On behalf of the Board of Directors of the Derek Hughes/NAPSLO Educational Foundation, I am pleased to offer the Foundation’s 2014 Annual Report for your review. The last year has been a successful one for the Foundation, and I encourage you to read the report to better understand the results of many important initiatives that the Foundation was proud to support in 2014.

One of the Foundation’s long-standing cornerstones is the annual A.M. Best Special Report on the U.S. Surplus Lines. The Foundation has provided a grant for the report’s development for 21 years, and it continues to be an important tool for all of us in this industry. The 2014 report included a 20-year retrospective which confirms a strong record of growth and financial stability for the surplus lines industry. The report was first undertaken in 1994 to examine the solvency of the industry and to clarify the structure of the market. The 2014 report continued to showcase a financially stable surplus lines industry that is in a strong position relative to the entire insurance market. The Foundation again also cosponsored a webinar, produced by A.M. Best, which allowed more than 1,000 industry professionals to understand more about the current report.

While the A.M. Best report is an important focus for the Foundation, we continue to work on a number of other important projects. Last year the Foundation again awarded 14 scholarships of $5,000 to students who have expressed an interest in working in the insurance industry. The Foundation also promoted its work as well as NAPSLO’s internship program, and NAPSLO’s Next Generation at the annual Gamma Iota Sigma convention and continued our outreach to college students by sponsoring programs at Troy University, Illinois State University and the University of North Carolina. These initiatives are important ways to generate interest in sustaining our industry with the next generation of talented, young professionals.

The Foundation also continued its support of the Associate in Surplus Lines Insurance (ASLI) designation. We were proud to honor 111 of our colleagues who have earned the ASLI at NAPSLO’s Annual Convention in Atlanta. With support from the E.G. Lassiter Speaker Series, the Foundation was also able to sponsor keynote speaker, Earvin “Magic” Johnson, in Atlanta.

These efforts would not be possible without your support. Your contributions and participation in our annual golf event at NAPSLO’s Mid-Year Leadership Forum are critical to the success of the Foundation’s work, and on behalf of the Foundation Board, thank you for your continued support. I encourage you to review this report of our work over the past year.

Brian Van Cleave
President
With the support of the Derek Hughes/NAPSLO Educational Foundation, A.M. Best has published the 2014 Special Report U.S. Surplus Lines – Segment Review. The 21st annual report on the U.S. surplus lines segment is produced by A.M. Best Company with a grant from the Foundation and is one of NAPSLO’s most important tools in promoting and illustrating the industry’s strength and stability.

“The 20-year retrospective is a valuable component of this year’s report,” said Brian Van Cleave, Derek Hughes/NAPSLO Educational Foundation president. “The initial report confirmed that surplus lines insurers were as financially sound, if not more so, than the admitted market and this report illustrates that our industry remains that stable.”

The 2014 report indicates growth of 8.4% in surplus lines direct premium written in 2013, continuing the reversal of a five-year decline from 2007 - 2011. Domestic professional surplus lines insurers generated a 5.2% increase in direct premium written. For the tenth year in a row, the surplus lines industry reported no financially impaired companies, in contrast to the admitted property/casualty industry’s 14 disclosed financial impairments in 2013.

The report continues to provide A.M. Best’s perspective on the state of the market and the relative positions of carriers in the market. It examines the surplus lines sector’s financial condition and ratings distribution, market trends, regulatory and legislative developments, distribution issues and impairment trends.

Domestic professional surplus lines insurers continue to maintain a higher proportion of secure ratings than the overall property/casualty industry. Through midyear 2014, 100% of surplus lines companies maintained secure A.M. Best ratings.

Despite the challenges that A.M. Best noted over the 21 years of study, the surplus lines market more than doubled from 3.3% of total property/casualty direct premiums written in 1993, to approximately 6.9% by the end of 2013. Meanwhile, surplus lines has grown as a percentage of commercial lines direct written premium from 6.1% to 13.7%.

The report also includes the results of A.M. Best’s survey of surplus lines insurers measuring the proportion of surplus lines premium derived from various distribution channels. A.M. Best’s survey results indicate that the largest distributors of surplus lines products continue to be wholesale agents and brokers with binding authority.

Copies of the report are available from the NAPSLO website or by contacting NAPSLO at info@napslo.org.

About the Foundation

The Derek Hughes/NAPSLO Educational Foundation, formed in 1991, is dedicated to encouraging the educational development of all those interested in the excess and surplus lines business, to creating an understanding, and overcoming the misperceptions of the excess and surplus lines market.

The Foundation established and supports the Associate in Surplus Lines Insurance (ASLI) designation, a professional excess and surplus lines designation program; the A.M. Best Company’s annual Special Report, U.S. Surplus Lines – Segment Review, a study on the state of the surplus lines industry and scholarships and programs for students pursuing insurance studies.

The Foundation was named for retired Western World Insurance Group President, Derek Hughes. Mr. Hughes, who began his insurance career in 1957 with the Royal Exchange Insurance Group in Liverpool, England, also served on NAPSLO’s Board of Directors and chaired the Education Committee.

To learn more about the Derek Hughes/NAPSLO Educational Foundation or to donate, please visit: www.napslo.org/Foundation.
Foundation awards 15 scholarships for 2014-15 year

The Derek Hughes/NAPSLO Educational Foundation selected 15 students to receive $5,000 scholarships for the 2014-15 school year. The scholarship program’s goal is to further the study of insurance and encourage, support and reward students who have an interest in insurance. Since the program’s inception in 1998, the Foundation is pleased to have facilitated career opportunities for talented students through 199 scholarships totaling $727,000.

Jonathan Bisschop, University of Connecticut, was awarded the Russell Bond Education Scholarship, started in 2007 to recognize the founder of the Russell Bond & Co., Inc.

Christopher Mohler, Butler University, was awarded the Gary E. Frohn Memorial Scholarship, established in 2008 to recognize Mr. Frohn.

William Eudailey, University of South Carolina, was awarded the Richard Hull Educational Scholarship, established in the name of Hull & Company founder.

Alexis Ramiro, Illinois State University, was awarded the Herbert W. Kaufman Memorial Scholarship, founded in 2001 from proceeds donated in memory of Herbert W. Kaufman.

Christopher Skinner, Robert Morris University, was awarded the Kevin A. McLaughlin Memorial Scholarship, added in 2000 in memory of Mr. McLaughlin.

The Scott W. Polley Memorial Scholarship was established in 2003 in memory of Mr. Polley. The three students selected to receive a Scott W. Polley Memorial Scholarship were: Lindsay Bunch, Virginia Commonwealth University; Frank Busch, Illinois State University; Wesley McDaniel, Appalachian State University.

Travis Lankerd, Olivet College, was awarded the Michael J. Snead Memorial Scholarship. It was established in 2009 to recognize Mr. Snead, a former NAPSLO Board member and an industry leader.

The Rolland L. Wiegars Education Scholarship was made possible by a donation from the Scottsdale Insurance Co. in honor of the company’s founder. The three students selected to receive a Rolland L. Wiegars Scholarship were: Yancey Hicks, University of North Carolina; Ingrid Lecot, Baylor University; Ceirra Thompson, Eastern Kentucky University.

The Foundation Insurance Scholarship recipients were Andrew Izzo and Kevin Murphy, both of Appalachian State University.

Sean Johnson, Temple University was awarded the Insurance Scholarship sponsored by NAPSLO.

Foundation sponsors symposiums and GIS Annual Conference

The Foundation sponsored symposiums presented by Illinois State University and Troy University, and the Gamma Iota Sigma International Conference during 2014.

Near 800 students attended the events, including approximately 148 at the Annual Extreme Risk Takers Symposium, hosted by the Alpha Kappa Chapter of Gamma Iota Sigma at the Katie School of Insurance at Illinois State, representing the 10th Annual Symposium in March in Chicago. The symposium is an educational program sponsored by the Foundation on the surplus lines insurance market that offers sessions and networking opportunities with students and industry professionals.

Approximately 90 students, representing 17 universities, attended the Excess & Surplus Lines Symposium, presented by Troy University’s Risk Management & Insurance Program, led by Dr. Edwin Duett. The symposium took place in November and featured presentations on topics such as the NAPSLO Internship Program and challenges facing the surplus lines industry. The symposium also featured a career fair and networking opportunities.

Foundation representatives also attended the GIS International Conference in Dallas, TX in October 2014. More than 450 students from 36 colleges attended the conference and experienced a two-day Career Fair, interviews, educational sessions, and networking opportunities. In addition the Foundation, along with NAPSLO, sponsored the Surplus Lines Association of North Carolina’s “Insurance Jeopardy” program in November 2014 attended by nearly 100 students.

Outreach by the numbers

| Symposia and conferences sponsored | 4 |
| Students reached at symposiums and conferences | 788 |
| Universities represented at sponsored symposiums and conferences | 36 |
Foundation exceeds $6.6 million in assets

Thanks to generous contributions from NAPSLO member firms and a successful Golf Invitational event at the 2014 NAPSLO Mid-Year Leadership Forum in Scottsdale, the Foundation reported $6.6 million in assets by the July 31, 2014 end of the Foundation’s fiscal year.

“Continued support of the Foundation by firms, individuals, and organizations allows us to expand our programs to help educate people in our industry and students who may join the industry in the future,” said President Brian Van Cleave. “The E.G. Lassiter Speakers Fund also allowed the Foundation to assist NAPSLO in bringing Earvin ‘Magic’ Johnson to speak to attendees at NAPSLO’s 2014 Annual Convention.”

Several entities made significant contributions during the past fiscal year, including $72,500 from state surplus lines groups, including contributions from the Surplus Lines Association of Arizona Foundation; the Surplus Lines Stamping Office of Texas; the Surplus Lines Association of Washington, and the Pennsylvania Surplus Lines Association.

In addition to contributions, the 18th Annual Foundation Golf Invitational raised more than $105,000.

Key spending during the past year included the Foundation’s sponsorship of the A.M. Best U.S. Surplus Lines Market Review; 15 $5,000 scholarships for students; and sponsorship of college symposiums with Illinois State University and Troy University.

<table>
<thead>
<tr>
<th>Balance Sheet</th>
<th>July 31, 2014</th>
<th>July 31, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
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<td></td>
</tr>
<tr>
<td>Cash &amp; Cash Equivalents</td>
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<td>$ 523,306</td>
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<td>Certificates of Deposit</td>
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<tr>
<td>Receivables</td>
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<td>189,150</td>
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<td>Investments</td>
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<td>2,786,570</td>
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<td>Other Current Assets</td>
<td>1,110</td>
<td>2,484</td>
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<tr>
<td><strong>Total Assets</strong></td>
<td>$ 6,621,136</td>
<td>$ 6,474,510</td>
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<tr>
<td><strong>Liabilities and Net Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td>$ -</td>
<td>$ 1,360</td>
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<tr>
<td>Net Assets</td>
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<tr>
<td>Unrestricted</td>
<td>4,623,418</td>
<td>4,484,146</td>
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<tr>
<td>Temporarily Restricted</td>
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<tr>
<td>Permanently Restricted</td>
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<td>548,003</td>
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<tr>
<td><strong>Total Net Assets</strong></td>
<td>6,621,136</td>
<td>6,473,150</td>
</tr>
<tr>
<td><strong>Total Liabilities &amp; Net Assets</strong></td>
<td>$ 6,621,136</td>
<td>$ 6,474,510</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income Statement</th>
<th>For the Years Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
</tr>
<tr>
<td>Contributions and Special Events</td>
<td>$ 301,754</td>
</tr>
<tr>
<td>Investment Income</td>
<td>151,381</td>
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<tr>
<td><strong>Total Revenue</strong></td>
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<tr>
<td><strong>Expenses</strong></td>
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<tr>
<td>Program Services</td>
<td>232,417</td>
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<tr>
<td>General &amp; Administrative</td>
<td>20,759</td>
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<tr>
<td>Special Events</td>
<td>51,973</td>
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<tr>
<td><strong>Total Expenses</strong></td>
<td>305,149</td>
</tr>
<tr>
<td><strong>Change in Net Assets</strong></td>
<td>147,986</td>
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<tr>
<td>Net Assets, Beginning of Year</td>
<td>6,473,150</td>
</tr>
<tr>
<td><strong>Net Assets, End of Year</strong></td>
<td>$ 6,621,136</td>
</tr>
</tbody>
</table>

Thank you to our 2014 Foundation contributors

**Director’s Level ($50,000 - $99,999)**
- Surplus Lines Association of Arizona

**President’s Level ($25,000 - $49,999)**
- RSUI

**Executive’s Level ($10,000 - $24,999)**
- Crum & Forster
- R-T Specialty
- Surplus Lines Stamping Office of Texas

**Sponsor’s Level ($1,000 - $9,999)**
- Sarah L. Corvin

**Contributors’ Level (Under $1,000)**
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- Engle Martin & Associates
- M.J. Hall & Associates
- NAPSLO
- Partners Specialty Employees
- Pennsylvania Surplus Lines Association
- Shelly, Middlebrooks & O’Leary
- Surplus Lines Association of Washington

A complete list of contributors since the Foundation’s inception can be found on the NAPSLO website at www.napslo.org.
Foundation recognizes recent ASLI graduates

The Associate in Surplus Lines Insurance (ASLI) designation program was developed jointly by the Foundation and The Institutes in 1996. Since the program’s inception, 2,057 insurance professionals have earned the ASLI designation. To complete the ASLI designation, students must pass exams for five courses. Two courses cover surplus lines coverage and operations; a third course is about professional ethics; and two additional courses are electives that allow students to choose courses covering claims, underwriting, risk management, and other insurance-related subjects.

The 2013-2014 class of 111 ASLI completers were recognized during the ASLI Conferment Ceremony and Recognition Luncheon at the 2014 NAPSLO Annual Convention in Atlanta. The distinguished graduate in the class was Brittney Kraus, ASLI.

Recognized for academic excellence were: Keith Hammersmith, CPCU, AIC, ARM, ASLI; April Marksberry, CPCU, AINS, AU, AIC, ASLI; Vivek Shekhar, AIT, AINS, AIS, API, AIC, ASLI, AAI.

2014 Designees

- Nancy L. Alonso, CPCU, AINS, ASLI
- Thomas Curtis Anderson IV, AIS, ASLI
- Marvin Andre, ASLI
- Mitchell Annan, CPCU, AINS, AAI, ASLI
- Timothy Antonov ARM, ASLI, ARe, ANFI
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- Chris Bolts, AINS, AU, ASLI
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- Mary E. Bruggeman, CPCU, AIC, ARM, AU, ARe, AIM, ARM-P, AMIM, ASLI, AIC-M
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- Donald Carson Jr., AINS, ASLI
- Jayne Carver, ASLI
- Carly Cashen, AINS, AU, ASLI
- Bailey Clark, ASLI
- John Coston III, ASLI
- Aireen De Leon, ASLI
- James Daniel Parisher Jr., CPCU, ASLI
- Brittney Kraus, ASLI
- Brittney Kraus, CPCU, AINS, AIM, API, ARe, AIT, AMIM, ASLI
- Karen B. Harmon, AIS, ASLI
- Daniel A. Hayes, CPCU, AINS, AIM, API, ARe, AIT, AMIM, ASLI
- Kathryn Holland, CPCU, AIC, ARM, AINS, ASLI, ARe, AIM, AIM-M, AMIM, ASLI
- Melanie Johanson, AINS, AU, ASLI
- Ethan L. Johnson, ASLI
- Diandra Jones, CPCU, API, ARM, AINS, AIC, AIAF, ARC, ARe, ASLI
- Amanda K. Guimond, AIS, API, AU, AINS, ASLI
- Sara Keeler, ASLI, AU
- Peggy S. King, ARC, AIC, AINS, ASLI
- Jeffrey L. Kirpach, AU, AINS, ASLI
- Pawel Kowalewski, ARM, ARe, ASLI
- Brittney Kraus, ASLI
- Jeffery W. Lamb, CPCU, AINS, ASLI
- Melody Langley, AU, ASLI
- Robert Latoza, CPCU, AAI, ARM, AU, ARe, ASLI, AU-M
- Wilma L. LaVoie, CPCU, ASLI
- Ryan Loepker, CPCU, AINS, API, AU, AU-M, ARe, ASLI
- Marie Louise D. Lundqvist, CPCU, ASLI
- Justin Maack, CPCU, AAI, AIS, AU, ARM, ASLI
- Elizabeth Marinaro, ASLI
- April Marksberry, CPCU, AINS, AU, AIC, ASLI
- Karen B. Harmon, AIS, ASLI
- Michael A. Matheus, AIC, ASLI
- Robert Mayer, AAI, ARM, ASLI
- Thomas J. Metzger, ASLI, AINS
- Jonathan Morgan, AU, ASLI
- Jeff Moyer, ASLI
- Patrick Mulhern, ASLI
- Donna Munsch, CPCU, AINS, ASLI
- Eric Mutch, ASLI
- Andrew Nowlan, CPCU, AIC, AINS, ASLI
- Lauren O’Day, ASLI
- Jamie Olson, ASLI
- Julie Ormston, CPCU, ARM, ASLI
- James Daniel Parish Jr., CPCU, ASLI
- Bruce Stuart Parks, CPCU, AINS, AU, ARe, AIC, ARM, AU-M, AAI, ASLI
- Marie Louise D. Lundqvist, CPCU, ASLI
- Andrea D. Robinson, CPCU, AIC, ASLI
- Adriana Roca, ARM, ASLI
- Owen Roddy, ASLI
- Ryan Rolfs, ASLI
- Mike Sardina, AIS, ASLI
- Andrea N. Savedge, AIS, ASLI
- Elizabeth W. Scott, AIS, ASLI
- Yuichiro Seta, CPCU, AU, ARM, ARe, ASLI
- Vivek Shekhar, AIT, AINS, AIS, API, AIC, ASLI, AAI
- Tami L. Singer, CPCU, ASLI
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- Matthew Stephens, ASLI
- Courtney Stuekerjuergen, CPCU, AINS, ASLI
- Aimee Stumler, AU, AIS, ASLI
- Siew Kett Tan, AINS, ASLI
- Dustin Tarlow, AINS, AU, ASLI
- Matthew Thomas, ASLI
- Emily Torrijos, CPCU, AIC, AINS, ARM, ARe, AU, ASLI
- Garett Utterback, CPCU, AU, ARM, ARe, ASLI
- Michael Valese, ASLI
- Steven Wasylikw, AIS, ASLI
- Kent Watson, AIS, AU, AINS, ASLI
- Kyle Webster, AIS, ASLI
- Kerri Welsh, ASLI
- James L. Wojnarowicz, ASLI, ARM
- Charles Yerkov, ASLI, AINS, AU
The 18th annual Derek Hughes/NAPSLO Educational Foundation golf invitational was held at the Wildfire Golf Club in Scottsdale, AZ in conjunction with the 2014 Mid-Year Leadership Forum. More than 100 golfers participated, raising more than $105,000.

The event was sponsored by 41 NAPSLO member firms, helping make it a success.

2014 Golf Invitational Sponsors:

**Gold Sponsors**
- AmWINS Brokerage
- AXIS Insurance
- CRC Wholesale Group
- Guy Carpenter & Co, LLC
- Hull & Company
- Liberty International Underwriters
- Markel
- RPS
- RSUI
- R-T Specialty, LLC
- Scottsdale Insurance
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- Western World Insurance Group

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- Admiral Insurance Company
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- General Star
- Great American E&S Insurance Co.
- Hartford Steamboiler Inspection & Insurance Co.
- IFG Companies
- James River Insurance Company
- Specialty Risk Associates, Inc.

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**Magic Johnson featured as E.G.Lassiter Lecture Series speaker**

The E.G. Lassiter Lecture Series, presented by the Derek Hughes/NAPSLO Educational Foundation featured NBA legend, two-time Hall of Famer, entrepreneur and philanthropist, Earvin “Magic” Johnson as speaker at the 2014 NAPSLO Annual Convention.

Johnson is Chairman and CEO of Magic Johnson Enterprises, which is comprised of multiple business entities and partnerships that include real estate, private equity, a television network, food service and facilities management, education, healthcare and many other business ventures.

His unprecedented partnership with Starbucks served as a catalyst for redevelopment in urban communities. Johnson is a partner in an effort to build a new stadium and to bring an NFL team, and thousands of new jobs, back to the City of Los Angeles. Mr. Johnson’s philanthropic activities are also well known.

He serves as the Chairman and Founder of the Magic Johnson Foundation where his unwavering commitment to transform urban America continues through HIV/AIDS Awareness & Prevention Programs, Community Empowerment Centers, and the Taylor Michaels Scholarship Program. Celebrating over 20 years of success, the Magic Johnson Foundation has become one of the most recognizable philanthropic organizations in the world.

Johnson spoke to a full General Session of NAPSLO attendees about his NBA career, as well as his business successes, and answered a variety of questions from audience members on topics including HIV awareness, sports and business.
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