REPORT OF EXAMINATION

OF THE

SEQUOIA INSURANCE COMPANY

AS OF

DECEMBER 31, 2017

Filed on June 28, 2019

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San Francisco, California
May 28, 2019

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

SEQUOIA INSURANCE COMPANY

(hereinafter referred to as the Company) at its home office located at 31 Upper Ragsdale Drive, Monterey, California 93940.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2013. This examination covers the period from January 1, 2014 through December 31, 2017.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. The examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This includes assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to the Company.

This was a coordinated examination whereby Delaware was the lead state of the AmTrust Financial Services, Inc. group (AFSI). The examination was conducted concurrently with other insurance entities in the AFSI holding company system. California Department of Insurance participated on this coordinated examination.

COMPANY HISTORY

The Company is authorized to issue 1,000,000 shares of common stock with a par value of $10.50 per share. As of December 31, 2017, there were 400,000 shares issued and outstanding.

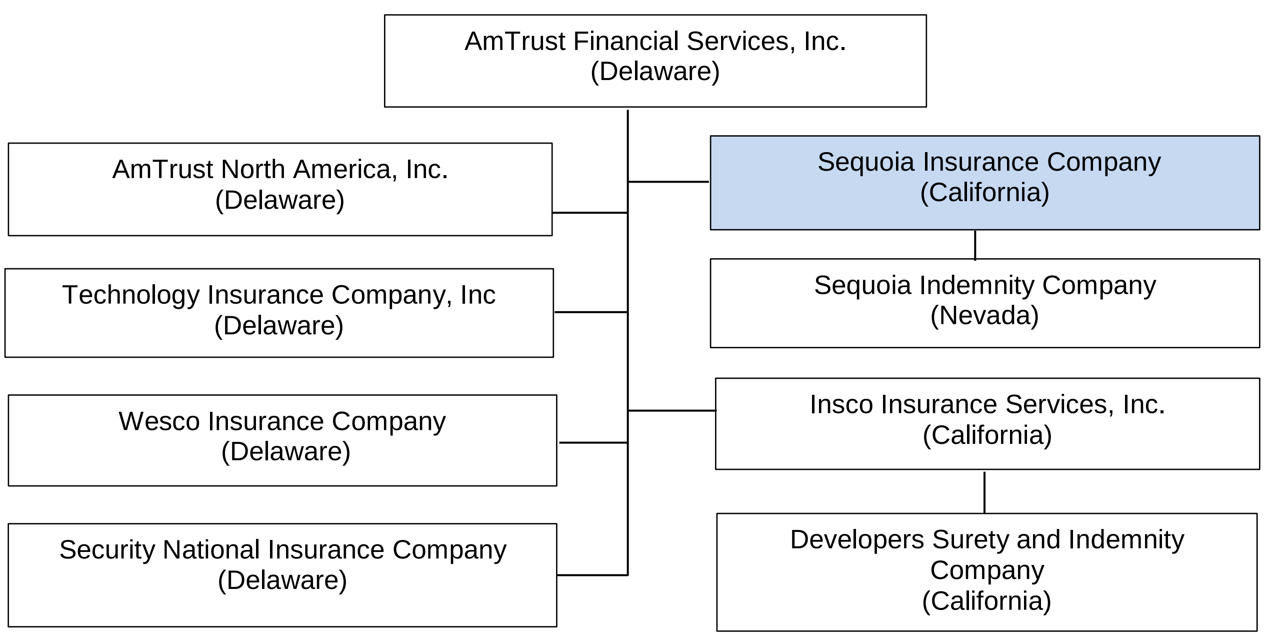
Effective December 30, 2016, an affiliate, Springfield Insurance Company (SIC), a California domiciled company was merged into the Company with the Company being the surviving entity. The California Department of Insurance (CDI) consented to the merger pursuant to California Insurance Code (CIC) Section 1011(c) on December 21, 2016. SIC's general ledger accounts were merged into the Company with several reclassifications in 2016 and 2017. The merger did not affect the Company's issued and outstanding shares of capital common stock because SIC's common stocks were converted into the Company's paid-in and contributed surplus.

During the examination period, the Company paid ordinary cash dividends of $7.9 million, $7.1 million, and $2.5 million to its parent, AmTrust Financial Services, Inc. (AFSI) in 2015, 2016, and 2017, respectively.

On December 27, 2017, the Company paid an extraordinary dividend of $65.0 million to AFSI in connection with a Reinsurance Pooling Agreement entered into with its affiliates effective October 1, 2017. This transaction was approved by the CDI on December 21, 2017 pursuant to CIC Section 1215.5(g).

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which the ultimate controlling entity is AmTrust Financial Services, Inc. (AFSI), a Delaware domiciled corporation. The following abridged organizational chart is limited to the Company's interrelationship with certain entities within the holding company system and does not depict all entities under AFSI (all ownership is 100% unless otherwise indicated):



A three-member Board of Directors, elected annually, oversee the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2017:

Board of Directors

Name and Location	Principal Business Affiliation
Susan C. Fisch San Francisco, California	Retired Insurance Executive
Harry Schlachter Lawrence, New York	Treasurer AmTrust Financial Services, Inc.
Stephen B. Ungar North Hills, New York	General Counsel and Secretary AmTrust Financial Services, Inc.

Principal Officers

Name	Position
William K. Walton	President and Chief Operating Officer
Harry Schlachter	Treasurer
Stephen B. Ungar	Secretary
Kerry J. Heitz	Executive Vice President and Chief Financial Officer
Barry W. Moses	Vice President, Regulatory and Compliance and Assistant Secretary
Jeffrey H. Mayer	Chief Actuary

Management Agreements

Insurance Services, Management and Agency Agreement: Effective April 19, 2013, the Company entered into an agreement with AmTrust North America, Inc. (ANA), a Delaware corporation to appoint ANA as the Company's agent to solicit and accept applications for policies; to perform certain management service processing functions; and to administer and adjust claims related to the policies. Under the terms of the agreement, the Company incurred net expenses of $433,524, $4,681,797, $3,355,725, and $3,404,760 in 2014, 2015, 2016, and 2017, respectively. The agreement was approved by the California Department of Insurance (CDI) on May 6, 2013.

Intercompany Management Agreement: Effective April 19, 2013, the Company entered into an agreement with its parent, AmTrust Financial Services, Inc. (AFSI). Under the terms of the agreement, AFSI provides management services to the Company that include financial, accounting, corporate and operational management services, and legal support, research, and representation. The fees incurred by the Company for services under this agreement were $310,688, $118,128, $115,650, and $5,000 in 2014, 2015, 2016, and 2017, respectively. The agreement was approved by the CDI on May 6, 2013.

Tax Allocation Agreement: Effective April 19, 2013, the Company is a participant in a Tax Allocation Agreement entered into with its parent, and other affiliates, in which AFSI files a consolidated federal income tax return on behalf of the group. The method of allocation among the companies is made on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax return. The agreement was approved by the CDI on May 6, 2013.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2017, the Company was licensed to transact property and casualty insurance business in forty-five states and the District of Columbia. Direct premiums written during 2017 totaled $55.4 million with the majority of the business written in California ($53.5 million). The Company's primary lines of business written were commercial multi-peril (57.4%) and workers' compensation (42.1%). Fire, allied lines, commercial auto liability, and auto physical damage lines of business make up the remaining 0.5%. Business is written on a direct basis and through its independent agents.

The Company's home office is located in Monterey, California. The day-to-day operations of the Company are mostly managed by its parent, AmTrust Financial Services, Inc.

(AFSI), at AFSI's offices located in Cleveland, Ohio and Boca Raton, Florida. Most of the Company's accounting functions in Monterey were consolidated into the Boca Raton office.

REINSURANCE

Reinsurance Pooling Agreement

Effective October 1, 2017, the Company entered into a Reinsurance Pooling Agreement with other affiliates, with Technology Insurance Company, Inc. (TIC), a Delaware domiciled company, as the pool leader. TIC assumes 100 percent of the insurance business obligations from the sixteen pool affiliates.

Under the terms of the agreement, TIC assumes: (1) 100 percent of the Company's liabilities on all insurance policies and all assumed reinsurance contracts that were in force or that had expired or had been terminated or non-renewed as of October 1, 2017; and (2) 100 percent of the Company's liabilities on all insurance policies and all assumed reinsurance contracts issued subsequent to October 1, 2017. TIC retains 55% of the net pool and retrocedes to pool affiliates Developers Surety and Indemnity Company, Security National Insurance Company, and Wesco Insurance Company according to their respective pooling percentages of 10%, 10%, and 25%.

With the entry into the agreement in 2017, the Company's prior intercompany reinsurance agreement with its affiliate, AmTrust International Insurance, Ltd., was effectively commuted. The pooling agreement and the commutated agreement were approved by the California Department of Insurance on December 15, 2017.

Assumed

The Company assumes insignificant amounts of reinsurance from the National Workers Compensation Reinsurance Pool. During 2017, reinsurance assumed amounted to ($17,635).

Ceded

The following is a summary of the principal reinsurance agreements in-force as of December 31, 2017:

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limits
Workers' Compensation				
Per Person Excess of Loss	Workers' Compensation	Authorized Hannover Ruck SE (20.00%) Partner Reinsurance Company of the U.S. (10.00%) Safety National Casualty Corporation (70.00%)	$10 million per person	$10 million excess of $10 million per person
Per Person Excess of Loss	Workers' Compensation	Authorized Safety National Casualty Corporation (50.00%) Tokio Millennium Re AG (10.00%) Underwriters at Lloyd's London (40.00%)	$20 million per person	$10 million excess of $20 million per person
Catastrophe Excess of Loss	Workers' Compensation	Authorized Hannover Ruck SE (22.00%) Validus Reinsurance Ltd (20.00%) Underwriters at Lloyd's London (27.25%) Various reinsurers (9.75%) Unauthorized Various reinsurers (21.00%)	$20 million per occurrence	$50 million excess of $20 million per occurrence
Catastrophe Excess of Loss	Workers' Compensation	Authorized Validus Reinsurance Ltd (26.16%) Tokio Millennium Re AG (15.38%) Unauthorized Hanover Re (Bermuda) Ltd (20.00%) Muchener Ruckversicherungs AG (19.23%) Various reinsurers (19.23%)	$70 million per occurrence	$130 million excess of $70 million per occurrence

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limits
Catastrophe Excess of Loss	Workers' Compensation	Authorized Munich Reinsurance America Inc.	$200 million per occurrence	$50 million excess of $200 million per occurrence
Catastrophe Excess of Loss	Workers' Compensation	Authorized Underwriters at Lloyd's London (70.465%) Various reinsurers (12.732%) Unauthorized Various reinsurers (16.803%)	$250 million per occurrence	$360 million excess of $250 million per occurrence
NBCR Terrorism Catastrophe Excess of Loss	Workers' Compensation	Authorized Underwriters at Lloyd's London (65.00%) Unauthorized Allied World Assurance Company, Ltd (12.00%) Muchener Ruckversicherungs AG (23.00%)	$70 million per occurrence	$100 million excess of $70 million per occurrence
Property Per Risk Excess of Loss				
First Excess Layer	Property	Authorized General Reinsurance Corporation (20.00%) Hannover Ruck SE (20.00%) Partner Reinsurance Company of the U.S. (12.50%) Underwriters at Lloyd's London (23.50%) Various reinsurers (12.00%) Unauthorized Various reinsurers (12.00%)	$3 million per risk	$3 million excess of $3 million per risk
Second Excess Layer	Property	Authorized General Reinsurance Corporation (20.00%) Hannover Ruck SE (16.50%) Underwriters at Lloyd's London (22.00%) Various reinsurers (32.50%) Unauthorized Various reinsurers (9.00%)	$6 million per risk	$15 million excess of $6 million per risk
Third Excess Layer	Property	Authorized Hannover Ruck SE (18.00%) Underwriters at Lloyd's London (40.50%) Various reinsurers (34.00%) Unauthorized Various reinsurers (7.50%)	$21 million per risk	$15 million excess of $21 million per risk

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limits
Combined Coverage Property Catastrophe Excess of Loss	Property	Unauthorized Aeolus Capital Management Ltd	$20 million per loss occurrence	$30 million excess of $20 million per loss occurrence
Property Catastrophe Excess of Loss				
First Excess Layer	Property	Authorized Everest Reinsurance Company (15.00%) Renaissance Reinsurance Ltd (18.00%) Underwriters at Lloyd's London (18.60%) Various reinsurers (28.90%) Unauthorized Various reinsurers (19.50%)	$50 million per loss occurrence	$100 million excess of $50 million per loss occurrence
Second Excess Layer	Property	Authorized Everest Reinsurance Company (15.00%) Underwriters at Lloyd's London (19.00%) Various reinsurers (26.80%) Unauthorized Allianz Risk Transfer AG (12.50%) Various reinsurers (26.70%)	$150 million per loss occurrence	$200 million excess of $150 million per loss occurrence
Third Excess Layer	Property	Authorized Everest Reinsurance Company (15.00%) Underwriters at Lloyd's London (16.50%) Various reinsurers (26.80%) Unauthorized Allianz Risk Transfer AG (11.05%) Various reinsurers (30.65%)	$350 million per loss occurrence	$350 million excess of $350 million per loss occurrence
Property Facultative Automatic Excess of Loss	Property	Authorized Arch Reinsurance Company (40.00%) General Reinsurance Corporation (45.00%) Swiss Reinsurance America Corporation (15.00%)	$15 million per occurrence	$60 million excess of $15 million per occurrence

ACCOUNTS AND RECORDS

Special Deposits

In accordance with National Association of Insurance Commissioners (NAIC) Annual Statement Instructions, Schedule E Part 3 - Special Deposits, any deposits held for special or statutory purpose are to be reported in the columns "All Other Special Deposits". It was noted that the Company reported California Special Deposits in the columns "Deposits For the Benefit of All Policyholders". It is recommended that the Company report California Special Deposits in accordance with NAIC Annual Statement Instructions.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance for the period ending December 31, 2017. The accompanying comments to the amounts reported in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2017

Underwriting and Investment Exhibit for the Year Ended December 31, 2017

Reconciliation of Surplus as Regards Policyholders from December 31, 2013 through December 31, 2017

Statement of Financial Condition
as of December 31, 2017

Assets		Ledger and Nonledger Assets		Assets Not Admitted		Net Admitted Assets	Notes
Bonds	$	123,448,637	$		$	123,448,637	
Common stocks		7,375,374				7,375,374	
Properties occupied by the company		2,056,563				2,056,563	
Cash, cash equivalents, and short-term investments		16,343,921				16,343,921	
Investment income due and accrued		1,176,548				1,176,548	
Amounts recoverable from reinsurers		1,231,201				1,231,201	
Net deferred tax asset		2,896,348		2,679,219		217,129	
Aggregate write-ins for other than invested assets		565,167		20,969		544,198	
Total assets	$	155,093,759	$	2,700,188	$	152,393,571	
Liabilities, Surplus and Other Funds							
Losses and Loss adjustment expenses					$	0	(1)
Current federal and foreign income taxes						859,266	
Ceded reinsurance premiums payable						7,025,686	
Funds held by company under reinsurance treaties						1,374,070	
Amounts withheld or retained by company for account of others						2,045,721	
Provision for reinsurance						340,376	
Payable to parent, subsidiaries and affiliates						106,959,834	
Aggregate write-ins for liabilities						(215,664)	
Total liabilities						118,389,289	
Aggregate write-ins for special surplus funds			$	215,664			
Common capital stock				4,200,000			
Gross paid-in and contributed urplus				75,100,129			
Unassigned funds (surplus)				(45,511,511)			
Surplus as regards policyholders						34,004,282	
Total liabilities, surplus and other funds					$	152,393,571	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2017

Statement of Income

Underwriting Income

Premiums earned		$ 19,403,702
Deductions:		
Losses incurred	$ 10,926,187	
Loss adjustment expenses incurred	3,800,421	
Other underwriting expenses incurred	945,460	
Total underwriting deductions		15,672,068
Net underwriting gain		3,731,634
Investment Income		
Net investment income earned	$ 4,527,762	
Net realized capital gains	688,144	
Net investment gain		5,215,906
Other Income		
Net loss from agents' or premium balances charged off	$ (15,191)	
Aggregate write-ins for miscellaneous income	64,167	
Total other income		48,976
Net income before dividends to policyholders, after capital gains taxes and before federal and foreign income taxes		8,996,516
Federal and foreign income taxes incurred		(215,856)
Net income		$ 9,212,372

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2016		$ 96,390,725
Net income	$ 9,212,372	
Change in net unrealized capital losses	(2,223,814)	
Change in net deferred income tax	(5,440,829)	
Change in nonadmitted assets	5,979,033	
Change in provision for reinsurance	1,572,034	
Dividends to stockholders	(67,500,000)	
Aggregate write-ins for losses in surplus	(3,985,239)	
Change in surplus as regards policyholders for the year		(62,386,443)
Surplus as regards policyholders, December 31, 2017		$ 34,004,282

Reconciliation of Surplus as Regards Policyholders
from December 31, 2013 through December 31, 2017

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2013, per Examination			$ 62,322,833
Net income	$ 25,932,084	$	
Change in net unrealized capital losses		3,590,336	
Change in deferred income tax		2,542,128	
Change in nonadmitted assets	1,242,314		
Change in provision for reinsurance	11,861,670		
Dividends to stockholders		82,523,912	
Aggregate write-ins for gains in surplus	21,301,757		
Total gains and losses	$ 60,337,825	$ 88,656,376	
Net decrease in surplus as regards policyholders			(28,318,551)
Surplus as regards policyholders, December 31, 2017, per Examination			$ 34,004,282

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

As of December 31, 2017, the Company reported zero net losses and loss adjustment expenses (LAE) reserves as 100 percent of its losses and LAE expenses were ceded to an affiliate, Technology Insurance Company, Inc.

SUBSEQUENT EVENTS

On May 9, 2018, Evergreen Parent, L.P. (Evergreen Parent), a Delaware limited partnership and Evergreen Parent GP, LLC, a Delaware limited liability company, filed an application for consent to acquire control of the Company through AmTrust Financial Services, Inc. (AFSI) pursuant to an Agreement and Plan of Merger dated as of March 1, 2018, and subsequently amended on June 6, 2018. This application is in connection with the privatization of AFSI. On November 27, 2018, the California Department of Insurance approved the acquisition pursuant to California Insurance Code Section 1215.2. As a result of the acquisition, AFSI became a direct wholly-controlled subsidiary of Evergreen Parent and the Company became an indirect wholly-controlled subsidiary of Evergreen Parent. Effective November 29, 2018, AFSI was delisted from the NASDAQ stock exchange.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Special Deposits (Page 10): It is recommended that the Company report California Special Deposits in accordance with National Association of Insurance Commissioners Annual Statement Instructions.

Previous Report of Examination

Corporate Records – Bylaws (Page 7): It was recommended the Company amend its Bylaws or appoint the requisite number of directors per Article IV, Section 2 of the Company. The Company amended its Bylaws to address the recommendation.

Accounts and Records – Claims Practices (Page 12): It was recommended the Company comply with California Code of Regulations (CCR), Title 10, Chapter 5, Subchapter 7.5, Article 1, Section 2695.9 (f). This was a repeat finding from the prior examination. It was also recommended that the Company comply with CCR, Title 10, Chapter 5, Subchapter 7.5, Article I, Section 2695.6(b)(2)(A). The Company is now in compliance.

Accounts and Records – Unclaimed Property (Page 13): It was recommended the Company report its escheated property to the California State Controller in accordance with California Code of Civil Procedure (CCP), Title 10, Chapter 7, Article 3, Section 1530. It was also recommended that the Company deliver its unclaimed property to the California State Controller in accordance with CCP, Title 10, Chapter 7, Article 3, Section 1532. The Company has complied with the recommendation.

Accounts and Records – Designation of Independent Certified Public Accountant (Page 13): It was recommended that the Company implement procedures to ensure future compliance with CCR, Title 10, Chapter 5, Subchapter 3, Article 3.3, Section 2309.6(c). The Company is now in compliance.

Comments on Financial Statement Items – Provision for Reinsurance (Page 19): It was recommended the Company comply with CCR, Title 10, Chapter 5, Subchapter 3, Article 3, Section 2303.7. The Company has complied with the recommendation.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

___/S/_________________________
Li Lim, CFE
Examiner-In-Charge
Senior Insurance Examiner, Specialist
Department of Insurance
State of California

___/S/_________________________
Kyo Chu, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California