2011 ANNUAL REPORT

Growing while STAYING TRUE *to our mission.*

Baldwin & Lyons, Inc.
The Pledge of Excellence

The Quill

The founders of Baldwin & Lyons chose the quill as a symbol to represent their property and casualty insurance company. It was a fitting choice. The quill was the dominant writing instrument for more than 1,000 years, longer than any other; perhaps because of its fine stroke and great flexibility. Likewise, for more than 80 years, Baldwin & Lyons has maintained a stable presence in the property and casualty insurance market and is a recognized leader in the transportation industry. With an intense focus on results, the company has grown and diversified. Today, we offer a diverse array of products and services.

2011 YEAR IN REVIEW

"The vast possibilities of our great future will become realities only if we make ourselves responsible for that future." – Gifford Pinchot

	Year Ended December 31		
	2011	2010	2009
	(dollars in thousands, except per share data)		
Operating revenue [1]	$ 261,397	$ 232,984	$ 201,833
Revenue	243,594	249,469	232,649
Operating income [1] (loss)	(16,603)	14,300	24,771
Net income (loss)	(28,175)	25,015	44,802
Per share data - diluted:			
Operating income (loss)	$ (1.12)	$ .97	$ 1.68
Net gains (losses) on investments	(.78)	.72	1.36
Net income (loss)	(1.90)	1.69	3.04
Book value	21.49	24.90	25.31
Dividends paid to shareholders	1.00	2.25	1.00

1 Operating revenue and operating income exclude net gains or losses on investments.

Growing while staying true TO OUR MISSION.

I begin my communication with you by stating, unequivocally, that my first year as CEO of our company was, to say the least, extremely challenging. I recall that in 2007, my first year as President and COO, we had the highest operating income in our company's history. My first three years, in the aggregate, represented the best overall three-year operating period in our history. I state this for no other reason than to advise you that I certainly planned for and expected results significantly different than what we produced. Perhaps the abnormal level of first quarter catastrophes in 2010, which broke our string of the aforementioned record results, should have prepared me for what was to come. However, my and our collective view was that 2010 was simply a continuation of our history in the property catastrophe space, which was to endure the rare, unfortunate influence of Mother Nature, followed by years of relative calm and profit. Unfortunately, my perspective and our 20-year history of successfully underwriting those products came to an abrupt end last year.

By now, I'm sure all followers of our industry and company are well aware that global disasters in 2011 were the highest in history, with current estimates reaching $350 billion, of which approximately $108 billion was insured. The long list of calamities killed more than 30,000 people, crippled factories, and cut supply chains with the impact rippling through the world's economies. The losses were international in nature and the frequency of severe events was unprecedented in history. The U.S. alone experienced a dozen or more weather events that did at least $1 billion in damage and $54 billion collectively. That was more than twice the level of the worst year in the last decade and over 10 times what occurred in the decade preceding the most recent one. Tornadoes in the U.S. Southeast and Midwest alone caused $14 billion in insured losses. In one three-day stretch in April 2011, 343 tornadoes struck in a swath from Alabama to Virginia. In addition, major loss events that impacted our results included an earthquake and massive tsunami in Japan, two earthquakes in New Zealand and flooding in Thailand, which caused insured losses now estimated at $35 billion, $14 billion and $12 billion respectively.

As a result of this worst year in history for worldwide catastrophic events, our company sustained insured losses of $43 million, equivalent to $2.89 per share, after tax, directly from named catastrophic events. Therefore, as we stated in our year-end conference call, perhaps the best comment to be made about 2011 is that it is over.

However, before I turn to other matters, I will advise you of the action that we have taken in response to this year's unprecedented events related to our property reinsurance products.

We have terminated our relationship with the London syndicate that generated the most significant losses to us; losses which were outsized compared to the premium received and in comparison with similar programs that had the same international exposures. In addition, we have terminated all of our other international partnerships with the exception of our longest and most successful, that being with the recognized leader in this space. We do not plan re-entry in the near future as we do not believe that rates will return to their rightful place for some time, in large part due to a still apparent surplus cushion and the continuing, increasing presence of new, temporary capital designed to pump capacity into these markets. Again referencing comments I made during our year-end conference call, we are convinced that the catastrophes of 2011, especially those in the Asia-Pacific region, revealed global connections and correlations linking the world's insurance exposures and risks in ways never seen before. Severe supply chain disruptions were exposed from the earthquake in Japan, as well as from the floods in Thailand. In addition, the impact of (actual and predicted) more volatile weather patterns create the necessity for some extensive recalibration of catastrophe models. At this point, our confidence is not high that the latest efforts have been successful in fine-tuning the assessment of risk.

It is, therefore, our conclusion that the risk/reward proposition in this space has changed considerably and perhaps permanently. In addition, we believe that the success of our internally developed products will provide greater opportunity for the execution of our strategic plans, including better usage and allocation of our capital, much greater control, and ultimately stronger and more predictable revenue and profit streams.

Our property and casualty segment continues its steady growth, with Direct Written Premium up $24.4 million, a 10% increase over 2010 with net earned premium increasing 7%. Including fees generated by these products, a $3 million underwriting profit was generated in 2011 on a combined ratio of 98.5%. As I have mentioned in several previous communications, we believe our most recent results for this segment have been influenced by what we consider to be conservative reserving in our growing book of independent contractor business. As this book of business matures, we expect that the necessity to maintain these reserve levels will diminish, allowing the recognition of higher levels of underwriting profit. In addition, results for this segment in 2011 were also reduced by new product development costs, particularly in our professional liability business, the benefits of which are expected to be seen in 2012 and beyond.

As you know, included in the reinsurance segment are our casualty reinsurance products which, in only the second year of operations, produced a 91% combined ratio and almost $2 million in underwriting profits. We plan to expand in this space as attractive opportunities are identified.

Turning to investments, we continue to suffer through this sustained period of extremely low yields, which significantly impact our investment income and therefore our total results. As we have stated in our last several pronouncements on this issue, there is very little value on the front, or short end, of the yield curve. We have redeployed modest portions of this portfolio into non-U.S. debt and selected corporate issues with slightly longer maturities; however, the results are limited by the real, perceived and inherent risks associated with this shift, including problems with European Sovereign debt. Therefore, our overall fixed maturity portfolio remains very conservative, with a contractual average maturity of just over three years and an average duration of under two years. We maintain an overall quality rating of AA+. Our bond and short-term investment yields have steadily declined over the past 16 quarters to levels in which two-year yields are but a fraction of what money market rates were as recently as 2007. As a result, for the year, after-tax investment income declined 6%, despite a 4% increase in average funds invested. We will resist the temptation to flee the safety net and "crawl out" on the risk curve and continue our historical fixed income philosophy to emphasize safety of principal over yield. While we understand the impact of such decisions in the short term, we believe such discipline makes sense when viewing realistic, alternative options. Unfortunately, to add to the pain felt on the fixed investment side, this was also not a very good year for us, or many others for that matter, to be on the long side of the markets. While the fourth quarter of 2011 provided some recovery to most major markets with the notable exception of India, those same markets posted meager results for the year, with the S&P 500 up just over 2% and the NASDAQ and smaller issue indexes remaining in the red. In the wake of this market activity, the balance sheet value of our portfolio increased only $14 million before tax this year, and this was largely attributable to significant positive cash flow. Despite

the previously mentioned unprecedented levels of property catastrophe losses, cash flow remained positive in 2011 at $54.3 million compared to $49.5 million in 2010.

Our equity securities portfolio experienced a favorable fourth quarter in 2011, recovering nearly 45% of the decline that occurred during the first nine months of the year. That produced a total pre-tax return of 14% for the quarter, but could not bring the entire year, which fell by 2.1%, into the black. Even with this small decline for the year, the market value of the Company's directly managed equity securities portfolio remains approximately $33 million above its original cost and $40 million above the impairment adjusted cost reported in our financial statements.

The value of limited partnership investments, which comprise about 9% of our portfolio, dropped 28% for the year. It is, however, important to note that over 93% of this was made up of declines in unrealized gains, rather than actual realized losses. Unfortunately, due to current GAAP accounting rules, all must be reported through the income statement.

Therefore, for the year, investments produced $10.8 million in after-tax realized and unrealized losses, the impact being a $0.72 reduction in book value.

As I mentioned, perhaps the best thing we can say about 2011 is that it is over and, as stated by the great Satchel Paige, "don't look behind you for too long, you may fall into the hole in front of you." Therefore, we will defer to the advice of the sage Mr. Paige and look forward to a future which I view with increasing optimism.

Please bear with me as I attempt to provide the basis for such an outlook. As we look ahead, we continue our evolution into a new era, one in which we are focused on completing the transition to a larger, increasingly more diversified company, by creating and utilizing a sustainable model of institutionalized values and management structure. We continue to expand and improve our performance-based management culture, which has created a more holistic, concentrated focus on results. Our internal vision is to continue to strive for a very lean enterprise

"It is easier to coast down a hill *than to climb up.* We were not made just for the flat lands or small hills. *We were made for the mountains.* Let us have the creativity, stamina, strength and courage to do what it takes to *find the mountains… and to climb them.*"

that converts the everyday production of each of our employees into a search for constant improvement. We do so by a shared process of creating standards and goals and then slowly, but inexorably, raising the bar. We continue our quest to be nimble, flexible and dynamic, pursuing the trifecta of outcomes necessary for us to thrive and grow, despite the headwinds of still soft markets and historically low investment income. These outcomes include elite service, uncommon efficiency and close to perfection price points.

Our targeted growth areas include independent contractor and public transportation in our "wheels" business and professional liability and casualty reinsurance in our "non-wheels" products. Our goal is to be the "Navy Seals" of these products, demonstrating the aforementioned hardened focus on service, technology and selection.

Related to our independent contractor products, we are positioned to be a one-stop shop for all of their needs. We have built a service and risk management platform that is second to none, attracted and hired a great deal of proven, respected talent and believe that combination, along with our more than two decades serving this market, allows us to be the best in the business. While competition remains for public transportation, it consists mainly of high quality writers who believe in pricing discipline, allowing us to differentiate ourselves where it counts, with service and expertise. We continue to grow, gain traction and receive continued market acceptance for our offerings in this space.

Professional liability also remains competitive but the recent years' negative premium growth will put pressure on the current writers' expense ratios. Loss reserve redundancies, to the extent that they remain, will inevitably thin. In addition, even if sub-100 combined ratios continue, we remain confident in the ability of the team we have assembled to attract enough business to meet our relatively modest short-term goals.

Our casualty reinsurance program has exceeded expectations to date. We have been very successful in recruiting talent and leveraging our financial stability ratings to take advantage of some market displacements (as a result of the 2008 financial meltdowns) in this space. Both our and the overall industry's outlook is for higher premiums and continued good results in 2012.

Of course, as always, there are and will continue to be significant challenges. Our world changes rapidly and significantly, as evidenced by the aforementioned widespread negative results triggered by the unprecedented, worst-in-history catastrophe losses of 2011.
It was only two years ago, at the end of that record three-year run that I alluded to in my opening paragraphs, that our cumulative 17-year history in this segment produced an inception-to-date combined ratio of 78.2%. As we diminish our presence in this space, it will be our goal to replace that profit and return to the record-generating results that stakeholders in our company have come to expect. We are confident in our ability to do so.

In closing, I wish to thank our shareholders for their loyalty and patience, our board of directors for its support and input, our management team for the long, hard hours and passionate commitment to profit, and our employees for their dedication and belief in our mission and values.

Joseph J. DeVito

Joseph J. DeVito
CEO, COO & President

Giving back to INVEST IN OUR *future.*

Each year, Baldwin & Lyons makes a concerted effort to be a good corporate citizen and pay forward its successes by offering support to a wide variety of community organizations. Our employees set the standard for giving. We are inspired by their passion and the countless hours they volunteer to those in need. In response, we regularly support the efforts of employees who give their time, talent and treasure to local nonprofit organizations.

Baldwin & Lyons contributes to many different events and organizations that help fund programs in the Indianapolis community. We often focus our giving toward those organizations that meet the needs of children and families and those that work to overcome conditions that have directly impacted our employees or their family members. Within these causes, Baldwin & Lyons supports an array of organizations including:

Children & Families

Riley Hospital for Children

St. Vincent Hospital Newborn Intensive Care Unit

Dads, Inc.

Indiana Children's Wish Fund

Children's Bureau, Inc.

Children & Families

Community Services

United Way of Central Indiana

Habitat for Humanity of Greater Indianapolis

Meals on Wheels of Indianapolis, Inc.

Our Community

Medical Research

American Heart Association

American Diabetes Association

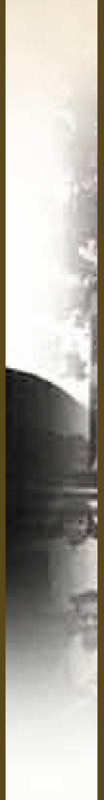
Juvenile Diabetes Research Foundation

Susan G. Komen for the Cure of Indianapolis and Race for the Cure

Medical Research

Our Mission

To increase profit and shareholder value through our deep commitment to excellence and innovation. In so doing, we make our company a better place for our customers to do business and our employees to work, EVERY DAY.



Our Values

We are committed to teamwork. We are a performance-based management company and passionate about everything that we do.

We conduct our business with an uncompromising adherence to ethical behavior. We are results-oriented and accept absolute responsibility for our decisions and actions.

Where we came from.

1930

Baldwin & Lyons, Inc.
The Pledge of Excellence

Since its founding in 1930, Baldwin & Lyons has specialized in marketing and underwriting insurance for the transportation industry. Today, in addition to operating four insurance companies and two brokerage firms, we offer more than a dozen different specialty products and services.

1954

Protective
Insurance Company

Protective Insurance Company is licensed in 50 states and all Canadian provinces and provides coverage for large trucking fleets and medium-sized trucking companies. Protective also offers a public transportation insurance program that provides comprehensive coverage for charter and tour bus companies, school bus contractors and limousine services. Reinsurance and retrocession risks from insurance and reinsurance companies, principally to reinsure against catastrophic events, are also underwritten by Protective.

1981

SAGAMORE
Insurance Company

Sagamore Insurance Company is licensed in 47 states and provides private passenger auto insurance products and commercial auto coverage to small trucking fleets and artisan contractors via the independent agency system.

1981

B&L Insurance, Ltd.

B&L Insurance, Ltd. is domiciled in Bermuda and provides captive insurance company options to customers of the Baldwin Group.

Who we are.

Baldwin & Lyons is in the business of risk. Every day we assist our insureds and customers in evaluating and managing various types of exposures. We're also a company that continues to foster growth. We look to our history of 81 years in the industry as the foundation for the future.

By identifying our successes and learning from our experience, Baldwin & Lyons will continue increasing profit and providing value to our shareholders while remaining committed to excellence and innovation.

Where we are going.

2008

B&L Brokerage Services, Inc.
The Pledge of Excellence

B&L Brokerage Services, Inc. offers safety and loss prevention services, claims management and specialized coverages designed to fit the needs of transportation clients. B&L Brokerage Services consultants have the industry experience necessary to understand clients' risk management needs and add value to their insurance programs.

2009

ProtectiveSpecialty
Insurance Company

Protective Specialty Insurance Company, an approved excess and surplus lines insurer in 46 states, delivers a broad range of sophisticated professional liability risk protection solutions to a wide variety of companies in addition to underwriting commercial property and liability coverages.

2008

B&L Capital Markets

B&L Capital Markets provides Insurance-Linked Security investment advisory services to investors utilizing the Baldwin & Lyons ILS Fund LLC, which is domiciled in the Cayman Islands. The primary goal of B&L Capital Markets is to achieve attractive returns for investors, while seeking to limit risk, in this highly specialized market.

2009

ProtectiveRe
A Baldwin & Lyons Company

Protective Re fully supports the broker market distribution channel with a team that has strong, long-standing relationships with intermediaries around the world. As part of the continuing initiative to diversify product offerings of the group, Protective Re offers casualty treaty reinsurance capacity both on a proportional and excess of loss basis for a variety of products.

1930 Harry Baldwin forms H.C. Baldwin Agency

1945 Voris Lyons joins Baldwin

1954 Baldwin forms Protective Insurance Company as a subsidiary

1966 The H.C. Baldwin Agency is renamed Baldwin & Lyons, Inc.

1969 Baldwin & Lyons makes its first public offering of stock

1971 Baldwin & Lyons makes a second stock offering

1971 Protective begins writing larger trucking fleets

1980 Baldwin & Lyons introduces a small fleet trucking program

1981 Baldwin & Lyons forms two new subsidiaries: Sagamore Insurance Company and B&L Insurance, Ltd.

1986 Baldwin & Lyons makes a third stock offering

1995 The company enters the private passenger auto insurance market

1997 Sagamore Insurance Company begins offering a line of small business workers' compensation insurance products

2008 Baldwin & Lyons forms two new subsidiaries: B&L Capital Markets and B&L Brokerage Services, Inc.

2009 The company forms Protective Specialty Insurance Company and Protective Re

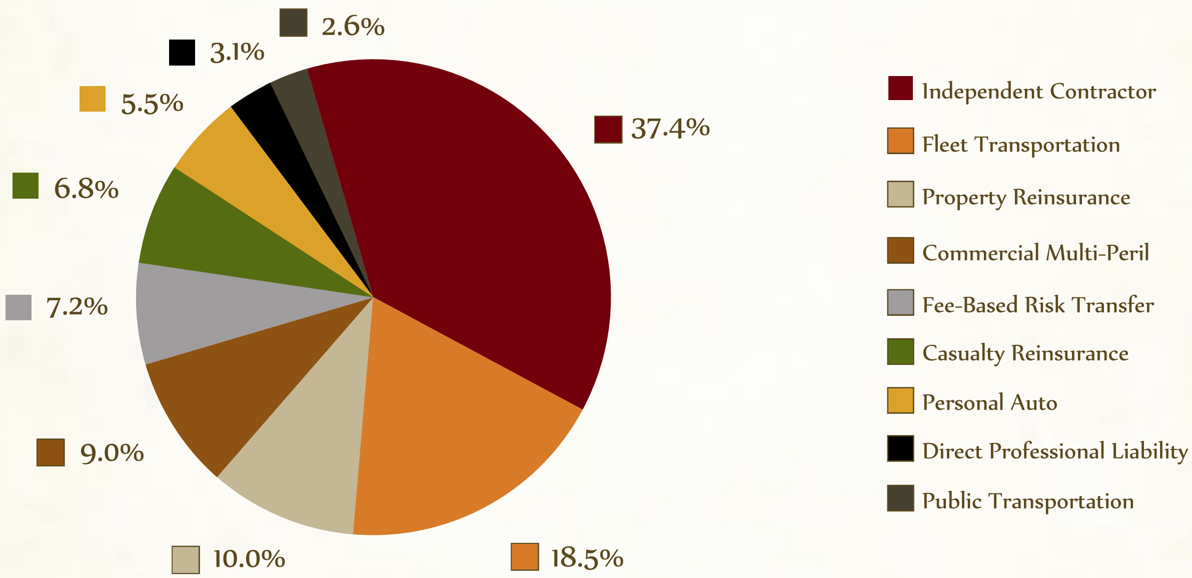
1930 1950 1960 1970 1980 1990 2000 2010

2009-2011

STRATEGIC PLAN

RESULTS

In 2009, Baldwin & Lyons implemented a Strategic Plan that included a new, vertically integrated management structure that emphasized both expanding our line of core specialty offerings and developing new specialties to enhance our disciplined diversification and growth. We exceeded our original goal and are better prepared to manage through market cycles rather than around them, while maintaining the flexibility to identify and respond to new opportunities as deemed necessary and appropriate.



3-YEAR IN-FORCE PREMIUM

GOAL & ACTUAL RESULT

GOAL: $107 million

ACTUAL RESULT: $128 million

"The best way to predict the future is to create it." – Peter F. Drucker

OFFICERS

Joseph J. DeVito
CEO, COO & President

Gary W. Miller
Executive Chairman, Board of Directors

G. Patrick Corydon
Executive Vice President & CFO

Mark L. Bonini
Executive Vice President of Sales,
Marketing & Underwriting

Craig C. Morfas
Executive Vice President of Claims & Legal, Corporate Secretary

James D. Isham
Senior Vice President of Administration

John E. Mitchell
Vice President of Reinsurance & Actuarial Services

Jennie L. LaReau
Vice President of Underwriting

Walter D. Osborne
Treasurer

2011

HEADQUARTERS

Corporate Headquarters
1099 N. Meridian Street
Indianapolis, Indiana 46204
Phone (317) 636-9800
Fax (317) 632-9444
www.baldwinandlyons.com

Subsidiaries

Protective Insurance Company
www.protectiveinsurance.com

Protective Specialty Insurance Company
www.protectivespecialty.com

Protective Re
www.protectivere.com

Sagamore Insurance Company
www.sagamoreinsurance.com

B&L Brokerage Services, Inc.
www.blbrokerage.com

B&L Insurance, Ltd.
Hamilton, Bermuda

DIRECTORS

Joseph J. DeVito
Baldwin & Lyons, Inc.

Gary W. Miller
Baldwin & Lyons, Inc.

Stuart D. Bilton
Aston Asset Management, LLC
Chicago, Illinois

Otto N. Frenzel IV
Kauffman Engineering, Inc.
Indianapolis, Indiana

John M. O'Mara
Citi Group Venture Capital (retired)
Greenwich, Connecticut

Thomas H. Patrick
New Vernon Capital, LLC
Chicago, Illinois

John A. Pigott
Anixter, Inc. (retired)
Wilmette, Illinois

Kenneth D. Sacks
JMB Insurance Agency, Inc.
Chicago, Illinois

Nathan Shapiro
SF Investments, Inc.
Chicago, Illinois

Norton Shapiro
National Superior Fur Dressing
& Dyeing Co., Inc. (retired)
Chicago, Illinois

Robert Shapiro
Emlin Cosmetics, Inc.
Chicago, Illinois

Steven A. Shapiro
SF Investments, Inc.
Chicago, Illinois

John D. Weil
Clayton Management Co.
St. Louis, Missouri

Availability of Form 10-K

The Company's 2011 annual report filed with the Securities and Exchange Commission on Form 10-K and the Company's Code of Conduct will be sent to shareholders without charge upon written request to the Investor Contact at the corporate address. These documents, along with all other filings with the Securities and Exchange Commission, are available for review, download or printing from the Company's website.

Notice of Annual Meeting

10:00 a.m. May 8, 2012
Landmark Center
Lower Level
1099 N. Meridian Street
Indianapolis, Indiana 46204

Transfer Agent and Registrar

Computershare, Inc.
Middleburg Hts., Ohio

Investor Contact

G. Patrick Corydon
corydon@baldwinandlyons.com
Fax (317) 715-9610

Common Stock Structure

The Class A and Class B common shares have identical rights and privileges except that Class B shares have no voting rights other than on matters for which Indiana law requires class voting.

Dividends

Cash dividends have been paid quarterly since 1974. The two classes of common stock have identical dividend rights. The current regular quarterly dividend rate is $0.25 per share.

Independent Auditors

Ernst & Young LLP
Indianapolis, Indiana

1930

They say history repeats itself.
In our case,
that's a welcome outcome.

2011

2011

ANNUAL REPORT

www.baldwinandlyons.com