Financial Highlights

	Year Ended December 31		
	2001	2000	1999
	(dollars in thousands, except per share data)		
Revenue	**$ 109,880**	$ 112,473	$ 96,402
Net income	**5,390**	19,750	18,616
Per share data - diluted:			
Income before realized net gains on investments	**$ .17**	$ .93	$ 1.11
Realized net gains on investments	**.27**	.64	.27
Net income	**.44**	1.57	1.38
Book value	**23.73**	24.01	21.50
Dividends	**.40**	.40	.40
Return on average shareholders' equity - net income (1)	**2.1%**	7.6%	7.2%
Combined ratio of insurance subsidiaries (GAAP basis)	**122.8%**	102.3%	94.6%

(1) Average shareholders' equity excludes unrealized gains or losses on investments.

COMPANY PROFILE

Baldwin & Lyons, Inc. has, since its founding in 1930, been engaged in marketing and underwriting casualty insurance. Specialty markets are served by the Company's subsidiaries.

Protective Insurance Company, with licenses in all 50 states and all Canadian provinces, provides coverage for large trucking fleets which retain substantial amounts of self-insurance as well as for medium-sized trucking companies on a first dollar or small deductible basis. These trucking products are marketed by the Baldwin & Lyons agency organization directly to trucking clients without broker or agent intermediaries. The agency operations also provide claims handling, loss control and other insurance related services to trucking insureds. In addition, Protective accepts retrocessions from reinsurance companies, principally reinsuring against catastrophes.

Sagamore Insurance Company, which is licensed in 37 states, markets nonstandard private passenger automobile insurance products to individuals, commercial automobile coverage to small trucking fleets and workers' compensation insurance to small businesses. A subsidiary is also maintained in Bermuda to provide captive insurance company benefits to trucking insureds.

TO OUR SHAREHOLDERS . . .

In my Letter to Shareholders in last year's annual report, I said, regarding our Assumed Reinsurance Division, "As to profitability, we once again warn that in any given year returns on premium earned on assumed reinsurance will be very good or very bad depending on natural or man made catastrophes and our exposure as to where and/or whom they hit." Sadly, the "very bad" part of my statement became reality on September 11, with the World Trade Center disaster. Even though we must discuss financial aspects of this event, we realize that any loss or difficulty we sustained pales by comparison to the very real human tragedies suffered by so many, and our sympathy and compassion continue to the survivors.

And yet, in addition to the horrible human loss and suffering, this disaster produced unprecedented financial losses for so many. Baldwin & Lyons incurred an estimated $20 million pre-tax loss as a result of the disaster. Following our normal practice of establishing adequate, timely reserves, that estimate, which still appears to be sufficient, was booked as an expense in the third quarter. We can not absorb a loss of this magnitude and still report decent results. So our results for 2001 were not good with pre-tax operating income of only $1.8 million versus last year's $16.5 million.

We are in a business that requires us to predict losses and limit our exposures based on those predictions. We have for several years assumed reinsurance for property catastrophe losses from many other reinsurers and insurers. We also have assumed reinsurance for aircraft losses. Quite frankly, we did not envision a disaster that would produce losses of unprecedented magnitude for both property catastrophe and aircraft exposures from the same event. We expect infrequent catastrophes that will cause our Assumed Reinsurance Division to have occasional operating losses; but we did not expect a loss of this type or size. Nor, we are sure, did others. And, while we have a lot of company, the fact we incurred this amount of loss still hurts. We point out by way of consolation that our Assumed Reinsurance Division, even with the September 11 loss, remains profitable from inception. And with that unprecedented loss widely distributed and hurting many in the industry, reinsurance rates are rising and opportunities have improved. That should make future prospects bright, but I again refer the reader to the first sentence of this letter.

As a gray-haired insurance man, I have had many accounts presented to me with the statement: "but for the big loss, this is a great account." Having little patience with such an approach, since all accounts can appear good with judicious omissions, my response has usually been: " And who pays for the big loss?" So I feel a bit sheepish in telling you that "but for" the World Trade Center disaster, we had a good year. But that is the case, and I'll elaborate so you know the expected part of the company's operation performed well even though the unexpected ruined the total results, as we must pay for the big loss.

If we look at pro forma results "but for" the World Trade Center loss, the 17 cents of net income from operations that we are reporting would have been $1.24. This contrasts with 2000's 93 cents. Investment income was down about 7% due to lower available yields, yet we would have made more money from operations with a pro forma combined ratio of 98.8% (122.8% actual) versus 102.3% in 2000. Gross written premiums increased by 19%. As we continued to heavily utilize reinsurance, net written premiums increased only 7%. Perhaps more reflective of what is occurring is where we began the year 2002. On a consolidated basis, our in force gross premium on January 1, 2002 was 44% greater than the comparable number on January 1, 2001. "In force" premium is the total annual premium for all the policies that are active or "in force" on a given day. Considering that our Personal Auto Division's in force premium actually declined 12% due to its reunderwriting efforts, the effect of new business and rate increases in the remaining divisions is apparent.

Our subsidiary Protective Insurance Company completed the year with a combined ratio of 144%, of which 52 points was attributable to the World Trade Center disaster. All products, other than reinsurance assumed, had excellent results from operations with positive growth. Protective's gross written premium increased 38% to $74 million. This growth was caused by rate increases for existing accounts and significant amounts of new business. Much of the insurance written by Protective is heavily reinsured with a large part of the premium collected by Protective being passed on to reinsurers. Therefore, the net premium earned by Protective increased by only 25%. Mid-year 2001, Protective negotiated new reinsurance treaties and elected to moderately increase its retained risk. 48% of the premium collected by Protective in 2001 went to reinsurers. That percentage will decline in 2002 causing net premiums to increase. More premium growth, both gross and net, is yet to come. Protective's gross in force premium at January 1, 2002 was 69% higher than January 1, 2001.

The primary business of Protective is providing complete insurance packages, usually involving elements of self-insurance, to the nation's major trucking fleets. This is a business that in soft insurance markets is marked by heavy competition, resulting in substantial rate cutting. With the market hardening following poor operating results for many insurers in 2000 and 2001, competition in the fleet trucking market moderated with fewer insurers writing and prices moving to better reflect the exposures presented. Baldwin and Lyons found its capability and capacity well received by the trucking industry with excellent retention of existing accounts and the addition of many new customers. We are working hard to make sure the satisfaction of existing customers, as expressed by the renewals of their programs, will continue. We are also optimistic that more of those in the trucking industry will place their confidence in Baldwin and Lyons and become new customers, as many did this past year.

Sagamore Insurance Company insures automobiles, small trucking fleets and the workers compensation exposures of small businesses. 2001 was a year in which Sagamore made great progress. In 2000, a high combined ratio in its personal auto product caused a money-losing situation. We were determined that would not again occur. Corrective actions, in the form of reunderwriting and significant rate increases, were taken. Those actions were not conducive to increased volume, but they did dramatically improve profitability. Sagamore ended the year with an operating profit and a combined ratio improvement of 21 points - a remarkable turnaround. Volume declined by less than $2 million or about 4%. Now, with such favorable results, we feel comfortable in expanding volume in both existing and new markets. Expansion should allow even more profitability as Sagamore has made great strides in controlling expenses with improved efficiency in operations and continued expansion of its "Intercom" program, which is its initiative for doing business via the internet.

The decline and continuation of low interest rates negatively impacted investment income. We have approximately $300 million invested for yield. Most of our yield investments are of relatively short duration with an average life of less than 4 years. Should interest rates increase, our investment income will follow suit. We have previously pointed out that as our premium to surplus ratio is very low compared to the industry, we feel confident in maintaining a higher than industry average percentage of investments in equities. At year-end, 31% of our investments were in common and preferred stocks. Results were not as good as in prior years, with the pre-tax total returns producing a $2.2 million loss versus the prior year's $31.4 million gain. However, a negative yield of 1.4% compares favorably to the S&P 500's negative 13% return. We once again expect to outperform the overall market in 2002, but we would prefer it be a robust market that we outperform.

This past year was a year of big write-offs for the property casualty industry. Company after company disclosed that reserves were inadequate, special restructuring charges were incurred, goodwill had to be written down, etc. Then, a one-time (maybe) special charge against income was taken. In many instances, the special charge equaled several quarters or even years of prior reported income - income, which it is now apparent, was overstated. One must wonder how these surprises occurred so suddenly, to so many, at approximately the same time. Your company had no such write off. None was needed. Previously reported results remain accurate.

As we advised last year, we had optimism and enthusiasm that we had not experienced for some time. The events of September 11 were a big setback, but our positive expectations are even stronger. Our prospects for top line and bottom line growth appear excellent. Next year we hope to report to you that the prospects materialized and our expectations were mostly met.

Each day I am reminded of the excellent executive team and employees enjoyed by our company. These associates truly act as owners - owners who are talented, experienced, most capable of superior performance and the reason for my high expectations.

My associates and I thank you for your support and hope to reward your trust.

Gary W. Miller
Chairman & CEO

Indianapolis
February 22, 2002

SELECTED FINANCIAL DATA

	Year Ended December 31				
	2001	2000	1999	1998	1997
	(Dollars in thousands, except per share data)				
Net premiums written	**$ 82,645**	$ 77,214	$ 72,033	$ 71,943	$ 69,575
Net premiums earned	**83,138**	77,439	69,114	68,862	61,675
Net investment income	**17,626**	19,049	18,891	19,060	18,442
Realized net gains on investments	**5,053**	12,473	5,625	2,855	17,338
Losses and loss expenses incurred	**81,870**	57,470	44,911	42,537	39,854
Net income	**5,390**	19,750	18,616	16,895	24,446
Earnings per share -- net income (1)	**.44**	1.57	1.38	1.22	1.75
Cash dividends per share	**.40**	.40	.40	.40	.40
Investment portfolio (3)	**439,434**	442,060	440,797	456,735	475,328
Total assets	**601,109**	552,164	530,677	544,369	557,015
Shareholders' equity	**288,360**	294,000	284,783	288,592	293,963
Book value per share (1)	**23.73**	24.01	21.50	20.91	21.23
Underwriting ratios (2):					
Losses and loss expenses	**98.5%**	74.2%	65.0%	61.8%	64.6%
Underwriting expenses	**24.3%**	28.1%	29.6%	32.0%	33.3%
Combined	**122.8%**	102.3%	94.6%	93.8%	97.9%

(1) Earnings and book value per share are adjusted for the dilutive effect of stock options outstanding.

(2) Data is for all coverages combined and is presented based upon generally accepted accounting principles.

(3) Includes money market instruments classified with cash in the Consolidated Balance Sheets.

LIQUIDITY AND CAPITAL RESOURCES

The primary sources of the Company's liquidity are (1) funds generated from insurance operations, (2) net investment income and (3) maturing investments. The Company generally experiences positive cash flow resulting from the fact that premiums are collected on insurance policies in advance of the disbursement of funds in payment of claims. Operating costs of the insurance subsidiaries, other than loss and loss expense payments and commissions paid to the parent company, generally average less than 30% of premiums earned on a consolidated basis and the remaining amount is available for investment for varying periods of time depending on the type of insurance coverage provided. During extended periods of declining net premium volume, however, operating cash flows may turn negative as loss settlements exceed net premium revenue and receipts of investment income.

For several years, the Company's investment philosophy has emphasized the purchase of short-term bonds with maximum quality and liquidity. As interest rates have declined and yield curves have not provided a strong incentive to lengthen maturities in recent years, the Company has maintained its short-term position with respect to the vast majority of its fixed maturity investments. The average life of the Company's bond and short-term investment portfolio was 3.8 years and 4.0 years for 2001 and 2000, respectively. The Company also remains an active participant in the equity securities market. Investments made by the Company's domestic insurance subsidiaries are regulated by guidelines promulgated by the National Association of Insurance Commissioners which are designed to provide protection for both policyholders and shareholders.

The Company's assets at December 31, 2001 included $51.5 million in short-term investments which are readily convertible to cash without market penalty and an additional $47.5 million of fixed maturity investments maturing in less than one year. The Company believes that these liquid investments, plus the expected cash flow from current operations, are more than sufficient to provide for projected claim payments and operating cost demands. In addition, the Company's reinsurance program is structured to avoid serious cash drains that might accompany catastrophic losses. In the event competitive conditions produce inadequate rates and the Company chooses to restrict volume, the Company believes that the liquidity of its investment portfolio would permit it to continue to pay claims as settlements are reached without requiring the disposal of investments at a loss, regardless of interest rates in effect at the time.

Net premiums written by the Company's U.S. insurance subsidiaries for 2001 equaled approximately 24% of the combined statutory surplus of these subsidiaries. Premium writings of 200% to 300% of surplus are generally considered acceptable by regulatory authorities. Further, the statutory capital of each of the insurance subsidiaries substantially exceeds minimum risk based capital requirements set by the National Association of Insurance Commissioners. Accordingly, the Company has the ability to significantly increase its business without seeking additional capital to meet statutory guidelines.

Shareholders' equity decreased to $288.4 million at December 31, 2001, from $294.0 million at December 31, 2000, including the after tax $13.0 million estimated net loss related to the events of September 11, 2001. The change in shareholders' equity also included $5.0 million of cash dividends to shareholders, a $3.9 million decrease in unrealized net gains on investments and $2.2 million in treasury share purchases. Book value per common share outstanding decreased 1% to $23.73 at December 31, 2001 from $24.01 per share at December 31, 2000.

As more fully discussed in Note G to the consolidated financial statements, at December 31, 2001, $47.6 million, or 16.5% of shareholders' equity, represented net assets of the Company's insurance subsidiaries which, at that time, could not be transferred in the form of dividends, loans or advances to the parent company due to statutory restrictions on the allowable transfers. However, management believes that these restrictions pose no material liquidity concerns for the Company. The financial strength and stability of the subsidiaries permit ready access by the parent company to short-term and long-term sources of credit. The parent company had cash and marketable investments of approximately $17.4 million at December 31, 2001.

RESULTS OF OPERATIONS

2001 Compared to 2000

Direct premiums written for 2001 totaled $114.3 million, an increase of $17.2 million (18%) from 2000. This increase is primarily attributable to increases in fleet trucking and independent contractor programs of $13.9 million (52%) and $4.8 million (21%), respectively, from 2000 levels. Direct premium writings from the Company's small business workers' compensation and small trucking fleet programs also increased by $2.2 million and $1.8 million, respectively. These increases were partially offset by a $5.6 million (16%) decrease in direct premium written for the Company's private passenger automobile program. Large trucking fleet and independent contractor volume increases resulted from the addition of new accounts as well as rate increases on renewed accounts. Increases in small business workers' compensation and small fleet were due primarily to geographic expansion, although rates were increased in both divisions during 2001. The decrease in private passenger automobile premium resulted from an effort to reunderwrite the program during 2001, including the implementation of significant rate increases and the termination of producers of unprofitable business.

Premiums assumed from other reinsurers totaled $5.7 million during 2001, an increase of $1.5 million (35%) from 2000. Premiums assumed for 2001 and 2000 included $1.0 million and $1.7 million, respectively, of reinstatement premiums attributable to losses occurring in late 1999. Without these reinstatement premiums, reinsurance assumed volume would have increased 85% from the prior year. Pricing in this market began to improve toward the end of 2000 and throughout 2001, and the Company's participation increased as a result. Management anticipates increased participation during 2002.

Premiums ceded to reinsurers increased $13.5 million (56%) during 2001 to $37.7 million. The percentage of premiums ceded to direct premiums written increased to 33% for 2001 from 25% for 2000 consistent with the increase in direct premiums written for the more heavily reinsured large trucking fleet program discussed above.

After giving effect to changes in unearned premiums, net premiums earned increased 7% to $83.1 million for 2001 from $77.4 million for 2000. Net premiums earned from all trucking-related insurance products increased by $8.3 million (25%). Net premiums earned from the Company's small workers' compensation and voluntary reinsurance assumed programs increased $1.7 million (155%) and $1.1 million (25%), respectively. These increases were partially offset by a $5.7 million (15%) decrease in premiums earned from private passenger automobile.

Net investment income decreased $1.4 million (7.5%) during 2001 reflecting lower overall pre-tax yields on slightly higher average invested assets. The average pre-tax yield on invested assets was 5.0% and 5.5% for 2001 and 2000, respectively. After-tax yields were 3.6% and 3.9% for 2001 and 2000, respectively.

Realized net capital gains were $5.1 million in 2001 compared to $12.5 million for 2000. The current year's net gain consisted of gains on equity securities of $7.3 million and losses on fixed maturities and other investments of $2.2 million. Realized net gains for 2001 and 2000 included other than temporary writedowns totaling $2.1 million and $5.0 million, respectively.

Losses and loss expenses incurred during 2001 increased $24.4 million (42%) to $81.9 million, including a $20 million loss related to the events of September 11, 2001. The 2001 consolidated loss and loss expense ratio was 98.5% compared to 74.2% for 2000. Adjusted for the September 11, 2001 loss, the consolidated loss and loss expense ratio was 74.4%. While the adjusted consolidated loss ratio remained virtually unchanged, individual product lines varied from year-to-year as less favorable loss development in the Company's large fleet trucking product was offset by significant improvement in the Company's private passenger automobile division. The loss and loss expense ratio for private passenger automobile dropped from 94.5% during 2000 to 69.5% during 2001. As previously discussed, improved underwriting selection and rate increases are directly responsible for the improved private passenger automobile results. Because of the high limits provided by the Company to its large trucking fleet insureds, the length of time required to settle larger, more complex claims and the volatility of the trucking liability insurance business, the Company believes it is important to have a high degree of conservatism in its reserving process. As claims are settled in years subsequent to their occurrence, the Company's claim handling process has, historically, tended to produce savings from the reserves provided. The Company believes that favorable loss developments are attributable to the Company's long-standing policy of reserving for losses realistically and a willingness to settle claims based upon a seasoned evaluation of its exposures. However, due to the aforementioned changes in the Company's reinsurance structure for its large trucking fleets, whereby a smaller portion of the risk is retained, the impact of future loss developments on the loss and loss expense ratios may not be consistent with prior years.

Other operating expenses for 2001, before credits for allowances from reinsurers, decreased $.3 million (1%) to $34.4 million despite the increase in premium volume described above. Personnel related expenses, including amounts allocated to loss expenses and investment income, increased less than 1% as staff reductions occasioned by the increased use of technology substantially offset wage increases and higher employee benefit expenses. Direct commission expense decreased $.4 million (5%) primarily as the result of lower direct premiums from the Company's private passenger automobile product which carries higher commission rates than the Company's remaining products. Substantially all large fleet trucking business is produced by direct sales efforts of Baldwin & Lyons, Inc. employees and, accordingly, this business does not incur commission expense on a consolidated basis. Ceding commission allowances from reinsurers increased $4.1 million (47%), resulting from increased premium volume ceded under reinsurance agreements covering Protective's fleet trucking business. The ratio of net operating expenses of the insurance subsidiaries to net premiums earned was 24.3% during 2001 compared to 28.0% for 2000, reflecting the higher ceding commission received from reinsurers. Including the agency operations, the ratio of other operating expenses to total revenue, adjusted to remove net realized gains, was 20.6% for 2001 compared with 26.0% for 2000.

The effective federal tax rate for consolidated operations for 2001 was 16.3%. This rate is lower than the statutory rate primarily because of tax-exempt investment income.

As a result of the factors mentioned above, net income from consolidated operations for 2001 was $5.4 million compared to $19.8 million for 2000. Diluted earnings per share decreased to $.44 in 2001 from $1.57 in 2000 due primarily to the losses related to the events of September 11, 2001. Diluted earnings per share from operations before realized gains on investments was $.17 in 2001 compared to $.93 in 2000.

2000 Compared to 1999

Direct premiums written for 2000 totaled $97.1 million, an increase of $11.0 million (13%) from 1999. This increase is primarily attributable to increases in fleet trucking's large trucking fleet and independent contractor programs of $3.9 million (22%) and $1.6 million (8%), respectively, from 1999 levels. Direct premium writings from the Company's private passenger automobile, small trucking fleet and small business workers' compensation programs also increased by $2.4 million, $2.2 million and $1.2 million, respectively. Large trucking fleet volume increases resulted primarily from the addition of new accounts. Increases in independent contractor premiums resulted from the addition of new accounts and volume increases on existing accounts, while increases in private passenger automobile, small fleet and small workers' compensation were due primarily to geographic expansion.

Premiums assumed from other reinsurers of $4.2 million during 2000 were relatively unchanged from 1999 although 2000's premium included $1.7 million of reinstatement premium attributable to losses occurring in late 1999. Without this premium, reinsurance assumed volume would have decreased 37% from the prior year. Pricing in this market began to firm up toward the end of 2000.

Premiums ceded to reinsurers increased $5.8 million (32%) during 2000 to $24.2 million. The percentage of premiums ceded to direct premiums written increased to 24.9% for 2000 from 21.3% for 1999 consistent with the increase in direct premiums written for the more heavily reinsured large trucking fleet program discussed above.

After giving effect to changes in unearned premiums, net premiums earned increased 12% to $77.4 million for 2000 from $69.1 million for 1999. Premiums earned from private passenger automobile increased by $6.6 million. Net premiums earned from all trucking-related insurance products increased by $1.7 million (5%), including $1.9 million (32%) for small fleet trucking.

Net investment income increased by $.2 million (1%) during 2000 reflecting higher overall pre-tax yields on slightly lower average invested assets. The average pre-tax yield on invested assets was 5.5% and 5.0% for 2000 and 1999, respectively. After-tax yields were 3.9% and 3.6% for 2000 and 1999, respectively.

Realized net capital gains were $12.5 million in 2000 compared to $5.6 million for 1999. The current year net gain consisted of gains on equity securities of $16.0 million and losses on fixed maturities and other investments of $3.5 million.

Losses and loss expenses incurred during 2000 increased $12.6 million (28%) to $57.5 million. The 2000 consolidated loss and loss expense ratio was 74.2% compared to 65.0% for 1999. The increase in the loss and loss expense ratio is primarily attributable to adverse loss development and an increased frequency and severity of claims in the Company's personal automobile division. Changes in the Company's remaining products were generally favorable.

Other operating expenses for 2000, before credits for allowances from reinsurers, increased $2.9 million (9%) to $34.7 million. Personnel related expenses, including amounts allocated to loss expenses and investment income, increased 7% and accounted for approximately 40% of the total operating expense increase, reflecting the fully-employed labor market from which the Company draws. Direct commission expense increased $.9 million (13%) as the result of higher direct premiums from all of the Company's products. Ceding commission allowances from reinsurers increased $1.9 million (28%), resulting from increased premium volume covered under the reinsurance agreements covering Protective's fleet trucking business. The ratio of net operating expenses of the insurance subsidiaries to net premiums earned was 28.1% during 2000 compared to 29.6% for 1999. Including the agency operations, the ratio of other operating expenses to total revenue, adjusted to remove net realized gains, was 26.0% for 2000 compared with 27.5% for 1999. Expenses for 1999 included expenditures in preparation for Year 2000 (Y2K) compliance that were not present in the year 2000.

The effective federal tax rate for consolidated operations for 2000 was 31.8%. This rate is lower than the statutory rate primarily because of tax-exempt investment income.

As a result of the factors mentioned above, net income from consolidated operations for 2000 was $19.7 million compared to $18.6 million for 1999. Diluted earnings per share increased to $1.57 in 2000 from $1.38 in 1999 due primarily to the increase in realized gains on investments. Diluted earnings per share from operations before realized gains on investments was $.93 in 2000 compared to $1.11 in 1999.

Critical Accounting Policies

The Company's significant accounting policies are discussed in Note A to the Consolidated Financial Statements. The following discussion is provided to highlight areas of the Company's accounting policies which are both material and subject to significant degrees of estimation.

Investment Valuation

Over 73% of the Company's assets are composed of investments at December 31, 2001. Less than 1% of these investments, consisting of limited partnerships, do not have readily determinable market values. For these investments, we estimate fair value by reference to the underlying assets of the limited partnerships. All marketable securities are included in the Company's balance sheet at current market value. In determining if and when a decline in market value below cost is other than temporary, we evaluate the market conditions, trends of earnings, price multiples and other key measures for our bonds and common and preferred stocks. When such a decline is considered to be other than temporary, we recognize an impairment loss in the current period operating results to the extent of the decline. Declines which are considered to be temporary are recorded as a reduction in shareholders' equity, net of related federal income tax credits.

Reinsurance Recoverable

Amounts recoverable under the terms of reinsurance contracts comprise almost 19% of total Company assets as of December 31, 2001. In order to be able to provide the high limits required by the Company's trucking company insureds, we share a significant amount of the insurance risk of the underlying contracts with various insurance entities through the use of reinsurance contracts. Some reinsurance contracts provide that a loss be shared among the Company and its reinsurers on a predetermined pro-rata basis ("quota-share") while other contracts provide that the Company keep a fixed amount of the loss, similar to a deductible, with reinsurers taking all losses above this fixed amount ("excess of loss"). Some losses are covered by a combination of quota-share and excess of loss contracts. The computation of amounts due from reinsurers is based upon the terms of the various contracts and follows the underlying estimation process for loss and loss expense reserves, as described below. Accordingly, the uncertainties inherent in the loss and loss expense reserving process also affect the amounts recorded as recoverable from reinsurers. Estimation uncertainties are greatest for claims which have occurred but which have not yet been reported to the Company. Further, the high limits provided by the Company's insurance policies for trucking liability and workers' compensation, provide more variability in the estimation process than lines of business with lower coverage limits.

It should be noted, however, that a change in the estimate of amounts due from reinsurers on unpaid claims will not, in itself, result in charges or credits to losses incurred. This is because any change in estimated recovery follows the estimate of the underlying loss. Thus, it is the computation of the underlying loss that is critical.

As with any receivable, credit risk exists in the recoverability of reinsurance. This is even more pronounced than in normal receivable situations since recoverable amounts will not be due until the loss is settled which, in some cases, may be many years after the contract was written. If a reinsurer is unable, in the future, to meet the reinsurer's financial commitments under the terms of the contracts, the Company would be responsible for its portion of the loss. The financial strength of each of the Company's reinsurers is reviewed on a continual basis and, should impairment in the ability of a reinsurer be determined to exist, current year operations would be charged in amounts sufficient to provide for the Company's additional liability.

Loss and Loss Expense Reserves

The Company's reserves for losses and loss expenses ("reserves") are determined based on complex estimation processes using historical experience, current economic information and, when necessary, available industry statistics. Our reserves are evaluated in three basic categories (1)"case basis", (2)"incurred but not reported" and (3)"loss adjustment expense" reserves. Case basis reserves are established for specific known loss occurrences at amounts dependent upon various criteria such as type of coverage, severity and the underlying policy limits, as examples. Case basis reserves are generally estimated by experienced claims adjusters using established Company guidelines and are subject to review by claims management. Incurred but not reported reserves, which are established for those losses which have occurred, but have not yet been reported to the Company, are not linked to specific claims but are computed on a "bulk" basis. Common actuarial methods are used in the establishment of incurred but not reported loss reserves using company historical loss data, consideration of changes in the Company's business and study of current economic trends affecting ultimate claims costs. Loss adjustment expense reserves, or reserves for the costs associated with the investigation and settlement of a claim, are also bulk reserves representing the Company's estimate of the costs associated with the claims handling process. Loss adjustment expense reserves include amounts ultimately allocable to individual claims as well as amounts required for the general overhead of the claims handling operation that are not specifically allocable to individual claims. Historical analyses of the ratio of loss adjusting expenses to losses paid on prior closed claims and study of current economic trends affecting loss settlement costs are used to estimate the loss adjustment reserve needs related to the established loss reserves. Each of these reserve categories contain elements of uncertainty that guaranty variability when compared to the ultimate costs to settle the underlying claims for which the reserves are established.

The reserving process requires us to continuously monitor and evaluate the life cycle of claims based on the class of business and the nature of claims. Our claims range from the very routine private passenger automobile "fender bender" to the highly complex and costly third party bodily injury claim. Reserving for each class of claims requires a set of assumptions based upon historical experience, knowledge of current industry trends and seasoned judgment. The high limits provided in the Company's trucking liability policies provide for greater variation in the reserving process for more serious claims. Court rulings, tort reform (or lack thereof) and trends in jury awards also play a significant role in the estimation process of larger claims. The Company continuously reviews and evaluates loss developments subsequent to each measurement date and adjusts its reserve estimation assumptions, as necessary, in an effort to achieve the best possible estimate of the ultimate remaining loss costs at any point in time.

MARKET RISK

The Company operates solely within the property and casualty insurance industry and, accordingly, has significant invested assets which are exposed to various market risks. These market risks relate to interest rate fluctuations, foreign currency translation and equities market prices. All of the Company's invested assets are classified as available for sale and are listed as such in Note B to the consolidated financial statements.

The most significant of the three identified market risks relates to prices in the equities market. Though not the largest category of the Company's invested assets, equity securities have the greatest potential for short-term price fluctuation. The market value of the Company's equity positions at December 31, 2001 was $136.4 million or approximately 31% of invested assets, including money market instruments classified as cash. Funds invested in the equities market are not considered to be assets necessary for the Company to conduct its daily operations and, therefore, can be committed for extended periods of time. The long-term nature of the Company's equity investments allows it to invest in positions where ultimate value, and not short-term market fluctuations, are the most important feature.

The Company's fixed maturity portfolio totaled $246.6 million at December 31, 2001. Over half of this portfolio is made up of U. S. government and government agency obligations and state and municipal debt securities, 86% of the portfolio matures within 5 years and the average life of the Company's fixed maturity investments is approximately 3.8 years. Although the Company is exposed to interest rate risk on its fixed maturity investments, given the anticipated duration of the Company's liabilities (principally insurance loss and loss expense reserves) relative to maturities, even a 100 to 200 basis point increase in interest rates would not have a significant impact on the Company's ability to conduct daily operations or to meet its obligations.

The Company's exposure to foreign currency risk is not material.

Forward-Looking Information

Any forward-looking statements in this report, including without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that such forward-looking statements involve risks and uncertainties including without limitation the following: (i) the Company's plans, strategies, objectives, expectations and intentions are subject to change at any time at the discretion of the Company; (ii) the Company's business is highly competitive and the entrance of new competitors into or the expansion of the operations by existing competitors in the Company's markets and other changes in the market for insurance products could adversely affect the Company's plans and results of operations; and (iii) other risks and uncertainties indicated from time to time in the Company's filings with the Securities and Exchange Commission.

Federal Income Tax Considerations

The liability method is used in accounting for federal income taxes. Using this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The provision for deferred federal income tax was based on items of income and expense that were reported in different years in the financial statements and tax returns and were measured at the tax rate in effect in the year the difference originated. Net deferred tax liabilities of $9.9 million and $12.5 million were recorded at December 31, 2001 and 2000, respectively. The net deferred tax liability at December 31, 2001 included $4.3 million in special tax deposits covered under Section 847 of the Internal Revenue Code, as explained in the following paragraph, which compares to $4.2 million in special tax deposits at December 31, 2000. Adjusted for the special deposits, a net deferred tax liability of $14.2 million was recorded at December 31, 2001 compared to a net deferred tax liability of $16.7 million at December 31, 2000. The decrease in deferred federal taxes payable is primarily attributable to changes in unrealized capital gains in the investment portfolio.

A provision in the Technical and Miscellaneous Revenue Act of 1988 created a mechanism which would allow for a recognizable deferred tax asset specifically for property and casualty loss reserves discounted for tax purposes. Adopted as Section 847 of the Internal Revenue Code, this provision allows an insurer to take a special tax deduction equal to the discount on post 1986 accident year loss and loss expense reserves while making "special estimated tax payments" equal to the amount of the tax benefit derived from the special deduction. The "special estimated tax payments" can be carried forward for fifteen years to offset taxes arising from decreases in the special deduction and can be treated as regular estimated payments or refunded at the end of the carryforward period. Based upon the concerns regarding the recognition of deferred tax assets, the Company adopted the provisions of Section 847 for all tax years 1987 and subsequent and has taken deductions for the entire amount of discount on post-1986 loss reserves. As mentioned above, special Section 847 estimated tax deposits totaling $4.3 million have been paid in connection with this election.

Impact of Inflation

To the extent possible, the Company attempts to recover the costs of inflation by increasing the premiums it charges. A majority of the Company's premiums are charged as a percentage of an insured's gross revenue or payroll. As these charging bases increase with inflation, so does premium. The remaining premium rates charged are adjustable only at periodic intervals and often require state regulatory approval. Such periodic increases in premium rates may lag far behind cost increases.

To the extent inflation influences yields on investments, the Company is also affected. The Company maintains a sizable portion of its investment portfolio in short-term instruments and changes in current market interest rates correspondingly affect yields on these investments. Further, as inflation affects current market rates of return, previously committed investments may rise or decline in value depending on the type and maturity of investment.

Inflation must also be considered by the Company in the creation and review of loss and loss adjustment expense reserves since portions of these reserves are expected to be paid over extended periods of time. The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and loss adjustment expenses.

Common Stock Market Prices and Dividends

	Class A		Class B		Cash Dividends
	High	Low	High	Low	Declared
Year ended December 31:					
2001:					
Fourth Quarter	**$22.997**	**$20.241**	**$26.690**	**$16.900**	**$.10**
Third Quarter	**24.450**	**19.000**	**26.500**	**16.500**	**.10**
Second Quarter	**24.900**	**20.750**	**26.280**	**20.500**	**.10**
First Quarter	**22.875**	**18.750**	**28.750**	**20.000**	**.10**
2000:					
Fourth Quarter	19.000	19.000	23.875	18.375	.10
Third Quarter	19.000	15.000	20.250	15.250	.10
Second Quarter	17.500	16.000	19.938	16.000	.10
First Quarter	21.250	16.500	22.125	16.250	.10

The Company's Class A and Class B common stocks are traded on The NASDAQ Stock Market® under the symbols BWINA and BWINB, respectively. 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. As of December 31, 2001, there were approximately 400 record holders of Class A Common Stock and approximately 500 record holders of Class B Common Stock.

The table above sets forth the range of high and low sale prices for the Class A and Class B Common Stock for 2001 and 2000, as reported by the National Association of Security Dealers, Inc. and published in the financial press. The quotations reflect interdealer prices without retail markup, markdown or commission and do not necessarily represent actual transactions.

The Company expects to continue its policy of paying regular cash dividends although there is no assurance as to future dividends because they are dependent on future earnings, capital requirements and financial conditions and are subject to regulatory restrictions as described in Note G to the consolidated financial statements.

REPORT OF ERNST & YOUNG LLP
INDEPENDENT AUDITORS

Shareholders and Board of Directors
Baldwin & Lyons, Inc.

We have audited the accompanying consolidated balance sheets of Baldwin & Lyons, Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in equity other than capital and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Baldwin & Lyons, Inc. and subsidiaries at December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

Indianapolis, Indiana
February 22, 2002

Consolidated Balance Sheets

Baldwin & Lyons, Inc. and Subsidiaries

	December 31	
	2001	2000
	(dollars in thousands)	
Assets		
Investments:		
Fixed maturities	**$ 246,632**	$ 211,810
Equity securities	**136,399**	157,951
Short-term and other	**27,584**	40,176
	410,615	409,937
Cash and cash equivalents	**31,840**	32,814
Accounts receivable--less allowance (2001, $1,143; 2000, $1,229)	**25,151**	25,279
Accrued investment income	**3,875**	3,724
Reinsurance recoverable	**111,585**	64,690
Deferred policy acquisition costs	**3,523**	3,674
Current federal income taxes	**2,590**	-
Property and equipment--less accumulated depreciation (2001, $8,354; 2000, $6,224)	**7,442**	8,456
Notes receivable from employees	**2,257**	1,709
Other assets	**2,231**	1,881
	$ 601,109	$ 552,164
Liabilities and Shareholders' Equity		
Reserves:		
Losses and loss expenses	**$ 247,143**	$ 182,425
Unearned premiums	**23,914**	24,441
	271,057	206,866
Reinsurance payable	**5,260**	7,349
Accounts payable and other liabilities	**26,523**	30,399
Deferred federal income taxes	**9,909**	12,547
Current federal income taxes	**-**	1,003
	312,749	258,164
Shareholders' equity:		
Common stock, no par value:		
Class A -- authorized 3,000,000 shares; outstanding -- 2001, 2,277,905 shares; 2000, 2,300,785 shares	**121**	123
Class B -- authorized 20,000,000 shares; outstanding -- 2001, 9,801,932 shares; 2000, 9,870,082 shares	**523**	526
Additional paid-in capital	**36,272**	36,416
Unrealized net gains on investments	**32,377**	36,237
Retained earnings	**219,067**	220,698
	288,360	294,000
	$ 601,109	$ 552,164

See notes to consolidated financial statements.

Consolidated Statements of Income

Baldwin & Lyons, Inc. and Subsidiaries

	Year Ended December 31		
	2001	2000	1999
	(dollars in thousands, except per share data)		
Revenue:			
Net premiums earned	**$ 83,138**	$ 77,439	$ 69,114
Net investment income	**17,626**	19,049	18,891
Realized net gains on investments	**5,053**	12,473	5,625
Commissions, service fees and other income	**4,063**	3,512	2,772
	109,880	112,473	96,402
Expenses:			
Losses and loss expenses incurred	**81,870**	57,470	44,911
Other operating expenses	**21,572**	26,039	24,985
	103,442	83,509	69,896
Income before federal income taxes	**6,438**	28,964	26,506
Federal income taxes	**1,048**	9,214	7,890
Net income	**$ 5,390**	$ 19,750	$ 18,616
Per share data:			
Diluted earnings:			
Income before realized net gains	**$ .17**	$ .93	$ 1.11
Realized net gains on investments	**.27**	.64	.27
Net income	**$ .44**	$ 1.57	$ 1.38
Basic earnings:			
Income before realized net gains	**$ .17**	$ .93	$ 1.12
Realized net gains on investments	**.27**	.65	.27
Net income	**$ .44**	$ 1.58	$ 1.39
Dividends	**$ .40**	$ .40	$ .40

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity Other Than Capital

Baldwin & Lyons, Inc. and Subsidiaries

	2001	2000	1999
		(dollars in thousands)	
Balances at beginning of year:			
Retained earnings	**$ 220,698**	$ 219,707	$ 216,223
Unrealized gains on investments	**36,237**	24,711	30,311
	256,935	244,418	246,534
Changes arising from income-producing activities:			
Net income	**5,390**	19,750	18,616
Gains (losses) on investments:			
Holding gains (losses) arising during period, before federal income taxes	**(886)**	30,205	(2,991)
Federal income taxes	**(310)**	10,572	(1,047)
	(576)	19,633	(1,944)
Gains realized during period included in net income, before federal income taxes	**(5,053)**	(12,473)	(5,625)
Federal income taxes	**(1,769)**	(4,366)	(1,969)
	(3,284)	(8,107)	(3,656)
Change in unrealized gains on investments	**(3,860)**	11,526	(5,600)
Foreign exhange adjustment	**(300)**	(193)	179
Total realized and unrealized income	**1,230**	31,083	13,195
Other changes affecting retained earnings:			
Cash dividends paid to shareholders	**(4,850)**	(4,994)	(5,365)
Cost of treasury shares in excess of original issue proceeds	**(1,871)**	(13,572)	(9,946)
	(6,721)	(18,566)	(15,311)
Total changes	**(5,491)**	12,517	(2,116)
Balances at end of year:			
Retained earnings	**219,067**	220,698	219,707
Unrealized gains on investments	**32,377**	36,237	24,711
	$ 251,444	$ 256,935	$ 244,418

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Baldwin & Lyons, Inc. and Subsidiaries

	Year Ended December 31		
	2001	2000	1999
	(dollars in thousands)		
Operating activities			
Net income	**$ 5,390**	$ 19,750	$ 18,616
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Change in accounts receivable and unearned premium	**(399)**	(279)	(2,711)
Change in accrued investment income	**(151)**	(27)	371
Change in loss and loss expense reserves and reinsurance recoverable	**17,823**	(10,913)	(13,030)
Change in other assets, other liabilities and current income taxes	**(3,732)**	(380)	2,237
Amortization of net policy acquisition costs	**(3,141)**	1,031	1,716
Net policy acquisition costs deferred	**3,293**	(854)	(2,323)
Provision for deferred income taxes	**(559)**	(1,359)	530
Bond amortization	**578**	227	384
Loss on sale of property	**8**	57	19
Depreciation	**2,604**	2,318	1,845
Net realized gain on investments	**(5,668)**	(13,524)	(5,771)
Compensation expense related to discounted stock options	**131**	136	140
Net cash provided by (used in) operating activities	**16,177**	(3,817)	2,023
Investing activities			
Purchases of fixed maturities and equity securities	**(163,996)**	(132,874)	(143,309)
Proceeds from maturities	**74,029**	44,185	55,746
Proceeds from sales of fixed maturities	**11,921**	35,779	23,485
Proceeds from sales of equity securities	**61,328**	108,063	84,441
Net sales (purchases) of short-term investments	**4,213**	(9,671)	(8,263)
Distributions from limited partnerships	**9,896**	1,799	157
Net increase in principal balance of notes receivable from employees	**(532)**	(1,709)	-
Purchases of property and equipment	**(1,727)**	(4,121)	(2,836)
Proceeds from disposals of property and equipment	**129**	184	332
Net cash provided by (used in) investing activities	**(4,739)**	41,635	9,753
Financing activities			
Dividends paid to shareholders	**(4,850)**	(4,994)	(5,365)
Proceeds from sale of common stock	**3**	10	15
Drawing on line of credit	**-**	5,411	8,528
Repayment on line of credit	**(5,411)**	(8,528)	-
Cost of treasury shares	**(2,154)**	(17,018)	(11,794)
Net cash used in financing activities	**(12,412)**	(25,119)	(8,616)
Increase (decrease) in cash and cash equivalents	**(974)**	12,699	3,160
Cash and cash equivalents at beginning of year	**32,814**	20,115	16,955
Cash and cash equivalents at end of period	**$ 31,840**	$ 32,814	$ 20,115

See notes to consolidated financial statements.

Note A - Summary of Significant Accounting Policies

Basis of Presentation: The consolidated financial statements include the accounts of Baldwin & Lyons, Inc. and its wholly owned subsidiaries (the Company). All significant intercompany transactions and accounts have been eliminated in consolidation.

Use of estimates: Preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents: The Company considers investments in money market funds to be cash equivalents. Carrying amounts for these instruments approximate their fair values.

Investments: Carrying amounts for fixed maturity securities (bonds, notes and redeemable preferred stocks) represent fair value and are based on quoted market prices, where available, or broker/dealer quotes for specific securities where quoted market prices are not available. Equity securities (nonredeemable preferred stocks and common stocks) are carried at quoted market prices (fair value). Other investments are carried at either market value, cost or cost adjusted for operations of limited partnerships, depending on the nature of the investment. All fixed maturity and equity securities are considered to be available for sale; the related unrealized net gains or losses (net of applicable tax effect) are reflected directly in shareholders' equity unless a decline in value is determined to be other than temporary, in which case, the loss is charged to income. Although the Company has classified fixed maturity investments as available for sale, it has the ability to hold its fixed maturity investments to maturity. Short-term investments are carried at cost which approximates their fair values. Realized gains and losses on disposals of investments are determined by specific identification of cost of investments sold and are included in income.

Property and Equipment: Property and equipment is carried at cost. Depreciation is computed principally by the straight-line method.

Reserves for Losses and Loss Expenses: The reserves for losses and loss expenses, certain of which are discounted, are determined using case basis evaluations and statistical analyses and represent estimates of the ultimate cost of all reported and unreported losses which are unpaid at year end. These reserves include estimates of future trends in claim severity and frequency and other factors which could vary as the losses are ultimately settled. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the reserves for losses and loss expenses are adequate. The estimates are continually reviewed and as adjustments to these reserves become necessary, such adjustments are reflected in current operations.

Recognition of Revenue and Costs: Premiums are earned over the period for which insurance protection is provided. A reserve for unearned premiums, computed by the daily pro-rata method, is established to reflect amounts applicable to subsequent accounting periods. Commissions to unaffiliated companies and other acquisition costs applicable to unearned premiums are deferred and expensed as the related premiums are earned. Anticipated investment income is considered in determining recoverability of deferred acquisition costs.

Reinsurance premiums, commissions, expense reimbursements and reserves related to reinsured business are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other insurers have been reported as a reduction of premium income. Amounts applicable to reinsurance ceded for unearned premium and claim loss reserves have been reported as reinsurance recoverable assets. Certain reinsurance contracts provide for additional or return premiums and commissions based upon profits or losses to the reinsurer over prescribed periods. Estimates of additional or return premiums and commissions are adjusted quarterly to recognize actual loss experience to date as well as projected loss experience applicable to the various contract periods.

Stock-based Compensation: Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations are used in accounting for stock options, stock purchases and equity appreciation rights which are, from time to time, granted to employees and outside directors.

Federal Income Taxes: A consolidated federal income tax return is filed by the Company and includes all wholly owned subsidiaries.

Earnings Per Share: Diluted earnings per share of common stock are based on the average number of shares of Class A and Class B common stock outstanding during the year, adjusted for the effect, if any, of options outstanding. Basic earnings per share are presented exclusive of the effect of options outstanding. See note I.

Note A - Significant Accounting Policies (continued)

Comprehensive Income: The Company records accumulated other comprehensive income from unrealized gains and losses on available-for-sale securities as a separate component of shareholders' equity. Foreign exchange adjustments are immaterial and the Company has no defined benefit pension plan.

The enclosed *Statement of Changes in Equity Other Than Capital* refers to comprehensive income as *Total realized and unrealized income*. Items of other comprehensive income included in this statement are referred to as *Change in unrealized gains (losses) on investments* and *Foreign exchange adjustment*. A reclassification adjustment to other comprehensive income is made for *Gains realized during period included in net income*.

***Reclassification*:** Certain prior year balances have been reclassified to conform to the current year presentation.

Note B - Investments

The following is a summary of available-for-sale securities at December 31:

	Fair Value	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gains
2001:					
U. S. government obligations	**$ 85,459**	**$ 84,181**	**$ 1,289**	**$ (11)**	**$ 1,278**
Mortgage-backed securities	**15,075**	**14,644**	**431**	**-**	**431**
Obligations of states and political subdivisions	**46,503**	**45,708**	**851**	**(56)**	**795**
Corporate securities	**99,595**	**97,428**	**2,972**	**(805)**	**2,167**
Total fixed maturities	**246,632**	**241,961**	**5,543**	**(872)**	**4,671**
Equity securities	**136,399**	**91,030**	**54,214**	**(8,845)**	**45,369**
Short-term and other	**27,584**	**27,813**	**-**	**(229)**	**(229)**
Total available-for-sale securities	**$ 410,615**	**$ 360,804**	**$ 59,757**	**$ (9,946)**	**49,811**
				Applicable federal income taxes	**(17,434)**
				Net unrealized gains - net of tax	**$ 32,377**
2000:					
U. S. government obligations	$ 38,789	$ 38,911	$ 58	$ (180)	$ (122)
Mortgage-backed securities	21,430	21,385	128	(83)	45
Obligations of states and political subdivisions	50,856	50,470	425	(39)	386
Corporate securities	100,735	102,676	878	(2,819)	(1,941)
Total fixed maturities	211,810	213,442	1,489	(3,121)	(1,632)
Equity securities	157,951	100,387	66,301	(8,737)	57,564
Short-term and other	40,176	40,358	-	(182)	(182)
Total available-for-sale securities	$ 409,937	$ 354,187	$ 67,790	$ (12,040)	55,750
				Applicable federal income taxes	(19,513)
				Net unrealized gains - net of tax	$ 36,237

Note B - Investments (continued)

Gross realized gains and losses on investments for the years ended December 31 are summarized below:

	2001	2000	1999
Fixed maturities:			
Gains	**$ 82**	$ 666	$ 220
Losses	**(2,218)**	(1,209)	(2,564)
Net gains (losses)	**(2,136)**	(543)	(2,344)
Equity securities:			
Gains	**15,591**	22,861	17,747
Losses	**(8,305)**	(6,866)	(9,953)
Net gains	**7,286**	15,995	7,794
Short-term and other - net gain (loss)	**(97)**	(2,979)	175
Total net gains	**$ 5,053**	$ 12,473	$ 5,625

The Company recorded other than temporary writedowns of $2,081 and $5,000 in 2001 and 2000, respectively.

The fair value and the cost or amortized cost of fixed maturity investments at December 31, 2001, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers have, in some cases, the right to call or prepay obligations with or without call or prepayment penalties.

	Fair Value	Cost or Amortized Cost
One year or less	$ 51,831	$ 50,994
Excess of one year to five years	146,193	142,567
Excess of five years to ten years	15,149	14,741
Excess of ten years	16,081	16,079
Total maturities	229,254	224,381
Mortgage-backed securities	15,075	14,644
Redeemable preferred stock	2,303	2,936
	$ 246,632	$ 241,961

Major categories of investment income for the years ended December 31 are summarized as follows:

	2001	2000	1999
Fixed maturities	**$ 13,287**	$ 13,951	$ 15,785
Equity securities	**2,739**	3,327	2,608
Money market funds	**1,522**	1,778	1,089
Short-term and other	**1,785**	1,674	565
	19,333	20,730	20,047
Investment expenses	**(1,707)**	(1,681)	(1,156)
Net investment income	**$ 17,626**	$ 19,049	$ 18,891

Approximately 31% of purchases and 52% of sales of investments during the three years ended December 31, 2001 were made through securities broker-dealers in which certain directors of the Company were officers, directors or owners. Fees earned by affiliated investment advisors were $1,110, $1,499 and $614 in 2001, 2000 and 1999, respectively.

The Company has holdings in money-market accounts which were managed by or purchased through companies affiliated with certain directors of the Company.

Note C - Loss and Loss Expense Reserves

Activity in the reserves for losses and loss expenses is summarized as follows. All amounts are shown net of reinsurance recoverable.

	Year Ended December 31,		
	2001	2000	1999
Reserves at the beginning of the year	**$120,206**	$130,702	$143,951
Provision for losses and loss expenses:			
Claims occurring during the current year	**82,757**	65,577	55,520
Claims occurring during prior years	**(887)**	(8,107)	(10,609)
Total incurred	**81,870**	57,470	44,911
Loss and loss expense payments:			
Claims occurring during the current year	**33,237**	37,671	27,867
Claims occurring during prior years	**31,132**	30,238	30,215
Total paid	**64,369**	67,909	58,082
Change in unpaid portion of uncollectible amounts due from reinsurers	**26**	(57)	(78)
Reserves at the end of the year	**137,733**	120,206	130,702
Reinsurance recoverable on reserves at the end of the year	**109,410**	62,219	42,771
Reserves, gross of reinsurance recoverables, at the end of the year	**$247,143**	$182,425	$173,473

The reserves for losses and loss expenses, net of related reinsurance recoverables, at December 31, 2000, 1999 and 1998 were decreased by $887, $8,107 and $10,609, respectively, for claims that had occurred on or prior to those dates. These decreases are the result of the settlement of claims at amounts lower than previously reserved and changes in estimates of losses incurred but not reported as part of the normal reserving process. Development during 2001 and 2000, on reserves outstanding at December 31, 2000 and 1999 was insignificant for incurred losses and loss expenses related to environmental damage claims. Reported cases to date relate primarily to policies issued in the 1970's to one account which was involved in the business of hauling and disposing of hazardous waste. Reserves for incurred but not reported environmental losses were $3,900 at December 31, 2001 and 2000. Development during 2001 included $2.1 million of incurred losses and loss expenses on reinsurance assumed reserves outstanding at December 31, 2000 which was partially offset by reinstatement premiums of $1.0 million. Adjusted for reinsurance assumed, management believes that the favorable experience is attributable to the Company's long-standing policy of reserving for losses realistically and a willingness to settle claims based upon a seasoned evaluation of its exposures. The decline in favorable loss developments from 1999 to 2001 is due in part to the significantly lower retained loss per occurrence for the Company's large fleet trucking product. Under terms of reinsurance agreements effective June 1, 1998, the Company's exposure on large fleet trucking losses dropped from $1,000 to $100 per occurrence. These trends were considered in the establishment of the Company's reserves at December 31, 2001.

The Company participates in mandatory residual market pools in various states. The Company records the results from participation in these pools as reported and records an additional provision in the financial statements for operating periods unreported by the pools.

Loss reserves on certain permanent total disability workers' compensation reserves have been discounted to present value at pre-tax rates not exceeding 3.5%. At December 31, 2001 and 2000, loss reserves have been reduced by approximately $4,724 and $5,096, respectively. Discounting is applied to these claims since the amount of periodic payments to be made during the lifetime of claimants is fixed and determinable.

Loss reserves have been reduced by estimated salvage and subrogation recoverable of approximately $2,717 and $2,698 at December 31, 2001 and 2000, respectively.

Note D - Employee Benefit Plans

The Company maintains a defined contribution 401(k) Employee Savings and Profit Sharing Plan ("the Plan") which covers all employees who have completed one year of service. The Company's contributions to the Plan for 2001, 2000 and 1999 were $736, $657 and $620, respectively.

Note E - Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31 are as follows:

	2001	2000
Deferred tax liabilities:		
Unrealized gain on investments	**$ 17,434**	$ 19,513
Deferred acquisition costs	**1,255**	1,315
Salvage and subrogation	**560**	560
Other	**468**	848
Total deferred tax liabilities	**19,717**	22,236
Deferred tax assets:		
Discounts of loss and loss expense reserves	**4,298**	4,154
Deferred compensation	**2,391**	2,928
Unearned premiums	**1,657**	1,692
Other	**1,462**	915
Total deferred tax assets	**9,808**	9,689
Net deferred tax liabilities	**$ 9,909**	$ 12,547

A summary of the difference between federal income tax expense computed at the statutory rate and that reported in the consolidated financial statements is as follows:

	2001	2000	1999
Statutory federal income rate applied to pretax income from operations	**$ 2,253**	$ 10,137	$ 9,277
Tax effect of (deduction):			
Tax-exempt investment income	**(1,241)**	(1,390)	(1,337)
Other	**36**	467	(50)
Federal income tax expense	**$ 1,048**	$ 9,214	$ 7,890

Federal income tax expense consists of the following:

	2001	2000	1999
Taxes (credits) on income from operations:			
Current	**$ 1,607**	$ 10,573	$ 7,360
Deferred	**(559)**	(1,359)	530
	$ 1,048	$ 9,214	$ 7,890

Cash flows related to federal income taxes paid, net of refunds received, for 2001, 2000 and 1999 were $5,200, $8,807 and $7,367, respectively, including Section 847 special tax deposits. Future tax benefits on approximately $4,298 of deferred tax assets at December 31, 2001 arising from loss reserve discounting are assured based on Section 847 of the Internal Revenue Code.

Note F - Reinsurance

The insurance subsidiaries cede portions of their gross premiums written to certain other insurers under excess and quota share treaties and by facultative placements. Risks are reinsured with other companies to permit the recovery of a portion of related direct losses. The Company also serves as an assuming reinsurer under retrocessions from certain other reinsurers. These retrocessions include individual risks as well as aggregate catastrophe treaties. Accordingly, the occurrence of a major catastrophic event can have a significant impact on the Company's operating income. In addition, the insurance subsidiaries participate in certain involuntary reinsurance pools which require insurance companies to provide coverages on assigned risks. The assigned risk pools allocate participation to all insurers based upon each insurer's portion of premium writings on a state or national level.

Net premiums earned for 2001, 2000 and 1999 have been reduced by reinsurance ceded premiums of approximately $37,706, $23,943 and $19,037, respectively. Net losses and loss expenses incurred for 2001 and 2000 have been reduced by ceded reinsurance recoveries of approximately $72,701 and $40,586, respectively. Net losses and loss expenses incurred for 1999 have been increased by net savings on reinsured claims of $771. Ceded reinsurance premiums and loss recoveries for catastrophe reinsurance contracts were not material. The Company remains liable to the extent the reinsuring companies are unable to meet their obligations under reinsurance contracts.

Net premiums earned for 2001, 2000 and 1999 include approximately $5,931, $4,678 and $4,981, respectively, relating to the assumption of reinsurance from other companies and from reinsurance pools. Losses and loss expenses incurred for 2001 included an estimated $20,000 for the Company's exposure from reinsurance assumed treaties related to the events of September 11, 2001.

Components of reinsurance recoverable at December 31 are as follows:

	2001	2000
Paid losses and loss expenses	**$ 1,935**	$ 2,197
Unpaid losses and loss expenses	**109,410**	62,219
Unearned premiums	**240**	274
	$ 111,585	$ 64,690

Note G - Shareholders' Equity

Changes in common stock outstanding and additional paid-in capital are as follows:

	Class A		Class B		Additional Paid-in
	Shares	Amount	Shares	Amount	Capital
Balance at January 1, 1999	2,388,454	$ 127	11,302,496	$ 603	$ 41,328
Discounted stock options issued	-	-	-	-	139
Discounted stock options exercised	-	-	45,297	2	13
Treasury shares purchased	(62,900)	(3)	(510,400)	(27)	(1,817)
Balance at December 31, 1999	2,325,554	124	10,837,393	578	39,663
Discounted stock options issued	-	-	-	-	136
Discounted stock options exercised	-	-	17,889	1	9
Treasury shares purchased	(24,769)	(1)	(985,200)	(53)	(3,392)
Balance at December 31, 2000	2,300,785	123	9,870,082	526	36,416
Discounted stock options issued	-	-	-	-	130
Discounted stock options exercised	-	-	6,650	1	3
Treasury shares purchased	(22,880)	(2)	(74,800)	(4)	(277)
Balance at December 31, 2001	2,277,905	$ 121	9,801,932	$ 523	$ 36,272

The Company's Class A and Class B common stock has a stated value of approximately $.05 per share.

Shareholders' equity at December 31, 2001 includes $278,249 representing GAAP shareholder's equity of insurance subsidiaries, of which $40,815 may be transferred by dividend or loan to the parent company without approval by, or notification to, regulatory authorities. An additional $189,859 of shareholder's equity of such insurance subsidiaries may be advanced or loaned to the Company with prior notification to and approval from regulatory authorities.

Net income of the insurance subsidiaries, as determined in accordance with statutory accounting practices, was $5,660, $24,309 and $18,212 for 2001, 2000 and 1999, respectively. Consolidated statutory shareholder's equity for these subsidiaries was $273,072 and $291,371 at December 31, 2001 and 2000, respectively.

Note H - Other Operating Expenses

Details of other operating expenses for the years ended December 31:

	2001	2000	1999
Amortization of deferred policy acquisition costs	**$ 9,692**	$ 9,740	$ 8,538
Other underwriting expenses	**12,878**	13,103	12,162
Expense allowances from reinsurers	**(12,833)**	(8,709)	(6,822)
Total underwriting expenses	**9,737**	14,134	13,878
Operating expenses of non-insurance companies	**11,835**	11,905	11,107
Total other operating expenses	**$ 21,572**	$ 26,039	$ 24,985

Note I - Earnings Per Share

The following is a reconciliation of the denominators used in the calculations of basic and diluted earnings per share for the years ended December 31:

	2001	2000	1999
Average shares outstanding for basic earnings per share	**12,122,862**	12,466,510	13,393,357
Dilutive effect of options	**84,083**	88,612	127,615
Average shares outstanding for diluted earnings per share	**12,206,945**	12,555,122	13,520,972

No effect on net income was considered to result from the presumed exercise of the options used in calculating diluted earnings per share. The market value options, discussed in Note K, were not included in the computation of diluted earnings per share because the exercise price was greater than the average market price of the Company's stock.

Note J - Reportable Segments

The Company and its consolidated subsidiaries market and underwrite casualty insurance in three major speciality areas (reportable segments): (1) fleet trucking, (2) non-standard private passenger automobile and (3) the assumption of reinsurance. The fleet trucking segment provides multiple line insurance coverage to large trucking fleets which generally retain substantial amounts of self-insurance and to medium-sized trucking fleets on a first dollar or small deductible basis. The non-standard private passenger automobile segment provides motor vehicle liability and physical damage coverage to individuals. The reinsurance assumed segment accepts retrocessions from selected reinsurance companies, principally reinsuring against catastrophes.

The Company's reportable segments are business units that operate in the property/casualty insurance industry and each offers products to different classes of customers. The reportable segments are managed separately due to the differences in underwriting criteria used to market products to each class of customer and the methods of distribution of the products each reportable segment provides. Segment information shown in the table below as "all other" includes products marketed and underwritten by the Company in other specialty areas and the runoff of discontinued product lines.

The Company evaluates performance and allocates resources based on gain or loss from insurance underwriting operations before income taxes. Underwriting gain or loss does not include net investment income nor does it include realized gains or losses on the Company's investment portfolio. All investment-related revenues are managed at the corporate level. Underwriting gain or loss for the fleet trucking segment includes revenue and expense from the Company's agency operations since the agency operations serve solely as a direct marketing facility for this segment. Underwriting gain or loss also includes fee income generated by each segment in the course of its underwriting operations. Management does not identify or allocate assets to reportable segments when evaluating segment performance and depreciation expense is not material for any of the reportable segments. The accounting policies of each reportable segment are the same as those described in the summary of significant accounting policies.

Note J - Reportable Segments (continued)

The following table provides certain profit and loss information for each reportable segment for the years ended December 31:

	Fleet Trucking	Non-standard Private Passenger Automobile	Voluntary Reinsurance Assumed	All Other	Totals
2001:					
Direct and assumed premium written	**$ 68,154**	**$ 30,094**	**$ 5,668**	**$ 16,392**	**$ 120,308**
Net premium earned and fee income	**34,824**	**33,800**	**5,636**	**12,686**	**86,946**
Underwriting gain (loss)	**11,116**	**436**	**(19,429)**	**(729)**	**(8,606)**
2000:					
Direct and assumed premium written	49,258	35,713	4,203	12,216	101,390
Net premium earned and fee income	27,842	39,476	4,521	9,067	80,906
Underwriting gain (loss)	12,582	(9,498)	2,083	262	5,429
1999:					
Direct and assumed premium written	44,013	33,339	4,015	9,009	90,376
Net premium earned and fee income	27,734	32,467	4,751	6,872	71,824
Underwriting gain (loss)	9,211	(284)	1,647	(1,041)	9,533

The following tables are reconciliations of reportable segment revenues and profits to the Company's consolidated revenue and income before federal income taxes, respectively.

	2001	2000	1999
Revenue:			
Net premium earned and fee income	**$ 86,946**	$ 80,906	$ 71,824
Net investment income	**17,626**	19,049	18,891
Realized net gains on investments	**5,053**	12,473	5,625
Other income	**255**	45	62
Total consolidated revenue	**$ 109,880**	$ 112,473	$ 96,402

	2001	2000	1999
Profit:			
Underwriting gain (loss)	**$ (8,606)**	$ 5,429	$ 9,533
Net investment income	**17,626**	19,049	18,891
Realized net gains on investments	**5,053**	12,473	5,625
Corporate expenses	**(7,635)**	(7,987)	(7,543)
Income before federal income taxes	**$ 6,438**	$ 28,964	$ 26,506

The Company, through its subsidiaries, is licensed to do business in all 50 states of the United States, all Canadian provinces and Bermuda. Canadian and Bermuda operations are currently not significant.

One customer of the fleet trucking segment represents approximately $28,864, $23,739 and $22,301 of the Company's consolidated revenue in 2001, 2000 and 1999, respectively.

Note K - Stock Purchase and Option Plans

In accordance with the terms of the 1981 Stock Purchase Plan (1981 Plan), the Company is obligated to repurchase shares issued under the 1981 Plan, at a price equal to 90% of the book value of the shares at the end of the quarter immediately preceding the date of repurchase. No shares were repurchased during 2001, 2000 or 1999. At December 31, 2001 there were 136,179 shares (Class A) and 375,766 shares (Class B) outstanding which are eligible for repurchase by the Company.

The Company maintains stock option plans and has reserved an aggregate of 1,050,000 shares of Class B common stock for the granting of stock options to employees and directors. Discounted options granted to employees are generally exercisable immediately while discounted options granted to directors are generally not exercisable for one year from the date of grant. All options expire ten years after the date of grant. All of the Company's option plans have received shareholder approval. Approximately 273,000 of such options are available for future grants.

A summary of the Company's stock option activity and related information for the years ended December 31 follows:

	2001		2000		1999	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	**551,201**	**$ 21.848**	572,248	$ 21.543	631,974	$ 20.376
Granted at exercise prices below market	**6,738**	**1.000**	7,842	1.000	6,571	1.000
Exercised	**6,650**	**.522**	17,889	.548	45,297	.333
Forfeited	**-**	**-**	11,000	25.750	21,000	25.750
Outstanding at end of year	**551,289**	**21.851**	551,201	21.848	572,248	21.543
Exercisable at end of year	**544,551**	**22.109**	543,359	22.149	407,010	20.235
Weighted average fair value of options granted during the year at exercise prices below market	**6,738**	**19.386**	7,842	17.411	6,571	21.242

The fair value of market value options granted during 1997 was determined using a Black Scholes option pricing model with the following assumptions: risk-free interest rate of 5.8%; dividend yield of 1.8%; volatility factor of the expected market price of the Company's common stock of .21; and an expected life of the option of 10 years. If the Company had followed Financial Accounting Standards Board Statement No. 123, *Accounting for Stock-Based Compensation,* 2000 net income and earnings per share would have been reduced by $918 and $.07, respectively, related to the issuance of 1997 market value options. Similarly, 1999 net income and earnings per share would have been reduced by $975 and $.07, respectively, related to these options. There would have been no impact on 2001 net income or earnings per share related to these options.

Exercise prices for options outstanding as of December 31, 2001 were $.33, $1.00 or $25.75. The weighted-average remaining contractual life of options exercisable at either $.33 or $1.00 is 4.9 years with a weighted-average exercise price of $.83. The remaining contractual life of options exercisable at $25.75 is 6 years. The compensation cost that has been charged against income for all stock-based compensation plans, consisting of directors' fees only, was $130, $136 and $139 for 2001, 2000 and 1999, respectively.

During 2001 and 2000, the Company offered loans to certain key employees for the sole purpose of purchasing the Company's Class B common stock in the open market. $2,257 and $1,709 of such full-recourse loans were issued and outstanding at December 31, 2001 and 2000, respectively, and carry an interest rate of 6%, payable annually on the loan anniversary date. The underlying securities serve as collateral for these loans, which must be repaid no later than 10 years from the date of issue.

Note L - Quarterly Results of Operations (Unaudited)

Quarterly results of operations are as follows:

	Results by Quarter							
	2001				2000			
	1st	**2nd**	**3rd**	**4th**	1st	2nd	3rd	4th
Net premiums earned	**$19,037**	**$21,531**	**$20,657**	**$21,913**	$19,669	$18,576	$20,417	$18,777
Net investment income	**4,566**	**4,413**	**4,144**	**4,503**	4,937	4,727	4,461	4,924
Realized net gains (losses) on investments	**6,538**	**(1,557)**	**2,728**	**(2,656)**	4,466	3,828	1,722	2,457
Losses and loss expenses incurred	**14,360**	**16,181**	**35,435** [1]	**15,894**	13,255	14,418	16,234	13,563
Net income (loss)	**7,176**	**2,644**	**(7,173)** [1]	**2,743**	6,275	4,637	3,289	5,549
Per share - diluted:								
Income (loss) before realized net gains (losses) on investments	**$ .24**	**$ .30**	**$ (.73)** [1]	**$ .36**	$ .26	$ .17	$ .18	$ .32
Realized net gains (losses) on investments	**.35**	**(.08)**	**.14**	**(.14)**	.22	.20	.09	.13
Net income (loss)	**$ .59**	**$ .22**	**$ (.59)** [1]	**$ .22**	$ .48	$ .37	$ .27	$ .45

[1] Third quarter, 2001 results were impacted by the Company's exposure, under certain reinsurance assumed treaties, to the events of September 11, 2001. Losses and loss expenses incurred were increased by $20,000, net loss was increased by $13,000 and earnings per share were reduced by $1.07 as the result of this event.

Note M - Subsequent Event

During February, 2002, a large block of the Company's Class A and Class B common shares became available from a group of shareholders who recently received the shares via a distribution from a trust which was a major shareholder. The Company repurchased 97,190 and 269,331 of the Class A and Class B shares, respectively, for an aggregate of approximately $7.3 million. In addition, certain executive officers and employees of the Company purchased an aggregate of 251,800 Class B common shares for approximately $5.0 million, funding for which was provided by loans from the Company. The loans bear interest at the current prime rate with principal due no later than ten years from the date of issuance. The Company borrowed $10 million under its bank line of credit in connection with the share purchases.

Directors

Stuart D. Bilton
President and CEO
The Chicago Trust Company
Chicago, Illinois

Joseph J. DeVito
Executive Vice President
Baldwin & Lyons, Inc.
Executive Vice President
Sagamore Insurance Co.

Otto N. Frenzel III
Chairman of the Executive Committee
National City Bank, Indiana
Indianapolis, Indiana

James W. Good
Executive Vice President
Baldwin & Lyons, Inc.
Executive Vice President
Protective Insurance Co.

Gary W. Miller
Chairman & CEO
Baldwin & Lyons, Inc.

John M. O'Mara
Business Consultant & Private Investor
Greenwich, Connecticut

Thomas H. Patrick
Executive Vice President & CFO
Merrill Lynch Co., Inc.
New York, New York

John A. Pigott
Former President
Anixter, Inc.
Winnetka, Illinois

Nathan Shapiro
President
S F Investments, Inc.
Chicago, Illinois

Norton Shapiro
Personal Investments
Chicago, Illinois

Robert Shapiro
President & CEO
Emlin Cosmetics
Chicago, Illinois

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

Officers

Gary W. Miller
Chairman & CEO

Joseph J. DeVito
Executive Vice President

James W. Good
Executive Vice President

G. Patrick Corydon
Senior Vice President & CFO

James E. Kirschner
Senior Vice President & Secretary

Mark L. Bonini
Vice President (Sales)

James D. Isham
Vice President (Administration)

Walter D. Osborne
Treasurer

Corporate Data

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

Subsidiaries
Protective Insurance Company
1099 N. Meridian Street
Indianapolis, Indiana 46204

Sagamore Insurance Company
1099 N. Meridian Street
Indianapolis, Indiana 46204

B & L Insurance, Ltd.
Windsor Place
18 Queen Street
Hamilton, Bermuda

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

Availability of Form 10-K
The Company's 2001 annual report filed with the Securities and Exchange Commission on Form 10-K will be sent to shareholders without charge upon written request to the Investor Contact at the corporate address.

Notice of Annual Meeting
10:00 a.m. May 7, 2002
Landmark Center
Lower Level
1099 N. Meridian Street
Indianapolis, Indiana 46204

Transfer Agent and Registrar
National City Bank
Cleveland, Ohio

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 dividend rate is $.10 per share per quarter.

Independent Auditors
Ernst & Young LLP
Indianapolis, Indiana