STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON FINANCIAL CONDITION EXAMINATION

OF THE

LINCOLN LIFE AND ANNUITY COMPANY OF NEW YORK

CONDITION:	DECEMBER 31, 2007
DATE OF REPORT:	OCTOBER 17, 2008

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AS OF

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EXAMINER:	VINCENT TARGIA

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

David A. Paterson
Governor

Eric R. Dinallo
Superintendent

January 8, 2009

Honorable Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22744, dated January 15, 2008 and annexed hereto, an examination has been made into the financial condition of Lincoln Life and Annuity Company of New York (hereinafter referred to as “the Company,” the surviving entity after the merger of Jefferson Pilot LifeAmerica Insurance Company (“JPLA”) and Lincoln Life and Annuity Company of New York (“LLANY”)) at its home office located at 100 Madison Street, Suite 1860, Syracuse, New York 13202.

Wherever “Department” appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2007 filed annual statement. (See item 5 of this report)

On April 3, 2006, Lincoln National Corporation acquired 100% of the outstanding shares of Jefferson Pilot Corporation ("JPC") at which time JPC merged with and into Lincoln National Corporation ("LNC"). On April 2, 2007, LLANY merged with and into JPLA, which had redomesticated from New Jersey to New York. JPLA was the surviving company and was renamed Lincoln Life and Annuity Company of New York. (See item 3A of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2007. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2007 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2007 to determine whether the Company's 2007 filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

Company history
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Growth of Company
Business in force by states
Reinsurance
Accounts and records
Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to the financial condition violations and recommendations contained in the prior report on examination. The results of the examiner's review are contained in item 6 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF COMPANY

A. History

JPLA was incorporated as a stock life insurance company under the laws of New Jersey under the name of Colonial Life Insurance Company of America on October 27, 1897. A certificate of authority dated December 31, 1897 authorized it to commence business and issue policies as a joint stock life insurance company on August 4, 1900. Effective May 18, 1978, the Colonial Life Insurance Company of America was acquired by Chubb Life Insurance Company, a subsidiary of the Chubb Corporation. On March 1, 1996, the Colonial Life Insurance Company of America changed its name to Chubb Colonial Life Insurance Company. Effective May 13, 1997, Chubb Life Insurance Company and its subsidiaries were acquired by JPC. On May 1, 1998, Chubb Colonial Life Insurance Company changed its name to Jefferson Pilot LifeAmerica Insurance Company.

LLANY was incorporated as a stock life insurance company under the laws of New York on June 6, 1996, was licensed on September 27, 1996 and commenced business on October 1, 1996.

On April 3, 2006, LNC acquired 100% of the outstanding shares of JPC at which time JPC merged with and into LNC. On April 2, 2007, LLANY merged with and into JPLA, which had redomesticated from New Jersey to New York. JPLA was the surviving company and was renamed Lincoln Life and Annuity Company of New York.

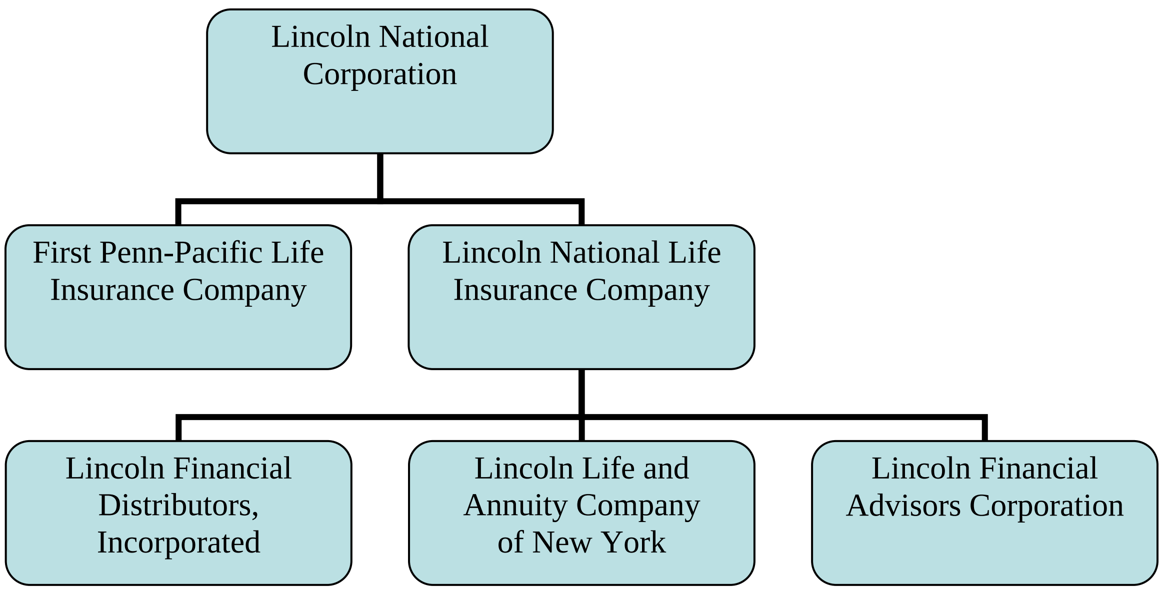
The Company is a wholly owned subsidiary of Lincoln National Life Insurance Company ("LNL"), which is an Indiana life insurance company. The ultimate parent of the Company is LNC, a publicly traded financial services firm. The Company, LNL and its affiliate First Penn-Pacific Life Insurance Company ("FPP") are collectively known as the Lincoln Financial Group ("LFG").

The 2007 annual statement listed common capital stock of $2,640,000 and paid in and contributed surplus of $1,135,800,643. The common capital stock represents the initial common stock of JPLA, provided through the sale of 132,000 shares of $20 par value common stock. JPLA's paid in and contributed surplus as of December 31, 2006 was $46,010,050. The contributed surplus increased by $386,128,481 due to the merger with LLANY ($384,128,481 from paid in surplus and $2,000,000 from the retired capital stock). An additional surplus contribution of $703,662,112 was made by LNL during 2007.

B. Holding Company

The Company is a wholly owned subsidiary of LNL, an Indiana life insurance company. The ultimate parent of the Company is LNC, a publicly traded financial services firm.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2007 follows:



The Company had 16 service agreements in effect with affiliates during the examination period.

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Principal Underwriting Agreement (27029) Amended (27029G)	8/1/99 2/1/02 Terminated 5/1/2007	Lincoln Financial Advisors, Corp. ("LFA")	LLANY	LFA distributes and acts as principal underwriter of the Company's separate accounts. Additional Separate Accounts	2005 $ 0 2006 $ 0 2007 $(991,040)
Principal Underwriting Agreement (37444)	5/1/2007	Lincoln Financial Distributors, Inc. ("LFD")	The Company	LFD distributes and acts as principal underwriter of the Company's separate accounts	2007 ($21,764,614)
Wholesaling and Processing Agreement (37443)	5/1/2007	The Company	LFD	Recordkeeping services for LFD in its roles as Principal Underwriter	2007 $2,398,639
Administrative Services Agreement (25015) Amended (25015G) Amended and Restated (25015H) Amended (25015I)	1/1/98 10/1/98 1/1/04 3/1/07 Terminated 5/1/07	LNL	LLANY	Administrative services with respect to coinsured contracts Add Aetna coinsured contracts Administrative services with respect to coinsured contracts Add Aetna non-NY business	2005 $(23,364,320) 2006 $(13,253,473) 2007 $ (5,362,210)
Administrative Services Agreement (25441) Amended (25441G)	3/1/98 1/1/04 Terminated 5/1/2007	LLANY	LNL	Payment processing and legal services, sales and marketing support, general strategic advice, financial and accounting services relative to group annuity business Legal services	2005 $0 2006 $0 2007 $262,575

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Commission Consolidation and Cost Allocation Agreement (25277)	1/1/98 Terminated 5/1/07	LNL	LLANY	Consolidation of commission payment functions	2005 $(36,147,840) 2006 $(49,705,099) 2007 $(13,640,503)
Administrative Services Agreement (27481)	1/1/00 Terminated 5/1/07	LFA	LLANY	Sales and marketing services	2005 $ (7,131) 2006 $(33,257) 2007 $(30,151)
Use of Services and Facilities Agreement (26870)	6/1/99 Terminated 5/1/07	LLANY	LFG	Sharing IT and electrical facilities	2005 $ 91,910 2006 $113,040 2007 $ 37,688
Administrative Service Agreement (27220) Amended (27220G) Amended	10/31/00 1/1/04 5/31/04 Terminated 5/1/07	FPP	LLANY	FPP to provide services in relation to the Company's term insurance business. Amended - FPP to perform premium collections, certain claim functions and financial reporting services. Amended - Indemnification section added	2005 $(1,217,292) 2006 $(1,170,294) 2007 $ (337,352)
Administrative Service Agreement (33054)	10/1/04 Terminated 12/31/06	LNC Administrative Services Corporation ("LNCASC")	LLANY	Administrative services related to "Director" guarantee variable annuity business.	2005 $ (87,813) 2006 $(197,623) 2007 $ 0
Wholesaling Agreement (27854)	5/1/00 Terminated 5/1/07	Delaware Distributors, L. P. ("Delaware")	LLANY and LFA	Delaware engages in activities relating to wholesaling of contracts for which LFA acts as principal underwriter.	2005 $ 0 2006 $ 0 2007 $(455,441)
Investment Management Agreement (29233) Amended (29233G)	1/1/01 10/1/03	Delaware Lincoln Investment Advisers ("DLIA") Delaware Investment Advisors ("DIA")	LLANY	Investment management services DLIA assigned its obligations to DIA	2005 $(2,428,899) 2006 $(1,821,821) 2007 $(3,613.885)

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Plan Record Keeping Agreement (31160)	8/1/03 Terminated 5/1/07	Administrative Management Group ("AMG")	LLANY	Recordkeeping services for "Alliance" group annuities.	2005 $(1,297,598) 2006 $(1,254,522) 2007 $ (386,588)
Administrative Services Agreement	01/01/1999 Terminated 5/1/07	Jefferson Pilot Life Insurance Company ("JPLIC")	JPLA	Administrative services	2005 $(30,669,112) 2006 $(48,858,853) 2007 $(21,364,320)
Investment Management Agreement	1/1/99 Terminated 5/1/07	JPLIC	JPLA	Investment management services	2005 $ (700,321) 2006 $(1,163,468) 2007 $ (483,529)
Master Service Agreement (37411) Amended (38111)	5/1/07 10/1/07	All LNC affiliated companies listed in Exhibit A to the Agreement	The Company	Actuarial, risk management, tax accounting and administration, internal auditing, separate account operations, accounting and financial reporting, treasury operations, corporate management, customer service, human resources, IT services, legal, compliance, underwriting, sales and marketing, printing and mailing, wholesale distribution and facilities management Merger of one of the parties to the agreement	2007 $(88,268,444)

* Amount of Income or (Expense) Incurred by the Company

The Company participates in a federal income tax allocation agreement with its parent and affiliates.

C. Management

The Company’s by-laws provide that the board of directors shall be comprised of 13 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in May of each year. As of December 31, 2007, the board of directors consisted of 13 members. Meetings of the board are held immediately or 30 days thereafter the annual meeting of shareholders in May and at such intervals and on such dates as the board may designate or by means of unanimous written consent.

The 13 board members and their principal business affiliation, as of December 31, 2007, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
J. Patrick Barrett* Syracuse, NY	Chairman and Chief Executive Officer CARPAT Investments	1996
Charles C. Cornelio Greensboro, NC	Senior Vice President Lincoln Financial Group	2006
Frederick J. Crawford Radnor, PA	Senior Vice President and Chief Financial Officer Lincoln National Corporation	2005
Robert W. Dineen Westwood, NJ	President and Chief Operating Officer Lincoln Financial Advisors Corporation	2007
Dennis R. Glass Bryn Mawr, PA	President Lincoln Life and Annuity Company of New York President and Chief Executive Officer Lincoln National Corporation	2006
George W. Henderson* Greensboro, NC	Retired Chairman and Chief Executive Officer Burlington Industries	2006
Mark E. Konen Greensboro, NC	Senior Vice President The Lincoln National Life Insurance Company	2006
M. Leanne Lachman* New York, NY	President Lachman Associate LLC	1996
Louis G. Marcoccia* Syracuse, NY	Executive Vice President and Chief Financial Officer Syracuse University	1996

Name and Residence	Principal Business Affiliation	Year First Elected
Patrick S. Pittard* Atlanta, GA	Terry School of Business University of Georgia	2007
Dennis L. Schoff Villanova, PA	Senior Vice President and General Counsel Lincoln National Corporation	2007
Michael S. Smith Phoenixville, PA	Senior Vice President The Lincoln National Life Insurance Company	2004
Westley V. Thompson West Hartford, CT	Senior Vice President The Lincoln National Life Insurance Company	2006

* Not affiliated with the Company or any other company in the holding company system

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Company as of December 31, 2007:

Name	Title
Dennis R. Glass	President
Clara S. Womack	Secretary
Rise C.M. Taylor	Treasurer
Kent H. Somers	Actuary
Jeffrey L. Smith*	Assistant Vice President

* Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

D. Territory and Plan of Operation

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. In 2007, 96.2% of life premiums and 94.1% of annuity considerations were received from New York.

The Company currently offers life insurance, annuity products, and qualified pension plan products and services to individuals and groups in New York. The Company's portfolio includes term life, universal life and variable universal life insurance in addition to individual and group variable and fixed annuities. During 2007, 24.9% of total premiums and considerations were from life insurance and 73.1% were from annuity business. Policies are written on a non-participating basis.

As indicated previously, LNL and its life insurance affiliates, FPP and the Company (together referred to as LFG), reflect LFG's prominent position in the wealth management and asset accumulation marketplace. LFG's market position is a top-five provider of variable annuities and life insurance and ranks among the industry's leading writers of ordinary life insurance with a focus on term, variable universal life and universal life, and maintains a solid position in the retirement savings sector as a leading provider of both qualified and non-qualified fixed and variable annuities.

The Company's operations are divided into two major segments "Retirement Solutions" and "Lincoln Life." Retirement Solutions offers tax-deferred investment growth and lifetime opportunities through the manufacture of fixed and variable annuities to both the individual and employer-sponsored markets. Lincoln Life focuses on the creation of wealth for its clients through the manufacture of life insurance products. Products offered include both single and survivorship versions of universal life, variable life, and interest-sensitive whole life, and term insurance. The products are written on a non-participating basis and are distributed through LNL and FPP.

Distribution channels such as broker-dealers, financial planners, banks and general agents within New York are utilized. During the examination period, the Company's principal lines of business sold were ordinary fixed and variable annuities and universal life with a lapse protection rider.

E. Reinsurance

As of December 31, 2007, the Company had reinsurance treaties in effect with 74 companies, of which 29 were authorized or accredited. The Company's life, accident and health business is reinsured on a coinsurance, modified-coinsurance, and/or yearly renewable term basis. Reinsurance is provided on both an automatic and facultative basis.

The maximum retention limit for individual life contracts is $500,000. The total face amount of life insurance ceded as of December 31, 2007, was $28,524,950,583 which represents 55.5% of the total face amount of life insurance in force. Approximately 4.5% of the total face amount in force is reinsured with affiliates.

Reserve credit taken for reinsurance ceded to unauthorized companies, totaling $87,186,370 was supported by letters of credit and trust agreements.

As of December 31, 2007, the Company assumed individual and group life business and individual and group annuity business from nine unaffiliated insurers and one affiliated insurer. The total face amount of life insurance assumed as of December 31, 2007 was $24,278,341,143, or 47.2% of the total face amount of life insurance in force. The bulk of the assumed life insurance (92.7%) is from a 1998 acquisition of a block of individual life insurance policies and annuities acquired from Aetna Life Insurance Company ("ALIC") and the Aetna Life Insurance and Annuity Company ("ALIAC"). ALIAC subsequently changed its name to ING Life Insurance and Annuity Company. The Company acquired the New York portion of the block while LNL acquired the non-New York (49 states) portion of the block. During 2007, LNL transferred to the Company its obligations (as indemnity reinsurer and administrator) consisting of the non-New York portion of the above mentioned block of individual life insurance policies and annuities acquired from the two Aetna companies.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth (decline) during the period under review:

	December 31, 2004*	December 31, 2007	Increase (Decrease)
Admitted assets	$4,639,953,135	$9,000,554,238	$4,360,601,103
Liabilities	$4,265,404,114	$8,167,761,335	$3,902,357,221
Common capital stock	$ 4,640,000	$ 2,640,000	$ (2,000,000)
Gross paid in and contributed surplus	430,138,531	1,135,800,643	705,662,112
Unassigned funds (surplus)	(60,229,510)	(305,647,740)	(245,418,230)
Total capital and surplus	$ 374,549,021	$ 832,792,903	$ 458,243,882
Total liabilities, capital and surplus	$4,639,953,135	$9,000,554,238	$4,360,601,103

*Amounts reported are as if the merger between JPLA and LLANY occurred on December 31, 2004.

The Company's invested assets as of December 31, 2007, exclusive of separate accounts, were mainly comprised of bonds (87.7%) and policy loans (5.9%).

The majority (96.4%) of the Company's bond portfolio, as of December 31, 2007, was comprised of investment grade obligations.

The significant growth in admitted assets and liabilities is related to increases in separate account assets which experienced strong cash inflows as well as increases in asset valued to the strong equity markets during the period under review. In addition, in March of 2007, the Company's parent LNL, ceded through an assignment and assumption agreement certain blocks of individual and group business to the Company ("Aetna Transaction"). As a result of this transaction approximately $2.16 billion of assets and liabilities were transferred to the Company. Finally, associated with the Aetna Transaction, LNL made a capital contribution of $703.7 million to the Company. The significant decrease in unassigned funds is primarily related to the $179.3 million ceded commission paid by the Company to LNL as part of the Aetna Transaction.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) as reported for each of the years under examination in the Company's filed annual statements:

	2005*	2006	2007
Industrial life	$ 326,196	$ 107,597	$ 697,857
Ordinary:			
Life insurance	$(32,495,965)	$(64,348,426)	$(204,849,547)
Individual annuities	11,780,642	8,896,001	25,061,926
Supplementary contracts	(591,377)	158,722	1,560,892
Total ordinary	$(21,306,700)	$(55,293,703)	$(178,226,729)
Group:			
Life	$ (346,502)	$ 377,939	$ (1,212,775)
Annuities	10,848,441	7,273,441	15,719,032
Total group	$ 10,501,939	$ 7,651,380	$ 14,506,257
Accident and health:			
Group	$ (1,627,054)	$ (26,944)	$ 268,659
Other	(286,976)	329,121	714,042
Total accident and health	$ (1,914,030)	$ 302,177	$ 982,701
All other lines	$ (137,668)	$ 247,659	$ 0
Total	$(12,530,263)	$(46,984,890)	$(162,039,914)

*Amounts reported are as if the merger between JPLA and LLANY occurred on December 31, 2004.

The significant losses in the Company's net gain from operations from its ordinary life insurance line in 2005 and 2006 are primarily related to the issuance of universal life policies with secondary guarantees. The significant loss in 2007 is primarily related to the $179.3 million ceding commission required as part of the Aetna Transaction.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2007, as contained in the Company's 2007 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2007 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL AND SURPLUS AS OF DECEMBER 31, 2007

Admitted Assets

Bonds	$5,754,883,738
Stocks:	
Preferred stocks	5,073,759
Common stocks	240,634
Mortgage loans on real estate	
First liens	260,767,985
Cash, cash equivalents and short term investments	128,952,614
Contract loans	388,730,087
Other invested assets	6,430,553
Other receivables related to investments	19,110,832
Investment income due and accrued	81,815,136
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	2,257,519
Deferred premiums, agents' balances and installments booked but deferred and not yet due	17,559,914
Reinsurance:	
Amounts recoverable from reinsurers	2,406,973
Other amounts receivable under reinsurance contracts	2,632,097
Net deferred tax asset	39,444,419
Guaranty funds receivable or on deposit	18,205
Electronic data processing equipment and software	20,893
Receivables from parent, subsidiaries and affiliates	94,193
Health care and other amounts receivable	4,247,477
Miscellaneous receivables and prepaid items	63,514
From separate accounts, segregated accounts and protected cell accounts	2,285,803,696
Total admitted assets	$9,000,554,238

Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$5,535,445,512
Aggregate reserve for accident and health contracts	31,694,033
Liability for deposit-type contracts	245,870,621
Contract claims:	
Life	32,986,617
Accident and health	757,363
Policyholders’ dividends and coupons due and unpaid	4,781
Provision for policyholders’ dividends and coupons payable in following calendar year – estimated amounts	
Dividends apportioned for payment	26,774,488
Premiums and annuity considerations for life and accident and health contracts received in advance	876,176
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	1,858,057
Interest maintenance reserve	5,211,037
Commissions to agents due or accrued	2,361,112
Commissions and expense allowances payable on reinsurance assumed	10,676
General expenses due or accrued	2,169,784
Transfers to Separate Accounts due or accrued	(107,381,190)
Taxes, licenses and fees due or accrued, excluding federal income taxes	(3,858,876)
Current federal and foreign income taxes	11,583,876
Unearned investment income	2,126,713
Amounts withheld or retained by company as agent or trustee	1,561,802
Amounts held for agents’ account	423,282
Remittances and items not allocated	44,294,985
Miscellaneous liabilities:	
Asset valuation reserve	21,510,569
Reinsurance in unauthorized companies	7,655,244
Payable to parent, subsidiaries and affiliates	17,967,427
Miscellaneous liabilities	54,050
From separate accounts statement	2,285,803,196
Total liabilities	$8,167,761,335
Common capital stock	$ 2,640,000
Gross paid in and contributed surplus	1,135,800,643
Unassigned funds (surplus)	(305,647,740)
Total capital and surplus	$ 832,792,903
Total liabilities, capital and surplus	$9,000,554,238

B. CONDENSED SUMMARY OF OPERATIONS

	2005*	2006*	2007
Premiums and considerations	$705,013,754	$ 847,248,041	$1,003,862,766
Investment income	218,049,137	215,230,517	361,297,058
Commissions and reserve adjustments on reinsurance ceded	2,936,020	1,174,426	(1,131,136)
Miscellaneous income	25,879,014	39,462,936	71,576,136
Total income	$951,877,925	$1,103,115,920	$1,435,604,824
Benefit payments	$492,009,990	$ 538,329,803	$730,575,107
Increase in reserves	37,962,586	143,813,445	102,914,852
Commissions	56,375,300	84,785,607	276,844,684
General expenses and taxes	57,147,178	58,062,854	69,897,802
Increase in loading on deferred and uncollected premium	31,602	(1,051,150)	(810,218)
Net transfers to Separate Accounts	299,598,309	328,051,757	378,144,633
Total deductions	$943,124,965	$1,151,992,316	$1,557,566,860
Net gain (loss)	$8,752,960	$ (48,876,396)	$ (121,962,036)
Dividends	6,692,883	6,130,701	24,834,024
Federal and foreign income taxes incurred	14,590,340	(8,022,209)	15,243,854
Net gain (loss) from operations before net realized capital gains	$(12,530,263)	$ (46,984,888)	$ (162,039,914)
Net realized capital gains (losses)	(926,998)	(983,738)	(25,783,501)
Net income	$(13,457,261)	$ (47,968,626)	$ (187,823,415)

*Amounts reported are as if the merger between JPLA and LLANY occurred on December 31, 2004.

C. CAPITAL AND SURPLUS ACCOUNT

	2005*	2006*	2007
Capital and surplus, December 31, prior year	$374,549,021	$354,498,175	$ 298,738,955
Net income	$ (13,457,261)	$(47,968,626)	$(187,823,415)
Change in net unrealized capital gains (losses)	(57,036)	479,149	(537,720)
Change in net deferred income tax	14,887,655	12,667,702	30,159,638
Change in non-admitted assets and related items	(14,012,331)	(11,051,371)	(7,148,844)
Change in liability for reinsurance in unauthorized companies	(529,097)	(2,806,902)	(4,246,087)
Change in reserve valuation basis	(593,107)	0	(337,317)
Change in asset valuation reserve	(4,847,972)	(6,746,623)	624,157
Surplus (contributed to), withdrawn from Separate Accounts during period	(17,786)	0	(500)
Surplus adjustments:			
Paid in	0	0	703,662,112
Change in surplus as a result of reinsurance	(363,999)	(332,549)	(298,077)
Dividends to stockholders	(5,000,000)	0	0
Correction for a prior period error	3,940,087	0	0
Net change in capital and surplus for the year	$ (20,050,846)	$(55,759,220)	$534,053,947
Capital and surplus, December 31, current year	$354,498,174	$298,738,955	$832,792,903

*Amounts reported are as if the merger between the JPLA and LLANY occurred on December 31, 2004.

6. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the financial condition violations and recommendations contained in the prior report on examination for LLANY and the subsequent actions taken by the Company in response to each citation:

Item	Description
A	LLANY violated Section 91.4(f)(5) of Department Regulation No. 33 by using general indexes as a basis for distributing costs among companies and annual statement lines of business within the Company. Effective May 1, 2007 the Company entered into a Master Service Agreement with all LNC affiliated companies. The Company is using a cost center driven allocation method that incorporates the use of general indexes, when applicable, to distribute costs among companies and annual statement lines of business. The allocation method employed by the Company as reviewed appears to be reasonable.
B	LLANY violated Section 91.4(a) of Department Regulation No. 33 by failing to maintain records with sufficient detail to show fully the system actually used for the allocation of expenses and the actual bases of the allocation under both its Principal Underwriter and its Marketing and Sales Service Agreement with LFA. A similar violation appeared in the prior report on examination. The Company terminated its Principal Underwriter and its Sales and Marketing Agreements with LFA effective May 1, 2007. On that same day, the Company entered into a Principal Underwriting Agreement with LFD and a Master Service Agreement with all LNC affiliated companies. The Master Service Agreement included the sales and marketing function performed by LFD on behalf of the Company. The Company provided records with sufficient detail to show fully the system actually used for the allocation of expenses and the actual bases of the allocation for both the Principal Underwriting Agreement and Master Service Agreement.
C	LLANY violated Section 1505(d)(3) of the New York Insurance Law when it failed to comply with the terms of its approved Principal Underwriter Agreement with LFA by permitting LNL to pay for services on its behalf. A similar violation appeared in the prior report on examination. The Company terminated its Principal Underwriter Agreement with LFA and entered into a new Principal Underwriter Agreement with LFD effective May 1, 2007.

Item	Description
D	LLANY violated Section 1505(a)(2) of the New York Insurance Law by failing to reimburse LFA a reasonable amount for services provided under the Sales and Marketing Service Agreement, contrary to the filed administrative service agreement. The Company terminated its Sales and Marketing Agreement with LFA effective May 1, 2007, and on the same day entered into a Master Service Agreement with all LNC affiliated companies. The Master Service Agreement included the sales and marketing function performed by LFD on behalf of the Company.
E	The examiner recommends that LLANY comply with the provisions of their filed Principal Underwriter and Marketing Service Agreements or revise the agreements to accurately reflect how the services are being billed and how settlements are made. A similar violation appeared in the prior report on examination. The Company terminated both its Principal Underwriter Agreement and its Sales and Marketing Agreement with LFA effective May 1, 2007, and on the same day entered into a new Principal Underwriter Agreement with LFD and a Master Service Agreement with LNC affiliated companies. The Master Service Agreement included the sales and marketing function performed by LFD on behalf of the Company.
F	LLANY violated Section 1505(d)(3) of the New York Insurance Law by having LFA perform selling services on a regular or systematic basis without notifying the Superintendent in writing of its intention to enter into any such transaction at least 30 days prior thereto. The Company terminated its Sales and Marketing Agreement with LFA effective May 1, 2007, and on the same day entered into a Master Service Agreement with LNC affiliated companies. The Master Service Agreement included the sales and marketing function performed by LFD on behalf of the Company.
G	LLANY violated Section 1505(d)(3) of the Law when it failed to comply with the terms of its approved Wholesaling Service Agreement by permitting LNL to pay for services on its behalf. A similar violation appeared in the prior report on examination. The Company terminated its Wholesaling Agreement with Delaware effective May 1, 2007, and on the same day entered into a Master Service Agreement with LNC affiliated companies. The Master Service Agreement included the sales and marketing function performed by Delaware on behalf of the Company.

Item	Description
H	The examiner recommends that LLANY revise its Wholesaling Agreement to accurately reflect that the selling function is being performed by LFA rather than Delaware and to also accurately reflect how the services are being billed and how settlements are made. A similar violation appeared in the prior report on examination. The Company terminated its Wholesaling Agreement with Delaware effective May 1, 2007, and on the same day entered into a Master Service Agreement with LNC affiliated companies. The Master Service Agreement included the sales and marketing function performed by Delaware on behalf of the Company.
I	LLANY violated Section 1505(d)(3) of the New York Insurance Law by providing the use of its property, equipment, and facilities to two divisions of LFA on a regular or systematic basis without notifying the Superintendent in writing of its intention to enter into any such transaction at least 30 days prior thereto. The Company entered into a Master Service Agreement with LNC affiliated companies effective May 1, 2007 that calls for the Company to provide property management administration and services to LFA.

Respectfully submitted,

_______/s/_________________
Vincent Targia
Associate Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Vincent Targia, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_______/s/_________________
Vincent Targia

Subscribed and sworn to before me

this _________ day of ___________________

APPOINTMENT NO. 22744

STATE OF NEW YORK

INSURANCE DEPARTMENT

*I, **ERIC R. DINALLO**, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

VINCENT TARGIA

as a proper person to examine into the affairs of the

LINCOLN LIFE & ANNUITY COMPANY OF NEW YORK

and to make a report to me in writing of the condition of the said

COMPANY

with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York*

this 15th day of January, 2008

ERIC R. DINALLO
Superintendent of Insurance

Superintendent