

Government of the District of Columbia
Department of Insurance, Securities and Banking



Thomas E. Hampton
Commissioner

**BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA**

Re: Report on Examination – Guardian Property and Casualty Company, Inc. as of June 30, 2007

ORDER

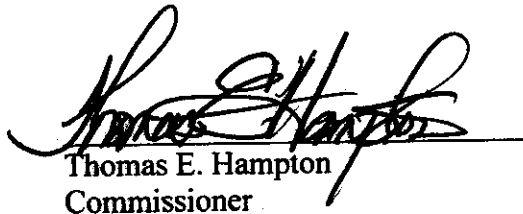
Pursuant to Examination Warrant 2007-2, a Financial Condition Organization Examination of Guardian Property and Casualty Company, Inc. as of June 30, 2007 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

It is hereby ordered on this 29th day of October, 2007, that the attached financial condition examination report be adopted and filed as an official record of this Department.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.



Thomas E. Hampton
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND
BANKING



REPORT ON ORGANIZATIONAL EXAMINATION

GUARDIAN PROPERTY & CASUALTY
COMPANY INC.

AS OF

JUNE 30, 2007

TABLE OF CONTENTS

	<u>Pages</u>
Salutation.....	1
Scope of Examination	1
History	2
General	2
Capital Stock	2
Management.....	2
Board of Directors	2
Officers	3
Committees.....	3
Conflicts of Interest.....	3
Corporate Records.....	3
Affiliated Companies	4
Organizational Chart	5
Intercompany Agreements.....	6
Fidelity Bond and Other Insurance	6
Statutory Deposit	6
Territory and Plan of Operation	6
Reinsurance	6
Accounts and Records	7
Financial Statements.....	8
Balance Sheet	9
Assets	9
Liabilities, Capital and Surplus	9
Summary of Operations	10
Reconciliation of Capital and Surplus	11
Analysis of Examination Changes to Surplus	12
Notes to Financial Statements	13
Comments and Recommendations.....	14
Conclusion.....	15
Signatures	16

Washington, D.C.
July 27, 2007

Honorable Thomas E. Hampton
Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, NE, Suite 701
Washington, D.C. 20002

Dear Sir:

In accordance with Section 31-2502.02 of the D.C. Official Code, we have examined the financial condition and activities of

GUARDIAN PROPERTY & CASUALTY COMPANY, INC.

(hereinafter called the "Company") and the following Report on Examination is submitted.

SCOPE OF EXAMINATION

This was an organizational examination as of June 30, 2007 conducted by examiners of the District of Columbia Department of Insurance, Securities and Banking. The Company has made application for an original certificate of authority to establish and operate a property and casualty insurance company.

Our examination was conducted in accordance with examination policies and standards established by the District of Columbia Department of Insurance, Securities and Banking and procedures recommended by the National Association of Insurance Commissioners and, accordingly, included such tests of the accounting records and such other procedures as we considered necessary in the circumstances.

The purpose of our examination was to determine if the Company meets the minimum financial requirements to qualify for an original certificate of authority to transact business as a property and casualty insurer. In this regard, our examination included a review of the Company's business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities. In addition, our examination included tests to provide reasonable assurance that the Company, if licensed, would be in compliance with applicable laws, rules and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

HISTORY

General:

The Company was incorporated as Guardian Property & Casualty Company under the laws of the District of Columbia on April 20, 2007. According to its Articles of Incorporation which were reviewed by the Department, the primary purpose for which the Company was formed is to apply for, become licensed as and to operate as a property and casualty insurance company.

Capital Stock:

The Company's Articles of Incorporation authorize the Company to issue 300,000 shares of common capital stock with a par value of \$1 per share. As of June 30, 2007, the Company had issued 300,000 shares of common capital stock to its parent, Guardian Insurance Company, Inc.

Management:

The following persons were serving as the Company's directors as of June 30, 2007:

<u>Name and Address</u>	<u>Principal Occupation</u>
LaSalle D. Leffall, III Washington, DC	President, LDL Financial
Wesley S. Williams, Jr. St. Thomas, VI, USA	President and Chief Operating Officer Lockhart Companies, Inc.
Raymond L. Fournier St. Thomas, VI, USA	President, Guardian Insurance Company, Inc.
Octavio Estrada St. Thomas, VI, USA	Executive Vice President, Guardian Insurance Company
Nancy S. Brodie Philadelphia, PA	Retired, Former Executive Vice President and Chief Financial Officer
George H.T. Dudley	Attorney-Partner, Dudley, Topper, and Feuerzeig St. Thomas, VI, USA Co-Chairman and Co-Chief Executive Officer, Lockhart Companies, Inc.

Officers:

The following persons were serving as the Company's officers as of June 30, 2007:

George H.T. Dudley	Co-Chairman
Wesley S. Williams, Jr.	Co-Chairman
Raymond L. Fournier	President
Octavio Estrada	Executive Vice President
N. William Jarvis	Secretary
Gary V. Norkaitis	Treasurer

Committees:

The Company has established in its bylaws an Independent Director Committee comprised of members of the board who are independent of the Company. Among the duties of the Independent Director Committee are (i) recommending the selection of independent certified public accountants; (ii) nominating candidates for director; and (iii) recommending to the board the selection and compensation of the principal officers of the Company. As of June 30th, 2007, the following persons were serving on the Independent Director Committee:

LaSalle D. Leffall, III Washington, DC	President, LDL Financial
Nancy S. Brodie Philadelphia, PA	Retired, Former Executive Vice President and Chief Financial Officer

Conflicts of Interest:

Directors and officers of the Company have completed conflict of interest questionnaires. Our review of the questionnaires disclosed no reported conflicts. Furthermore, our examination did not disclose any conflicts of interest that would adversely affect the Company.

Corporate Records:

The Company's board of directors have not held any meetings. The current Directors were named in the Company's Articles of Incorporation, and will serve until the first annual meeting of its stockholders. The Directors' actions and oversight of the operation and affairs of the Company were documented via resolutions. These resolutions were approved by the members of the Board. Based on our review, it appeared that these resolutions documented the Company's significant transactions and events.

AFFILIATED COMPANIES

The Company is a wholly owned subsidiary of Guardian Insurance Company, Inc., a United States Virgin Islands company, specializing in private passenger auto liability, auto physical damage, and commercial multi-peril insurance for citizens of the United States Virgin Islands. The Company's ultimate parent is Lockhart Companies Incorporated, a privately held company. Lockhart Companies Incorporated and its subsidiaries are engaged in owning, managing, leasing commercial real estate, selling land, and leasing developed land to customers primarily under long-term land leases.

As of June 30, 2007, there were three stockholders that held collectively or indirectly 63.23% of Lockhart Companies, each in excess of 10% as follows:

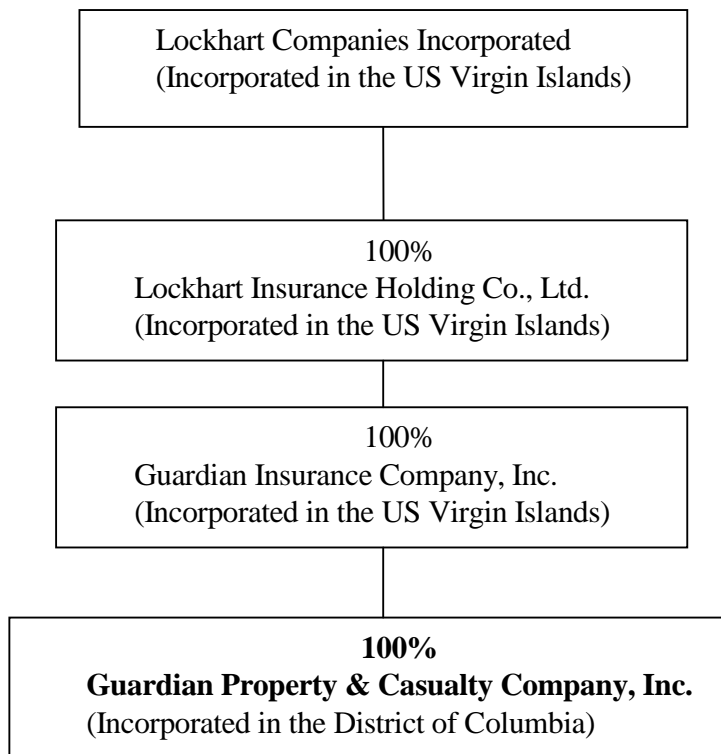
SevenEighteen Trust	22.60%
Irma Corinne Lockhart	18.59%
Wesley S. Williams Jr.	22.04%

According to Company management, the remaining 36.77 percent of Lockhart Companies is owned by various individuals and entities, including employees of Lockhart Companies, and no one individual or entity owns or controls 10 percent or more of this remaining outstanding stock of Lockhart Companies.

Upon licensing, the Company will be part of a holding company group and will be subject to the requirements of Title 31, Subtitle 2 ("Holding Companies"), of the District of Columbia Official Code.

The Lockhart Companies holding company structure as of June 30, 2007, is depicted in the following chart:

ORGANIZATIONAL CHART



INTERCOMPANY AGREEMENTS

There are no employees of the Company. All personnel, management and administrative services are to be provided to the Company by its parent and affiliates under various intercompany agreements.

As of June 30, 2007, the Company has not entered into or drafted any intercompany agreements. To date, all organization costs and services have been borne by the Company's parent and affiliates.

FIDELITY BOND AND OTHER INSURANCE

As of June 30, 2007, the Company did not have fidelity bond or other insurance coverage. See additional comments regarding fidelity bond and insurance coverage in the "Comments and Recommendations" section of the report, under the caption "Fidelity Bond and Other Insurance Coverage".

STATUTORY DEPOSIT

The Company is not required to maintain a statutory deposit with the District of Columbia Department of Insurance, Securities and Banking and has not made any such deposit.

TERRITORY AND PLAN OF OPERATION

Upon receiving its Certificate of Authority, the Company plans to provide commercial auto liability lines of insurance for taxicabs operating in the District of Columbia area. Furthermore, the Company plans to provide directors' and officers' liability lines of insurance for not-for profit entities. The Company intends to offer its products through independent agents and brokers. The Company plans to identify a limited group of independent agents and brokers through whom its products will be offered.

REINSURANCE

The Company does not anticipate entering into reinsurance agreements in the future.

ACCOUNTS AND RECORDS

The Company's statutory home office is located at 2600 Virginia Avenue, Suite 701. Washington, D.C. 20037. The Company's main administrative office, as well as the primary location of its books and records, is in St. Thomas, United States Virgin Islands, at the location of the principal offices of the Company's parent, Guardian Insurance Company.

This arrangement does not meet the requirements of Section 31-5204 of the District of Columbia Official Code, which requires that a domestic insurer maintain its principal office within the District. Specifically, Section 31-5204 of the District of Columbia Official Code requires that a domestic insurer maintain its principal office within the District and shall keep its books, records, and files therein, and shall not remove from the District either its principal office or its books, records, or files without the permission of the Commissioner. The Company needs to apply to the Commissioner for permission to maintain its books and records in St. Thomas, United States Virgin Islands.

In a September 18, 2007 letter to the Commissioner, the Company requested permission to continue to maintain its books and records in St. Thomas, United States Virgin Islands, upon licensing as a District of Columbia domestic insurer.

In a letter dated October, 2007, permission was granted by the Commissioner for the Company to maintain its books and records in St. Thomas, United States Virgin Islands.

The Company's general accounting records are maintained by its parent, Guardian Insurance Company, on its parent's systems. According to the Company, the Company will utilize the accounting software systems and bookkeeping and accounting resources of its parent company. During our examination, we discussed with the Company the importance of ensuring the Company's accounting systems remain adequate, particularly if the Company continues to grow, and we discussed with the Company the importance of ensuring appropriate procedures and controls are maintained over the accounting systems and records.

FINANCIAL STATEMENTS

The following financial statements reflect the financial condition of the Company as of June 30, 2007, as determined by this organizational examination (**NOTE 1**):

<u>STATEMENT</u>	<u>PAGE</u>
Balance Sheet:	
Assets	9
Liabilities, Surplus and Other Funds	9
Summary of Operations	10
Reconciliation of Capital and Surplus	11
Analysis of Examination Changes to Surplus	12

The accompanying Notes to Financial Statements are an integral part of these Financial Statements.

STATEMENT OF ASSETS, LIABILITIES, CAPITAL AND SURPLUS

ASSETS

Assets

Cash	<u>\$1,001,480</u>
Total Assets	<u>\$1,001,480</u>

Liabilities, Capital and Surplus

Total Liabilities	<u>\$ 0</u>
-------------------	-------------

Capital and Surplus

Common Capital Stock	\$ 300,000
Paid-In and Contributed Surplus	\$ 700,000
Unassigned Surplus	<u>\$ 1,480</u>
Total Capital and Surplus	<u>\$1,001,480</u>
<u>Total Liabilities, Capital and Surplus</u>	<u>\$1,001,480</u>

SUMMARY OF OPERATIONS
FOR THE ORGANIZATIONAL DATE ENDED JUNE 30, 2007

Income

Interest Earned	<u>\$1,480</u>
Total Income	\$1,480
Expenses	<u>\$ 0</u>
Net Income	<u>\$1,480</u>

RECONCILIATION OF CAPITAL AND SURPLUS
ENDED JUNE 30, 2007

Beginning Balance at June 1, 2007	\$ <u>-0-</u>
Net Income (Loss)	1,480
Capital Contributions	<u>1,000,000</u>
Net Change in Capital and Surplus	<u>1,001,480</u>
Capital and Surplus, June 30, 2007	<u>\$1,001,480</u>

ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

There were no changes to the Company's surplus as a result of the examination.

NOTES TO FINANCIAL STATEMENTS

1. Capital, Surplus and Risk-Based Capital Standards:

Chapter 25 (“FIRE, CASUALTY AND MARINE INSURANCE”) of Title 31 (“Insurance and Securities”) of the District of Columbia Official Code requires the Company to have and maintain minimum capital of \$300,000 and minimum surplus of \$300,000.

In addition, Chapter 20 (“RISK-BASED CAPITAL”) of Title 31 of the District of Columbia Official Code requires the Company to maintain statutory capital and surplus levels as determined in accordance with the applicable risk based capital formulas.

As of the date of our organizational examination, the Company meets the requirements of the aforementioned provisions of the District of Columbia Official Code.

COMMENTS AND RECOMMENDATIONS

Fidelity Bond and Other Insurance:

As of June 30, 2007, the Company did not have fidelity bond coverage. In order to ensure maximum protection for the Company's members and to comply with District of Columbia Municipal Regulation Title 26, Chapter 803.1, it is the Department's position that the Company must maintain fidelity bond coverage. In this regard, the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook ("the Handbook") includes suggested minimum amounts of fidelity insurance. The suggested amounts are based on the Company's admitted assets and premiums written, and for the Company, would be approximately \$25,000 both at the time of licensing and after the first year of operation, based on the Company's financial projections. In addition, as of June 30, 2007, the Company did not have any other insurance coverage. **We recommend that upon receiving its certificate of authority, the Company obtain and maintain, at a minimum, the fidelity bond coverage specified in the Handbook. In addition, we recommend that the Company obtain and maintain any other appropriate and adequate insurance coverage. The Company should notify the Department when coverage is obtained.**

Additional Comments and Recommendations:

The Company must meet the following additional requirements:

1. Must join the District of Columbia Guaranty Fund.
2. Must file Quarterly Financial Statements.
3. Must file reports on D.C. Escheatable property, as required by Chapter 2 of Title 42 of the District of Columbia Related Laws to the Insurance Code.
4. Must prepare an Annual Audited Report in accordance with the statutory accounting practices as required by the District of Columbia Code, § 31-303.
5. Must pay its share of the Insurance Regulatory Trust Fund Assessments.
6. Must file an Annual Actuarial Opinion on the Company's reserves.
7. File policy forms and rates with the Department for approval.
8. Must limit net amount of risk retained for an individual risk to no more than 10% of capital and surplus as required by District of Columbia Code § 31-2502.12.

The above stated requirements are not all inclusive and the Company will have additional regulatory and compliance requirements, which must also be satisfied.

CONCLUSION

Our organizational examination disclosed that as of June 30, 2007, the Company had:

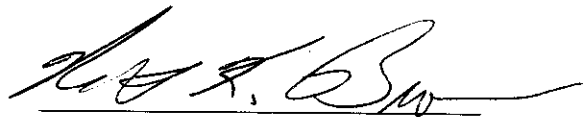
Admitted Assets	<u>\$ 1,001,480</u>
Liabilities	<u>\$ 0</u>
Common Capital Stock	\$ 300,000
Gross Paid In and Contributed Surplus	700,000
Unassigned Funds (Surplus)	<u>\$ 1,480</u>
Surplus as regards policyholders	\$ 1,001,480
Total Liabilities and Surplus	<u>\$ 1,001,480</u>

Based on our examination, the accompanying balance sheet properly presents the statutory financial position of the Company at June 30, 2007. The Company has requested an original certificate of authority to transact a property and casualty insurance business in accordance with Title 31, Chapter 25 ("Fire, Casualty and Marine Insurance") of the District of Columbia Official Code. Based on our examination, the Company meets the minimum capital and surplus requirements of Section 31-2502.13 of the District of Columbia Official Code and is entitled to the issuance of a certificate of authority to transact a property and casualty insurance business.

SIGNATURES

In addition to the undersigned, Samuel A. Merlo of the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'N. K. Brown', written over a horizontal line.

Nathaniel Kevin Brown, CFE
Examiner-In-Charge
District of Columbia Department of
Insurance, Securities and Banking

Under the Supervision of,

A handwritten signature in black ink, appearing to read 'D. A. Palmer', written over a horizontal line.

David A. Palmer, CFE
Chief Financial Examiner
District of Columbia Department of
Insurance, Securities and Banking

GUARDIAN PROPERTY & CASUALTY COMPANY, INC.

**2600 VIRGINIA AVENUE, N.W., SUITE 701
WASHINGTON, D.C. 20037
202-204-8700**

October 23, 2007

Mr. David A. Palmer
Chief Financial Manager
District of Columbia Department of Insurance,
Securities & Banking
Suite 701
810 First Street, N.E.
Washington, D.C. 20002

Re: Report on Examination (dated June 30, 2007)
Guardian Property & Casualty Company, Inc.

Dear Mr. Palmer:

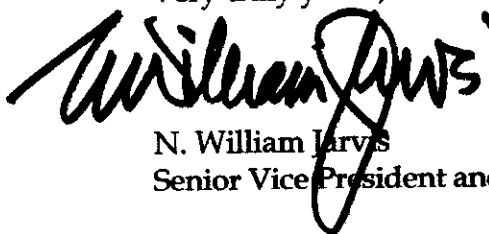
Guardian Property & Casualty Company, Inc. (the "Company") has reviewed the draft Report on Examination ("Report") issued by the Department of Insurance, Securities & Banking (the "Department"). By this letter, we hereby inform the Department that we have no problem with any of the information included in the Report, and we hereby agree to follow the recommendations of the Department as included in the Report. The Company agrees that it will:

1. acquire fidelity bond coverage as specified in the Report;
2. join the District of Columbia Guaranty Fund;
3. file quarterly financial statements with the Department;
4. file reports on D.C. escheatable property, as specified in Chapter 2, Title 42 of the D.C. Insurance Code;
5. prepare an annual audited report in accordance with the accounting practices specified in D.C. Code § 31-303;
6. pay its share of the Insurance Regulatory Trust Fund assessments;
7. file an annual Actuarial Opinion on the Company's reserves;
8. file policy forms and rates with the Department for approval; and
9. limit net amount of risk retained for an individual risk to no more than 10% of capital and surplus, as required by D.C. Code § 31-2502.12.

Mr. David A. Palmer
October 23, 2007
Page 2

If you have any questions regarding the foregoing, please do not hesitate to contact me directly. Again, we thank you and your staff for all the hard work on this matter.

Very truly yours,

A handwritten signature in black ink, appearing to read "N. William Jarvis". The signature is stylized with a large, sweeping initial "N" and a long, trailing flourish at the end.

N. William Jarvis
Senior Vice President and Secretary

NWJ/st

Government of the District of Columbia
Department of Insurance, Securities and Banking



Thomas E. Hampton
Commissioner

October 29, 2007

N. William Jarvis
Senior Vice President and Secretary
Guardian Property and Casualty Company, Inc.
2600 Virginia Avenue, N.W., Suite 701
Washington, D.C. 20037

Dear Mr. Jarvis:

We are in receipt of your response, dated October 23, 2007, which addresses the corrective action taken by Guardian Property and Casualty Company, Inc. to comply with the recommendations made in the Report on Examination as of June 30, 2007, dated July 27, 2007.

Your October 23, 2007 letter adequately addresses the recommendation made in the Report. During our next examination of the Company, we will review the implementation of the corrective actions taken.

The adopted Report (which includes a copy of this letter), and the Order evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10 day period has passed, the Report will be publicly available.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each Company director stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention here at the Department.

Please contact me at 202-442-7832 or David Palmer at 202-442-7785 if you have any questions.

Sincerely,

Nathaniel Kevin Brown
Senior Financial Examiner

Enclosures