ALFA CORP
Form 10-Q
May 11, 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 March 31, 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 March 31, 2001
Common Stock, $1.00 par value	39,132,478 shares

ALFA CORPORATION

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ALFA CORPORATION
CONSOLIDATED BALANCE SHEETS

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Assets	
Investments:	
Fixed Maturities Held for Investment, at amortized cost (fair value $752,862 in 2001 and $792,959 in 2000)	$

Fixed Maturities Available for Sale, at fair value (amortized cost $962,617,756 in 2001 and $937,730,993 in 2000)	9
Equity Securities, at fair value (cost $58,073,917 in 2001 and $53,687,943 in 2000)	1
Mortgage Loans on Real Estate	
Investment Real Estate (net of accumulated depreciation of $1,355,426 in 2001 and $1,299,407 in 2000)	
Policy Loans	
Collateral Loans	
Other Long-term Investments	1
Short-term Investments	

Total Investments	1,3
Cash	
Accrued Investment Income	
Accounts Receivable	
Reinsurance Balances Receivable	
Due from Affiliates	
Deferred Policy Acquisition Costs	1
Other Assets	

Total Assets	$1,5
	====
Liabilities	
Policy Liabilities and Accruals - Property and Casualty Insurance	$ 1
Policy Liabilities and Accruals - Life Insurance	5
Unearned Premiums	1
Dividends to Policyholders	
Premium Deposit and Retirement Deposit Funds	
Deferred Income Taxes	
Other Liabilities	
Due to Affiliates	
Commercial Paper	1
Notes Payable	
Notes Payable to Affiliates	

Total Liabilities	1,1

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 - 39,132,478; 2000 - 39,148,527	
Capital in Excess of Par Value	
Accumulated Other Comprehensive Income	
Retained Earnings	4
Treasury Stock: at cost (2001-2,759,034 shares; 2000-2,742,985 shares)	(

Total Stockholders' Equity	4

Total Liabilities and Stockholders' Equity	$1,5
	====

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

ALFA CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

Revenues	
Premiums - Property and Casualty Insurance	$
Premiums and Policy Charges - Life Insurance	
Net Investment Income	
Realized Investment Gains	
Other Income	
Total Revenues	1
Benefits and Expenses	
Benefits & Settlement Expenses	
Dividends to Policyholders	
Amortization of Deferred Policy Acquisition Costs	
Other Operating Expenses	
Total Expenses	1
Income Before Provision for Income Taxes	
Provision for Income Taxes	
Net Income Before Cumulative Effect of Changes in Accounting Principle, Net of Tax Benefit	
Cumulative Effect of Changes in Accounting Principle, Net of Income Tax Benefit of $139,344	
Net Income	$
Operating Income	$
Earnings Per Share:	
Operating Income	
- Basic	
- Diluted	
Net Income Before Cumulative Effect of Changes in Accounting Principle, Net of Tax Benefit	
- Basic	

- Diluted

Cumulative Effect of Changes in Accounting Principle,
Net of Tax Benefit
- Basic
- Diluted

Net Income
- Basic
- Diluted

Average Shares Outstanding
- Basic
- Diluted

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

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ALFA CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

Net Income	$
Other Comprehensive Income, net of tax:	
Unrealized Investment Gains on Securities Available for Sale	
Less: Reclassification Adjustment for Realized Investment Gains	
Total Other Comprehensive Income	
Total Comprehensive Income	$

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

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ALFA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

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Cash Flows From Operating Activities:
Net Income $

Adjustments to Reconcile Net Income to Net Cash
Provided by Operating Activities:
Policy Acquisition Costs Deferred
Amortization of Deferred Policy Acquisition Costs
Depreciation and Amortization
Provision for Deferred Taxes
Interest Credited on Policyholders' Funds
Net Realized Investment Gains
Other
Changes in Operating Assets and Liabilities:
(Increase) in Accrued Investment Income
Decrease in Accounts Receivable
Decrease (Increase) in Reinsurance Balances Receivable
(Increase) in Amounts Due From Affiliates
Increase in Amounts Due to Affiliates
Decrease in Other Assets
Increase in Liability for Policy Reserves
Increase in Liability for Unearned Premiums
(Decrease) in Amounts Held for Others
(Decrease) Increase in Other Liabilities

Net Cash Provided by Operating Activities

Cash Flows From Investing Activities:
Maturities and Redemptions of Fixed Maturities Held for Investment
Maturities and Redemptions of Fixed Maturities Available for Sale
Maturities and Redemptions of Other Investments
Sales of Fixed Maturities Available for Sale
Sales of Other Investments
Purchase of Fixed Maturities Available for Sale
Purchase of Other Investments
Net Decrease in Short-term Investments
Net (Increase) Decrease in Receivable/Payable on Securities

Net Cash (Used in) Investing Activities

Cash Flows From Financing Activities:
Increase in Commercial Paper
(Decrease) in Notes Payable
(Decrease) Increase in Notes Payable to Affiliates
Stockholder Dividends Paid

Purchase of Treasury Stock	
Proceeds from Exercise of Stock Options	
Deposits of Policyholders' Funds	
Withdrawal of Policyholders' Funds	
Net Cash Provided by Financing Activities	
Net Increase (Decrease) in Cash	
Cash - Beginning of Period	
Cash - End of Period	$
Supplemental Disclosures of Cash Flow Information	
Cash Paid During the Year for:	
Interest	$
Income Taxes	$

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

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ALFA CORPORATION
NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS
March 31, 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 three month period ended March 31, 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 March 31, 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 three 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.

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(Note 2. Continued)

The following table sets forth the premiums and losses ceded to and assumed from the pool for the three month periods ended March 31, 2001 and 2000:

	Three Months Ended March 31,	
	2001	2000
	(in thousands)	
Premiums ceded to pool	$17,007	$15,538
Premiums assumed from pool	$97,247	$91,925
Losses ceded to pool	$13,957	$10,869
Losses assumed from pool	$63,398	$58,696

The Company incurred $7.4 million and $2.5 million in storm losses in the first three months of 2001 and 2000, respectively.

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 March 31, 2001. Costs for these and similar legal proceedings, including accruals for outstanding cases, totaled approximately $47,000 in the first quarter 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 19 legal proceedings against Alfa Life Insurance Corporation (Life) are in process at March 31, 2001. Of the 19 proceedings, one was filed in 2001, five were filed in 2000, nine were filed 1999, one was filed in 1998, two were 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. Life has filed post-trial motions requesting that the trial court reverse the jury verdict and render a verdict for Life or, in the alternative, grant Life a new trial or substantially reduce the verdict. These motions are pending. If the trial court denies the motions, Life will appeal the verdict. Two of the 19 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

(Note 3. Continued)

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 three months ended March 31, 2001 and 2000:

	Three Months Ended March 31,		
	2001	2000	% Change
	(in thousands)		
Earned Premiums			
Personal lines	$92,768	$87,607	6 %

Commercial lines	3,406	3,325	2 %
Pools, associations and fees	1,073	993	8 %
Reinsurance ceded	(342)	(328)	4 %
Total	$96,905	$91,597	6 %
Net underwriting income	$ 4,841	$ 9,443	(49)%
Loss ratio	65.4%	62.8%	
LAE ratio	3.7%	4.9%	
Expense ratio	25.9%	22.0%	
GAAP basis combined ratio	95.0%	89.7%	
Underwriting margin	5.0%	10.3%	
Net investment income	$ 6,927	$ 6,984	(1)%
Pre-tax operating income	$11,833	$16,497	(28)%
Operating income, net of tax	$ 9,113	$11,946	(24)%

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(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 three months ended March 31, 2001 and 2000:

	Three Months Ended March 31,		
	2001	2000	% Change
	(in thousands)		
Premiums and policy charges			
Universal life policy charges	$ 3,946	$ 3,593	10%
Universal life policy charges - COLI	1,257	1,184	6%
Interest sensitive life policy charges	2,507	2,502	0%
Traditional life insurance premiums	7,090	6,409	11%
Group life insurance premiums	199	202	(1%)
Total	$14,999	$13,890	8%
Net investment income	$11,270	$ 9,956	9%
Benefits and expenses	$16,727	$15,843	6%

Pretax operating income	$ 7,525	$ 6,186	22%
Operating income, net of tax	$ 5,353	$ 4,487	19%

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 three-month period ended March 31, 2001 was income of approximately $19,000.

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, 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.

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(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.

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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 March 31, 2001, and the related consolidated statements of income, comprehensive income and cash flows for the three-month periods ended March 31, 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
May 10, 2001
Birmingham, Alabama

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MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

The following table sets forth consolidated summarized income statement information for the three months ended March 31, 2001 and 2000:

	Three Months Ended March 31,		
	2001	2000	% Change
	(in thousands except share and per share data)		
Revenues			
Property and casualty insurance premiums	$ 96,905	$ 91,597	4 %
Life insurance premiums and policy charges	14,999	13,890	10 %
Total premiums and policy charges	$ 111,904	$ 105,487	6 %

Net investment income	$ 19,163	$ 17,132	12 %
Total revenues	$ 132,932	$ 124,287	7 %
Net Income			
Property and casualty insurance	$ 9,113	$ 11,946	(24)%
Life insurance	5,353	4,487	19 %
Total insurance operations	14,466	16,433	(12)%
Noninsurance operations	812	581	40 %
Net realized investment gains	680	563	21 %
Corporate expenses	(1,365)	(1,227)	(11)%
Cumulative effect of changes in accounting principles	(259)	0	NM
Net income	$ 14,334	$ 16,350	(12)%
Net income per share - Basic	$ 0.37	$ 0.41	(12)%
Diluted	$ 0.36	$ 0.41	(12)%
Weighted average shares outstanding - Basic	39,153,707	39,438,331	
Diluted	39,423,413	39,640,043	

Total premiums and policy charges increased 6% in the first three months of 2001 as a result of increased production in both property casualty and life business and continued good persistency. Net investment income increased 12% in the first three months of 2001 while invested assets have grown 3.0% in the three months since December 31, 2000.

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Operating income decreased by 24% in the property casualty subsidiaries due primarily to an increased level of storm activity during the first three months of 2001. The 19% increase in income in the life subsidiary is due to greater premium production and an improved mortality rate. Noninsurance operations were up 40% due primarily to solid growth in both loan and lease portfolios. With an improved interest rate spread, the finance subsidiary was the primary contributor to the approximately $230,000 increase in noninsurance net income.

The Company's net income was positively impacted by an increase in realized investment gains. Corporate expenses increased in the first quarter of 2001 due to increased costs related to stockholder communications and the timing of certain other annual corporate expenses.

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 three months ended March 31, 2001 and 2000:

	Three Months Ended March 31,		
	2001	2000	% Change
	(in thousands)		
Earned Premiums			
Personal lines	$92,768	$87,607	6 %
Commercial lines	3,406	3,325	2 %
Pools, associations and fees	1,073	993	8 %
Reinsurance ceded	(342)	(328)	4 %
Total	$96,905	$91,597	6 %
Net underwriting income	$ 4,841	$ 9,443	(49)%
Loss ratio	65.4%	62.8%	
LAE ratio	3.7%	4.9%	
Expense ratio	25.9%	22.0%	
GAAP basis combined ratio	95.0%	89.7%	
Underwriting margin	5.0%	10.3%	
Net investment income	$ 6,927	$ 6,984	(1)%
Pre-tax operating income	$11,833	$16,497	(28)%
Operating income, net of tax	$ 9,113	$11,946	(24)%

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Earned premiums increased 5.8% in the first three months of 2001 due to increased production in the number of new automobile 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 59%, the same as was experienced in the first three months of 2000. The overall loss ratio increased to 65.4% due to $7.4 million of storm losses in the first quarter of 2001. Approximately $2.5 million of storm losses were incurred in the same period of 2000. Loss adjustment expenses in the first quarter of 2001 were 3.7% of earned premiums compared to 4.9% 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 were adjusted in the first quarter of 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. Other items contributing to the increased expense level were higher franchise taxes and adjustments in the reserve for employees paid time off.

Net investment income decreased 0.8% in the first three months of 2001 in the property casualty subsidiaries due to continued positive cash flow from profitable underwriting results which increased invested assets 8.5% since March 31, 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 three months ended March 31, 2001 and 2000:

	Three Months Ended March 31,		
	2001	2000	% Change
	(in thousands)		
Premiums and policy charges			
Universal life policy charges	$ 3,946	$ 3,593	10 %
Universal life policy charges - COLI	1,257	1,184	6 %
Interest sensitive life policy charges	2,507	2,502	0 %
Traditional life insurance premiums	7,090	6,409	11 %
Group life insurance premiums	199	202	(1)%
Total	$14,999	$13,890	8 %
Net investment income	$11,270	$ 9,956	13 %
Benefits and expenses	$16,727	$15,843	6 %
Pretax operating income	$ 7,525	$ 6,186	22 %
Operating income, net of tax	$ 5,353	$ 4,487	19 %

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The Company's life insurance premiums and policy charges increased 8% in the first three months of 2001 due to new business and good persistency. First year collected premiums have increased over 22% in the first quarter 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 $1.1 million in the first quarter of 2001. Total new annualized premium increased 16.2% in the first quarter of 2001 and 12.1% in all of 2000.

Life insurance operating income increased approximately 19% in the first three months of 2001. This increase was the result of continuing increases in production, good persistency and a reduction in death claims. The mortality ratio of actual to expected death claims decreased to 98% in the first three months of 2001 from 110% in the first quarter of 2000. As a result of the increase in earnings, positive cash flows resulted in a 8.7% increase in invested assets which increased investment income approximately 13%.

NONINSURANCE OPERATIONS

Noninsurance operations were up 40% 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 $212,000 from the finance subsidiary. While noninsurance operations were positively impacted by the timing of fluctuations in the market value of assets held by the Company's subsidiary covering certain employee benefits, earnings from the real estate and construction subsidiaries were down a total of $159,000 in the first three months of 2001 from the same period in 2000.

CORPORATE

Corporate expenses increased 11%, or approximately $138,000, due to increased expenses related to stockholder communications and the timing of certain other annual corporate expenses. Favorable trends in short-term interest rates allowed the Company's interest expense to decline slightly from levels experienced in the first quarter of 2000 despite an overall increase in commercial paper borrowings since March 31, 2000 of $7.3 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 three months ended March 31, 2001 and 2000:

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000
Increase in invested assets since January 1, 2001 and 2000	3.0%	6.8%
Investment yield rate (annualized)	6.7%	6.6%
Increase in net investment income since March 31, 2000 and 1999	11.9%	4.5%

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 $4.8 million in underwriting income in the first quarter of 2001 and to the improved operating results of the Company's life subsidiary, which had $5.4 million in operating income in the same period. The premium from the COLI plan in the life insurance subsidiary is collected in February and has 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 3.0% since January 1, 2001 and 13.2% since March 31, 2000 (based on amortized cost, which excludes the impact of SFAS 115), and net investment income increased 11.9%. 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 $480,000 from its commercial lease portfolio purchased on March 31, 2000. The overall yield rate, calculated using amortized cost, has increased slightly to 6.7%. The Company had net realized investment gains of approximately $1.0 million in the first three months of 2001 and $900,000 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 March 31, 2001 and December 31, 2000:

	March 31, 2001	December 31, 2000
Fixed maturities		
Taxable		
Mortgage backed (CMO's)	26.2%	25.4%
Corporate bonds	30.9	30.5
Total taxable	57.1	55.9
Tax exempts	13.9	14.0
Total fixed maturities	71.0	69.9
Equity securities	7.7	8.5
Real estate	0.1	0.2
Policy loans	3.4	3.4
Collateral loans	5.1	5.2
Other long term investments	9.4	8.7
Short term investments	3.3	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 year-end, the overall mix of investments has remained relatively stable with changes due to a shift from short term investments to fixed maturities and to market value fluctuations in fixed maturities.

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

	March 31, 2001	December 31, 2000
RATING		

AAA to A-	91.2%	90.6%
BBB+ to BBB-	7.6	8.3
BB+ and Below (Below investment grade)	1.2	1.1
	100.0%	100.0%

One hundred percent of the fixed maturity portfolio was rated by an outside rating service. No securities were rated by Company management. 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 March 31, 2001, approximately 36.9% 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 March 31, 2001, the Company's total portfolio of fixed maturities had gross unrealized gains of $39,041,902 and gross unrealized losses of $10,886,136. Securities are priced by nationally recognized pricing services or by broker/dealer securities firms. No securities were priced by the Company.

During the first three months of 2001, the Company sold approximately $13.1 million in fixed maturities available for sale. These sales resulted in gross realized gains of $9,959 and gross realized losses of $547,089. During the first three months of 2000, the Company sold approximately $6.1 million in fixed maturities available for sale. These sales resulted in gross realized losses of $346,816.

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 March 31, 2001, the Company had unrealized gains of approximately $12.9 million in such investments.

In the first three months of 2001, the Company wrote down two equity securities totaling $575,312, 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 March 31, 2001 the delinquency ratio on the loan portfolio was 1.70%, down from 1.81% at December 31, 2000. The delinquency ratio on the lease portfolio at March 31, 2001 was 3.01%, down from 4.68% at December 31, 2000. Credit losses of approximately $113,000 were incurred in the first quarter of 2001 including an increase of approximately $11,000 in general reserves

attributable to growth of the consumer loan portfolio. Leases charged off in the first quarter of 2001 were approximately $69,000. At March 31, 2001, the Company maintained an allowance for loan losses of $665,693 or approximately 1.0% of the outstanding loan balance. In addition, at March 31, 2001, the Company maintained an allowance for lease losses of $682,078 or approximately 1.5% 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 three months of 2001 was 27.9% compared to 29.5% for the full year 2000 and 29.1% for the first three months of 2000. The decrease in the effective tax rate in the first three 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 March 31, 2001, the Company currently anticipates the effective tax rate for all of 2001 to be approximately 29.8%.

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 three months of 2001, the Company repurchased 64,350 shares at a cost of $1,208,769. At March 31, 2001, the total repurchased was 3,109,450 shares at a cost of

$39,286,297. The Company has reissued 369,316 treasury shares as a result of option exercises.

Total borrowings increased $6.4 million in the first three months of 2001 to $149.6 million. At March 31, 2001, the Company had approximately $127.1 million in commercial paper outstanding at rates ranging from 4.93% to 5.46% with maturities ranging from April 1, 2001 to May 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 $135 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 $22.4 million in short-term debt outstanding to affiliates at March 31, 2001 with interest equal to commercial paper rates payable monthly and $103,427 outstanding in other short-term debt at a rate of 7.0%.

Cash surrenders paid to policyholders on a statutory basis totaled $4.3 million in the first three months of 2001 and $4.1 million for the first three 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 March 31, 2001, the total amount of cash that would be required to fund all amounts subject to surrender was approximately $434.5 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, 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.

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 three months ended March 31, 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 6.

EXHIBITS AND REPORTS ON FORM 8-K

None.

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 5/11/01

By: /s/ Jerry A. Newby

Jerry A. Newby
President

Date 5/11/01

By: /s/ Stephen G. Rutledge

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