $1,527,821. At June 30, 2001, the total repurchased was 3,126,250 shares at a cost of $39,605,349. The Company has reissued 451,366 treasury shares as a result of option exercises.

Total borrowings increased $24.0 million in the first six months of 2001 to $167.2 million. At June 30, 2001, the Company had approximately $136.8 million in commercial paper outstanding at rates ranging from 3.82% to 4.25% with maturities ranging from July 2, 2001 to August 17, 2001. The Company intends to continue to use the commercial paper program to fund the consumer loan portfolio, commercial lease portfolio and other corporate short term needs. Backup lines of credit are in place up to $180 million. The Company has an A-1+, P-1 commercial paper rating from Standard & Poor's and Moody's Investors Service. The commercial paper is guaranteed by an affiliate, Alfa Mutual Insurance Company. In addition, the Company had $30.4 million in short-term debt outstanding to affiliates at June 30, 2001 with interest equal to commercial paper rates payable monthly.

Cash surrenders paid to policyholders on a statutory basis totaled $8.2 million in the first six months of 2001 and $8.5 million for the first six months of 2000. This level of surrenders is within the Company's pricing expectations. Historical persistency rates indicate a normal pattern of surrender activity. The structure of the surrender charges is such that persistency is encouraged. The majority of the policies in force have surrender charges which grade downward over a 12 to 15 year period. In addition, the majority of the in-force business is interest sensitive type policies which generally have lower rates of surrender. At June 30, 2001, the total amount of cash that would be required to fund all amounts subject to surrender was approximately $427.9 million.

The Company's business is concentrated geographically in Alabama, Georgia and Mississippi. Accordingly, unusually severe storms or other disasters in these contiguous states might have a more significant effect on the Company than on a more geographically diversified insurance company. Unusually severe storms, other natural disasters and other events could have an adverse impact on the Company's financial condition and operating results. However, the Company's current catastrophe protection program, which began November 1, 1996, reduced

the earnings volatility caused by such catastrophe exposures.

Increasing public interest in the availability and affordability of insurance has prompted legislative, regulatory and judicial activity in several states. This includes efforts to contain insurance prices, restrict underwriting practices and risk classifications, mandate rate reductions and refunds, eliminate or reduce exemptions from antitrust laws and generally expand regulation. Because of Alabama's low automobile rates as compared to rates in most other states, the Company does not expect the type of punitive legislation and initiatives found in some states to be a factor in its primary market in the immediate future. In 1999, the Alabama legislature passed a tort reform package that should help to curb some of the excessive litigation experienced in recent years. In addition, a mandatory insurance bill was passed to require motorists to obtain insurance coverage beginning in June 2000. While this requirement will affect both the revenues and losses incurred by the Company in the future, the full extent or impact is not possible to predict and the Company believes any impact on future results will not be significant.

FINANCIAL ACCOUNTING DEVELOPMENTS

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" in June 1998. This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in investment securities and other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The accounting for changes in the fair value of a derivative will be included in either earnings or other comprehensive income depending on the intended use of the derivative instrument. This standard, as amended by SFAS No. 137 and SFAS No. 138, became effective for the Company January 1, 2001. At this time, the Company does not anticipate this standard having a significant impact on the Company's financial position or income as it does not use derivative instruments in the normal course of business. On January 1, 2001, the Company recorded approximately $259,000, net of tax, as the effect upon adoption of this standard.

The FASB also issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (a replacement of SFAS No. 125)" in September 2000. At this time, the Company does not anticipate this standard having a significant impact on the Company's financial position or income.

The FASB recently issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets," in June 2001. Based on current information available and the fact that the Company has not engaged in material transactions covered by these standards, the Company does not anticipate these standards having a significant impact on the Company's financial position or income.

INFORMATION ABOUT FORWARD-LOOKING STATEMENTS

Any statement contained in this report which is not a historical fact, or which might otherwise be considered an opinion or projection concerning the Company or its business, whether expressed or implied, is meant as and should be considered a forward-looking statement as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based

on assumptions and opinions concerning a variety of known and unknown risks, including but not necessarily limited to changes in market conditions, natural disasters and other catastrophic events, increased competition, changes in availability and cost of reinsurance, changes in governmental regulations, technological changes, political and legal contingencies and general economic conditions, as well as other risks and uncertainties more completely described in the Company's filings with the Securities and Exchange Commission. If any of these assumptions or opinions prove incorrect, any forward-looking statements made on the basis of such assumptions or opinions may also prove materially incorrect in one or more respects and may cause actual future results to differ materially from those contemplated, projected, estimated or budgeted in such forward-looking statements.

Item 3.

MARKET RISK DISCLOSURES

The Company's objectives in managing its investment portfolio are to maximize investment income and investment returns while minimizing overall credit risk. Investment strategies are developed based on many factors including underwriting results, overall tax position, regulatory requirements, and fluctuations in interest rates. Investment decisions are made by management and approved by the Board of Directors. Market risk represents the potential for loss due to adverse changes in the fair value of securities. The market risk related to the Company's fixed maturity portfolio are primarily interest rate risk and prepayment risk. The market risk related to the Company's equity portfolio is equity price risk. There have been no material changes to the Company's market risk for the six months ended June 30, 2001. For further information, reference is made to Management's Discussion and Analysis of Results of Operations in Alfa Corporation's Annual Report on Form 10-K for the year ended December 31, 2000.

PART II. OTHER INFORMATION

Item 1.

LEGAL PROCEEDINGS

Certain legal proceedings are in process at June 30, 2001. Costs for these and similar legal proceedings, including accruals for outstanding cases, totaled approximately $352,000 in the first six months of 2001, $3.0 million in 2000, $6.5 million in 1999 and $5.2 million in 1998. These proceedings involve alleged breaches of contract, torts, including bad faith and fraud claims, and miscellaneous other causes of action. These lawsuits involve claims for mental anguish and punitive damages. Approximately 17 legal proceedings against Alfa Life Insurance Corporation (Life) are in process at June 30, 2001. Of the 17 proceedings, three were filed in 2001, five were filed in 2000, seven were filed in 1999, one was filed in 1997, and one was filed in 1996. In a case tried in January 2001, in Barbour County, Alabama, the jury returned a verdict for the plaintiff against Life for $500,000 in compensatory damages and $5,000,000 in

punitive damages. After Life filed post-trial motions, the trial court reduced the punitive damage award to $1,500,000. Life has appealed the award to the Alabama Supreme Court. Two of the 17 pending legal proceedings against Life were filed as purported class actions. At present, only one class action has been certified against Life. The trial court order certifying that class action has been appealed to the Alabama Supreme Court. In addition, one purported class action lawsuit is pending against both Alfa Builders, Inc. and Alfa Mutual Fire Insurance Company. Additionally, four purported class action lawsuits are pending against the property and casualty mutual companies involving a number of issues and allegations which could affect the Company because of a pooling agreement between the companies. No class has been certified in any of these five purported class action cases. It should be noted that in Alabama, where the Company has substantial business, the likelihood of a judgment in any given suit, including a large mental anguish and/or punitive damage award by a jury, bearing little or no relation to actual damages, continues to exist, creating the potential for unpredictable material adverse financial results.

Item 6.

EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

11 - Statement of Computation of Per Share Earnings

15 - Letter from KPMG LLP Regarding Unaudited Interim Financial Information

(b) Reports on Form 8-K:

There were no reports on Form 8-K filed during the quarter ended June 30, 2001.

Items other than those listed above are omitted because they are not required or are not applicable.

SIGNATURES

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

ALFA CORPORATION

Date 8/13/01 By: /s/ Jerry A. Newby

Jerry A. Newby
President

Date 8/13/01 By: /s/ Stephen G. Rutledge

Stephen G. Rutledge
Senior Vice President,
(Chief Financial Officer and
Chief Investment Officer)