STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

SUN LIFE INSURANCE AND ANNUITY COMPANY OF NEW YORK

CONDITION: DECEMBER 31, 2003

DATE OF REPORT: AUGUST 19, 2005

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EXAMINER:	MARC A. TSE

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

George E. Pataki
Governor

Howard Mills
Superintendent

August 19, 2005

Honorable Howard Mills
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22132, dated January 15, 2004 and annexed hereto, an examination has been made into the condition and affairs of Sun Life Insurance and Annuity Company of New York, hereinafter referred to as "the Company," at its home office located at 122 East 42nd Street, New York, New York 10017.

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, 2003 filed annual statement. (See item 5 of this report)

In 2005, the Company performed an asset adequacy analysis on the Separate Account assets supporting its market value adjustment annuities on a stand-alone basis. Based on this analysis, effective September 30, 2005, the Company will strengthen its reserves by $5 million for this block of business. (See item 5D of this report)

The Company violated Section 2112(d) of the New York Insurance Law by failing to provide notification to the Superintendent of its terminated agents. (See item 6A of this report)

The Company violated Section 3211 of the New York Insurance Law by lapsing four policies without providing adequate notice to the policyholder. (See item 6C of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2000. This examination covers the period from January 1, 2001 through December 31, 2003. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2003 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, 2003 to determine whether the Company’s 2003 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’ (“NAIC”) 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
Officers' and employees' welfare and pension plans
Territory and plan of operation
Market conduct activities
Growth of Company
Business in force by states
Mortality and loss experience
Reinsurance
Accounts and records
Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to the violation and recommendations contained in the prior report on examination. The results of the examiner’s review are contained in item 7 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

The Company was incorporated as a stock life insurance company under the laws of the State of New York on May 25, 1983. It was licensed on April 11, 1985, and commenced business on August 15, 1985. Initial resources of $7,000,000, consisting of common capital stock of $2,000,000 and paid in and contributed surplus of $5,000,000, were provided through the sale of 2,000 shares of common stock (with a par value of $1,000) for $3,500 per share.

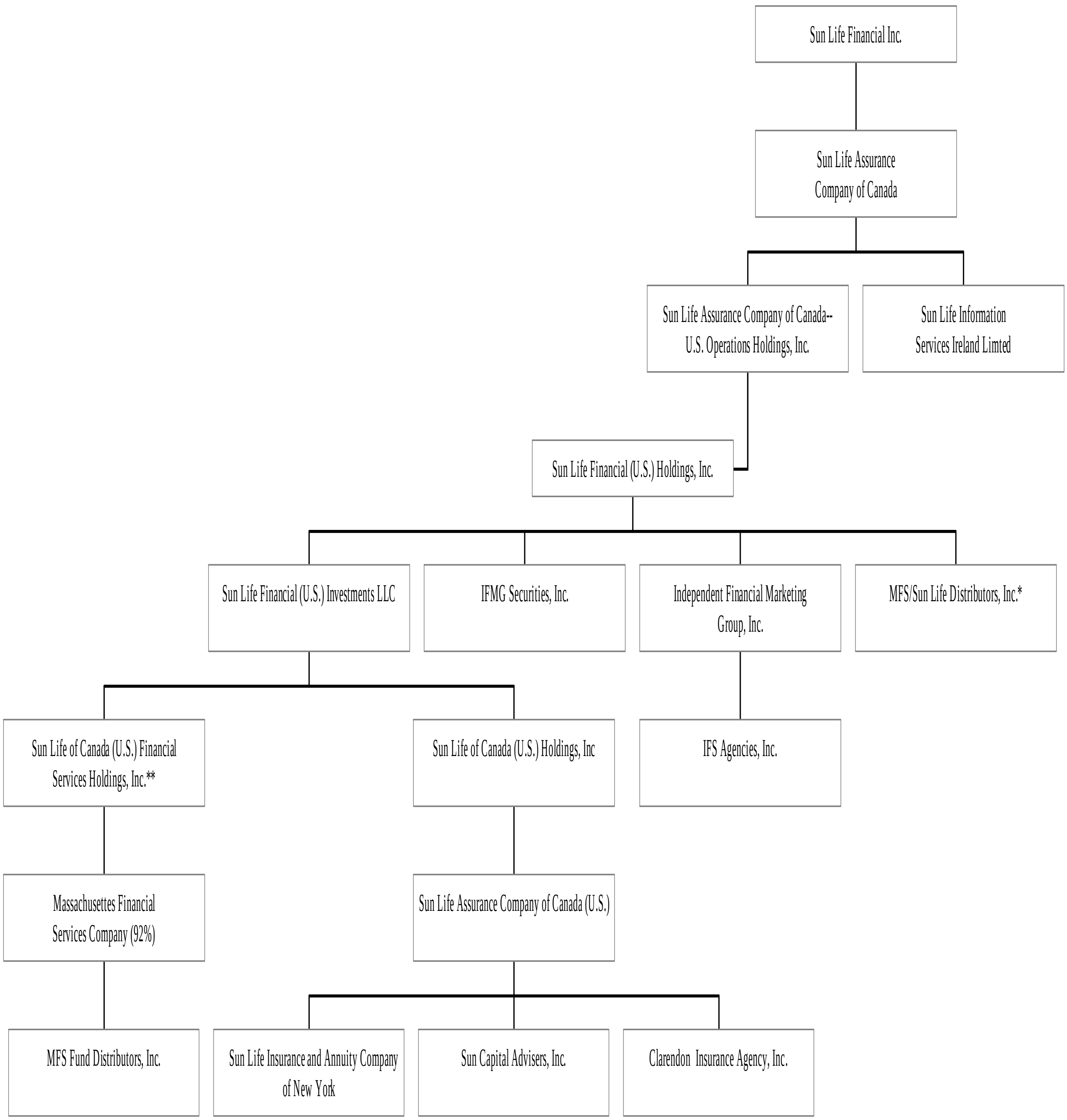
On December 31, 2002, Keyport Benefit Life Insurance Company ("KBL"), a New York domiciled life insurer, merged with and into the Company, with the Company being the surviving entity. Prior to the merger, Keyport Life Insurance Company ("KLIC") wholly-owned KBL, and Sun Life Assurance Company of Canada (U.S.) ("SLUS") wholly-owned the Company. To execute the merger, the Company issued 4,001 additional shares of common stock to KLIC in exchange for the assets and liabilities of KBL. As a result of the additional common stock issuance, the Company became a subsidiary of both KLIC and SLUS, with KLIC owning 67% of the common stock, and SLUS owning 33% of the common stock. On December 31, 2003, KLIC merged with and into SLUS, with SLUS being the surviving company. The Company then, again, became a wholly-owned subsidiary of SLUS.

KBL received a surplus contribution of $71,000,000 from KLIC in 2001. The Company received an additional surplus contribution of $45,000,000 from its parent in 2002. On December 31, 2003, the Company's common capital stock totaled $2,100,350 and its gross paid in and contributed surplus totaled $207,399,650.

B. Holding Company

The Company is a wholly-owned subsidiary of SLUS, a Delaware life insurer. SLUS is, in turn, a wholly-owned subsidiary of Sun Life of Canada (U.S.) Holdings, Inc., a Delaware holding company**.** The ultimate parent of the Company is Sun Life Financial Inc.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2003 follows:



* As of 12/31/03, MFS/Sun Life Financial Distributors, Inc. was owned 50% by Sun Life Financial (U.S.) Holdings, Inc. and 50% by Massachusetts Financial Services Company.

** As of 12/31/03, Sun Life of Canada (U.S.) Financial Services Holding, Inc. was owned 99.6% by Sun Life Financial (U.S.) Investments LLC.

The Company had 15 service agreements in effect during the examination period.

Type of Agreement	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Marketing Agreement	7/1/99	the Company	Sun Life Assurance Company of Canada ("SLOC") and SLUS	Marketing services	2001 $252,969 2002 $352,581 2003 $480,577
Management Services Agreement	11/21/00 Amended 1/1/02	SLUS	the Company	Investment, actuarial and administrative personnel	2001 $(3,901,845) 2002 $(4,750,231) 2003 $(10,216,778)
Administrative Services Agreement	10/31/01 Terminated 12/31/02	SLUS	the Company	Investment, actuarial and administrative personnel	2001 $0 2002 $(7,182,826)
Investment Advisory Agreement	10/31/01 Terminated 12/31/02	Sun Capital Advisers, Inc.	the Company	Investment management services	2001 $(83,509) 2002 $(596,480)
Investment Services Agreement	12/3/84 Amended 5/8/96 Replaced by Investment Advisory Agreement dated 1/1/02	SLOC	the Company	Investment management services	2001 $(111,105)
Investment Advisory Agreement	1/1/02	Sun Capital Advisers, Inc.	the Company	Investment management services	2002 $(85,155) 2003 $(1,092,578)
Marketing and Sales Agreement	5/23/00 Terminated in 1st quarter 2003	Clarendon Insurance Agency, Inc.	the Company	General distribution services	2001 $(8,030) 2002 $(57,414) 2003 $0
Marketing and Sales Agreement	3/15/01 Terminated in 1st quarter 2003	Clarendon Insurance Agency, Inc. and MFS Fund Distributors, Inc.	the Company	Marketing services for certain annuity products	2001 $(166,882) 2002 $(115,145) 2003 $0

Type of Agreement	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Sales and General Agent Agreement	9/3/92	Clarendon Insurance Agency, Inc., Independent Financial Securities, Inc. (now known as IFMG Securities, Inc. ("IFMG")), and IFS Agencies, Inc.	the Company	Solicitation and sales of products	2001 $17,837 2002 $1,464,618 2003 $2,929,622
Wholesaling Agreement	3/1/02 Terminated 12/31/02	Keyport Financial Services Corp.("KFSC"), which has merged with Clarendon Insurance Agency, Inc., and IFMG	the Company	Distribution of certain annuity products	2001 $933,476 2002 $1,689,324 2003 $1,983,758
Managing General Agent and Broker Dealer Agreement	8/3/98	KFSC and IFMG	the Company	Product sales	2001 $1,668,300 2002 $2,968,442 2003 $72,875
Managing General Agent and Broker Dealer Agreement	8/3/98	KFSC, IFS Agencies, Inc., and IFMG	the Company	Product sales	2001 $14,073,754 2002 $14,705,012 2003 $10,880,458
Administrative Services Agreement	2/3/03	Sun Life Information Services Ireland Limited	the Company	Customer service, including processing policy loans, surrenders, and client-requested changes to policies	2003 $69,667
Administrative Services Agreement	1/1/03	the Company	Sun Capital Advisers, Inc.	Administrative services for Sun Capital Advisors Trust Variable Account C	2003 $0
Principal Underwriters Agreement	2/1/03	Clarendon Insurance Agency, Inc.	the Company	Underwriting and general distribution services	2003 $0
Wholesaling Agreement	2/1/03	Clarendon Insurance Agency, Inc. and MFS/Sun Life Distributors, Inc.	the Company	Distribution of certain annuity products	2003 $(471,425)

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

C. Management

As of December 31, 2003, the Company's by-laws provided that the board of directors shall be comprised of not less than 13 and not more than 25 directors, and that the directors are elected annually at the meeting of the stockholders held in February of each year. Effective April 30, 2004, the Company's by-laws were amended to prescribe that the annual meeting of the stockholders be held in March of each year. As of December 31, 2003, the board of directors consisted of 14 members. Meetings of the board are held at such time and such place within or without the state of New York as determined by the board.

The 14 board members and their principal business affiliation, as of December 31, 2003, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
James C. Baillie* Toronto, Ontario, Canada	Counsel Torys Law Firm	2000
Leila Heckman, Ph.D.* New York, NY	President Heckman Global Advisors	2003
Donald B. Henderson, Jr.* Bronxville, NY	Partner LeBoeuf, Lamb, Greene & MacRae	1999
David D. Horn* New Vineyard, ME	Retired	1984
James A. McNulty, III* Medfield, MA	Retired	1999
Peter R. O'Flinn* Larchmont, NY	Co-Chairman LeBoeuf, Lamb, Greene & MacRae	1998
Fioravante G. Perrotta* Naples, FL	Retired	1984
C. James Prieur Toronto, Ontario, Canada	President and Chief Operating Officer Sun Life Financial Inc.	1998
S. Caesar Raboy* Boston, MA	Retired	1997

Name and Residence	Principal Business Affiliation	Year First Elected
Robert C. Salipante Wellesley, MA	President Sun Life Insurance and Annuity Company of New York	2003
Barbara Z. Shattuck* New York, NY	Founder and Principal Shattuck Hammond Partners, LLC	2003
David K. Stevenson* Needham, MA	Retired	2002
Donald A. Stewart Mississauga, Ontario, Canada	Chief Executive Officer Sun Life Financial Inc.	1996
William W. Stinson* Calgary, Alberta, Canada	Retired	2000

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

In March 2004, David D. Horn, S. Caesar Raboy and Fioravante G. Perrotta retired from the board and were replaced by Thomas A. Bogart and Paul W. Derksen. Then, in August 2004, James C. Baillie, James A. McNulty, III and William W. Stinson retired from the board and were replaced by Gary Corsi, Scott M. Davis and Mary M. Fay.

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 Company's Corporate Secretary, and all the officers of the Company who, as of December 31, 2003, held the position of Vice President or more senior position with the Company:

Name	Title
Robert C. Salipante	President
Ellen B. King	Assistant Vice President and Senior Counsel and Secretary
Gary Corsi	Vice President and Chief Financial Officer and Treasurer
Claude A. Accum	Vice President and Chief Actuary
James M.A. Anderson	Vice President, Investments
Nancy L. Conlin	Vice President and Chief Counsel

Name	Title
Michael F. Conwill	Vice President, Risk Management
Mark W. DeTora	Vice President, Individual Insurance
John T. Donnelly	Vice President, Financial Actuarial
Norton A. Goss II	Vice President and Chief Internal Auditor
James P. Greaton	Vice President, Financial Actuarial
George E. Maden*	Vice President and Chief Compliance Officer
Michael K. Moran	Vice President, Accounting and Financial Reporting
Philip K. Polkinghorn	Vice President, Annuities
Steven H. Schoen	Vice President
Michael E. Shunney	Vice President, Group Insurance
James R. Smith	Vice President, Application Development
Robert P. Vrolyk	Vice President, Private Placements, Individual Insurance
Janet V. Whitehouse	Vice President, Human Resources and Administrative Services
John R. Wright	Executive Vice President, Sun Life Financial U.S. Operations
Jane P. Wolak	Vice President, Administration

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

The following changes with respect to this group of officers took place between the examination date and the date of this report: in January 2004, Janet V. Whitehouse underwent a title change to become Vice President, Human Resources and Public Relations; in February 2004, Philip K. Polkinghorn resigned as Vice President, Annuities; in March 2004, Alice B. LaVigne was appointed as Vice President, Underwriting & New Business; in May 2004, Nancy L. Conlin resigned as Vice President and Chief Counsel, Robert P. Vrolyk underwent a title change to become Vice President, Private Client Group and Jane P. Wolak underwent a title change to become Vice President, Operations; in June 2004, Scott M. Davis was appointed as Vice President and General Counsel; in August 2004, Mark W. DeTora resigned as Vice President, Individual Insurance and was replaced by Claude A. Accum who subsequently resigned as Vice President and Chief Actuary, Mary M. Fay was appointed as Vice President, Annuities and John T. Donnelly underwent a title change to become Vice President, Asset Liability Management; in September 2004, Philip G. Malek was appointed as Vice President, Strategic Projects; in November 2004, Keith Gubbay was appointed as Vice President and Chief Actuary and Hugh O’Neill was appointed as Vice President, Derivatives & Investment Strategies; in December 2004, Michael F. Conwill underwent a title change to become Vice President, Finance & Actuarial and James P. Greaton underwent a title change to become Vice

President, Capital Management; in January 2005, James R. Smith resigned as Vice President, Application Development; in May 2005, James M.A. Anderson underwent a title change to become Executive Vice President and Chief Investment Officer; in June 2005 Michael K. Moran underwent a title change to become Vice President and Controller; and in July 2005, John T. Donnelly underwent a title change to become Vice President, Investment Products and Strategies.

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 New York and Rhode Island. In 2003, 100% of its life and accident and health premiums, and 99.1% of its annuity considerations were received from New York. Policies are written on a non-participating basis.

The Company's principle line of business is annuities. The main annuity product is a fixed deferred annuity.

The Company's agency operations are conducted on a general agency basis. An affiliated general agent, IFMG, produces 50.0% of the Company's business. An unaffiliated general agent, Quick and Reilly, Inc., produces 25.7% of the Company's business.

E. Reinsurance

As of December 31, 2003, the Company had reinsurance treaties in effect with four companies, of which all were authorized or accredited. The Company's life and accident and health business is reinsured on a coinsurance, modified-coinsurance, and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum authorized retention limit for life contracts is $1,500,000, but as of December 31, 2003, the excess over $700,000 was ceded. The total face amount of life insurance ceded as of December 31, 2003, was $ 1,408,996,414, which represents 20.1% of the total face amount of life insurance in force.

The Company did not assume business as of December 31, 2003.

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 during the period under review:

	December 31, 2000	December 31, 2003	Increase (Decrease)
Admitted assets	$1,485,901,091	$2,563,689,951	$1,077,788,860
Liabilities	$1,406,944,133	$2,377,209,536	$ 970,265,403
Common capital stock	$ 4,000,000	$ 2,100,350	$ (1,899,650)
Gross paid in and contributed surplus	89,500,000	207,399,650	117,899,650
Aggregate write-ins for special surplus funds	1,563,887	0	(1,563,887)
Unassigned funds (surplus)	(16,106,929)	(23,019,585)	(6,912,656)
Total capital and surplus	$ 78,956,958	$ 186,480,415	$ 107,523,457
Total liabilities, capital and surplus	$1,485,901,091	$2,563,689,951	$1,077,788,860

The amounts reflected in the above table for the year ending December 31, 2000 represent the combined amounts of the Company and KBL.

The Company's assets increased by $1,077,788,860 (72.5%) during the examination period. This large increase is mainly due to a total of $1,491,036,246 in annuity considerations received during the examination period. The increase in annuity considerations is mostly attributed to the distribution channels acquired by the Company via the merger with KBL.

The Company's liabilities increased by $970,265,403 during the same period, and is primarily due to the increase in reserves associated with the increase in annuity sales.

The Company's gross paid in and contributed surplus increased by $117,899,650 during the examination period. This increase consists of: a $71,000,000 surplus contribution into KBL in 2001; a $45,000,000 surplus contribution to the Company in 2002; and a $1,899,650 transfer from common capital stock to the Company's gross paid in and contributed surplus.

The Company's invested assets as of December 31, 2003, exclusive of separate accounts, were mainly comprised of bonds (91.8%) and mortgage loans (4.8%). The majority (96.1%) of the Company's bond portfolio, as of December 31, 2003, was comprised of investment grade obligations.

The following indicates, for each of the years listed below, the amount of life insurance issued and in force by type (in thousands of dollars):

Group Life

Year	Issued and Increases	In Force
2001	$1,511,550	$5,041,797
2002	$ 729,439	$5,300,168
2003	$2,486,813	$7,023,703

The fluctuations in the group life issued and increases reported in the above table are attributable to reporting errors. In 2003, the Company discovered that there were group policies in force in 2002 that were omitted from the above table and improperly reported in the annual statement of one of its affiliates. The correction was made as an adjustment to the increases for 2003, in the amount of $1,666,248. Therefore, the issued and increase amounts shown in the above table are understated by $1,666,248 for 2002.

The following has been extracted from the Exhibits of Annuities in the filed annual statements for each of the years under review:

	Ordinary Annuities		
	2001	2002	2003
Outstanding, end of previous year	30,082	38,630	47,173
Issued during the year	12,197	10,473	7,688
Other net changes during the year	(3,649)	(1,930)	(2,391)
Outstanding, end of current year	38,630	47,173	52,470

The Company's number of annuities outstanding increased by 74.4% during the period under examination. As previously mentioned, the increase in annuity sales are mostly attributed to the distribution channels acquired by the Company via the merger with KBL. In 1999, KBL began an aggressive marketing and distribution plan. KBL developed a relationship with Fleet

Bank through its affiliate, IFMG. As of the examination date, IFMG produced 50% of the Company's business.

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

	2001	2002	2003
Ordinary:			
Life insurance	$ (135,046)	$ 153,358	$ (364,076)
Individual annuities	(10,958,061)	(14,482,479)	16,372,977
Supplementary contracts	(544,439)	(1,012)	0
Total ordinary	$(11,637,546)	$(14,330,133)	$16,008,901
Group life	$ 331,314	$ 1,999,027	$ 2,696,320
Accident and health:			
Group	$ 110,438	$ 1,403,872	$ (3,391,264)
Other	(16,270)	(46,484)	(106,233)
Total accident and health	$ 94,168	$ 1,357,388	$ (3,497,497)
Total	$(11,212,064)	$(10,973,718)	$15,207,724

The Company reported losses for the ordinary life insurance line of business of $(135,046) in 2001 and $(364,076) in 2003. The loss in 2001 was primarily due to an increase in aggregate reserves. The loss in 2003 was due to an increase in reserves, as well as an increase in death benefit payments.

The Company reported a loss of $(10,958,061) for the individual annuity line of business in 2001. This loss represents $10,551,863 from KBL and $387,871 from the Company. A loss in this line of business totaling $(14,482,479) was also reported in 2002. Higher surrender benefit payments, increased guaranteed minimum death benefit reserves, a decreased CARVM expense allowance, and increases in aggregate reserves drove the losses for both years.

The gain reported in 2003 in the amount of $16,372,977 for the individual annuity line of business, which reversed the loss trend in this line of business, was due to several factors. First, the guaranteed minimum death benefit reserves decreased in 2003 as compared with 2002. This was mainly due to the improvement in the equity markets. Second, the CARVM expense allowance increased in 2003, also due to the improvement in the equity markets. Finally, there was a reduction in new business expenses as the level of new business decreased in 2003 as compared with 2002.

The Company reported losses for the supplementary contracts line of business in 2001 and 2002. The losses are due to a change in reporting. Prior to the merger of the Company and KBL, the Company reported its pay out annuities as individual annuities, while KBL reported pay out annuities as supplementary contracts. Subsequent to the merger, all pay out annuities are now reported as individual annuities.

The gain for the group life insurance line of business increased by 503% in 2002 from 2001. The increased gain was mainly due to the decrease in commissions from $1,796,257 in 2001 to $771,393 in 2002, representing a 57% decrease. The decrease in commissions was attributable to an over-accrual for commissions in 2001, which was correct in 2002. The gain for the group life insurance line of business increased by 35% in 2003. This gain was due to an increase in premiums due to new business, offset in part by increases in death benefits and expenses attributable to higher volume.

The Company reported a loss in its accident and health insurance line of business of $(3,391,264) in 2003. The loss was mainly due to a $5,052,446 increase in reserves in 2003. It was necessary to increase reserves because of the growth in the long term disability line of business and to account for an unexpected increase in the duration of its long term disability claims.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2003, as contained in the Company's 2003 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 condensed summary of operations and the reconciliation of the capital and surplus account figures for 2001 are the combined amounts for the Company and KBL for comparative purposes. 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, 2003 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2003

Admitted Assets

Bonds	$1,656,336,087
Mortgage loans:	
First liens	87,431,094
Cash and short term investments	27,431,007
Contract loans	274,478
Receivable for securities	31,929,096
Investment income due and accrued	18,856,255
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	4,822,487
Net deferred tax asset	16,429,673
Other assets	67,858
From Separate Accounts statement	720,111,916
Total admitted assets	$2,563,689,951

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	$1,629,333,973
Aggregate reserve for accident and health policies	17,736,400
Liability for deposit-type contracts	2,426,414
Policy and contract claims:	
Life	2,273,091
Accident and health	1,850,547
Premiums and annuity considerations for life and accident and health policies and contracts received in advance	2,849,732
Policy and contract liabilities:	
Interest maintenance reserve	8,053,342
Commissions to agents due or accrued	144,498
General expenses due or accrued	403,970
Transfers to Separate Accounts due or accrued	(72,662,589)
Taxes, licenses and fees due or accrued	127,800
Federal and foreign income taxes	(551,029)
Amounts held for agents' account	111,299
Remittances and items not allocated	2,333,154
Miscellaneous liabilities:	
Asset valuation reserve	7,290,234
Payable to parent, subsidiaries and affiliates	428,372
Payable for securities	54,718,892
Stale checks	50,329
Accrued interest on policy claims	103,988
Amounts payable on reinsurance ceded	7,500
Accounts payable miscellaneous	32,976
Escheatment liabilities	74,440
From Separate Accounts statement	720,072,203
Total liabilities	$2,377,209,536
Common capital stock	$ 2,100,350
Gross paid in and contributed surplus	207,399,650
Unassigned funds (surplus)	(23,019,585)
Total capital, surplus and other funds	$ 186,480,415
Total liabilities, capital, surplus and other funds	$2,563,689,951

B. CONDENSED SUMMARY OF OPERATIONS

	2001	2002	2003
Premiums and considerations	$486,843,785	$602,869,201	$401,323,260
Investment income	57,836,362	76,497,026	87,154,840
Net gain from operations from Separate Accounts	6,900	(3,401)	9,235
Miscellaneous income	10,620,491	9,528,675	11,241,945
Total income	$555,307,538	$688,891,501	$499,729,280
Benefit payments	$160,686,470	$230,296,413	$210,859,401
Increase in reserves	367,562,297	467,830,837	255,265,090
Commissions	27,925,151	32,899,462	22,126,806
General expenses and taxes	9,372,888	15,452,036	17,031,462
Net transfers to (from) Separate Accounts	2,112,240	(41,307,483)	(15,789,203)
Miscellaneous deductions	2,780	0	344
Total deductions	$567,661,826	$705,171,265	$489,493,900
Net gain (loss)	$ (12,354,288)	$ (16,279,764)	$ 10,235,380
Federal and foreign income taxes incurred	$ (1,142,224)	$ (5,306,046)	$ (4,972,344)
Net gain (loss) from operations before net realized capital gains	$(11,212,064)	$(10,973,718)	$ 15,207,724
Net realized capital gains (losses)	(1,860,642)	(5,573,652)	1,269,000
Net income	$(13,072,706)	$(16,547,370)	$ 16,476,724

C. CAPITAL AND SURPLUS ACCOUNT

	2001	2002	2003
Capital and surplus, December 31, prior year	$ 78,956,958	$133,305,404	$162,669,060
Net income	$(13,072,706)	$ (16,543,370)	$ 16,476,724
Change in net deferred income tax	0	0	(1,664,886)
Change in non-admitted assets and related items	(2,202,991)	1,703,968	16,687,538
Change in asset valuation reserve	(1,438,257)	(796,942)	(3,211,459)
Surplus (contributed to) or withdrawn from Separate Accounts during period	0	(4,000)	223,406
Other changes in surplus in Separate Accounts statement	0	4,000	(223,406)
Cumulative effect of changes in accounting Principles	62,400	0	2,055,908
Capital changes:			
Paid in	0	45,000,000	0
Surplus adjustments:			
Paid in	71,000,000	0	0
Prior year taxes	0	0	(6,532,470)
Net change in capital and surplus	$ 54,348,446	$ 29,363,656	$ 23,811,355
Capital and surplus, December 31, current year	$133,305,404	$162,669,060	$186,480,415

In 2002, the Company received a $45,000,000 surplus contribution; however, the Company reported this amount as paid in capital. This amount should have been reported as a paid in surplus adjustment.

D. RESERVES

Section 4240(a)(5) of the New York Insurance Law states, in part:

> "No guarantee of the value of the assets allocated to a separate account . . . shall be made to a contractholder by the insurer, without limitation of liability under all such guarantees to the extent of the interest of the contractholder in assets allocated to said separate account . . . (iii) unless the insurer shall submit annually to the superintendent an opinion, in form and substance satisfactory to the superintendent, of a qualified actuary . . . that, after taking into account any risk charge payable from the assets of such separate account with respect to such guarantee, the assets in such separate account make good and sufficient provision for the liabilities of the insurer with respect thereto, such opinion to be accompanied by a memorandum . . . of the qualified actuary describing the calculations made in support of such opinion and the assumptions used in the calculations . . . "

As of December 31, 2004, the Company included information, consistent with its understanding at the time of what would be acceptable to the Department, for Section 4240(a)(5) in a consolidated format within the actuarial opinion and memorandum required by Department Regulation No. 126. At the Department's request, the Company subsequently filed separate Section 4240(a)(5) actuarial memoranda and opinions, and will do so for future year-end submissions.

In 2005, the Company performed an asset adequacy analysis on the Separate Account assets supporting its market value adjustment annuities on a stand-alone basis. The asset adequacy analysis revealed a reserve deficiency. Effective September 30, 2005, the Company will strengthen its reserves by $5 million for this block of business.

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

A. Advertising and Sales Activities

The examiner reviewed a sample of the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

Section 2112(d) of the New York Insurance Law states, in part:

> "Every insurer, fraternal benefit society or health maintenance organization doing business in this state shall, upon termination of the certificate of appointment of any insurance agent licensed in this state, forthwith file with the superintendent a statement, in such form as the superintendent may prescribe, of the facts relative to such termination and the cause thereof . . ."

The examiner compared the Company's list of active agents (per their individual administrative system) to the list of agents on the NAIC producer database. The examiner discovered that 1,308 agents were on the NAIC database, but not on the Company's list of active agents. The examiner selected a sample of ten agents from the 1,308 exceptions, and requested the Company to provide an explanation for the discrepancies. The examiner determined the following:

1) three agents were terminated in 2003. The Company did not provide the requisite notification to the Superintendent;

2) two agents were terminated prior to the period under examination. The Company did not retain paper records concerning these terminations;

3) three agents were still active. The Company provided supporting documentation of their status from their group and variable administrative systems; and

4) two agents were not accounted for, since the Company could not locate them on any of their administrative systems.

The examiner also compared a sample of ten agents from the Company's list of terminated agents to the list of agents on the NAIC database. The Company failed to provide notification of three terminated agents to the Superintendent.

The Company violated Section 2112(d) of the New York Insurance Law by failing to provide notification to the Superintendent of its terminated agents.

The examiner recommends that the Company establish, implement and monitor procedures to terminate agents and update their records.

Sections 51.6(b) of the Department Regulation No. 60 states, in part:

> "(b) Where a replacement has occurred or is likely to occur, the insurer replacing the life insurance policy or annuity contract shall: . . .
> (2) Require with or as part of each application a copy of any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract, and proof of receipt by the applicant of the 'IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts' and the completed 'Disclosure Statement;' . . .
> (6) Where the required forms are received . . . maintain copies . . . for six calendar years or until after the filing of the report on examination . . . whichever is later;"

The examiner reviewed a sample of ten annuity contract application files that were replacements. The review revealed one instance where the disclosure form was not properly completed to indicate whether sales materials were used. The examiner noted two instances where the disclosure statements indicated that sales materials were used, but the Company did not maintain copies of these sales materials.

The Company violated Section 51.6(b) of Department Regulation No. 60 by failing to properly complete a disclosure form and by failing to maintain the sales materials.

B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

Based upon the sample reviewed, no significant findings were noted.

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Based upon the sample reviewed, no significant findings were noted.

Section 3211 of the New York Insurance Law states, in part:

> "(a)(1)No policy of life insurance . . . delivered or issued for delivery in this state . . . shall terminate or lapse by reason of default in payment of any premium, installment, or interest on any policy loan in less than one year after such default, unless a notice shall have been duly mailed at least fifteen and not more than forty-five days prior to the day when such payment becomes due . . . (b) The notice . . . shall . . . (2) state the amount of such payment, the date when due . . . and shall also state that unless such payment is made on or before the date when due or within the specified grace period thereafter, the policy shall terminate or lapse . . .
> (f) This section shall not apply to: . . . any policy of insurance requiring the payment of premiums monthly . . . "

The examiner reviewed a sample of eight lapsed policy files. These eight policies represented individual life policies that were converted from a group policy. In four cases, the Company lapsed the policy without providing adequate notice to the policyholder, in accordance with Section 3211(b)(2) of the New York Insurance Law. The remaining four policies were on a monthly premium billing basis, and as such, are not subject to the aforementioned disclosure requirements.

The Company violated Section 3211 of the New York Insurance Law by lapsing four policies without providing adequate notice to the policyholder.

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violation and recommendations contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

Item	Description
A	The examiner recommended to the Company that their board of directors approve the method used for paying interest on death claims. On February 7, 2002, the board of directors approved the method used for paying interest on death claims.
B	The examiner recommended that the Company take immediate corrective action so that the assets are held in the name of the Company, or only report those assets held in its name, in its next filed statement. The review of Company assets revealed that the assets are held in the Company's name.
C	The examiner recommended that the Company put in place appropriate procedures for reporting the NAIC designations of its securities. The review of securities revealed that the Company is reporting NAIC security designations correctly.
D	The Company violated Section 325(a) of the New York Insurance Law when it failed to keep and maintain transaction ledgers, for both its general and separate accounts, at its principal office in this state. The Company maintained the required documents at its principal office in this state.

8. SUMMARY AND CONCLUSIONS

Following are the violations, recommendation and comment contained in this report:

Item	Description	Page No(s).
A	Effective September 30, 2005, the Company will strengthen its reserves by $5 million for its market value adjustment annuities.	20
B	The Company violated Section 2112(d) of the New York Insurance Law by failing to provide notification to the Superintendent of its terminated agents.	21-22
C	The examiner recommends that the Company establish, implement and monitor procedures to terminate agents and update their records.	21-22
D	The Company violated Section 51.6(b) of Department Regulation No. 60 by failing to properly complete a disclosure form and by failing to maintain sales materials.	22
E	The Company violated Section 3211 of the New York Insurance Law by lapsing four policies without providing adequate notice to the policyholder.	23

Respectfully submitted,

/s/
Marc A. Tse
Associate Insurance Examiner

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

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

/s/
Marc A. Tse

Subscribed and sworn to before me

this__________ day of ___________________2005.

APPOINTMENT NO. 22132

STATE OF NEW YORK

INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

MARC TSE

as a proper person to examine into the affairs of the

SUN LIFE INSURANCE AND 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, 2004

GREGORY V. SERIO
Superintendent of Insurance

Superintendent