ALFA CORP
Form 10-K
March 25, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934

For Fiscal Year Ended December 31, 2001 — Commission File Number 0-11773

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

Delaware	63-0838024
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
2108 East South Boulevard P.O. Box 11000, Montgomery, Alabama	36191-0001
(Address of principal executive offices)	(Zip-Code)

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

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

None

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

Common Stock, par value $1.00 per share

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 ___

The aggregate market value of the voting stock held by nonaffiliates of the Registrant as of February 28, 2002, was $509,317,389.

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 December 31, 2001
Common Stock, $1.00 par value	39,179,678 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's annual report to security holders for the fiscal year ended December 31, 2001, and proxy statement for the annual meeting of stockholders to be held April 25, 2002, are incorporated by reference into Part II and Part III.

Part I

Item 1. Business.

Alfa Corporation is a financial services holding company which operates predominantly in the insurance industry through its wholly-owned subsidiaries Alfa Life Insurance Corporation (Life), Alfa Insurance Corporation (AIC), Alfa General Insurance Corporation (AGIC), Alfa Agency Mississippi, Inc. and Alfa Agency Georgia, Inc. Other wholly-owned noninsurance subsidiaries include Alfa Financial Corporation (Financial), Alfa Investment Corporation, Alfa Builders, Inc. (Builders), Alfa Realty, Inc. (Realty) and Alfa Benefits Corporation (ABC), which are engaged in consumer financing, commercial leasing, real estate investments, residential and commercial construction, real estate sales and benefit services for the Alfa Group.

Alfa Corporation is affiliated with Alfa Mutual Insurance Company, Alfa Mutual Fire Insurance Company, and Alfa Mutual General Insurance Company (collectively, the Mutual Group). The Mutual Group owns 52.3% of Alfa Corporation's common stock, their largest single investment. Alfa Corporation and its subsidiaries (the Company) together with the Mutual Group comprise the Alfa Group (Alfa). The Company's common stock is traded on the NASDAQ Stock Market's National Market under the symbol ALFA.

Alfa Corporation's insurance subsidiaries write life insurance in Alabama, Georgia and Mississippi and property and casualty insurance in Georgia and Mississippi. Its property and casualty business is pooled with that of the Alfa Mutual Insurance Companies which write property and casualty business in Alabama. Approximately 81.2% of the Company's property and casualty premium income and 71.1% of its total premium income for 2001 was derived from the Company's participation with the Mutual Group in a 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. On January 1, 2001, Alfa Mutual Fire Insurance Company and Alfa Specialty Insurance Corporation (Specialty), a subsidiary of Mutual, became participants 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 including Specialty. 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 disasters to its pool share (65%) of a lower catastrophe pool limit unless the loss exceeded an upper catastrophe pool limit. In cases

where the upper catastrophe limit is exceeded on a 100% basis, the Company's share in the loss would be based upon its amount of surplus relative to other members of the group. Lower and upper catastrophe pool limits are adjusted periodically due to increases in insured property risks. The limits and participation levels since inception of the program are summarized below:

	Lower Catastrophe Pool Limit (millions)	Upper Catastrophe Pool Limit (millions)	Coinsurance Alloca of Catastrophes Exceeding Upper Catastrophe Pool L
November 1, 1996	$10.0	$249.0	13%
July 1, 1999	11.0	284.0	13%
January 1, 2001	11.4	284.0	14%
January 1, 2002	11.6	289.0	16%

The Boards of Directors of the Mutual Group and of the Company's property and casualty insurance subsidiaries have established the pool participation percentages and must approve any changes in such participation. The Alabama Insurance Department reviewed the Pooling Agreement and the Department determined that the implementation of the Pooling Agreement did not require the Department's approval.

A committee consisting of two members of the Boards of Directors of the Mutual Group, two members of the Board of Directors of the Company and Jerry A. Newby, as chairman of each such Board, has been established to review and approve any changes in the Pooling Agreement. The committee is responsible for matters involving actual or potential conflicts of interest between the Company and the Mutual Group and for attempting to ensure that, in operation, the Pooling Agreement is equitable to all parties. Conflicts in geographic markets are currently minimal because the Mutual Group writes property and casualty insurance only in Alabama and at present all of such insurance written by the Company is outside of Alabama. The Pooling Agreement is intended to reduce conflicts which could arise in the selection of risks to be insured by the participants by making the results of each participant's operations dependent on the results of all of the Pooled Business. Accordingly, the participants should have substantially identical underwriting ratios for the Pooled Business excluding catastrophes as long as the Pooling Agreement remains in effect. See "Property and Casualty Business" section regarding impact of catastrophes.

The participation of the Company in the Pooling Agreement may be changed or terminated without the consent or approval of the shareholders, and the Pooling Agreement may be terminated by any party thereto upon 90 days notice. Any such termination, or a change in the Company's allocated share of the Pooled

Business, inclusion of riskier business or certain types of reinsurance assumed in the pool, or other changes to the Pooling Agreement, could have a material adverse impact on the Company's earnings. Participants' respective abilities to share in the Pooled Business are subject to regulatory capital requirements.

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The Company reports operating segments based on the Company's legal entities, which are organized by line of business, with property and casualty insurance as one segment, life insurance as one segment, non-insurance business composed of consumer financing, commercial leasing, residential and commercial construction and real estate sales as one segment, and corporate operations as one segment. All investing activities are allocated to the segments based on the actual assets, investments and cash flows of each segment.

Segment profit or loss for the property and casualty operating segment is measured by underwriting profits and losses as well as by total net profit. Segment profit or loss for the life insurance segment, the noninsurance segment and the corporate segment is measured by total net profit. Segment expenses are borne by the segment which directly incurred such expense or are allocated based on the Management and Operating Agreement discussed in Note 3 of the Company's annual report to security holders for the year ended December 31, 2001 as included in Exhibit 13. Presented below is summarized financial information for the Company's four business segments as of and for the years ended December 31, 2001, 2000 and 1999:

	Years Ended December 31,	
	2001	2000
	(in thousands, except share and per share	
Premiums and other revenues		
Property and casualty insurance	$427,425	$406,628
Life insurance	109,356	99,128
Noninsurance operations	12,420	9,163
Corporate	(2,401)	(4,266)
Premiums and revenues before eliminations	$546,800	$510,653
Eliminations	(504)	(340)
Total premiums and other revenues	$546,296	$510,313
Net income		
Insurance operations		
Property and casualty insurance	$ 45,989	$ 49,551
Life insurance	19,792	17,977
Total insurance operations	$ 65,781	$ 67,528
Noninsurance operations	3,552	1,550

Net realized investment gains	4,191	3,424
Corporate expenses	(3,562)	(5,681)
Cumulative effect of changes in accounting principles	(456)	0
Net income	$ 69,506	$ 66,821
Net income per share		
Basic	$1.78	$1.71
Diluted	$1.76	$1.70
Weighted average shares outstanding		
Basic	39,158,056	39,168,102
Diluted	39,481,641	39,407,152

Property and Casualty Business:

The Alfa Insurance Group's primary business is personal lines property and casualty insurance, which accounts for over 75% of total premiums and approximately 70% of total revenues. Automobile and homeowners insurance account for approximately 85% of property and casualty premiums. In Alabama, the Alfa Insurance Group enjoys a 20% share of the personal automobile and homeowners markets, second only to State Farm. The Company is a direct writer and distributes its products utilizing the employee/agent sales force of Mutual. The following table shows the Company's premium distribution by product in property and casualty insurance for 2001:

Automobile	64.6%
Homeowner	20.4%
Farmowner	5.3%
Commercial	4.6%
Manufactured Home	3.2%
Other	1.9%
	100.0%

The following table sets forth the components of property and casualty insurance earned premiums, net underwriting income (loss), GAAP basis loss, expense and combined ratios, underwriting margin, net investment income and operating income for the years ended December 31, 2001, 2000 and 1999:

	Years Ended December 31,	
	2001	2000
	(in thousands)	

Earned premiums		
Personal lines	$ 379,933	$359,862
Commercial lines	14,062	13,589
Pools, associations and fees	4,363	4,012
Reinsurance ceded	(1,496)	(1,344)
Total	$396,862	$376,119
Net underwriting income	$ 31,368	$ 38,046
Loss ratio	61.7%	61.2%
LAE ratio	3.6%	4.7%
Expense ratio	26.8%	24.0%
GAAP basis combined ratio	92.1%	89.9%
Underwriting margin	7.9%	10.1%
Net investment income	$ 31,278	$ 29,645
Operating income before tax	$ 62,362	$ 68,050
Operating income, net of tax	$ 45,989	$ 49,551

The Company's strategy in property and casualty business has been to operate primarily in its niche, personal lines insurance, and to strive to be the low-cost producer, thereby attracting and underwriting to achieve a preferred, profitable book of business. The Company's objective is to operate with an underwriting profit. Historically, this objective has been met except for five years, which were primarily impacted by catastrophic weather. In the wake of Hurricanes Opal and Erin, Alfa initiated intense studies of its catastrophe management strategy. Effective November 1, 1996, Alfa restructured the catastrophe program and amended the intercompany pooling agreement to allocate catastrophe losses among the members of the pool in a fashion that more equitably reflects the realities of catastrophe finance. As a result, Alfa Corporation's share of the Alfa Group's storm-related losses has been substantially reduced, thus providing much greater earnings stability and growth potential. The lower exposure also means a substantial reduction in reinsurance costs. Alfa Group pooled catastrophe losses for 2001 and 2000 totaled approximately $39 million and $26 million, respectively. The Company's share of such losses totaled $7.4 million and $7.2 million in 2001 and 2000, respectively. No catastrophe losses were incurred in 1999.

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 believes that its current catastrophe protection program, which began November 1, 1996, will reduce the earnings volatility caused by such catastrophe exposures.

Life Insurance:

Life directly writes individual life insurance policies consisting primarily of ordinary whole life, term life, interest sensitive whole life and universal life products in Alabama, Georgia and Mississippi and distributes these products utilizing the same employee/agent sales force used in the property and casualty business. In the highly fragmented life insurance market in Alabama, Alfa ranks second in market share.

Life offers several different types of whole life and term insurance products. As of December 31, 2001, Life had in excess of $15.2 billion of life insurance in force. As of December 31, for each year indicated, the Company had insurance in force as follows:

	2001	2000	1999
	(in thousands)		
Ordinary life	$15,116,190	$13,557,381	$11,970,328
Credit life	$ 9,161	$ 8,217	$ 6,853
Group life	$ 41,957	$ 38,835	$ 38,354

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 years ended December 31, 2001, 2000, and 1999:

	Years Ended December 31,	
	2001	2000
	(in thousands)	
Premiums and Policy Charges		
Universal life policy charges	$16,279	$15,014
Universal life policy charges- COLI	2,677	2,488
Interest sensitive life policy charges	10,105	10,509
Traditional life insurance premiums	26,682	24,743
Group life insurance premium	264	324
Total	$56,007	$53,078
Net investment income	$46,623	$41,958
Benefits and expenses	$66,929	$62,966

Operating income before tax	$27,653	$24,841
Operating income, net of tax	$19,792	$17,977

A discussion of the Company's operating results shown above is included on page 5 of Exhibit 13 representing page 15 of the Company's annual report to security holders for the year ended December 31, 2001.

Life generally reinsures all life insurance risks in excess of $350,000 on any one life for the purpose of limiting the liability of Life with respect to any one risk and providing greater diversification of its exposure. When Life reinsures a portion of its risk it must cede the premium income to the reinsurer who reinsures the risk, thereby decreasing the income of Life.

Life performs various underwriting procedures and blood testing for AIDS and other diseases before issuance of insurance.

Investments:

The Company's income is directly affected by its investment income or loss from its investment portfolio. The capital and reserves of the Company are invested in assets comprising its investment portfolio. The insurance laws prescribe the nature and quality of investments that may be made, and included in its investment portfolio. Such investments include qualified state, municipal and federal obligations, high quality corporate bonds and stocks, mortgage-backed securities, mortgages, consumer loans, commercial leases and certain other assets.

The Company's investment philosophy is long-term and value oriented with focus on total return for both yield and growth potential. During the past ten years, invested assets have grown from $511.9 million to almost $1.5 billion at the end of 2001, a compound annual growth rate of 11.3%. During that same period investment income has more than doubled, growing from $34.8 million to over $84.7 million. At year end, the value of unrealized gains in Alfa's portfolio was $34.0 million, net of tax. The portfolio was invested 64.5% in fixed income securities, 5.0% in equities, 10.1% in short-term marketable securities and 20.2% in other investments which include consumer loans, commercial leases, partnerships and 0.2% in real estate and mortgage loans.

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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 December 31, 2001 and 2000:

	December 31, 2001	December 31, 2000
AAA to A-	88.8%	90.6%
BBB+ to BBB-	10.8%	8.3%
BB+ and below (below investment grade)	.4%	1.1%
	100.0%	100.0%

For more information about the Company's investments, see the investment section of Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 16 through 18 of the Company's annual report to security holders for the fiscal year ended December 31, 2001, which is incorporated herein by reference in Item 7.

Reserves:

The Company's property and casualty insurance subsidiaries are required to maintain reserves to cover their estimated ultimate liability for losses and loss adjustment expenses with respect to reported and unreported claims incurred. The Company's life insurance subsidiary is required to maintain reserves for future policy benefits. To the extent that reserves prove to be inadequate in the future, the Company would have to increase such reserves and incur a charge to earnings in the period such reserves are increased which could have a material adverse effect on the Company's results of operations and financial condition. The establishment of appropriate reserves is an inherently uncertain process and there can be no assurance that ultimate losses will not materially exceed the Company's loss reserves. Reserves are estimates involving actuarial and statistical projections at a given time of what the Company expects to be the cost of the ultimate settlement and administration of claims based on facts and circumstances then known, estimates of future trends in claims severity and other variable factors.

Property and Casualty Reserves: With respect to reported claims, reserves are established on a case-by-case basis. The reserve amounts on each reported claim are determined by taking into account the circumstances surrounding each claim and policy provision relating to the type of loss. Loss reserves are reviewed on a regular basis and, as new data becomes available, appropriate adjustments are made to reserves.

For incurred but not reported ("IBNR") losses, a variety of methods have been developed in the insurance industry for determining estimates of loss reserves. One common method of actuarial evaluation, which is used by the Company, is the loss development method. This method uses the pattern by which losses have been reported over time and assumes that each accident year's experience will develop in the same pattern as the historical loss development.

Reserves are computed by the Company based upon actuarial principles and procedures applicable to the lines of business written by the Company. These reserve calculations are reviewed regularly by management and as required by state law, the Company periodically engages an independent actuary to render an opinion as to the adequacy of statutory reserves established by management, whose opinions are filed with the various jurisdictions in which the Company is licensed. Based upon practice and procedures employed by the Company, without regard to independent actuarial opinions, management believes that the Company's reserves are adequate.

Life Reserves: The life insurance policy reserves reflected in the Company's financial statements as future policy benefits are calculated based on generally accepted accounting principles. These reserves, with the addition of premiums to be received and the interest thereon compounded annually at assumed rates, must be sufficient to cover policy and contract obligations as they mature. Generally, the mortality and persistency assumptions used in the calculation of reserves are based on company experience. A list of the assumptions used in the calculation of Life's reserves are reported in the financial statements (See Note 6 - Future Policy Benefits, Losses and Loss Adjustment Expenses in the Notes to Consolidated Financial Statements on page 37 of the Company's annual report to security holders for the year ended December 31, 2001, incorporated herein by reference).

Activity in the liability for unpaid losses and loss adjustment expenses, prepared in accordance with generally accepted accounting principles, is summarized as follows:

	2001		2000	
	Property and Casualty	Life	Property and Casualty	Life
Balance at January 1,	$145,077,064	$4,694,823	$143,148,690	$ 3,290,410
Less Reinsurance recoverables on unpaid losses	(1,681,098)	(1,251,651)	(1,828,994)	(295,000)
Net balance at January 1,	143,395,966	3,443,172	141,319,696	2,995,410
Incurred related to:				
Current year	281,868,794	18,912,632	266,087,327	16,022,555
Prior years	(22,713,788)	95,565	(18,427,579)	65,933
Total incurred	259,155,006	19,008,197	247,659,748	16,088,488
Paid related to:				
Current year	203,950,000	17,032,871	188,870,000	13,916,158
Prior years	60,626,736	1,547,303	56,713,478	1,724,568
Total paid	264,576,736	18,580,174	245,583,478	15,640,726
Net balance at December 31,	137,974,236	3,871,195	143,395,966	3,443,172
Plus reinsurance recoverables on unpaid losses	2,199,926	954,204	1,681,098	1,251,651
Balance at December 31,	$140,174,162	$ 4,825,399	$145,077,064	$ 4,694,823

The liability for estimated unpaid losses and loss adjustment expenses is based on a detail evaluation of reported losses and of estimates of incurred but not reported losses. Adjustments to the liability based on subsequent developments are included in current operations. Because the Company is primarily an insurer of private passenger motor vehicles and of single family homes, it has limited exposure for environmental, product and general liability claims. The Company does not believe that any such claims will have a material impact on the Company's liquidity, results of operations, cash flows or financial condition.

Other Business:

The Company operates seven other subsidiaries which are not considered to be significant by SEC Regulations for purposes of separate disclosure. These subsidiaries are Alfa Financial Corporation (Financial), a lending and leasing institution, Alfa Investment Corporation, a real estate investment business and its wholly owned subsidiary, Alfa Builders, Inc., a construction company, Alfa Realty, Inc., a real estate sales agency, Alfa Agency Georgia, Inc., Alfa Agency Mississippi, Inc. and Alfa Benefits Corporation, a provider of benefit services for the Alfa Group.

Financial is an institution engaged principally in making consumer loans and originating commercial leases. Loans are available through substantially all agency offices of the Company. These loans and leases are collateralized by automobiles and other property. The Company considers an account to be delinquent if it is thirty or more days late in its scheduled payments. At December 31, 2001, the delinquency ratio on the loan portfolio was 1.78%, or $1.3 million. Loans charged off in 2001 totaled $428,426 or 0.6% of the average outstanding loan portfolio. At December 31, 2001, the Company maintained an allowance for loan losses of $892,076 or approximately 1.1% of the outstanding loan balance. At December 31, 2001, the delinquency ratio on the lease portfolio was 4.37%, or $2.7 million. Leases charged off in 2001 were $441,438 or 0.8% of the average outstanding lease portfolio. At December 31, 2001, the Company maintained an allowance for lease losses of $1,310,041 or approximately 1.8% of the outstanding lease balance.

Alfa Investment Corporation is a Florida corporation engaged in the real estate investment business. Alfa Builders, Inc. is engaged in the construction business in Alabama and is also engaged in real estate investments.

Alfa Realty, Inc., is engaged in the business of listing and selling real estate in the Montgomery, Autauga and Elmore County, Alabama, areas.

Alfa Agency Georgia, Inc. and Alfa Agency Mississippi, Inc. place substandard insurance risks with third party insurers for a commission.

Alfa Benefits Corporation serves as a record keeper by handling employee benefits for the Alfa Group.

Relationship with Mutual Group:

The Company's business and operations are substantially integrated with and dependent upon the management, personnel and facilities of Mutual. Under a Management and Operating Agreement with Mutual, all management personnel are provided by Mutual and the Company reimburses Mutual for field office expenses and operations services rendered by Mutual in the areas of advertising, sales administration, underwriting, legal, sales, claims, management, accounting, securities and investment and other services rendered by Mutual to the Company.

Mutual periodically conducts time usage and related expense allocation studies. Mutual charges the Company for its allocable and directly attributable salaries and other expenses, including office facilities in Montgomery, Alabama.

The Board of Directors of the Company consisted at year end of eleven members, six of whom serve on the Executive Committee of the Boards of the Mutual Group and two of whom are Executive Officers of the Company.

At December 31, 2001, Mutual owned 16,234,988 shares, or 41.44%, Alfa

Mutual Fire Insurance Company owned 4,128,336 shares, or 10.54%, and Alfa Mutual General Insurance Company owned 143,650 shares, or 0.37%, of the Company's outstanding common stock.

Competition:

Both the life and property and casualty insurance businesses are highly competitive. There are numerous insurance companies in the Company's area of operation and throughout the United States. Many of the companies which are in direct competition with the Company have been in business for a much longer period of time, have a larger volume of business, offer a more diversified line of insurance coverage, and have greater financial resources than the Company. In its life and property and casualty insurance businesses, the Company competes with other insurers in the sale of insurance products to consumers and the recruitment and retention of qualified agents. The Company believes that the main competitive factors in its business are price, name recognition and service. The Company believes that it competes effectively in these areas in Alabama. In Georgia and Mississippi, however, the Company's name is not as well recognized, but such recognition is improving.

Financial Ratings:

The Company's property and casualty subsidiaries have the highest A.M. Best rating of A++ and life has an A+ rating. The Company's commercial paper program is rated A-1+ by Standard and Poor's and P-1 by Moody's, both the highest ratings for commercial paper.

Regulation:

The Mutual Group and the Company's insurance subsidiaries are subject to the Alabama Insurance Holding Company Systems Regulatory Act and are subject to reporting to the Alabama Insurance Department and to periodic examination of their transactions and regulation under the Act with Mutual being considered the controlling party.

Additionally, the Company's insurance subsidiaries are subject to licensing and supervision by the governmental agencies in the jurisdictions in which they do business. The nature and extent of such regulation varies, but generally has its source in State Statutes which delegate regulatory, supervisory and administrative powers to State Insurance Commissioners. Such regulation, supervision and administration relate, among other things, to standards of solvency which must be met and maintained, licensing of the companies, periodic examination of the affairs and financial condition of the Company, annual and other reports required to be filed on the financial condition and operation of the Company. Rates of property and casualty insurance are subject to regulation and approval of regulatory authorities. Life insurance rates are generally not subject to prior regulatory approval.

Restrictions on Dividends to Stockholders: The Company's insurance subsidiaries are subject to various state statutory and regulatory restrictions, generally applicable to each insurance company in its state of incorporation, which limit the amount of dividends or distributions by an insurance company to its stockholders. The restrictions are generally based on certain levels of surplus, investment income and operating income, as determined under statutory accounting practices. Alabama law permits dividends in any year which, together with other dividends or distributions made within the preceding 12 months that do not exceed the greater of (i) 10% of statutory surplus as of the end of the preceding year or (ii) for property and casualty companies - the net income for the preceding year, or for life companies - the net gain from operations. Larger dividends are payable only after receipt of regulatory approval. Future dividends from the Company's subsidiaries may be limited by business and regulatory considerations. However, based upon restrictions presently in effect, the maximum amount available for payment of dividends to the Company by its insurance subsidiaries in 2002 without prior approval of regulatory authorities is approximately $58.3 million based on December 31, 2001 financial condition and results of operations.

Risk-Based Capital Requirements: The NAIC adopted risk-based capital requirements that require insurance companies to calculate and report information under a risk-based formula which attempts to measure statutory capital and surplus needs based on the risks in a company's mix of products and investment portfolio. The formula is designed to allow state insurance regulators to identify potential weakly capitalized companies. Under the formula, a company determines "risk-based capital" ("RBC") by taking into account certain risks related to the insurer's assets (including risks related to its investment portfolio and ceded reinsurance) and the insurer's liabilities (including underwriting risks related to the nature and experience of its insurance business). Risk-based capital rules provide for different levels of regulatory attention depending on the ratio of a company's total adjusted capital to its "authorized control level" ("ACL") of RBC. Based on calculations made by the Company, the risk-based capital levels for each of the Company's insurance subsidiaries significantly exceed that which would require regulatory attention.

Personnel:

The Company has no management or operational employees. The Company and its subsidiaries have a Management and Operating Agreement with Mutual whereby it reimburses Mutual for salaries and expenses of employees provided to the Company under the Agreement. Involved are employees in the areas of Life Underwriting, Life Processing, Accounting, Sales, Administration, Legal, Files, Data Processing, Programming, Research, Policy Issuing, Claims, Investments and Management. At December 31, 2001, the Company was represented by 486 agents in Alabama who are employees of Mutual. The Company's property and casualty subsidiaries had 127 independent exclusive agents in Georgia and Mississippi at December 31, 2001. The Company believes its employee relations are good.

Item 2. Properties.

(a) Physical Properties of the Company and Its Subsidiaries. The Company leases it home office facilities in Montgomery, Alabama, from Mutual.

The Company and its subsidiaries own several investment properties, none of which are material.

Item 3. Legal Proceedings.

Certain legal proceedings are in process at December 31, 2001. Costs for these and similar legal proceedings, including accruals for outstanding cases, totaled $930,000 in 2001, $3.0 million in 2000, and $6.5 million in 1999. 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 15 legal proceedings against Alfa Life Insurance Corporation (Life) were in process at December 31, 2001. Of the 15 proceedings, three were filed in 2001, four were filed in 2000, six 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. In a case tried in December 2001, in Bullock County, Alabama, the jury returned a verdict for the plaintiffs against Life for $300,000 in compensatory damages and $3,000,000 in punitive damages. Life has filed post-trial motions asking the trial court to reverse the verdict, or in the alternative, reduce the amount of the verdict. The trial court has issued a post-trial order reducing the punitive damage award to $900,000, pursuant to Alabama's tort reform law. In the event the trial court denies Life's other post-trial motions, Life will appeal the case to the Alabama Supreme Court. Two of the 15 pending legal proceedings against Life have been certified as class actions by the trial court in each case. After the trial court certified the first class action against Life, Life appealed the class certification order to the Alabama Supreme Court. In November 2001, the Alabama Supreme Court reversed the trial court, decertified the class, and remanded the case to the trial court for further proceedings. The recent trial court order certifying the second class action will be 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, five 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 six 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 4. Submission of Matters to Vote of Security Holders. Not applicable.

Executive Officers of the Company:

Pursuant to General Instruction G(3) of Form 10-K, the following is included as an unnumbered item in Part I of this report in lieu of being included in the proxy statement for the annual meeting of stockholders to be held April 25, 2002.

The following is a list of name and ages of all of the executive officers of the Company indicating all positions and offices with the Company held by such person and each such person's principal occupation or employment during the past five years. No person other than those listed below has been chosen to become an executive officer of the Company.

Name	Age	Position
Jerry A. Newby	54	Chairman of the Board and President President of its Subsidiaries and associated companies; President Alabama Farmers Federation, and farmer.
C. Lee Ellis	50	Executive Vice President, Operations and Treasurer of Alfa Corporation and its subsidiaries since 1999 Prior to 1999, Executive Vice President, Investments.
Charles W. Hawkins	64	Executive Vice President, Marketing Prior to 2000, Senior Vice President, Marketing North Alabama
Stephen G. Rutledge	43	Senior Vice President, CFO and Chief Investment Officer Prior to 2000, Senior Vice President, Investments Prior to 1999, Vice President, Investments
Al Scott	46	Senior Vice President, Secretary and General Counsel Prior to 1997, Assistant General Counsel
James R. Azar	65	Senior Vice President, Planning
Thomas E. Bryant	55	Senior Vice President, Human Resources From 1996 to 2001, Vice President, Human Resources, American General Life & Accident Insurance Company
Wyman Cabaniss	50	Senior Vice President, Underwriting Prior to 1998, Vice President, Underwriting
Bill Harper, Jr.	57	Senior Vice President, Life Operations of Alfa Life Insurance Corporation, Vice President of Alfa Financial Corporation since 1978.

Name	Age	Position
John Jung	55	Senior Vice President, Chief Information Officer since October 1999. From 1997 to October 1999, Senior Vice President and Chief Information Officer of California Casualty; prior to that time, Vice President of Chubb Group.
Terry McCollum	65	Senior Vice President, Claims
Ralph Forsythe	47	Vice President, Finance and Assistant CFO,

Chief Accounting Officer
Prior to 2001, Chief Financial Officer, Haights Cross Communications, DBA The Coriolis Group
Prior to 2000, Vice President, Accounting, The United Methodist Publishing House
Prior to 1998, Chief Accounting Officer, The United Methodist Publishing House

Part II

Item 5. Market for the Company's Common Stock and Related Security Holder Matters.

The "Stockholder Information" section on page 39 of Exhibit 13 representing the Inside Back Cover of the Company's annual report to security holders for the fiscal year ended December 31, 2001, is incorporated herein by reference.

Item 6. Selected Financial Data.

The "Selected Financial Data" section on pages 1 and 2 of Exhibit 13 representing pages 6 and 7 of the Company's annual report to security holders for the year ended December 31, 2001, is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The "Management's Discussion and Analysis" section on pages 3 through 14 of Exhibit 13 representing pages 13 through 24 of the Company's annual report to security holders for the fiscal year ended December 31, 2001, is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

The "Quantitative and Qualitative Disclosures about Market Risk" section on pages 8 through 9 of Exhibit 13 representing pages 18 through 19 of the Company's annual report to security holders for the fiscal year ended December 31, 2001, is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data.

The Financial Statements on pages 15 through 38 of Exhibit 13 representing pages 25 through 48 of the Company's annual report to security holders for the fiscal year ended December 31, 2001, are incorporated herein by reference.

Item 9. Disagreements on Accounting and Financial Disclosure.

None.

Part III

Item 10. Directors and Executive Officers of the Company.

For information with respect to the Executive Officers of the Company see Executive Officers of the Company at the end of Part I of this Report. For information with respect to the Directors of the Company, see Election of Directors on Page 2 of the Proxy Statement for the annual meeting of stockholders to be held April 25, 2002 which is incorporated herein by reference.

Item 11. Executive Compensation.

The information set forth under the caption "Executive Compensation" on Page 5 of the Proxy Statement for the annual meeting of stockholders to be held April 25, 2002, except for the report of the Compensation Committee and Performance Graph, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information appearing on Pages 2 through 4 of the Proxy Statement for the annual meeting of stockholders to be held April 25, 2002, relating to the security ownership of certain beneficial owners and management is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

The information set forth under the caption "Executive Compensation" on Page 5 of the Proxy Statement for the annual meeting of stockholders to be held April 25, 2002, is incorporated herein by reference.

Part IV

Item 14. Exhibits, Financial Statement Schedules, Reports on Form 8-K.

(a) The following documents are filed as part of this report:
   1. Financial Statements. (incorporated by reference from pages 15 through 38 of Exhibit 13 representing pages 25 through 48 of the Company's annual report to security holders for the year ended December 31, 2001)

Report of Independent Auditors.

Consolidated Balance Sheets as of December 31, 2001 and 2000.

Consolidated Statements of Income for the years ended December 31, 2001, 2000 and 1999.

Consolidated Statements of Comprehensive Income for the years ended December 31, 2001, 2000 and 1999.

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2001, 2000 and 1999.

Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999.

Notes to Consolidated Financial Statements.

Selected Quarterly Financial Data.

2. Financial Statement Schedules.

Included in Part IV of this report		Pa
Report on Financial Statement Schedules of Independent Auditors		IV
Schedule I -	Summary of Investments Other Than Investments in Related Parties as of December 31, 2001	IV
Schedule II -	Condensed Financial Information	IV-5
Schedule III -	Supplementary Insurance Information	IV
Schedule IV -	Reinsurance for the years ended December 31, 2001, 2000 and 1999	IV
Schedule V -	Valuation and Qualifying Accounts	IV-

Schedules other than those listed above have been omitted because the required information is contained in the financial statements and notes thereto, or because such schedules are not required or applicable.

3. Exhibits.

Exhibit (3) - Articles of Incorporation and By-Laws of the Compa
by reference from the Company's 10-K for the year

1987.

Exhibit (10(a))	Amendment No. 2 to Management and Operating Agree January 1, 1992 is incorporated by reference from for the year ended December 31, 1992.
(10(b))	Insurance Pooling Agreement is incorporated by ref 10-K for the year ended December 31, 1987.
Exhibit (11)	Statement of Computation of Per Share Earnings
Exhibit (13)	The Company's Annual Report to Security Holders fo ended December 31, 2001. Such report, except for t herein by reference, is furnished to the Commissio not deemed filed as part of this report.
Exhibit (19)	Employee Stock Purchase Plan and 1993 Stock Incent reference from the Company's 10-K for the year end
Exhibit (23)	Consent of Independent Accountants

(b) Reports on Form 8-K.

None

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENT SCHEDULES

The Board of Directors
Alfa Corporation:

We have audited and reported separately on the financial statements of Alfa Corporation as of December 31, 2001 and 2000, and for each of the years in the three-year period ended December 31, 2001. Our report and the financial statements of Alfa Corporation are incorporated by reference in the Form 10-K.

Our audits were made for the purpose of forming an opinion on the basic financial statements of Alfa Corporation taken as a whole. The supplementary information included in financial statement Schedules I through V is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ KPMG LLP

Birmingham, Alabama
February 8, 2002

ALFA CORPORATION AND SUBSIDIARIES
SCHEDULE I - SUMMARY OF INVESTMENTS - OTHER THAN
INVESTMENTS IN RELATED PARTIES
December 31, 2001

Type Of Investment	Cost Or Amortized Cost	Fair Value
Fixed maturities:		
Bonds:		
United States Government and government agencies	$ 34,386,948	$ 38,411,
States, municipalities and political subdivisions	252,614,802	259,754,
Public utilities	24,491,946	24,454,
All other corporate bonds	288,494,252	293,664,
Mortgage-backed securities	332,462,411	343,259,
Redeemable preferred stocks	480,000	1,347,
Total fixed maturities	932,930,359	960,892,
Equity securities:		
Common stocks:		
Public utilities	2,657,360	4,175,
Banks, trusts and insurance companies	2,275,051	9,872,
Industrial, miscellaneous and all other	36,958,852	55,306,
Nonredeemable preferred stocks	4,997,982	5,309,
Total equity securities	46,889,245	74,664,
Mortgage loans on real estate	109,556	109,
Real estate	2,712,165	2,712,
Policy loans	49,945,528	49,945,
Collateral loans	88,561,085	92,558,
Other long-term investments	164,056,234	164,056,
Short-term investments	150,255,275	150,255,
Total investments	$1,435,459,447	$1,495,193,

See accompanying independent auditors' report

ALFA CORPORATION (PARENT COMPANY)
SCHEDULE II - CONDENSED FINANCIAL INFORMATION
BALANCE SHEETS
December 31, 2001 and 2000

	2001
ASSETS	
Cash	$ 223,0
Short-term investments	7,5
Investment in subsidiaries*	569,054,0
Note receivable from subsidiaries*	112,771,5
Accounts receivable and other assets	243,5
Total assets	$682,299,7
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Commercial paper	$165,415,9
Notes payable	4,600,0
Other liabilities	3,171,0
Total liabilities	173,186,9
Stockholders' Equity:	
Common stock, $1 par value, shares authorized - 110,000,000; issued - 41,891,512 outstanding - 2001 - 39,187,678; 2000 - 39,156,527	41,891,5
Capital in excess of par value	26,436,1
Accumulated other comprehensive income	33,996,9
Retained earnings	446,032,5
Treasury stock, at cost (shares, 2001 - 2,703,834; 2000 - 2,734,985)	(39,244,3
Total stockholders' equity	509,112,8
Total liabilities and stockholders' equity	$682,299,7

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*Eliminates in consolidation

See accompanying independent auditors' report

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ALFA CORPORATION (PARENT COMPANY)
SCHEDULE II - CONDENSED FINANCIAL INFORMATION
STATEMENTS OF INCOME
For the years ended December 31, 2001, 2000 and 1999

	2001	2000	1999
Revenues:			
Dividends from subsidiaries*	$25,322,801	$37,951,000	$21,700,
Interest from subsidiaries*	3,648,727	3,751,340	1,822,
Other interest	19,897	59,816	32,
Total revenues	28,991,425	41,762,156	23,555,
Expenses:			
Other expenses	6,983,419	9,389,824	4,666,
Income before equity in undistributed income of subsidiaries	22,008,006	32,372,332	18,888,
Equity in undistributed income of subsidiaries	47,497,563	34,448,531	45,668,
Net income	$69,505,569	$66,820,863	$64,557,

*Eliminates in consolidation

See accompanying independent auditors' report

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ALFA CORPORATION (PARENT COMPANY)
SCHEDULE II - CONDENSED FINANCIAL INFORMATION
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2001, 2000 and 1999

	2001	
Cash flows from operating activities:		
Net income	$ 69,505,569	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed earnings of subsidiaries	(47,497,563)	
Decrease (increase) in other assets and accounts receivable	135,334	
(Increase) decrease in other liabilities	(181,376)	
Net cash provided by operating activities	21,961,964	
Cash flows from investing activities:		
(Increase) in note receivable for subsidiaries	(47,020,000)	
Net decrease (increase) in short-term investments	478,056	
(Increase) in investment in subsidiaries	(50,000)	
Other	(193,293)	
Net cash (used in) investing activities	(46,785,237)	
Cash flows from financing activities:		
Increase in commercial paper	47,773,344	
Purchase of treasury stock	(3,575,198)	
Proceeds from exercise of stock options	2,541,106	
Dividends to stockholders	(22,178,690)	
Net cash provided by (used in) financing activities	24,560,562	
Net (decrease) increase in cash	(262,711)	
Cash, beginning of year	485,790	
Cash, end of year	$ 223,079	$
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 6,006,433	$
Income taxes	$ 21,639,000	$

See accompanying independent auditors' report

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ALFA CORPORATION
SCHEDULE III - SUPPLEMENTAL INSURANCE INFORMATION
For the years ended December 31, 2001, 2000 and 1999

Segment	Deferred Policy Acquisition Costs	Future Policy Benefits, Losses, Claims And Loss Expenses	Unearned Premium	Other Policy Claims And Benefits Payable	Premiums And Policy Charges
2001					
Life Insurance	$128,766,740	$558,043,631	$ 0	$0	$ 56,006,813
Property & casualty insurance	21,053,562	140,174,162	138,384,495	0	396,862,542
Noninsurance and corporate	0	0	0	0	0
Total	$149,820,302	$698,217,793	$138,384,495	$0	$452,869,355
2000					
Life Insurance	$123,107,799	$507,455,793	$ 0	$0	$ 53,078,123
Property & casualty insurance	21,464,215	145,077,064	121,688,810	0	376,118,774
Noninsurance and corporate	0	0	0	0	0
Total	$144,572,014	$652,532,857	$121,688,810	$0	$429,196,897
1999					
Life Insurance	$117,549,248	$458,830,168	$ 0	$0	$ 48,359,640
Property & casualty insurance	18,557,440	143,148,690	114,802,464	0	356,970,311
Noninsurance and corporate	0	0	0	0	0
Total	$136,016,688	$601,978,858	$114,802,464	$0	$405,329,951

Segment	Benefits Claims, Losses And Settlement Expenses	Amortization Of Deferred Policy Acquisition Costs	Other Operating Expenses	Premiums Written
2001				
Life Insurance	$ 53,838,049	$ 8,048,303	$ 9,676,175	$ 0
Property & casualty insurance	259,105,826	66,392,582	39,841,905	403,839,559
Noninsurance and corporate	0	0	7,884,280	0
Total	$312,943,875	$74,440,885	$57,402,360	$403,839,559
2000				
Life Insurance	$ 48,288,469	$ 7,228,558	$11,219,955	$ 0
Property & casualty insurance	247,592,086	58,745,118	31,432,839	380,362,518
Noninsurance and corporate	0	0	7,602,448	0
Total	$295,880,555	$65,973,676	$50,255,242	$380,362,518
1999				
Life Insurance	$ 51,143,122	$ 6,747,130	$ 9,949,006	$ 0
Property & casualty insurance	232,122,875	53,455,392	30,443,472	363,585,872
Noninsurance and corporate	(1,550,000)	0	4,679,431	0
Total	$281,715,997	$60,202,522	$45,071,909	$363,585,872

See accompanying independent auditors' report

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ALFA CORPORATION AND SUBSIDIARIES
SCHEDULE IV - REINSURANCE
For years ended December 31, 2001, 2000 and 1999

	Gross Amount	Ceded to Other Companies	Amount Assumed from Other Companies

2001			
Life insurance in force	$17,145,129,689	$1,977,821,759	$ 0
Premiums and policy charges:			
Life insurance	$ 61,672,416	$ 5,739,483	$ 0
Accident and health insurance	73,880	0	0
Property and liability insurance	71,705,153	71,835,760*	396,993,149*
	$ 133,451,449	$ 77,575,243	$396,993,149
2000			
Life insurance in force	$15,317,803,867	$1,713,371,323	$ 0
Premiums and policy charges:			
Life insurance	$ 56,916,973	$ 3,909,913	$ 0
Accident and health insurance	71,063	0	0
Property and liability insurance	65,034,104	65,172,392*	376,257,062*
	$ 122,022,140	$ 69,082,305	$376,257,062
1999			
Life insurance in force	$13,384,834,865	$1,369,300,363	$ 0
Premiums and policy charges:			
Life insurance	$ 51,942,189	$ 3,657,594	$ 0
Accident and health insurance	75,045	0	
Property and liability insurance	60,196,005	60,302,447*	357,076,753*
	$ 112,213,239	$ 63,960,041	$357,076,753

*These amounts are subject to the pooling agreement.

See accompanying independent auditors' report

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ALFA CORPORATION AND SUBSIDIARIES
SCHEDULE V - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

Description	Balance at beginning of period	Additions: Charged to costs and expenses	Additions: Charged to other accounts	Deductions

2001 Allowance for Loan losses	$678,730	$ 641,772	$0	$428,426
2000 Allowance for Loan losses	$637,965	$ 634,531	$0	$593,766
2001 Allowance for Lease losses	$554,498	$1,196,981	$0	$ 441,438
2000 Allowance for Lease losses	$ 0	$ 589,779	$0	$ 35,281

See accompanying independent auditors' report

SIGNATURES

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

ALFA CORPORATION

By /s/ Jerry A. Newby

Jerry A. Newby
President

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

/s/ Jerry A. Newby (Jerry A. Newby)	Chairman of the Board Director and Principal Executive Officer	3/25/02 (Date)
/s/ C. Lee Ellis (C. Lee Ellis)	Executive Vice President, Operations Treasurer, Director (Principal Operations Officer)	3/25/02 (Date)
/s/ Stephen G. Rutledge	Senior Vice President, CFO and	3/25/02

------------------------- (Stephen G. Rutledge)	Chief Investment Officer, (Principal Financial Officer)	(Date)
/s/ Hal F. Lee ------------------------- (Hal F. Lee)	Director	3/25/02 (Date)
/s/ James A. Tolar, Jr. ------------------------- (James A. Tolar, Jr.)	Director	3/25/02 (Date)
/s/ Steve Dunn ------------------------- (Steve Dunn)	Director	3/25/02 (Date)
/s/ Dean Wysner ------------------------- (Dean Wysner)	Director	3/25/02 (Date)
/s/ Russell R. Wiggins -------------------------- (Russell R. Wiggins)	Director	3/25/02 (Date)
/s/ James I. Harrison, Jr. -------------------------- (James I. Harrison, Jr.)	Director	3/25/02 (Date)
/s/ John R. Thomas -------------------------- (John R. Thomas)	Director	3/25/02 (Date)
/s/ B. Phil Richardson -------------------------- (B. Phil Richardson)	Director	3/25/02 (Date)
/s/ Boyd E. Christenberry -------------------------- (Boyd E. Christenberry)	Director	3/25/02 (Date)