JACKSON
NATIONAL LIFE INSURANCE COMPANY

Jackson National Life Insurance Company and Subsidiaries

Consolidated Financial Statements

December 31, 2009

Jackson National Life Insurance Company and Subsidiaries

Index to Consolidated Financial Statements
December 31, 2009

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder of
Jackson National Life Insurance Company:

We have audited the accompanying consolidated balance sheets of Jackson National Life Insurance Company and Subsidiaries as of December 31, 2009 and 2008, and the related consolidated income statements and the consolidated statements of changes in equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jackson National Life Insurance Company and Subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009 in conformity with U.S. generally accepted accounting principles.

As discussed in Note 4 to the consolidated financial statements, the Company has changed its method of evaluating other-than-temporary impairments of debt securities due to the adoption of FASB Staff Position No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (included in FASB ASC Topic 320, Investments-Debt and Equity Securities), as of January 1, 2009.

KPMG LLP

Chicago, Illinois
February 26, 2010

Consolidated Balance Sheets
(In thousands, except per share information)

	December 31, 2009	December 31, 2008
Assets		
Investments:		
Cash and short-term investments	$ 1,043,725	$ 715,994
Securities available for sale, at fair value:		
Fixed maturities (amortized cost: 2009, $36,791,797; 2008, $38,419,522)	36,368,034	34,305,761
Equities (cost: 2008, $389,516)	-	343,668
Trading securities, at fair value	557,671	523,969
Commercial mortgage loans	5,983,571	6,376,535
Policy loans	852,941	841,054
Derivative instruments	837,728	970,800
Other invested assets	866,023	935,010
Total investments	46,509,693	45,012,791
Accrued investment income	450,133	496,787
Deferred acquisition costs	4,738,901	4,889,889
Deferred sales inducements	476,749	565,942
Reinsurance recoverable	1,133,118	1,527,403
Income taxes receivable from Parent	369,478	169,331
Deferred income taxes	89,678	994,874
Other assets	192,042	234,196
Separate account assets	33,329,412	20,902,191
Total assets	$ 87,289,204	$ 74,793,404
Liabilities and Equity		
Liabilities		
Policy reserves and liabilities:		
Reserves for future policy benefits and claims payable	$ 3,194,039	$ 4,091,774
Deposits on investment contracts	38,283,062	35,891,064
Guaranteed investment contracts	920,101	1,903,276
Trust instruments supported by funding agreements	2,331,458	4,647,874
Federal Home Loan Bank funding agreements	1,750,965	1,752,399
Short-term borrowings	-	150,000
Long-term borrowings	288,680	288,915
Securities lending payable	34,203	127,897
Derivative instruments	745,214	1,258,036
Other liabilities	1,234,646	1,152,864
Separate account liabilities	33,329,412	20,902,191
Total liabilities	82,111,780	72,166,290
Equity		
Common stock, $1.15 par value; authorized 50,000 shares; issued and outstanding 12,000 shares	13,800	13,800
Additional paid-in capital	3,561,395	2,968,985
Accumulated other comprehensive income (loss), net of tax benefit of $356,307 in 2009 and $851,672 in 2008	76,344	(1,627,525)
Retained earnings	1,450,505	1,145,443
Total stockholder's equity	5,102,044	2,500,703
Noncontrolling interests	75,380	126,411
Total equity	5,177,424	2,627,114
Total liabilities and equity	$ 87,289,204	$ 74,793,404

See accompanying notes to consolidated financial statements.

Consolidated Income Statements
(In thousands)

	Years Ended December 31,		
	2009	2008	2007
Revenues			
Fee income	$ 1,082,281	$ 1,069,910	$ 1,000,661
Premiums	115,231	170,161	190,300
Net investment income	2,577,794	2,662,099	2,945,516
Net realized losses on investments:			
Total other-than-temporary impairments	(1,196,893)	(913,692)	(60,395)
Portion of other-than-temporary impairments included in other comprehensive income (loss)	422,186	-	-
Net other-than-temporary impairments	(774,707)	(913,692)	(60,395)
Other investment gains (losses)	166,829	(289,542)	(30,179)
Total net realized losses on investments	(607,878)	(1,203,234)	(90,574)
Risk management activity	(912,080)	(466,638)	36,458
Other income	61,112	107,763	27,783
Total revenues	2,316,460	2,340,061	4,110,144
Benefits and Expenses			
Death and other policy benefits	583,573	514,148	488,280
Interest credited on deposit liabilities	1,461,137	1,406,066	1,409,771
Interest expense on trust instruments supported by funding agreements	82,131	196,175	278,604
Interest expense on Federal Home Loan Bank advances, notes and reverse repurchase agreements	49,767	71,295	66,647
Increase (decrease) in reserves, net of reinsurance	(536,828)	164,027	(29,437)
Commissions	980,903	739,798	796,876
General and administrative expenses	447,617	478,320	468,582
Deferral of policy acquisition costs	(944,596)	(719,724)	(777,230)
Deferral of sales inducements	(132,196)	(113,232)	(140,722)
Amortization of acquisition costs:			
Attributable to operations	108,240	926,903	552,626
Attributable to risk management activity	(341,509)	(103,491)	17,182
Attributable to net realized losses on investments	(72,349)	(164,503)	(23,142)
Amortization of deferred sales inducements:			
Attributable to operations	43,542	39,836	95,102
Attributable to risk management activity	(1,203)	59,694	15,979
Attributable to net realized losses on investments	(10,062)	(15,770)	(2,940)
Total benefits and expenses	1,718,167	3,479,542	3,216,178
Pretax income (loss)	598,293	(1,139,481)	893,966
Federal income tax expense (benefit)	182,536	(172,081)	252,291
Income (loss) before extraordinary loss	415,757	(967,400)	641,675
Extraordinary loss, net of tax benefit of $4,651 in 2008	-	(8,638)	-
Net income (loss)	415,757	(976,038)	641,675
Less: Net income (loss) attributable to noncontrolling interests	(12,415)	5,825	22,396
Net income (loss) attributable to Jackson	$ 428,172	$ (981,863)	$ 619,279

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity and Comprehensive Income (In thousands)

	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total stockholder's equity	Non-controlling interests	Total equity
Balances as of December 31, 2006	$ 13,800	$ 2,904,276	$ 110,807	$ 2,067,128	$ 5,096,011	$ 148,495	$ 5,244,506
Comprehensive income:							
Net income				619,279	619,279	22,396	641,675
Net unrealized losses on securities not other-than-temporarily impaired, net of tax of $(102,737)			(190,798)		(190,798)	(39,681)	(230,479)
Reclassification adjustment for gains included in net income, net of tax of $(6,055)			(11,244)		(11,244)		(11,244)
Total comprehensive income (loss)			(202,042)	619,279	417,237	(17,285)	399,952
Capital contribution		30,605			30,605		30,605
Dividends to stockholder				(246,000)	(246,000)		(246,000)
Balances as of December 31, 2007	$ 13,800	$ 2,934,881	$ (91,235)	$ 2,440,407	$ 5,297,853	$ 131,210	$ 5,429,063
Comprehensive income:							
Net income (loss)				(981,863)	(981,863)	5,825	(976,038)
Net unrealized losses on securities not other-than-temporarily impaired, net of tax of $(1,045,509)			(1,987,509)		(1,987,509)	(10,624)	(1,998,133)
Reclassification adjustment for losses included in net income, net of tax of $242,964			451,219		451,219		451,219
Total comprehensive loss			(1,536,290)	(981,863)	(2,518,153)	(4,799)	(2,522,952)
Capital contribution		34,104			34,104		34,104
Dividends to stockholder				(313,101)	(313,101)		(313,101)
Balances as of December 31, 2008	$ 13,800	$ 2,968,985	$ (1,627,525)	$ 1,145,443	$ 2,500,703	$ 126,411	$ 2,627,114
Comprehensive income:							
Net income (loss)				428,172	428,172	(12,415)	415,757
Net unrealized gains (losses) on securities not other-than-temporarily impaired, net of tax of $382,885			1,621,868		1,621,868	(38,616)	1,583,252
Net unrealized losses on other-than-temporarily impaired securities, net of tax of $(127,733)			(237,217)		(237,217)		(237,217)
Reclassification adjustment for losses included in net income, net of tax of $240,213			446,108		446,108		446,108
Total comprehensive income (loss)			1,830,759	428,172	2,258,931	(51,031)	2,207,900
Cumulative effect of change in accounting, net of DAC			(126,890)	126,890	-		-
Capital contribution		592,410			592,410		592,410
Dividends to stockholder				(250,000)	(250,000)		(250,000)
Balances as of December 31, 2009	$ 13,800	$ 3,561,395	$ 76,344	$ 1,450,505	$ 5,102,044	$ 75,380	$ 5,177,424

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows (In thousands)

	Years Ended December 31,		
	2009	**2008**	**2007**
Cash flows from operating activities:			
Net income (loss) attributable to Jackson	$ 428,172	$ (981,863)	$ 619,279
Adjustments to reconcile income (loss) attributable to Jackson to net cash provided by operating activities:			
Net realized losses on investments	607,878	1,203,234	90,574
Losses on trading portfolio	126,090	91,472	6,496
Risk management activity	912,080	466,638	(36,458)
Interest credited on deposit liabilities	1,461,137	1,406,066	1,409,771
Interest expense on trust instruments supported by funding agreements	82,131	196,175	278,604
Interest expense on Federal Home Loan Bank funding agreements	28,906	57,928	50,178
Mortality, expense and surrender charges	(327,521)	(321,484)	(298,384)
Amortization of discount and premium on investments	(1,235)	28,168	65,787
Deferred income tax (benefit) provision	409,848	(113,368)	50,254
Change in:			
Accrued investment income	46,654	(41,579)	78,679
Deferred sales inducements and acquisition costs	(1,350,132)	(90,287)	(263,145)
Trading portfolio activity, net	142,064	9,592	(91,761)
Income taxes receivable from Parent	(200,147)	(161,872)	46,340
Other assets and liabilities, net	201,025	218,797	(147,951)
Net cash provided by operating activities	2,566,950	1,967,617	1,858,263
Cash flows from investing activities:			
Sales of fixed maturities and equities available for sale	9,001,912	2,248,000	4,810,384
Principal repayments, maturities, calls and redemptions:			
Fixed maturities available for sale	2,166,500	2,964,781	3,074,597
Commercial mortgage loans	742,080	407,640	845,333
Purchases of:			
Fixed maturities and equities available for sale	(10,029,527)	(7,622,992)	(7,542,552)
Commercial mortgage loans	(351,711)	(1,310,760)	(1,031,580)
Other investing activities	(1,534,559)	473,947	(143,207)
Net cash (used in) provided by investing activities	(5,305)	(2,839,384)	12,975
Cash flows from financing activities:			
Policyholders' account balances:			
Deposits	14,123,189	12,846,221	13,262,218
Withdrawals	(9,543,370)	(9,029,910)	(8,425,907)
Net transfers to separate accounts	(6,984,733)	(2,442,002)	(6,915,504)
Proceeds from borrowings	-	550,000	250,000
Payments on borrowings	(150,000)	(634,047)	(131,831)
Proceeds and payments on short-term borrowings from Parent	-	(32,000)	32,000
Payment of cash dividends to Parent	(250,000)	(313,101)	(246,000)
Capital contribution from Parent	571,000	-	-
Net cash (used in) provided by financing activities	(2,233,914)	945,161	(2,175,024)
Net increase (decrease) in cash and short-term investments	327,731	73,394	(303,786)
Cash and short-term investments, beginning of year	715,994	642,600	946,386
Total cash and short-term investments, end of year	$ 1,043,725	$ 715,994	$ 642,600

See accompanying notes to consolidated financial statements.

1. Nature of Operations

Jackson National Life Insurance Company (the "Company" or "Jackson") is wholly owned by Brooke Life Insurance Company ("Brooke Life" or the "Parent"), which is ultimately a wholly owned subsidiary of Prudential plc ("Prudential"), London, England. Jackson, together with its New York life insurance subsidiary, is licensed to sell group and individual annuity products (including immediate, index linked and deferred fixed annuities and variable annuities), guaranteed investment contracts ("GICs") and individual life insurance products, including variable universal life, in all 50 states and the District of Columbia.

The consolidated financial statements include the accounts of the following:

- Life insurers: Jackson and its wholly owned subsidiaries Jackson National Life Insurance Company of New York, Squire Reassurance Company LLC ("Squire Re") and Jackson National Life (Bermuda) LTD;
- Wholly owned broker-dealer, investment management and investment advisor subsidiaries: Jackson National Life Distributors, LLC, Jackson National Asset Management, LLC, Curian Clearing, LLC and Curian Capital, LLC;
- Wholly owned insurance agency: JNL Southeast Agency, LLC;
- PGDS (US One) LLC ("PGDS"), a wholly owned subsidiary that provides information technology services to Jackson and certain affiliates;
- Other partnerships, limited liability companies and variable interest entities ("VIEs") in which Jackson has a controlling interest or is deemed the primary beneficiary.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). All significant intercompany accounts and transactions have been eliminated in consolidation.

The preparation of the consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions about future events that affect the amounts reported in the financial statements and the accompanying notes. Significant estimates or assumptions, as further discussed in the notes, include: 1) valuation of investments and derivative instruments, including fair values of securities deemed to be in an illiquid market and the determination of when an impairment is other-than-temporary; 2) assessments as to whether certain entities are variable interest entities, the existence of reconsideration events and the determination of which party, if any, should consolidate the entity; 3) assumptions impacting future gross profits, including lapse and mortality rates, expenses, investment returns and policy crediting rates, used in the calculation of amortization of deferred acquisition costs and deferred sales inducements; 4) assumptions used in calculating policy reserves and liabilities, including lapse and mortality rates, expenses and investment returns; 5) assumptions as to future earnings levels being sufficient to realize deferred tax benefits; 6) estimates related to establishment of loan loss reserves, liabilities for lawsuits and the liability for state guaranty fund assessments; 7) assumptions and estimates associated with the Company's tax positions which impact the amount of recognized tax benefits recorded by the Company; and, 8) the value of guarantee obligations. These estimates and assumptions are based on management's best estimates and judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors deemed appropriate. As facts and circumstances dictate, these estimates and assumptions may be adjusted. Since future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in estimates, including those resulting from continuing changes in the economic environment, will be reflected in the financial statements in the periods the estimates are changed.

2. Summary of Significant Accounting Policies (continued)

Changes in Accounting Principles – Adopted in Current Year

On December 31, 2009, the Company adopted the Statement of Financial Accounting Standards ("FAS") No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" ("ASU 2009-01"), which was issued by the Financial Accounting Standards Board ("FASB") in June 2009. ASU 2009-01 supersedes FAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles", authorizes the Codification as the new source for authoritative U.S. GAAP and ends the practice of FASB issuing standards in the familiar forms. ASU 2009-01 did not have an impact on the Company's consolidated financial statements.

On December 31, 2009, the Company adopted FAS No. 165, "Subsequent Events" ("ASC 855-10"), which was issued by the FASB in May 2009. ASC 855-10 addresses the accounting for and disclosure of subsequent events not addressed in other applicable GAAP, including disclosure of the date through which subsequent events have been evaluated. The Company has evaluated subsequent events through February 26, 2010, which is the date the financial statements were available to be issued.

On December 31, 2009, the Company adopted FASB Staff Position ("FSP") FAS No. 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("ASC 820-10"). This amendment to FAS 157 provides additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity. This change also includes guidance on identifying circumstances that indicate a transaction is not orderly. This change did not have an impact on the Company's consolidated financial statements.

On January 1, 2009, the Company adopted FSP FAS No. 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" ("ASC 320-10"). This staff position amends the other-than-temporary impairment guidance for debt securities and modifies the presentation and disclosure requirements for other-than-temporary impairment disclosures for debt and equity securities. This change also amends the requirement for management to positively assert the ability and intent to hold a debt security to recovery to determine whether an other-than-temporary impairment exists and replaces this provision with the assertion that management does not intend to sell or it is not more likely than not that management will be required to sell a security prior to recovery. In addition, it modifies the presentation of other-than-temporary impairments for certain debt securities where management has no intent to sell and will not be required to sell to only present the impairment loss in net income (loss) that represents the credit loss associated with the other-than-temporary impairment. The remaining impairment loss is then presented in other comprehensive income (loss) ("OCI"). Upon adoption, the Company transferred $186.6 million ($126.9 million net of deferred acquisition costs) of non-credit related impairments from retained earnings to OCI.

In February 2008, the FASB issued FSP FAS No. 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13" ("ASC 820-10"). This update provides a scope exception from FAS 157 for the evaluation criteria on lease classification and capital lease measurement under FAS No. 13, "Accounting for Leases" ("ASC 840-20") and other related accounting pronouncements. Due to the scope exception, the Company did not apply the provisions of FAS 157 in determining the classification of and accounting for leases. Accordingly, the adoption of FSP FAS 157-1 did not have an impact on the Company's consolidated financial statements.

In February 2008, the FASB issued FSP FAS No. 157-2, "Effective Date of FASB Statement No. 157" ("ASC 820-10") which delayed the effective date of FAS 157 to fiscal years beginning after November 15, 2008 for certain nonfinancial assets and liabilities. Examples of applicable nonfinancial assets and liabilities to which this change applies include, but are not limited to, nonfinancial assets and liabilities initially measured at fair value in a business combination that are not subsequently remeasured at fair value and nonfinancial long-lived assets measured at fair value for impairment assessment. As a result of the issuance of FSP FAS 157-2, the Company did not apply the provisions of FAS 157 to the nonfinancial assets and liabilities within the scope of FSP FAS 157-2 in 2008. Application in 2009 did not have a significant impact on the Company's consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

In March 2008, the FASB issued FAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("ASC 815-10"). This statement amends and expands disclosures about an entity's derivative and hedging activities with the intent of providing the users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and the related interpretations and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. It was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company has incorporated the additional disclosures in the 2009 consolidated financial statements.

In December 2007, the FASB issued FAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" ("ASC 810-10"). This statement establishes accounting and reporting standards for noncontrolling interests in a subsidiary and was effective for fiscal years beginning on or after December 15, 2008. Jackson adopted this change effective January 1, 2009. It resulted in the presentation of noncontrolling interests not directly or indirectly attributable to the Company separately in equity and net income. The prior year financial statements have been reclassified to reflect this change.

Changes in Accounting Principles – Adopted in Prior Years

In December 2008, the FASB issued FSP 140-4 and FIN 46(R)-8, "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities" ("ASC 810-10" and "ASC 860-10"). These staff positions amend both FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" and FASB Interpretation No. 46 (revised) "Consolidation of Variable Interest Entities" to require additional disclosures beginning in financial statements for reporting periods ending after December 15, 2008. Accordingly, any additional disclosures required by this statement are included in the accompanying notes to consolidated financial statements.

On January 1, 2008, the Company adopted FAS No. 159, "Fair Value Option for Financial Assets and Financial Liabilities" ("ASC 825-10"), which was issued by the FASB in 2007. This statement allows an entity to make an irrevocable election, on specific election dates, to measure eligible items at fair value, with changes in fair value recognized in the income statement. Jackson did not elect to measure any eligible items at fair value and, as a result, adoption did not have an initial impact on the Company's consolidated financial statements.

On January 1, 2008, the Company adopted FAS No. 157, "Fair Value Measurements" ("ASC 820-10"), which was issued by the FASB in September 2006. The Company also adopted the related FSPs described below. For financial statement elements measured at fair value, this statement establishes a framework for measuring fair value under GAAP and enhances disclosures about fair value measurements. The pronouncement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Prior to adoption, the fair value of a liability was often based on a settlement price concept, which assumed the liability was extinguished. After adoption, fair value is based on the amount that would be paid to transfer a liability to a third party with the same credit standing, thereby requiring that an issuer's credit standing be considered when measuring a liability at fair value. It also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels ("Level 1, 2, and 3").

The Company applied the provisions of ASC 820-10 prospectively to financial assets and liabilities measured at fair value under existing GAAP. The impact of adoption changed the valuation of the Company's embedded derivatives, most significantly the valuation of embedded derivatives associated with certain guarantees on variable annuity contracts. The change in the valuation of embedded derivatives associated with the variable annuity guarantees resulted from a change to implied volatility with no reference to historical volatility levels. At January 1, 2008, the impact of adoption on net income was a charge of $54.3 million and was recognized as a change in estimate in the accompanying consolidated financial statements, where the changes were presented in the respective income statement captions. The Company's adoption did not materially impact the fair values of other financial instruments. However, management expects that as a result of adoption, risk management activity for future years is likely to be more volatile than amounts recorded in prior years due to the potential variability in the relevant inputs. See note 3 for additional information regarding fair value measurements.

2. Summary of Significant Accounting Policies (continued)

In October 2008, the FASB issued FSP No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP FAS 157-3"). This FSP clarifies the application of FAS 157 in a market that is not active and provides an example to illustrate key considerations in the determination of the fair value of a financial asset when the market for that asset is not active. FSP FAS 157-3 was effective upon issuance and did not have a significant impact on the Company's consolidated financial statements.

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109" ("ASC 740-10"). This interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and requires companies to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. The adoption did not have an initial impact on the Company's consolidated financial statements. See note 10 for information on unrecognized tax benefits arising subsequent to adoption.

Changes in Accounting Principles – Not Yet Adopted

In June 2009, the FASB issued FAS No. 166, "Accounting for Transfers of Financial Assets". This accounting guidance amends the current guidance on transfers of financial assets by eliminating the qualifying special-purpose entity concept, providing certain conditions that must be met to qualify for sale accounting, changing the amount of gain or loss recognized on certain transfers and requiring additional disclosures. This accounting guidance will be effective on January 1, 2010. Jackson has not yet determined the impact this guidance, when adopted, will have on the Company's consolidated financial statements.

In June 2009, the FASB issued FAS No. 167, "Amendments to FASB Interpretation No. 46R", which provides accounting guidance for determining which enterprise, if any, has a controlling financial interest in a variable interest entity ("VIE") and requires additional disclosures about involvement in VIEs. This accounting guidance will be effective on January 1, 2010. Jackson has not yet determined the impact this guidance, when adopted, will have on the Company's consolidated financial statements.

Comprehensive Income (Loss)

Comprehensive income (loss) includes all changes in stockholder's equity (except those arising from transactions with owners/stockholders) and, in the Company's case, includes net income (loss) and net unrealized gains or losses on available for sale securities.

Investments

Cash and short-term investments, which primarily include high quality, non-asset-backed commercial paper, money market instruments and deposits in the Federal Home Loan Bank of Indianapolis ("FHLBI"), are carried at cost or amortized cost. These investments have original maturities of three months or less and are considered cash equivalents for reporting cash flows.

Fixed maturities consist primarily of bonds, notes, redeemable preferred stocks and asset-backed securities. Acquisition discounts and premiums on fixed maturities are amortized into investment income through call or maturity dates using the interest method. Asset-backed securities are amortized over the estimated redemption period. With regard to certain asset-backed securities that are considered to be other than high quality or otherwise deemed to be high-risk, meaning the Company might not recover substantially all of its recorded investment due to unanticipated prepayment events, changes in investment yields due to changes in estimated future cash flows are accounted for on a prospective basis. The carrying value of such securities was $953.4 million and $604.3 million as of December 31, 2009 and 2008, respectively.

2. Summary of Significant Accounting Policies (continued)

All fixed maturities are classified as available for sale and are carried at fair value. Effective January 1, 2009, for declines in fair value considered to be other-than-temporary, an impairment charge reflecting the difference between the amortized cost basis and fair value is included in net realized losses on investments. Further, where Jackson has no intent to sell the security and does not expect to be required to sell the security prior to recovery of its amortized cost basis, an amount representing the non-credit related portion of a loss is reclassified out of net realized losses on investments and into other comprehensive income. In determining whether an other-than-temporary impairment has occurred, and in calculating the non-credit related component of the total impairment loss, the Company considers a number of factors, which are further detailed in note 4. For prior periods, Jackson recognized an other-than-temporary impairment when the Company did not expect full recovery of value or did not have the intent and ability to hold a security to recovery. Further, prior to January 1, 2009, impairment losses were recognized in net realized losses on investments for the full difference between fair value and amortized cost.

Equities, which include common stocks, non-redeemable preferred stocks and shares of mutual funds purchased as seed money supporting newly established variable funds are carried at fair value. Book value of available for sale equity securities are reduced to fair value for declines in fair value considered to be other-than-temporary.

During 2009, the Company transferred the remainder of its equity holdings from available for sale to a trading portfolio and recognized a loss of $87.5 million. As a result, at December 31, 2009, all equity holdings are classified as trading. Previously, trading securities primarily consisted of private equity securities and investments in mutual funds that support liabilities of the Company's non-qualified voluntary deferred compensation plans. Trading securities are carried at fair value with changes in value included in net investment income.

Commercial mortgage loans are carried at aggregate unpaid principal balances, net of unamortized discounts and premiums and an allowance for loan losses. The allowance for loan losses represents the estimated risk of loss for individual mortgages in the portfolio.

Policy loans are carried at the unpaid principal balances.

Other invested assets primarily include investments in limited partnerships and real estate. Limited partnership investments are accounted for using the equity method. Real estate is carried at the lower of depreciated cost or fair value.

Pursuant to the guidance provided in ASC 810-10, the Company has concluded that it owns interests in VIEs that represent primary beneficial interests. These VIEs are included in the consolidated financial statements and include entities structured to hold and manage investments, including real estate properties and interests in commercial loans. Other invested assets also includes investments of $73.0 million and $72.5 million as of December 31, 2009 and 2008, respectively, in debt issued by a VIE structured to hold and manage investments in commercial loans, for which the Company is not the primary beneficiary.

Realized gains and losses on sales of investments are recognized in income at the date of sale and are determined using the specific cost identification method.

The changes in unrealized gains and losses on investments classified as available for sale, net of tax and the effect of the adjustment for deferred acquisition costs and deferred sales inducements, and, beginning in 2009, the non-credit related portion of other-than-temporary impairment charges are excluded from net income and included as a component of other comprehensive income and total equity.

2. Summary of Significant Accounting Policies (continued)

Derivative Instruments, Embedded Derivatives and Risk Management Activity

The Company enters into financial derivative transactions, including, but not limited to, swaps, spread cap options, put-swaptions, futures and options to reduce and manage business risks. These transactions manage the risk of a change in the value, yield, price, cash flows, credit quality or degree of exposure with respect to assets, liabilities or future cash flows which the Company has acquired or incurred. The Company manages the potential credit exposure for over-the-counter derivative contracts through careful evaluation of the counterparty credit standing, collateral agreements, and master netting agreements. The Company is exposed to credit-related losses in the event of nonperformance by counterparties, however, it does not anticipate nonperformance. During 2008, nonperformance by one derivative counterparty resulted in a loss on the related transactions. The related charge of $17.2 million is included as a component of net investment income. There were no such losses in 2009 or 2007.

The Company generally uses freestanding derivative instruments for hedging purposes. Additionally, certain liabilities, primarily trust instruments supported by funding agreements, index linked annuities and guarantees offered in connection with variable annuities issued by the Company, contain embedded derivative instruments. Further details regarding Jackson's derivative positions are included in note 5. The Company generally does not account for such derivatives as either fair value or cash flow hedges as might be permitted if specific hedging documentation requirements were followed. Financial derivatives, including derivatives embedded in certain host liabilities that have been separated for accounting and financial reporting purposes, are carried at fair value. The results from derivative financial instruments and embedded derivatives, including net payments, realized gains and losses and changes in value, are reported in risk management activity.

Deferred Acquisition Costs

Certain costs of acquiring new business, principally commissions and certain costs associated with policy issuance and underwriting, which vary with and are primarily related to the production of new business, are capitalized as deferred acquisition costs. Deferred acquisition costs are increased by interest thereon and amortized in proportion to anticipated premium revenues for traditional life policies and in proportion to estimated gross profits for annuities and interest-sensitive life products. Unamortized deferred acquisition costs are written off when a contract is internally replaced and substantially changed. As certain fixed maturities and equities available for sale are carried at fair value, an adjustment is made to deferred acquisition costs equal to the change in amortization that would have occurred if such securities had been sold at their stated fair value and the proceeds reinvested at current yields. This adjustment is included along with the change in fair value of fixed maturities and equities available for sale, net of applicable tax, that is credited or charged directly to stockholder's equity as a component of other comprehensive income. Deferred acquisition costs have been increased by $131.9 million and $1.5 billion at December 31, 2009 and 2008, respectively, to reflect this adjustment. Effective January 1, 2009, in connection with the adoption of FSP 115-2, Jackson reclassified $53.0 million of deferred acquisition costs from retained earnings to accumulated other comprehensive income.

Deferred Sales Inducements

Bonus interest on deferred fixed annuities and contract enhancements on index linked annuities and variable annuities are capitalized as deferred sales inducements. Deferred sales inducements are increased by interest thereon and amortized in proportion to estimated gross profits. Unamortized deferred sales inducements are written off when a contract is internally replaced and substantially changed. As certain fixed maturities and equities available for sale are carried at fair value, an adjustment is made to deferred sales inducements equal to the change in amortization that would have occurred if such securities had been sold at their stated fair value and the proceeds reinvested at current yields. This adjustment is included along with the change in fair value of fixed maturities and equities available for sale, net of applicable tax, that is credited or charged directly to stockholder's equity as a component of other comprehensive income. Deferred sales inducements have been increased by $11.9 million and $201.0 million at December 31, 2009 and 2008, respectively, to reflect this adjustment. Effective January 1, 2009, in connection with the adoption of FSP 115-2, Jackson reclassified $6.7 million of deferred sales inducements from retained earnings to accumulated other comprehensive income.

2. Summary of Significant Accounting Policies (continued)

Federal Income Taxes

The Company files income tax returns with the U.S. federal government and various state and local jurisdictions, as well as certain foreign jurisdictions. The Company is generally no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2005.

Jackson files a consolidated federal income tax return with Brooke Life and Jackson National Life Insurance Company of New York. Jackson National Life (Bermuda) LTD is taxed as a controlled foreign corporation of Jackson. The other affiliated subsidiary entities are limited liability companies with all of their interests owned by Jackson. Accordingly, they are not considered separate entities for income tax purposes; and therefore, are taxed as part of the operations of Jackson. Income tax expense is calculated on a separate company basis.

Deferred federal income taxes arise from the recognition of temporary differences between the basis of assets and liabilities determined for financial reporting purposes and the basis determined for income tax purposes. Such temporary differences are principally related to the effects of recording certain invested assets at market value, the deferral of policy acquisition costs and the provisions for future policy benefits and expenses. Deferred tax assets and liabilities are measured using the enacted tax rates expected to be in effect when such benefits are realized. Under GAAP, Jackson is required to test the value of deferred tax assets for realizability. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available positive and negative evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. In determining the need for a valuation allowance, the Company considers the carryback capacity of losses, reversal of existing temporary differences, estimated future taxable income and tax planning strategies.

The determination of the valuation allowance for Jackson's deferred tax assets requires management to make certain judgments and assumptions regarding future operations that are based on historical experience and expectations of future performance. In order to recognize a tax benefit in the consolidated financial statements, there must be a greater than 50 percent chance of success with the relevant taxing authority with regard to that tax position. Management's judgments are potentially subject to change given the inherent uncertainty in predicting future performance, which is impacted by such factors as policyholder behavior, competitor pricing and other specific industry and market conditions.

The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits as a component of tax expense.

Policy Reserves and Liabilities

Reserves for future policy benefits and claims payable:

For traditional life insurance contracts, reserves for future policy benefits are determined using the net level premium method and assumptions as of the issue date or acquisition date as to mortality, interest, policy lapsation and expenses plus provisions for adverse deviations. Mortality assumptions range from 25% to 160% of the 1975-1980 Basic Select and Ultimate tables depending on policy duration. Interest rate assumptions range from 4.0% to 8.0%. Lapse and expense assumptions are based on Company experience.

Deposits on investment contracts:

For the Company's interest-sensitive life contracts, liabilities approximate the policyholder's account value. For deferred annuities, the fixed option on variable annuities, guaranteed investment contracts and other investment contracts, the liability is the policyholder's account value. The liability for index linked annuities is based on two components, 1) the imputed value of the underlying guaranteed host contract, and 2) the fair value of the embedded option component of the contract. For index linked annuities, obligations in excess of the guaranteed contract value are economically hedged through the use of futures contracts and call options.

Trust Instruments Supported by Funding Agreements

Jackson and Jackson National Life Funding, LLC have established a European Medium Term Note program, with up to $7 billion in aggregate principal amount outstanding at any one time. Jackson National Life Funding, LLC was formed as a special purpose vehicle solely for the purpose of issuing Medium Term Note instruments to

2. Summary of Significant Accounting Policies (continued)

institutional investors, the proceeds of which are deposited with Jackson and secured by the issuance of funding agreements. Carrying values totaled $1.0 billion and $1.1 billion at December 31, 2009 and 2008, respectively.

Jackson and Jackson National Life Global Funding have established a $10.8 billion aggregate Global Medium Term Note program. Jackson National Life Global Funding was formed as a statutory business trust, solely for the purpose of issuing Medium Term Note instruments to institutional investors, the proceeds of which are deposited with Jackson and secured by the issuance of funding agreements. The carrying values at December 31, 2009 and 2008 totaled $1.3 billion and $3.5 billion, respectively.

Medium term note instruments issued representing obligations denominated in a foreign currency have been economically hedged for changes in exchange rates using cross-currency swaps. The fair value of derivatives embedded in funding agreements, as well as unrealized foreign currency transaction gains and losses, are included in the carrying value of the trust instruments supported by funding agreements.

Trust instrument liabilities are adjusted to reflect the effects of foreign currency transaction gains and losses using exchange rates as of the reporting date. Foreign currency transaction gains and losses are included in risk management activity.

Federal Home Loan Bank Advances
Jackson and Squire Re are members of the Federal Home Loan Bank of Indianapolis ("FHLBI") primarily for the purpose of participating in its mortgage-collateralized loan advance program and its short-term funding facility. Membership requires the Company to purchase and hold a minimum amount of FHLBI capital stock plus additional stock based on outstanding advances. Advances are in the form of short-term notes or funding agreements issued to FHLBI. At December 31, 2009 and 2008, the Company held $117.6 million and $117.5 million, respectively, in FHLBI capital stock, supporting $1.8 billion and $1.9 billion, respectively, in funding agreements and short-term borrowings.

Separate Account Assets and Liabilities
The assets and liabilities resulting from individual variable life and annuity contracts, which aggregated $33.3 billion and $20.8 billion at December 31, 2009 and 2008, respectively, are segregated in separate accounts. The Company receives administrative fees for managing the funds and other fees for assuming mortality and certain expense risks. Such fees are recorded as earned and included in fee income in the consolidated income statements.

The Company has issued a group variable annuity contract designed for use in connection with and issued to the Company's Defined Contribution Retirement Plan. These deposits are allocated to the Jackson National Separate Account - II and aggregated $142.2 million and $106.4 million at December 31, 2009 and 2008, respectively. The Company receives administrative fees for managing the funds. These fees are recorded as earned and included in fee income in the consolidated income statements.

Revenue and Expense Recognition
Premiums for traditional life insurance are reported as revenues when due. Benefits, claims and expenses are associated with earned revenues in order to recognize profit over the lives of the contracts. This association is accomplished through provisions for future policy benefits and the deferral and amortization of acquisition costs.

Deposits on interest-sensitive life products and investment contracts, principally deferred annuities and guaranteed investment contracts, are treated as policyholder deposits and excluded from revenue. Revenues consist primarily of investment income and charges assessed against the policyholder's account value for mortality charges, surrenders and administrative expenses. Fee income also includes revenues related to asset management fees and 12b-1 service fees. Surrender benefits are treated as repayments of the policyholder account. Annuity benefit payments are treated as reductions to the policyholder account. Death benefits in excess of the policyholder account are recognized as an expense when incurred. Expenses consist primarily of the interest credited to policyholder deposits. Underwriting and other acquisition expenses are associated with gross profit in order to recognize profit over the life of the business. This is accomplished through deferral and amortization of acquisition costs and sales inducements. Expenses not related to policy acquisition are recognized as incurred.

2. Summary of Significant Accounting Policies (continued)

Investment income is not accrued on securities in default and otherwise where the collection is uncertain. Receipts of interest on such securities are generally used to reduce the cost basis of the securities.

In 2008, the Company received, and recorded in other income, $18.6 million from class action settlements against certain underwriters of WorldCom securities.

Jackson has terminated, at the customers' requests, a number of Medium Term Note contracts at a discounted rate. The income on these early terminations, totaling $16.8 million and $48.8 million in 2009 and 2008, respectively, was also included in other income.

3. Fair Value Measurements

The following chart summarizes the fair value and carrying value of Jackson's financial instruments (in thousands). The basis for determining the fair value of each instrument is also described below.

	December 31, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and short-term investments	$ 1,043,725	$ 1,043,725	$ 715,994	$ 715,994
Fixed maturities	36,368,034	36,368,034	34,305,761	34,305,761
Equities	-	-	343,668	343,668
Trading securities	557,671	557,671	523,969	523,969
Commercial mortgage loans	5,983,571	5,939,175	6,376,535	6,139,750
Policy loans	852,941	680,569	841,054	665,817
Derivative instruments	837,728	837,728	970,800	970,800
GMIB reinsurance recoverable	141,459	141,459	249,468	249,468
Separate account assets	33,329,412	33,329,412	20,902,191	20,902,191
Liabilities				
Annuity reserves (1)	$ 32,475,348	$ 24,927,600	$ 30,775,340	$ 23,631,193
Reserves for guaranteed investment contracts	920,101	968,519	1,903,276	1,998,027
Trust instruments supported by funding agreements	2,331,458	2,371,266	4,647,874	4,797,590
Federal Home Loan Bank funding agreements	1,750,965	1,572,456	1,752,399	1,816,734
Borrowings	288,680	288,680	438,915	413,026
Derivative instruments	745,214	745,214	1,258,036	1,258,036
Separate account liabilities	33,329,412	33,329,412	20,902,191	20,902,191

(1) - Annuity reserves represent only the components of deposits on investment contracts that constitute financial instruments. Non-financial instruments are not included in either the carrying value or fair value columns.

3. Fair Value Measurements (continued)

Fair value measurements are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's view of market assumptions in the absence of observable market information. Jackson utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. All assets and liabilities measured at fair value are required to be classified into one of the following categories:

Level 1 Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date. Level 1 securities include U.S. Treasury securities and exchange traded equity and derivative securities.

Level 2 Observable inputs, other than quoted prices included in Level 1, for the asset or liability or prices for similar assets and liabilities. Most debt securities and preferred stocks that are model priced using observable inputs are classified within Level 2. Also included are freestanding and embedded derivative instruments that are priced using models with observable market inputs.

Level 3 Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk). Level 3 securities include less liquid securities such as highly structured or lower quality asset-backed securities. Embedded derivative instruments that are valued using unobservable inputs are also included in Level 3. Because Level 3 fair values, by their nature, contain unobservable market inputs, considerable judgment may be used to determine the Level 3 fair values. Level 3 fair values represent the Company's best estimate of an amount that could be realized in a current market exchange absent actual market exchanges.

In many situations, inputs used to measure the fair value of an asset or liability may fall into different levels of the fair value hierarchy. In these situations, the Company will determine the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value. As a result, both observable and unobservable inputs may be used in the determination of fair values that the Company has classified within Level 3.

The Company determines the fair values of certain financial assets and liabilities based on quoted market prices, where available. The Company may also determine fair value based on estimated future cash flows discounted at the appropriate current market rate. When appropriate, fair values reflect adjustments for counterparty credit quality, the Company's credit standing, liquidity and risk margins on unobservable inputs.

Where quoted market prices are not available, fair value estimates are made at a point in time, based on relevant market data, as well as the best information about the individual financial instrument. At times, illiquid market conditions may result in inactive markets for certain of the Company's financial instruments. In such instances, there is generally no or limited observable market data for these assets and liabilities. Fair value estimates for financial instruments deemed to be in an illiquid market are based on judgments regarding current economic conditions, liquidity discounts, currency, credit and interest rate risks, loss experience and other factors. These fair values are estimates and involve considerable uncertainty and variability as a result of the inputs selected and may differ significantly from the values that would have been used had an active market existed, and the differences could be material. As a result of market inactivity, such calculated fair value estimates may not be realizable in an immediate sale or settlement of the instrument. In addition, changes in the underlying assumptions used in the fair value measurement technique could significantly affect these fair value estimates.

The following is a discussion of the methodologies used to determine fair values of the financial instruments listed in the above table.

Fixed Maturity and Equity Securities
The fair values for fixed maturity and equity securities are determined by management using information available from independent pricing services, broker-dealer quotes, or internally derived estimates. Priority is given to publicly available prices from independent sources, when available. Securities for which the independent pricing service does not provide a quotation are either submitted to independent broker-dealers for prices or priced internally.

3. Fair Value Measurements (continued)

Typical inputs used by these three pricing methods include, but are not limited to, reported trades, benchmark yields, credit spreads, liquidity premiums, and/or estimated cash flows based on default and prepayment assumptions.

As a result of typical trading volumes and the lack of specific quoted market prices for most fixed maturities, independent pricing services will normally derive the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available market observable information as outlined above. If there are no recently reported trades, the independent pricing services and brokers may use matrix or pricing model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at relevant market rates.

Included in the pricing of asset-backed securities are estimates of the rate of future prepayments of principal over the remaining life of the securities. Such estimates are derived based on the characteristics of the underlying structure and prepayment assumptions believed to be relevant for the underlying collateral. Actual prepayment experience may vary from these estimates.

Prices from independent pricing services are sometimes unavailable for securities that are rarely traded or are traded only in privately negotiated transactions. As a result, certain securities are priced using broker-dealer quotes, which may utilize proprietary inputs and models. Additionally, the majority of these quotes are non-binding.

Internally derived estimates may be used to develop a fair value for securities for which the Company is unable to obtain either a reliable price from an independent pricing service or a suitable broker-dealer quote. These estimates may incorporate Level 2 and Level 3 inputs and are generally derived using expected future cash flows, discounted at market interest rates available from market sources based on the credit quality and duration of the instrument to determine fair value. For securities that may not be reliably priced using these internally developed pricing models, a fair value may be estimated using indicative market prices. These prices are indicative of an exit price, but the assumptions used to establish the fair value may not be observable or corroborated by market observable information, and, therefore, are considered to be Level 3 inputs.

The Company performs a monthly analysis on the prices and credit spreads received from third parties to ensure that the prices represent a reasonable estimate of the fair value. This process involves quantitative and qualitative analysis and is overseen by investment and accounting professionals. Examples of procedures performed include, but are not limited to, initial and on-going review of third party pricing service methodologies, review of pricing statistics and trends, back testing recent trades and monitoring of trading volumes. In addition, the Company considers whether prices received from independent brokers represent a reasonable estimate of fair value through the use of internal and external cash flow models, which are developed based on spreads and, when available, market indices. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon the available market data, the price received from the third party may be adjusted accordingly.

During 2008, the Company determined that, due to inactivity in certain markets, reliable market prices were no longer available on certain securities. As a result, these securities were valued using internal estimates at December 31, 2008. These securities were reflected as transfers into Level 3 during 2008. At December 31, 2008, the related securities had an amortized cost and fair value of $5,469.4 million and $4,783.3 million, respectively, and were primarily asset-backed securities. During 2009, the Company determined that sufficient activity had returned to certain markets and, as a result, reliable market prices were available at December 31, 2009 for the majority of these securities. This change was reflected as a transfer out of Level 3 during 2009.

For those securities that were internally valued at December 31, 2009 and 2008, an internally developed model was used to determine the fair value. The pricing model used by the Company begins with current spread levels of similarly-rated securities to determine the market discount rate for the security. Appropriate risk premiums for illiquidity and non-performance are incorporated, and included in the discount rate. Cash flows, as estimated by the Company using issuer-specific default statistics and prepayment assumptions, are discounted to determine an estimated fair value.

3. Fair Value Measurements (continued)

On an ongoing basis, the Company reviews the independent pricing services' valuation methodologies and related inputs, and evaluates the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy distribution based upon trading activity and the observability of market inputs. Based on the results of this evaluation, each price is classified into Level 1, 2, or 3. Most prices provided by independent pricing services are classified into Level 2 due to their use of market observable inputs.

Due to a general lack of transparency in the process that brokers use to develop prices, most valuations that are based on brokers' prices are classified as Level 3. Some valuations may be classified as Level 2 if the price can be corroborated. Matrix-priced securities, primarily consisting of certain private placement debt, are classified as Level 2 as values are determined using observable market inputs.

Commercial Mortgage Loans
Fair values are determined by discounting the future cash flows at current market interest rates.

Policy Loans
Fair values are determined using projected future cash flows discounted at current market interest rates. Projected future cash flows include assumptions regarding mortality and lapse expectations.

Freestanding Derivative Instruments
Freestanding derivative instruments are reported at fair value. Changes in fair value are included in risk management activity. Derivatives priced using valuation models incorporate inputs that are predominantly observable in the market. Inputs used to value derivatives include, but are not limited to, interest rate swap curves, credit spreads, interest rates, counterparty credit risk, equity volatility and equity index levels.

Derivative instruments classified as Level 1 include futures, which are traded on active exchanges.

Derivative instruments classified as Level 2 include interest rate swaps, cross currency swaps, credit default swaps, put swaptions and equity index call and put options. These derivative valuations are determined using pricing models with inputs that are observable in the market or can be derived principally from, or corroborated by, observable market data.

Spread cap options are classified as Level 3 as the fair values are determined through non-binding broker quotes. As noted above, due to a general lack of transparency in the process that brokers use to develop prices, most valuations that are based on brokers' prices are classified as Level 3. No other freestanding derivatives are currently classified as Level 3.

Other Invested Assets
Other invested assets include investments in limited partnerships and real estate. Fair value for limited partnerships is determined by using the proportion of Jackson's investment in each fund (NAV equivalent) as a practical expedient for fair value. No adjustments to these amounts were deemed necessary at December 31, 2009.

Fair Values of Separate Account Assets and Liabilities
Separate account assets are invested in mutual funds, which are categorized as Level 1 assets. The value of separate account liabilities are set equal to the value of separate account assets under GAAP.

Annuity Reserves
Fair values for immediate annuities without mortality features are derived by discounting the future estimated cash flows using current market interest rates for similar maturities. Fair values for deferred annuities, including equity indexed annuities, are determined using projected future cash flows discounted at the rate that would be required to transfer the liability to a willing third party.

Reserves for Guaranteed Investment Contracts
Fair values for guaranteed investment contracts are based on the present value of future cash flows discounted at current market interest rates.

3. Fair Value Measurements (continued)

Trust Instruments Supported by Funding Agreements
Fair values for trust instruments supported by funding agreements are based on the present value of future cash flows discounted at current market interest rates, plus the fair value of any embedded derivatives that are not required to be reported separately.

Federal Home Loan Bank Funding Agreements
Fair values of the FHLBI funding agreements are based on present value of future cash flows discounted at current market interest rates.

Borrowings
Carrying value of the short-term borrowings is considered a reasonable estimate for fair value due to their short-term maturity. Fair values of other borrowings are based on future cash flows discounted at current market interest rates.

Fair Values of Certain Guaranteed Benefits
Variable annuity contracts issued by the Company offer various guaranteed minimum death, withdrawal, income and accumulation benefits. Certain benefits, primarily non-life contingent guaranteed minimum withdrawal benefits ("GMWB"), guaranteed minimum accumulation benefits ("GMAB") and the reinsured portion of the Company's guaranteed minimum income benefits ("GMIB"), are accounted for at fair value. Guaranteed benefits that are not subject to fair value accounting are accounted for as insurance benefits.

Non-life contingent GMWBs and GMABs are recorded at fair value with changes in fair value recorded in risk management activity. The fair value of the reserve is based on the expectations of future benefit payments and future fees associated with the benefits. At the inception of the contract, the Company attributes to the derivative a portion of total fees collected from the contract holder, which is then held static in future valuations. Those fees, generally referred to as the attributed fees, are set such that the present value of the attributed fees is equal to the present value of future claims expected to be paid for the benefit at the inception of the contract. In subsequent valuations, both the present value of future benefits and the present value of attributed fees are revalued based on current market conditions and policyholder behavior assumptions. The difference between each of the two components represents the fair value of the embedded derivative.

Jackson's GMIB book is reinsured through an unrelated party and, due to the net settlement provisions of the reinsurance agreement, this contract meets the definition of a freestanding derivative. Accordingly, the GMIB reinsurance agreement is recorded at fair value on the Company's balance sheets, with changes in fair value recorded in risk management activity. Due to the lack of availability to economically reinsure or hedge new issues of the GMIB, the Company discontinued offering it in 2009.

Fair values for GMWB and GMAB embedded derivatives as well as reinsured GMIB derivatives, are calculated based upon internally developed models because active, observable markets do not exist for those items. Prior to January 1, 2008, the Company used the accounting guidance on fair value which represented the amount for which a financial instrument could be exchanged in a current transaction between knowledgeable, unrelated willing parties. However, under that accounting literature, when an estimate of fair value was made for liabilities where no market observable transactions existed for that liability or similar liabilities, market risk margins were only included in the valuation if the margin was identifiable, measurable and significant. If a reliable estimate of market risk margins was not obtainable, the present value of expected future cash flows under a risk neutral framework, discounted at a risk-adjusted rate of interest, was deemed to be the best available estimate of fair value in the circumstances.

Prior to January 1, 2008, fair value was calculated based on actuarial and capital market assumptions related to projected cash flows, including benefits and related contract charges, over the lives of the contracts. Also incorporated were expectations concerning policyholder behavior such as lapses, fund selection, resets and withdrawal utilization. Because of the dynamic and complex nature of these cash flows, best estimate assumptions and a stochastic process involving the generation of thousands of scenarios that assumed risk neutral returns consistent with swap rates were used. This process used implied volatility data and evaluations of historical

3. Fair Value Measurements (continued)

volatilities for various indices. Estimating these cash flows involved numerous estimates and subjective judgments including those regarding expected market rates of return, market volatility, correlations of market index returns to funds, fund performance, discount rates, utilization of the benefit by policyholders under varying conditions and policyholder lapsation.

At each valuation date prior to January 1, 2008, the Company assumed expected returns based on risk-adjusted spot rates as represented by the LIBOR forward curve as of that date and market volatility as determined with reference to implied volatility and evaluations of historical volatilities for various indices. The risk-adjusted spot rates as represented by the LIBOR spot curve as of the valuation date were used to determine the present value of expected future cash flows produced in the stochastic process. Estimates of future policyholder behavior are subjective, but based primarily on available internal experience data. As markets change, mature and evolve and actual policyholder behavior emerges, management continually evaluates the appropriateness of its assumptions for this component of the fair value model.

Effective January 1, 2008, fair value is also calculated using the methods previously described. However, as a result of adoption of revised guidance, Jackson now bases its volatility assumptions solely on implied market volatility with no reference to historical volatility levels and explicitly incorporates Jackson's own credit risk in place of the risk-adjusted rates referenced above. Volatility assumptions are now based on a weighting of available market data on implied volatility for durations up to 10 years, at which point the projected volatility is held constant. Additionally, non-performance risk is incorporated into the calculation through the use of interest rates based on a AA corporate credit curve as an approximation of Jackson's own credit risk. Other risk margins, particularly for policyholder behavior, are also incorporated into the model through the use of best estimate assumptions plus a risk margin. On a periodic basis, the Company validates the resulting fair values based on comparisons to other models and market movements.

The use of the models and assumptions described above requires a significant amount of judgment. Management believes the aggregation of each of these components results in an amount that the Company would be required to transfer for a liability, or receive for an asset, to or from a willing buyer or seller, if one existed, for those market participants to assume the risks associated with the guaranteed benefits and the related reinsurance. However, the ultimate settlement amount of the liability, which is currently unknown, will likely be significantly different than this fair value as the Company believes settlement will be based on our best estimate assumptions rather than those best estimate assumptions plus margins for risk.

3. Fair Value Measurements (continued)

Financial Instruments Measured at Fair Value on a Recurring Basis

The following table presents the Company's assets and liabilities that are carried at fair value by hierarchy levels (in thousands):

December 31, 2009	Total	Level 1	Level 2	Level 3
Assets				
Fixed maturities				
U.S. Treasury securities	$ 610,511	$ 610,511	$ -	$ -
Foreign governments	1,633	-	1,633	-
Public utilities	2,407,817	-	2,394,479	13,338
Corporate securities	23,245,553	-	22,773,087	472,466
Residential mortgage-backed	5,309,091	-	5,306,122	2,969
Commercial mortgage-backed	3,405,883	-	3,327,984	77,899
Other asset-backed securities	1,387,546	-	484,590	902,956
Trading securities	557,671	276,323	35,303	246,045
Limited partnerships	704,689	-	-	704,689
Derivative instruments	837,728	-	555,739	281,989
GMIB reinsurance recoverable	141,459	-	-	141,459
Separate account assets (1)	33,329,412	33,329,412	-	-
Total	$ 71,938,993	$ 34,216,246	$ 34,878,937	$ 2,843,810
Liabilities				
Embedded derivative instruments (2)	$ 6,621,572	$ -	$ 6,184,139	$ 437,433
Derivative instruments	745,214	21,393	696,591	27,230
Total	$ 7,366,786	$ 21,393	$ 6,880,730	$ 464,663

December 31, 2008	Total	Level 1	Level 2	Level 3
Assets				
Fixed maturities	$ 34,305,761	$ 5,118	$ 28,992,848	$ 5,307,795
Equities and trading securities	867,637	529,989	2,178	335,470
Derivative instruments	970,800	-	899,741	71,059
GMIB reinsurance recoverable	249,468	-	-	249,468
Separate account assets (1)	20,902,191	20,902,191	-	-
Total	$ 57,295,857	$ 21,437,298	$ 29,894,767	$ 5,963,792
Liabilities				
Embedded derivative instruments (2)	$ 5,978,422	$ -	$ 4,854,475	$ 1,123,947
Derivative instruments	1,258,036	14,013	1,141,437	102,586
Total	$ 7,236,458	$ 14,013	$ 5,995,912	$ 1,226,533

(1) Pursuant to the conditions set forth in ASC 944-80, the value of the separate account liabilities is set equal to the value of the separate account assets.

(2) Includes the embedded derivative liabilities related to GMWB benefits and equity indexed annuities.

3. Fair Value Measurements (continued)

Assets and Liabilities Measured at Fair Value Using Significant Unobservable Inputs (Level 3)

The table below provides rollforwards for 2008 and 2009 of the financial instruments for which significant unobservable inputs (Level 3) are used in the fair value measurement. Gains and losses in the table below include changes in fair value due partly to observable and unobservable factors. The Company utilizes derivative instruments to manage the risk associated with certain assets and liabilities. However, the derivative instruments hedging the related risks may not be classified within the same fair value hierarchy level as the associated assets and liabilities. Therefore, the impact of the derivative instruments reported in Level 3 below may vary significantly from the total income effect of the hedged instruments.

(in thousands)	Fair Value as of January 1, 2009	Total Realized/Unrealized Gains (Losses) Included in: Net Income	Total Realized/Unrealized Gains (Losses) Included in: Other Comprehensive Income	Purchases, Issuances and Settlements	Transfers in and/or (out of) Level 3	Fair Value as of December 31, 2009
Assets						
Fixed maturities						
Public utilities	$ 14,920	$ 113	$ 2,211	$ (5,019)	$ 1,113	$ 13,338
Corporate securities	478,790	7,346	133,792	(327,586)	180,124	472,466
Residential mortgage-backed	3,005,646	13,718	(4,261)	(47,621)	(2,964,513)	2,969
Commercial mortgage-backed	128,732	373	(21,719)	(15,987)	(13,500)	77,899
Other asset-backed securities	1,679,707	19,103	(256,411)	(158,496)	(380,947)	902,956
Equities and trading securities	335,470	(78,808)	-	26,983	(37,600)	246,045
Limited partnerships	740,961	(90,219)	-	53,947	-	704,689
Derivative instruments	71,059	309,180	-	(165,773)	67,523	281,989
GMIB reinsurance recoverable	249,468	(108,009)	-	-	-	141,459
Liabilities						
Embedded derivative instruments	(1,123,947)	686,514	-	-	-	(437,433)
Derivative instruments	(102,586)	75,356	-	-	-	(27,230)

(in thousands)	Fair Value as of January 1, 2008	Total Realized/Unrealized Gains (Losses) Included in: Net Income	Total Realized/Unrealized Gains (Losses) Included in: Other Comprehensive Income	Purchases, Issuances and Settlements	Transfers in and/or (out of) Level 3	Fair Value as of December 31, 2008
Assets						
Fixed maturities	$ 2,465,994	$ (361,528)	$ (597,879)	$ 144,839	$ 3,656,369	$ 5,307,795
Equities and trading securities	334,297	(6,778)	4	7,947	-	335,470
Derivative instruments	229,887	25,829	-	(184,657)	-	71,059
GMIB reinsurance recoverable	38,502	210,966	-	-	-	249,468
Liabilities						
Embedded derivative instruments	(242,707)	(881,240)	-	-	-	(1,123,947)
Derivative instruments	11,349	(93,761)	-	-	(20,174)	(102,586)

3. Fair Value Measurements (continued)

The portion of gains and losses included in net income or other comprehensive income attributable to the change in unrealized gains and losses related to financial statement instruments still held at December 31, 2009 and December 31, 2008, are as follows (in thousands):

		December 31, 2009
Assets		
Fixed maturities		
Public utilities	$	2,211
Corporate securities		86,801
Residential mortgage-backed		(3,622)
Commercial mortgage-backed		(22,045)
Other asset-backed securities		(256,877)
Trading securities		(79,483)
Limited partnerships		(90,210)
Derivative instruments		146,235
GMIB reinsurance recoverable		(108,009)
Liabilities		
Embedded derivative instruments	$	686,514
Derivative instruments		75,356

		December 31, 2008
Assets		
Fixed maturities	$	(597,575)
Equities and trading securities		(11,379)
Derivative instruments		(25,168)
GMIB reinsurance recoverable		210,966
Liabilities		
Embedded derivative instruments	$	(881,240)
Derivative instruments		(113,935)

4. Investments

Investments are comprised primarily of fixed-income securities, primarily publicly traded industrial, utility and government bonds, asset-backed securities and commercial mortgage loans. Asset-backed securities include mortgage-backed and other structured securities. The Company generates the majority of its general account deposits from interest-sensitive individual annuity contracts, life insurance products and guaranteed investment contracts on which it has committed to pay a declared rate of interest. The Company's strategy of investing in fixed-income securities and loans aims to ensure matching of the asset yield with the amounts credited to the interest-sensitive liabilities and to earn a stable return on its investments.

4. Investments (continued)

Fixed Maturities

The following table sets forth fixed maturity investments at December 31, 2009, classified by rating categories as assigned by nationally recognized statistical rating organizations ("NRSRO"), the National Association of Insurance Commissioners ("NAIC"), or if not rated by such organizations, the Company's affiliated investment advisor. At December 31, 2009, the carrying value of investments rated by the Company's affiliated investment advisor totaled $472.4 million. For purposes of the table, if not otherwise rated higher by a NRSRO, NAIC Class 1 investments are included in the A rating; Class 2 in BBB; Class 3 in BB and Classes 4 through 6 in B and below.

Investment Rating	Percent of Total Fixed Maturities December 31, 2009
AAA	22.7%
AA	5.2%
A	28.5%
BBB	37.1%
Investment grade	93.5%
BB	3.6%
B and below	2.9%
Below investment grade	6.5%
Total fixed maturities	100.0%

Based on ratings by NRSROs, of the total carrying value for fixed maturities in an unrealized loss position at December 31, 2009, 76% were investment grade, 13% were below investment grade and 11% were not rated. Unrealized losses on fixed maturities that were below investment grade or not rated represented approximately 39% of the aggregate gross unrealized losses on available for sale fixed maturities.

Corporate securities in an unrealized loss position were diversified across industries. As of December 31, 2009, the industries accounting for the larger percentage of unrealized losses included banking/finance (9% of fixed maturities gross unrealized losses) and building and materials (3%). The largest unrealized loss related to a single corporate obligor was $17.8 million at December 31, 2009.

The cost or amortized cost, gross unrealized gains and losses, fair value and non-credit OTTI of available for sale fixed maturities (and equities in 2008) were as follows (in thousands):

December 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-credit OTTI (1)
Fixed Maturities					
U.S. Treasury securities	$ 627,499	$ 292	$ 17,280	$ 610,511	$ -
Foreign governments	1,335	298	-	1,633	-
Public utilities	2,290,931	132,898	16,012	2,407,817	-
Corporate securities	22,510,422	1,099,607	364,476	23,245,553	4,323
Residential mortgage-backed	6,033,004	86,564	810,477	5,309,091	(325,815)
Commercial mortgage-backed	3,576,800	157,067	327,984	3,405,883	252
Other asset-backed securities	1,751,806	14,858	379,118	1,387,546	(96,032)
Total fixed maturities	$ 36,791,797	$ 1,491,584	$ 1,915,347	$ 36,368,034	$ (417,272)

(1) Represents the amount of cumulative non-credit OTTI gains (losses) recognized in other comprehensive income on securities on which credit impairments have been recorded.

4. Investments (continued)

December 31, 2008	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed Maturities				
U.S. Treasury securities	$ 4,618	$ 501	$ -	$ 5,119
Foreign governments	1,337	513	-	1,850
Public utilities	3,330,471	34,805	223,085	3,142,191
Corporate securities	23,004,416	158,542	2,861,785	20,301,173
Residential mortgage-backed	6,901,646	131,505	598,689	6,434,462
Commercial mortgage-backed	3,222,378	36,935	652,711	2,606,602
Other asset-backed securities	1,954,656	41,483	181,775	1,814,364
Total fixed maturities	$ 38,419,522	$ 404,284	$ 4,518,045	$ 34,305,761
Equities	$ 389,516	$ 5,347	$ 51,195	$ 343,668

The amortized cost and fair value of fixed maturities at December 31, 2009, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities where securities can be called or prepaid with or without early redemption penalties.

	Amortized Cost	Fair Value
Due in 1 year or less	$ 623,824	$ 638,636
Due after 1 year through 5 years	7,712,867	8,065,685
Due after 5 years through 10 years	12,329,046	12,725,291
Due after 10 years through 20 years	2,821,936	2,862,574
Due after 20 years	1,942,514	1,973,328
Residential mortgage-backed	6,033,004	5,309,091
Commercial mortgage-backed	3,576,800	3,405,883
Other asset-backed securities	1,751,806	1,387,546
Total	$ 36,791,797	$ 36,368,034

U.S. Treasury securities with a carrying value of $4.1 million and $4.0 million at December 31, 2009 and 2008, respectively, were on deposit with regulatory authorities, as required by law in various states in which business is conducted.

The amount of fixed maturities' gross unrealized losses by maturity date of the fixed maturities as of December 31, 2009 were as follows (in thousands):

Less than one year	$ 269
One to five years	45,766
Five to ten years	203,646
More than ten years	148,087
Residential mortgage-backed securities	810,477
Commercial mortgage-backed securities	327,984
Other asset-backed securities	379,118
Total gross unrealized losses	$ 1,915,347

The amortized cost and carrying value of fixed maturities in default that were anticipated to be income producing when purchased were $9.4 million and $10.7 million, respectively, at December 31, 2009. The amortized cost and carrying value of fixed maturities that have been non-income producing for the 12 months preceding December 31, 2009 were $4.1 million and $4.3 million, respectively, and for the 12 months preceding December 31, 2008 were zero and $3 thousand, respectively.

4. Investments (continued)

Residential mortgage-backed securities ("RMBS") include certain RMBS which are collateralized by residential mortgage loans and are neither explicitly nor implicitly guaranteed by U.S. government agencies ("non-agency mortgage-backed securities"). The Company's non-agency mortgage-backed securities include investments in securities backed by prime, Alt-A, and subprime loans as follows (in thousands):

December 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Prime	$ 1,510,862	$ 6,144	$ 386,254	$ 1,130,752
Alt-A	965,171	1,488	254,448	712,211
Subprime	475,023	109	163,418	311,714
Total non-agency RMBS	$ 2,951,056	$ 7,741	$ 804,120	$ 2,154,677

December 31, 2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Prime	$ 1,940,054	$ 14,343	$ 288,964	$ 1,665,433
Alt-A	1,124,057	25,081	226,179	922,959
Subprime	494,948	935	78,631	417,252
Total non-agency RMBS	$ 3,559,059	$ 40,359	$ 593,774	$ 3,005,644

The Company defines its exposure to non-agency residential mortgage loans as follows. Prime loan-backed securities are collateralized by mortgage loans made to the highest rated borrowers. Alt-A loan-backed securities are collateralized by mortgage loans made to borrowers who lack credit documentation or necessary requirements to obtain prime borrower rates. Subprime loan-backed securities are collateralized by mortgage loans made to borrowers that have a FICO score of 680 or lower. 31% of the Company's investments in Alt-A related mortgage-backed securities are rated investment grade by at least one NRSRO. 76% of the Company's investments in subprime related mortgage-backed securities are rated triple-A by at least one NRSRO. In 2009, the Company recorded other-than-temporary impairment charges of $351.1 million, $241.0 million, and $19.0 million on securities backed by prime, Alt-A and subprime loans, respectively. In 2008, the Company recorded other-than-temporary impairment charges of $47.0 million, $255.0 million, and $7.3 million on securities backed by prime, Alt-A and subprime loans, respectively. No other-than-temporary impairment charges were recorded on securities backed by prime, Alt-A or subprime loans during 2007.

Asset-backed securities also include investments in securities which are collateralized by commercial mortgage loans ("CMBS"). The amortized cost and fair value of the Company's investment in CMBS is $3.6 billion and $3.4 billion, respectively, at December 31, 2009. 99% of these investments are rated investment grade by at least one NRSRO. No other-than-temporary impairment charges were recorded on CMBS during 2009 or 2008. Jackson recorded $4.2 million of other-than-temporary impairment charges on CMBS during 2007.

Corporate securities include direct investments in below investment grade syndicated bank loans. Unlike most corporate debentures, syndicated bank loans are collateralized by specific tangible assets of the borrowers. As such, investors in these securities that become impaired have historically experienced less severe losses compared to corporate bonds. The amortized cost and fair value of the Company's direct investments in bank loans were $240.1 million and $231.8 million, respectively, at December 31, 2009.

4. Investments (continued)

The following table shows the number of securities, fair value and the related amount of gross unrealized losses aggregated by investment category and length of time that individual fixed maturity investments have been in a continuous loss position (in thousands):

	Less than 12 months			12 months or longer			Total		
December 31, 2009	**Gross Unrealized Losses**	**Fair Value**	**# of securities**	**Gross Unrealized Losses**	**Fair Value**	**# of securities**	**Gross Unrealized Losses**	**Fair Value**	**# of securities**
U.S. Treasury securities	$ 17,280	$ 605,607	3	$ -	$ -	-	$ 17,280	$ 605,607	3
Public utilities	7,704	286,119	25	8,308	60,565	11	16,012	346,684	36
Corporate securities	56,900	2,306,980	238	307,576	2,894,472	314	364,476	5,201,452	552
Residential mortgage-backed	220,138	1,724,086	158	590,339	1,365,474	190	810,477	3,089,560	348
Commerical mortgage-backed	25,716	320,072	45	302,268	1,552,264	135	327,984	1,872,336	180
Other asset-backed securities	122,857	573,973	49	256,261	466,000	95	379,118	1,039,973	144
Total temporarily impaired securities	$ 450,595	$ 5,816,837	518	$ 1,464,752	$ 6,338,775	745	$ 1,915,347	$ 12,155,612	1,263

	Less than 12 months		12 months or longer		Total	
December 31, 2008	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**
U.S. Treasury securities	$ -	$ -	$ -	$ -	$ -	$ -
Public utilities	147,809	1,925,535	75,276	426,786	223,085	2,352,321
Corporate securities	1,574,476	11,778,214	1,287,309	4,435,724	2,861,785	16,213,938
Residential mortgage-backed	192,621	934,858	406,068	1,886,883	598,689	2,821,741
Commercial mortgage-backed	511,060	1,904,360	141,651	404,178	652,711	2,308,538
Other asset-backed securities	62,776	412,063	118,999	592,531	181,775	1,004,594
Subtotal - fixed maturities	2,488,742	16,955,030	2,029,303	7,746,102	4,518,045	24,701,132
Equities	48,797	127,534	2,398	7,676	51,195	135,210
Total temporarily impaired securities	$ 2,537,539	$ 17,082,564	$ 2,031,701	$ 7,753,778	$ 4,569,240	$ 24,836,342

Other-Than-Temporary Impairments on Available-For-Sale Securities

The Company periodically reviews its available-for-sale fixed maturities and equities on a case-by-case basis to determine if any decline in fair value to below cost or amortized cost is other-than-temporary. Factors considered in determining whether a decline is other-than-temporary include the length of time a security has been in an unrealized loss position, the severity of the unrealized loss, reasons for the decline in value, and expectations for the amount and timing of a recovery in fair value.

Securities the Company determines are underperforming or potential problem securities are subject to regular review. To facilitate the review, securities with significant declines in value, or where other objective criteria evidencing credit deterioration have been met, are included on a watch list. Among the criteria for securities to be included on a watch list are: credit deterioration that has led to a significant decline in fair value of the security; a significant covenant related to the security has been breached; or an issuer has filed or indicated a possibility of filing for bankruptcy, has missed or announced it intends to miss a scheduled interest or principal payment, or has experienced a specific material adverse change that may impair its creditworthiness.

In performing these reviews, the Company considers the relevant facts and circumstances relating to each investment and exercises considerable judgment in determining whether a security is other-than-temporarily impaired. Assessment factors include judgments about an obligor's current and projected financial position, an issuer's current and projected ability to service and repay its debt obligations, the existence of, and realizable value of, any collateral backing the obligations and the macro-economic and micro-economic outlooks for specific industries and issuers. Assessing the duration of asset-backed securities can also involve assumptions regarding underlying collateral such as prepayment rates, default and recovery rates, and third-party servicing capabilities.

Among the specific factors considered are whether the decline in fair value results from a change in the credit quality of the security itself, or from a downward movement in the market as a whole, and the likelihood of recovering the carrying value based on the near-term prospects of the issuer. Unrealized losses that are considered to be primarily the result of market conditions are usually determined to be temporary, e.g., minor increases in interest rates, temporary market illiquidity or volatility or industry-related events, and where the Company also believes there exists a reasonable expectation for recovery in the near term. To the extent that factors contributing to impairment losses recognized affect other investments, such investments are also reviewed for other-than-temporary impairment and losses are recorded when appropriate.

4. Investments (continued)

In addition to the review procedures described above, investments in asset-backed securities where market prices are depressed are subject to a review of their future estimated cash flows, including expected and stress case scenarios, to identify potential shortfalls in contractual payments. These estimated cash flows are developed using available performance indicators from the underlying assets including current and projected default or delinquency rates, levels of credit enhancement, current subordination levels, vintage, expected loss severity and other relevant characteristics. These estimates reflect a combination of data derived by third parties and internally developed assumptions. Where possible, this data is benchmarked against third-party sources.

Even in the case of severely depressed market values on asset-backed securities, the Company places significant importance on the results of its cash flow testing and its lack of an intent to sell these securities until their fair values recover when reaching other-than-temporary impairment conclusions with regard to these securities. Other-than-temporary impairment charges are recorded on asset-backed securities when the Company forecasts a contractual payment shortfall.

Prior to the adoption of new accounting guidance related to the recognition and presentation of other-than-temporary impairments on January 1, 2009, Jackson generally recognized an other-than-temporary impairment on debt securities in an unrealized loss position when Jackson did not expect full recovery of value or did not have the intent and ability to hold such securities until they had fully recovered their amortized cost. The recognition of other-than-temporary impairments in reporting periods prior to January 1, 2009 captured the entire difference between the amortized cost and fair value with this difference being recorded in net income and a corresponding decrease to the amortized cost of the security.

Effective January 1, 2009, Jackson began recognizing other-than-temporary impairments on debt securities in an unrealized loss position when any one of the following circumstances exist:

- The Company does not expect full recovery of the amortized cost based on the discounted cash flows estimated to be collected;
- The Company intends to sell a security; or,
- It is more likely than not that the Company will be required to sell a security prior to recovery.

For mortgage-backed securities, credit impairment is assessed using a cash flow model that estimates the cash flows on the underlying mortgages, using the security-specific collateral and transaction structure. The model estimates cash flows from the underlying mortgage loans and distributes those cash flows to various tranches of securities, considering the transaction structure and any subordination and credit enhancements existing in that structure. The cash flow model incorporates actual cash flows on the mortgage-backed securities through the current period and then projects the remaining cash flows using a number of assumptions, including prepayment speeds, default rates and loss severity.

Management develops specific assumptions using available market data, including internal estimates and references to data published by rating agencies and other third-party sources. These estimates are extrapolated along a default timing curve to estimate the total lifetime pool default rate.

4. Investments (continued)

Effective January 1, 2009, total other-than-temporary impairments are calculated as the difference between amortized cost and fair value. For other-than-temporarily impaired securities where Jackson does not intend to sell the security and it is not more likely than not that Jackson will be required to sell the security prior to recovery, total other-than-temporary impairments are reduced by the non-credit portion of the other-than-temporary impairments, which are recognized in other comprehensive income. The resultant net other-than-temporary impairments recorded in net income represent the credit loss on the other-than-temporarily impaired securities. The amortized cost of the other-than-temporarily impaired securities is reduced by the amount of this credit loss.

For securities that were deemed to be other-than-temporarily impaired and for which a non-credit loss was recorded in other comprehensive income, the amount recorded as an unrealized gain (loss) represents the difference between the fair value and the new amortized cost basis of the securities. The unrealized gain (loss) on an other-than-temporarily impaired security is recorded in other comprehensive income.

The following table sets forth net realized investment gains (losses) for the periods indicated (in thousands):

	2009	2008	2007
Available-for-sale securities			
Realized gains on sale	$ 464,044	$ 58,059	$ 128,895
Realized losses on sale	(209,720)	(347,601)	(163,424)
Impairments:			
Total other-than-temporary impairments	(1,196,893)	(913,692)	(60,395)
Portion of other-than-temporary impairments included in other comprehensive income	422,186	-	-
Net other-than-temporary impairments	(774,707)	(913,692)	(60,395)
Transfer to trading portfolio	(87,491)	-	-
Other	(4)	-	4,350
Net realized losses on investments	$ (607,878)	$ (1,203,234)	$ (90,574)

Impairment charges on equities of $84.6 million and $10.5 million are included in net realized losses on investments in 2008 and 2007, respectively. There were no such impairments in 2009.

The aggregate fair value of securities sold at a loss for the years ended December 31, 2009, 2008 and 2007 was $1,334.7 million, $1,795.5 million and $2,201.2 million, respectively, which was approximately 86%, 84% and 93% of book value, respectively.

4. Investments (continued)

The following summarizes the current year activity for credit losses recognized in net income on debt securities where an other-than-temporary impairment was identified and the non-credit portion of the other-than-temporary impairment was included in other comprehensive income (in thousands):

	For the year ending December 31, 2009
Cumulative credit loss beginning balance	$ -
Adoption of new accounting guidance related to other-than-temporary impairments	547,558
Additions:	
New credit losses	572,104
Incremental credit losses	202,603
Reductions:	
Securities sold, paid down or disposed of	(260,075)
Cumulative credit loss ending balance	$ 1,062,190

There are inherent uncertainties in assessing the fair values assigned to the Company's investments and in determining whether a decline in fair value is other-than-temporary. The Company's reviews of net present value and fair value involve several criteria including economic conditions, credit loss experience, other issuer-specific developments and estimated future cash flows. These assessments are based on the best available information at the time. Factors such as market liquidity, the widening of bid/ask spreads and a change in the cash flow assumptions can contribute to future price volatility. If actual experience differs negatively from the assumptions and other considerations used in the consolidated financial statements, unrealized losses currently reported in accumulated other comprehensive income may be recognized in the consolidated income statements in future periods.

The Company currently has no intent to sell securities with unrealized losses considered to be temporary until they mature or recover in value and believes that it has the ability to do so. However, if the specific facts and circumstances surrounding an individual security, or the outlook for its industry sector change, the Company may sell the security prior to its maturity or recovery and realize a loss.

Commercial Mortgage Loans

Commercial mortgage loans of $6.0 billion and $6.4 billion at December 31, 2009 and 2008, respectively, are reported net of an allowance for loan losses of $14.2 million and $16.0 million at each date, respectively. At December 31, 2009, commercial mortgage loans were collateralized by properties located in 41 states. Jackson's commercial mortgage loan portfolio does not include single-family residential mortgage loans, and is therefore not exposed to the risk of defaults associated with residential subprime mortgage loans. Jackson periodically reviews these loans for impairment and during 2009, recognized impairment charges of $13.8 million. There were no such impairment charges in 2008 or 2007.

Securitizations

In November 2003, Jackson executed the Piedmont CDO Trust ("Piedmont") securitization transaction. In this transaction, Jackson contributed $1,159.6 million of asset-backed securities, ultimately to Piedmont, which issued several classes of debt to acquire such securities. The transaction was recorded as a sale; however, Jackson retained beneficial interests in the contributed asset-backed securities of approximately 80% by acquiring certain securities issued by Piedmont. Piedmont is a Qualified Special Purpose Entity and accordingly, is not consolidated in the accompanying financial statements. Jackson's carrying value in securities issued by Piedmont totaled $339.9 million and $494.0 million at December 31, 2009 and 2008, respectively, and was reported in asset-backed securities.

4. Investments (continued)

Other Invested Assets

Other invested assets primarily include investments in limited partnerships and real estate. Investments in limited partnerships have carrying values of $704.7 million and $741.0 million at December 31, 2009 and 2008, respectively. Real estate totaling $136.9 million and $135.8 million at December 31, 2009 and 2008, respectively, includes foreclosed properties with a book value of $13.6 million and $12.9 million at December 31, 2009 and 2008, respectively.

Limited Purpose Enhanced Return Entities ("SERVES")

In 2001, Jackson acquired a $71.3 million debt interest in a limited purpose entity, SERVES 2001-6 ("SERVES 2") formed to pass through leveraged investment returns based on the performance of an underlying reference pool of syndicated bank loans totaling up to $400.0 million. Jackson's interest represented 95% of the capital structure of the entity. At acquisition, the Company performed an analysis, which produced return scenarios based on various assumptions for the reference pool, including spread income, default and recovery ratios and holding period appreciation/depreciation, to determine whether the structure was a variable interest entity and, if so, whether Jackson was the primary beneficiary. Based on the results of this analysis, the Company concluded that SERVES 2 was a VIE and Jackson was the primary beneficiary. This structure is consolidated by Jackson. As a result of this consolidation at December 31, 2009, the underlying assets of $48.2 million and net liabilities of $4.0 million have been included in Jackson's consolidated financial statements. At December 31, 2008, the underlying assets of $70.5 million and net liabilities of $55.4 million were included in Jackson's consolidated financial statements. The creditors of SERVES 2 do not have recourse to the general credit of Jackson.

In 2004, Jackson acquired a $47.5 million debt interest in a limited purpose entity, SERVES 2004-1 ("SERVES 3"), formed to pass through leveraged investment returns based on the performance of an underlying reference pool of syndicated bank loans totaling up to $300.0 million. Jackson's interest represented 95% of the capital structure of the entity. At acquisition, the Company performed an analysis, which produced return scenarios based on various assumptions for the reference pool, including spread income, default and recovery ratios and holding period appreciation/depreciation, to determine whether the structure was a variable interest entity and, if so, whether Jackson was the primary beneficiary status. Based on the results of this initial analysis, the Company concluded that SERVES 3 was a VIE and that Jackson was not the primary beneficiary. Thus, the Company's investment was reported at the fair value of this debt instrument.

During 2008, Jackson entered into "Option Put and Forbearance Agreements" with the counterparty to the SERVES 2 and SERVES 3 entities in exchange for the counterparty forbearing its right to initiate forced liquidations of the entities under certain market value triggers. Further, during 2009, Jackson entered into revised forbearance agreements with the SERVES 2 and SERVES 3 counterparties. The support provided by the agreements at December 31, 2009 could potentially expose Jackson to maximum losses of $203.4 million and $231.5 million for SERVES 2 and SERVES 3, respectively, if circumstances allowed the forbearance period to cease. Jackson believes that, so long as the forbearance period continues, the risk of loss under the agreements is remote.

As a result of the additional exposure to SERVES 3 upon entering into the "Option Put and Forbearance Agreement", Jackson determined during 2008 that it is the primary beneficiary of SERVES 3 and, accordingly, consolidated SERVES 3 in its financial statements. As a result of this consolidation, Jackson recognized an extraordinary loss of $8.6 million as the value of the net assets held by SERVES 3 were lower than the value of Jackson's previous net holdings in SERVES 3. The accompanying consolidated financial statements include the underlying assets of $48.8 million and $51.7 million and net liabilities of $29.8 million and $54.2 million in 2009 and 2008, respectively, of this entity. The creditors of SERVES 3 do not have recourse to the general credit of Jackson.

4. Investments (continued)

In 2008, Jackson acquired $40.0 million of debt interests in a limited purpose entity, SERVES 2006-1 ("SERVES 4"), formed to pass through leveraged investment returns based on the performance of an underlying reference pool of syndicated bank loans totaling up to $500.0 million. At the acquisition date, the Company performed an analysis, which produced return scenarios based on various assumptions for the reference pool, including spread income, default and recovery ratios, and holding period appreciation/depreciation, to determine whether the structure was a variable interest entity and, if so, whether Jackson was the primary beneficiary. Based on the results of this analysis, the Company concluded that SERVES 4 was a VIE and that Jackson was not the primary beneficiary. Thus, the Company's investment is reported at the fair value of this debt instrument.

During 2009, Jackson entered into a forebearance agreement related to SERVES 4 similar to those entered into for SERVES 2 and SERVES 3. As a result of this forebearance agreement, Jackson's maximum loss under SERVES 4 is $314.6 million. At the date of this forebearance agreement, Jackson reevaluated the entity and confirmed that Jackson is not the primary beneficiary of SERVES 4.

Securities Lending

The Company has entered into securities lending agreements with an agent bank whereby blocks of securities are loaned to third parties, primarily major brokerage firms. As of December 31, 2009 and 2008, the estimated fair value of loaned securities was $83.3 million and $112.1 million, respectively. The agreements require a minimum of 102 percent of the fair value of the loaned securities to be held as collateral, calculated on a daily basis. To further minimize the credit risks related to this program, the financial condition of counterparties is monitored on a regular basis. Cash collateral received, in the amount of $34.2 million and $127.9 million at December 31, 2009 and 2008, respectively, was invested by the agent bank and included in short-term investments of the Company. Additionally, $52.2 million of non-cash collateral was received in 2009. A securities lending payable is included in liabilities for the amount of cash collateral received.

Securities lending transactions are used to generate income. Income and expenses associated with these transactions are reported as net investment income.

Investment Income

The sources of net investment income were as follows (in thousands):

	Years ended December 31,		
	2009	**2008**	**2007**
Fixed maturities	$ 2,242,491	$ 2,283,388	$ 2,320,597
Commercial mortgage loans	330,194	347,483	328,830
Limited partnerships	(89,829)	10,618	177,941
Other investment income	158,717	85,555	158,062
Total investment income	2,641,573	2,727,044	2,985,430
Less investment expenses	(63,779)	(64,945)	(39,914)
Net investment income	$ 2,577,794	$ 2,662,099	$ 2,945,516

During 2009, 2008 and 2007, $57.2 million, $(85.7) million and $44.6 million of investment income (loss) was recognized on trading securities held at December 31, 2009, 2008 and 2007, respectively.

5. Derivative Instruments

Jackson's business model includes the acceptance, monitoring and mitigation of risk. Specifically, Jackson may consider, among other factors, exposures to interest rate and equity market movements, foreign exchange rates and other asset or liability prices. The Company uses derivative instruments to mitigate or reduce these risks in accordance with established policies and goals. Jackson's derivative holdings, while effective in managing defined risks, are not structured to meet accounting requirements to be designated as hedging instruments and, as a result, are derivatives not designated as hedges.

5. Derivative Instruments (continued)

Cross-currency swaps, which embody spot and forward currency swaps and, in some cases, interest rate and equity index swaps, are entered into for the purpose of hedging the Company issued foreign currency denominated trust instruments supported by funding agreements. Cross-currency swaps serve to hedge derivatives embedded in the funding agreements and are carried at fair value. The fair value of derivatives embedded in funding agreements, as well as foreign currency translation gains and losses, are included in the carrying value of the trust instruments supported by funding agreements. Foreign currency translation gains and losses associated with funding agreement hedging activities are included in risk management activity.

Credit default swaps, with maturities up to five years, are agreements under which the Company has purchased default protection on certain underlying corporate bonds held in its portfolio. These contracts allow the Company to sell the protected bonds at par value to the counterparty if a defined “default event” occurs in exchange for periodic payments made by the Company for the life of the agreement. Credit default swaps are carried at fair value. The Company does not currently sell default protection using credit default swaps or other similar derivative instruments.

Spread cap options, with maturities of up to five years, are used as a macro-economic hedge against declining short-term interest rates. Jackson receives quarterly settlements based on the spread between the 2-year and the 10-year constant maturity swap rates in excess of a specified spread. Spread cap options are carried at fair value.

Put-swaption contracts provide the purchaser with the right, but not the obligation, to require the writer to pay the present value of a long-term interest rate swap at future exercise dates. The Company purchases and writes put-swaptions for hedging purposes with original maturities of up to 10 years. On a net basis, put-swaptions hedge against significant upward movements in interest rates. Written put-swaptions are entered into in conjunction with associated put-swaptions purchased from the same counterparties (“linked put-swaptions”). Linked put-swaptions have identical notional amounts and strike prices, but have different underlying swap terms. Due to the right of offset, linked put-swaptions are presented at the fair value of the net position with each counterparty. Non-linked put-swaptions are carried at fair value.

Equity index futures contracts and equity index options (including call and put options, put spreads, written calls and knock-out put options), which are used to hedge the Company’s obligations associated with its index linked annuities and guarantees in variable annuity products, are carried at fair value. These annuities contain embedded options whose fair value is reported in deposits on investment contracts.

Total return swaps, in which the Company receives equity returns or returns based on reference pools of assets in exchange for short-term floating rate payments based on notional amounts, are held for both hedging and investment purposes, and are carried at fair value.

Interest rate swap agreements generally involve the exchange of fixed and floating payments based on a notional contract amount over the period for which the agreement remains outstanding without an exchange of the underlying notional amount and are used for hedging purposes. Interest rate swaps are carried at fair value.

The fair values of freestanding derivative instruments reflect the estimated amounts, net of payment accruals, that the Company would receive or pay upon sale or termination of the contracts at the reporting date. With respect to swaps, spread cap options and put-swaptions, the notional amount represents the stated principal balance used as a basis for calculating payments. With respect to futures and options, the contractual amount represents the market exposure of open positions.

5. Derivative Instruments (continued)

A summary of the aggregate contractual or notional amounts and fair values of freestanding derivative instruments outstanding is as follows (in thousands):

	December 31, 2009				
	Assets		Liabilities		
	Contractual/ Notional Amount	Fair Value	Contractual/ Notional Amount	Fair Value	Net Fair Value
Cross-currency swaps	$ 607,855	$ 159,011	$ 270,906	$ (25,809)	$ 133,202
Credit default swaps	-	-	305,000	(36,359)	(36,359)
Equity index call options	1,241,600	48,811	906,897	(243,174)	(194,363)
Equity index put options	14,650,000	337,777	-	-	337,777
Spread cap options	4,000,000	121,875	-	-	121,875
Put-swaptions	20,500,000	28,718	8,500,000	(4,424)	24,294
Equity index futures	-	-	2,477,682	(21,393)	(21,393)
Total return swaps	400,000	3,679	300,000	(27,230)	(23,551)
Interest rate swaps	2,550,000	137,857	6,390,000	(386,825)	(248,968)
Total	$ 43,949,455	$ 837,728	$ 19,150,485	$ (745,214)	$ 92,514

	December 31, 2008				
	Assets		Liabilities		
	Contractual/ Notional Amount	Fair Value	Contractual/ Notional Amount	Fair Value	Net Fair Value
Cross-currency swaps	$ 644,807	$ 149,312	$ 314,033	$ (67,209)	$ 82,103
Credit default swaps	45,000	305	255,000	(25,818)	(25,513)
Equity index call options	1,442,100	10,314	6,897	(301)	10,013
Equity index put options	9,450,000	527,435	-	-	527,435
Spread cap options	4,000,000	71,059	-	-	71,059
Put-swaptions	41,500,000	31,416	-	-	31,416
Equity index futures	-	-	661,063	(14,012)	(14,012)
Total return swaps	-	-	700,000	(102,587)	(102,587)
Interest rate swaps	2,450,000	180,959	6,490,000	(1,048,109)	(867,150)
Total	$ 59,531,907	$ 970,800	$ 8,426,993	$ (1,258,036)	$ (287,236)

5. Derivative Instruments (continued)

Risk management activity, including gains (losses) and change in fair value of derivative instruments and embedded derivatives, was as follows (in thousands):

	Years ended December 31,		
	2009	2008	2007
Interest rate swaps	$ 407,233	$ (790,029)	$ (167,141)
Put-swaptions	7,052	(20,493)	33,710
Futures	(396,329)	353,607	14,382
Equity index call options	(6,895)	(103,769)	(850)
Equity index put options	(792,760)	760,135	31,439
Total return swaps	74,470	(91,138)	(9,180)
Spread cap options	101,520	76,414	194,444
Fixed index annuity embedded derivatives	(189,464)	262,028	(27,623)
Credit default swaps	(24,990)	(34,845)	(653)
Variable annuity embedded derivatives	(91,917)	(878,548)	(32,070)
Risk management activity	$ (912,080)	$ (466,638)	$ 36,458

At December 31, 2009 and 2008, Jackson had net derivative assets by counterparty of $387.5 million and $394.5 million, respectively, and held collateral of $348.6 million and $370.4 million, respectively, related to these agreements. At December 31, 2009 and 2008, Jackson also had net derivative liabilities by counterparty of $294.9 million and $681.7 million, respectively, and provided collateral of $341.4 million and $779.8 million, respectively, related to these agreements. All of Jackson's master swap agreements contain credit downgrade provisions that allow a party to assign or terminate derivative transactions if the counterparty's credit rating declines below an established limit. If all of these provisions had been triggered at December 31, 2009 or 2008, Jackson would have been able to claim $85.4 million and $122.2 million, respectively, from counterparties and would have no disbursements. These claims represent the net fair values of gains and losses by counterparty, less collateral held.

6. Certain Nontraditional Long-Duration Contracts and Variable Annuity Guarantees

The Company issues variable contracts through its separate accounts for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contract holder (traditional variable annuities). The Company also issues variable annuity and life contracts through separate accounts where the Company contractually guarantees to the contract holder (variable contracts with guarantees) either a) return of no less than total deposits made to the contract adjusted for any partial withdrawals, b) total deposits made to the contract adjusted for any partial withdrawals plus a minimum return, or c) the highest contract value on a specified anniversary date adjusted for any withdrawals following the contract anniversary. These guarantees include benefits that are payable in the event of death (GMDB), annuitization (GMIB), at specified dates during the accumulation period (GMWB) or at the end of a specified period (GMAB).

The assets supporting the variable portion of both traditional variable annuities and variable contracts with guarantees are carried at fair value and reported as summary total separate account assets with an equivalent summary total reported for separate account liabilities. Liabilities for guaranteed benefits are general account obligations and are reported in policy reserves or derivative instruments. Amounts assessed against the contract holders for mortality, administrative, and other services are reported in revenue. Changes in liabilities for minimum guarantees are reported in increase in reserves, net of reinsurance in the consolidated income statement, with the exception of changes in embedded derivatives, which are included in risk management activity. Separate account net investment income, net investment gains and losses, and the related liability changes are offset within the same line item in the consolidated income statements.

6. Certain Nontraditional Long-Duration Contracts and Variable Annuity Guarantees (continued)

At December 31, 2009 and 2008, the Company had variable annuity contracts with guarantees, for which the net amount at risk ("NAR") is the amount of guaranteed benefit in excess of current account value, as follows (dollars in millions):

December 31, 2009	Minimum Return	Account Value	Net Amount at Risk	Weighted Average Attained Age	Period until Expected Annuitization
Return of net deposits plus a minimum return					
GMDB	0-6%	$ 27,316.2	$ 4,575.9	63.8 years	
GMWB - Premium only	0%	4,044.6	447.7		
GMWB - For life	0-5%	2,002.8	761.1		
GMAB - Premium only	0%	43.2	3.3		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		4,736.8	1,116.6	62.8 years	
GMWB - Highest anniversary only		2,735.7	800.7		
GMWB - For life		1,310.0	416.7		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	2,110.1	620.5	65.1 years	
GMIB	0-6%	2,930.8	787.8		5.9 years
GMWB - For life	0-7%	11,198.0	916.6		

December 31, 2008	Minimum Return	Account Value	Net Amount at Risk	Weighted Average Attained Age	Period until Expected Annuitization
Return of net deposits plus a minimum return					
GMDB	0-5%	$ 15,907.9	$ 7,285.1	64.2 years	
GMWB - Premium only	0-5%	3,401.1	1,019.1		
GMWB - For life	0-5%	596.9	200.2		
GMAB - Premium only	0%	16.2	6.8		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		3,330.1	1,807.3	62.5 years	
GMWB - Highest anniversary only		2,112.7	1,261.6		
GMWB - For life		1,160.0	661.4		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-5%	1,526.1	869.3	64.7 years	
GMIB	0-6%	1,965.3	1,107.4		6.6 years
GMWB - For life	0-5%	4,067.6	2,063.0		

6. Certain Nontraditional Long-Duration Contracts and Variable Annuity Guarantees (continued)

Account balances of contracts with guarantees were invested in variable separate accounts as follows (in millions):

	December 31,	
Fund type:	**2009**	**2008**
Equity	$ 24,993.8	$ 15,312.4
Bond	3,778.1	2,291.7
Balanced	3,529.8	1,918.4
Money market	843.8	1,243.2
Total	$ 33,145.5	$ 20,765.7

GMDB liabilities, before reinsurance, reflected in the general account are as follows (in millions):

	2009	**2008**	**2007**
Balance at January 1	$ 434.3	$ 118.0	$ 56.6
Incurred guaranteed benefits	21.0	392.0	86.7
Paid guaranteed benefits	(146.6)	(75.7)	(25.3)
Balance at December 31	$ 308.7	$ 434.3	$ 118.0
Balance at December 31, net of reinsurance	$ 308.7	$ 301.0	$ 4.6

The GMDB liability is determined by estimating the expected value of death benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected assessments. The Company regularly evaluates estimates used and adjusts the additional liability balance, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised. In 2007, the Company lowered lapse rate assumptions for policies with deep in-the-money GMDB benefits.

The following assumptions and methodology were used to determine the GMDB liability at both December 31, 2009 and 2008 (except where otherwise noted):

1) Use of a series of deterministic investment performance scenarios.
2) Mean investment performance assumption of 8.4% after investment management fees, but before investment advisory fees and mortality and expense charges.
3) Mortality equal to 80.0% of the Annuity 2000 table.
4) Lapse rates varying by contract type, duration and degree the benefit is in-the-money and ranging from 0.5% to 49.0%, with an average of 5.0% during the surrender charge period and 11.0% thereafter at December 31, 2009 and from 0.5% to 49.0%, with an average of 5.0% during the surrender charge period and 11.0% thereafter at December 31, 2008.
5) Discount rate of 8.4%.

Most GMWB reserves are considered to be derivatives under FAS 157 and are recognized at fair value, with the change in fair value reported in risk management activity. The fair value of these liabilities is determined using stochastic modeling and inputs as further described in Note 3. The GMWB reserve totaled $437.4 million and $1,123.9 million at December 31, 2009 and 2008, respectively, and was included in reserves for future policy benefits.

Jackson has also issued certain GMWB products that guarantee payments over a lifetime. Reserves for the portion of these benefits after the point where the guaranteed withdrawal balance is exhausted are calculated as required by ASC 944-20. The reserve calculation uses a series of stochastic investment performance scenarios. Otherwise, the methodology and assumptions used are consistent with those used for calculating the GMDB liability. At December 31, 2009 and 2008, these GMWB reserves totaled $29.1 million and $22.6 million, respectively.

6. Certain Nontraditional Long-Duration Contracts and Variable Annuity Guarantees (continued)

GMAB benefits are offered on some variable annuity plans starting in 2007 and issues have been minimal as of December 31, 2009.

The direct GMIB liability is determined at each period end by estimating the expected value of the annuitization benefits in excess of the projected account balance at the date of annuitization and recognizing the excess ratably over the accumulation period based on total expected assessments. The Company regularly evaluates estimates used and adjusts the additional liability balance, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised. The assumptions used for calculating the direct GMIB liability at December 31, 2009 and 2008, are consistent with those used for calculating the GMDB liability. GMIB reserves totaled $5.1 million and $6.4 million at December 31, 2009 and 2008, respectively.

Other Liabilities – Insurance and Annuitization Benefits
The Company has established additional reserves for life insurance business due to: universal life ("UL") plans with secondary guarantees, interest-sensitive life ("ISWL") plans that exhibit "profits followed by loss" patterns and account balance adjustments to tabular guaranteed cash values on one interest-sensitive life plan. The Company also has a small closed block of two-tier annuities, where different crediting rates are used for annuitization and surrender benefit calculations, for which a liability was established to cover future annuitization benefits in excess of surrender values. The total liability for this block is the lower tier funding using the lower credited rate associated with surrenders, plus the ASC 944-20 annuitization reserve.

Liabilities for these benefits have been established according to the methodology prescribed in ASC 944-20, as follows:

	December 31, 2009			December 31, 2008		
Benefit Type	Liability (in millions)	Net Amount at Risk (NAR) (in millions)*	Weighted Average Attained Age	Liability (in millions)	Net Amount at Risk (NAR) (in millions)*	Weighted Average Attained Age
UL insurance benefit	$ 46.4	$ 5,533.3	55.5 years	$ 46.7	$ 5,387.8	55.1 years
Two-tier annuitization	6.3	33.3	63.1 years	6.2	33.4	62.2 years
ISWL account balance adjustment	61.4	n/a	n/a	54.9	n/a	n/a

* NAR for the UL benefits is for the total of the plans containing any policies having projected non-zero excess benefits, and thus may include NAR for some policies with zero projected excess benefits.

The following assumptions and methodology were used to determine the UL insurance benefit liability at December 31, 2009 and 2008:

1) Use of a series of deterministic premium persistency scenarios.
2) Other experience assumptions similar to those used in amortization of deferred acquisition costs.
3) Discount rates equal to the credited interest rates, approximately 4% to 5% projected.

The following assumptions and methodology were used to determine the two-tier annuitization benefit liability at December 31, 2009 and 2008:

1) Use of a series of deterministic scenarios, varying by surrender rate and annuitization rate.
2) Other experience assumptions similar to those used in amortization of deferred acquisition costs.
3) Discount rates are equal to credited interest rates, approximately 3% to 4%.

7. Borrowings

The aggregate carrying value of borrowings were as follows (in thousands):

	December 31, 2009	December 31, 2008
Surplus notes	$ 249,314	$ 249,296
Mortgage loans	33,116	33,369
VIE equity classes	6,250	6,250
FHLBI short-term notes	-	150,000
Total	$ 288,680	$ 438,915

Due in more than 1 to 5 years	$ 22,549
Due after 5 years	266,131
Total	$ 288,680

Surplus notes
On March 15, 1997, the Company issued 8.15% Surplus Notes (the "notes") in the principal amount of $250.0 million due March 15, 2027. The notes were issued pursuant to Rule 144A under the Securities Act of 1933, and are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims.

Under Michigan Insurance law, for statutory reporting purposes, the notes are not part of the legal liabilities of the Company and are considered surplus funds. Payments of interest or principal may only be made with the prior approval of the Commissioner of Insurance of the State of Michigan and only out of surplus earnings which the Commissioner determines to be available for such payments under Michigan Insurance law. The notes may not be redeemed at the option of the Company or any holder prior to maturity.

Interest is payable semi-annually on March 15 and September 15 of each year. Interest paid on the notes was $20.4 million in each of 2009, 2008 and 2007.

Mortgage loans
At December 31, 2009 and 2008, certain consolidated real estate VIEs had outstanding mortgage loans with a weighted average interest rate of 7.1% for both years, with maturities through 2011 and 2016. Interest paid totaled $2.2 million, $1.9 million and $1.2 million in 2009, 2008 and 2007, respectively.

VIE equity classes
Certain of the VIEs have "equity" classes issued in the form of non-investment grade debt maturing in 2013 and 2016. Accordingly, these equity classes are classified as notes payable rather than minority interest in the consolidated balance sheets. These notes accrue contingent interest in addition to the stated coupon. The outstanding principal amounts accrued interest at a weighted average interest rate of 5.0% and 8.9% at December 31, 2009 and 2008, respectively. Interest paid on the notes in 2009, 2008 and 2007 totaled $409 thousand, $554 thousand and $384 thousand, respectively.

FHLBI short-term notes
Jackson has entered into a short-term note program with the FHLBI, securing advances made throughout the year. Interest rates were either fixed or variable and based on the FHLBI cost of funds or market rates. Short-term notes averaged $77.4 million at an average interest rate of 0.3% in 2009 and $260.3 million at an average interest rate of 2.2% in 2008. Jackson paid $0.3 million, $7.0 million and $92 thousand of interest on these notes during 2009, 2008 and 2007, respectively. The short-term notes were collateralized by CMBS and other structured securities with a carrying value of $1,936.0 million and $2,090.0 million at December 31, 2009 and 2008, respectively.

8. Reverse Repurchase Agreements

During 2009 and 2008, the Company entered into reverse repurchase and dollar roll repurchase agreements whereby the Company agreed to sell and repurchase securities. These agreements are accounted for as financing transactions, with the assets and associated liabilities included in the consolidated balance sheets. Short-term borrowings under such agreements averaged $29.3 million and $7.0 million during 2009 and 2008, respectively, at weighted average interest rates of 0.2% and 2.9%, respectively. There was no outstanding balance as of December 31, 2009 or 2008. Interest paid totaled $0.1 million, $0.2 million and $0.7 million in 2009, 2008 and 2007, respectively. The highest level of short-term borrowings at any month end was $250.0 million in 2009 and $50.0 million in 2008.

9. Reinsurance

The Company assumes and cedes reinsurance from and to other insurance companies in order to limit losses from large exposures; however, if the reinsurer is unable to meet its obligations, the originating issuer of the coverage retains the liability. The Company monitors the financial strength rating of reinsurers on a monthly basis.

The maximum amount of life insurance risk retained by the Company on any one life is generally $2.0 million. Amounts not retained are ceded to other companies on a yearly renewable-term or a coinsurance basis.

In connection with the purchase of Life of Georgia, Jackson acquired certain lines of business that are wholly ceded to non-affiliates. These include both direct and assumed accident and health business, direct and assumed life insurance business, and certain institutional annuities.

Jackson's GMIBs are reinsured through an unrelated party and, due to the net settlement provisions of the reinsurance agreement, this contract meets the definition of a freestanding derivative. Accordingly, the GMIB reinsurance agreement is recorded at fair value on the Company's balance sheets, with changes in fair value recorded in risk management activity.

Jackson also ceded the GMDB coverage associated with certain variable annuities issued prior to 2003 to an affiliate, Prudential Atlantic Reinsurance Company, Dublin, Ireland ("PARC"). PARC is a wholly owned subsidiary of Prudential.

Effective December 31, 2009, Jackson terminated the reinsurance agreement with PARC, paying a premium of $30.5 million to settle the experience account as defined in the agreement. The net effect of terminating the reinsurance agreement and recapturing reserves of $265.6 million was a loss of $10.3 million, net of DAC.

9. Reinsurance (continued)

The effect of reinsurance on premiums was as follows (in thousands):

	Years ended December 31,		
	2009	2008	2007
Direct premiums:			
Life	$ 289,755	$ 314,096	$ 328,787
Accident and health	10,867	13,048	20,211
Plus reinsurance assumed:			
Life	15,020	18,830	21,834
Accident and health	1,207	1,273	1,744
Less reinsurance ceded:			
Life	(125,084)	(133,308)	(131,537)
Accident and health	(12,074)	(14,321)	(21,955)
Guaranteed annuity benefits	(64,460)	(29,457)	(28,784)
Total net premiums	$ 115,231	$ 170,161	$ 190,300

Premiums ceded for guaranteed annuity benefits included $44.4 million, $15.6 million and $17.2 million to PARC during 2009, 2008 and 2007, respectively.

Components of the reinsurance recoverable were as follows (in thousands):

	December 31,	
	2009	2008
Reserves:		
Life	$ 851,802	$ 891,955
Accident and health	21,114	24,105
Guaranteed minimum income benefits	141,459	249,468
Guaranteed minimum death benefits	-	290,218
Other annuity benefits	27,525	29,516
Claims liability	89,595	27,166
Other	1,623	14,975
Total	$ 1,133,118	$ 1,527,403

Included in the reinsurance recoverable were reserves ceded to Brooke Life of $50.0 million and $52.6 million at December 31, 2009 and 2008, respectively. Reserves reinsured through PARC were $290.2 million at December 31, 2008. The largest amount ceded to any reinsurer at December 31, 2009 totaled $341.6 million.

10. Federal Income Taxes

The components of the provision for federal income taxes were as follows (in thousands):

	Years ended December 31,		
	2009	2008	2007
Current tax expense (benefit)	$ (227,312)	$ (58,713)	$ 202,037
Deferred tax expense (benefit)	409,848	(113,368)	50,254
Federal income tax expense (benefit)	$ 182,536	$ (172,081)	$ 252,291

10. Federal Income Taxes (continued)

The federal income tax provisions differ from the amounts determined by multiplying pretax income attributable to Jackson by the statutory federal income tax rate of 35% for 2009, 2008 and 2007 as follows (in thousands):

	Years ended December 31, 2009	2008	2007
Income taxes at statutory rate	$ 213,748	$ (400,857)	$ 305,050
Dividends received deduction	(27,331)	(73,524)	(48,896)
Deferred tax asset valuation allowance	-	302,731	-
Other	(3,881)	(431)	(3,863)
Federal income tax expense (benefit)	$ 182,536	$ (172,081)	$ 252,291
Effective tax rate	29.9%	15.0%	28.9%

Federal income taxes (recovered) paid were $(48.6) million, $69.0 million and $126.0 million in 2009, 2008 and 2007, respectively.

The tax effects of significant temporary differences that give rise to deferred tax assets and liabilities were as follows (in thousands):

	December 31, 2009	2008
Gross deferred tax asset		
Difference between financial reporting and the tax basis of:		
Policy reserves and other insurance items	$ 1,238,212	$ 1,122,067
Other-than-temporary impairments and other investment items	255,863	428,558
Deferred compensation	47,670	61,433
Net unrealized losses on available for sale securities	152,665	1,456,039
Other, net	114,307	52,402
Total gross deferred tax asset	1,808,717	3,120,499
Valuation allowance	-	(318,778)
Gross deferred tax asset, net of valuation allowance	1,808,717	2,801,721
Gross deferred tax liability		
Difference between financial reporting and the tax basis of:		
Deferred acquisition costs and sales inducements	(1,618,547)	(1,768,108)
Other assets	(94,282)	(9,574)
Other, net	(6,210)	(29,165)
Total gross deferred tax liability	(1,719,039)	(1,806,847)
Net deferred tax asset	$ 89,678	$ 994,874

10. Federal Income Taxes (continued)

During 2008, Jackson recorded a valuation allowance, included in deferred tax expense, of $302.7 million against the deferred tax assets associated with realized losses and losses on trading securities where management no longer believed that it was more likely than not that the full tax benefit of the losses would be realized. Jackson also recorded a valuation allowance against the deferred tax assets associated with certain equity securities in an unrealized loss position for which recovery in value could not be anticipated. This valuation allowance, which was recorded in other comprehensive income (loss), totaled $16.0 million. During 2009, management determined that it is now more likely than not that the full tax benefit of the losses will be realized. Since the reversal of the valuation allowance was due to unrealized gains in 2009, the valuation allowance was eliminated with the offset being credited to other comprehensive income rather than net income.

Realization of Jackson's deferred tax assets is dependent on generating sufficient taxable income. Although realization is not assured, management believes that it is more likely than not that the results of future operations and investment activity will generate sufficient taxable income to realize the gross deferred tax asset.

At December 31, 2009, the Company had no federal tax ordinary loss carryforwards as the entire current year federal tax ordinary loss can be carried back to prior years.

At December 31, 2009, the Company had federal tax capital loss carryforwards totaling $67.8 million, which expire in 2014.

In August, 2007, the Internal Revenue Service ("IRS") issued Revenue Ruling 2007-54 that would have changed accepted industry and IRS interpretations of the statutes governing the computation of the Dividends Received Deduction ("DRD") on separate account assets held in connection with variable annuity and life contracts, but that ruling was suspended by Revenue Ruling 2007-61. Revenue Ruling 2007-61 also announced the Treasury Department's and the IRS' intention to issue regulations with respect to certain computational aspects of the DRD on separate account assets held in connection with variable contracts. Any regulations that the IRS ultimately proposes for issuance in this area will be subject to public notice and comment, at which time insurance companies and other interested parties will have the opportunity to raise legal and practical questions about the content, scope and application of such regulations. Although regulations that represent a substantial change in an interpretation of the law are generally given a prospective effective date, there is no assurance that the change will not be retrospectively applied. As a result, depending on the ultimate timing and substance of any such regulations, which are unknown at this time, such future regulations could result in the elimination of some or all of the separate account DRD tax benefit that the Company receives. In January 2010, Jackson received a formal Notice of Assessment from the IRS disallowing the separate account DRD for 2003, 2005 and 2006. Jackson does not agree with the assessment and plans to file a protest with the Appellate Division of the IRS. No reserve is established for this potential exposure since Jackson believes its position is sustainable. The Company recognized an income tax benefit related to the separate account DRD of $27.3 million, $73.5 million and $48.9 million during 2009, 2008 and 2007, respectively.

During 2008, Jackson established a reserve for an unrecognized tax benefit as required by the provisions of ASC 740-10. The following table summarizes the changes in the Company's unrecognized tax benefits, including interest, for the year ended December 31, 2009 and 2008 (in thousands). There were no unrecognized tax benefits at December 31, 2007.

	2009	2008
Unrecognized tax benefit, beginning of period	$ 16,792	$ -
Additions for tax positions identified in current year	-	19,171
Reduction of tax positions agreed with IRS	(16,792)	-
Reduction of tax positions of closed prior years	-	(2,379)
Unrecognized tax benefit, end of period	$ -	$ 16,792

10. Federal Income Taxes (continued)

The Company has considered both permanent and temporary positions in determining the unrecognized tax benefit rollforward. The total amount of unrecognized benefits, if recognized, that would affect the effective tax rate at December 31, 2009 and 2008 are approximately zero and $16.8 million, respectively.

Interest expense totaling $0.8 million related to these unrecognized tax benefits has been included in income tax expense in the consolidated income statement for 2008 with none in 2009 and 2007. The Company has not recorded any amounts for penalties related to unrecognized tax benefits during 2009, 2008 or 2007.

Using the information available as of December 31, 2009, the Company believes that, in the next 12 months, there are no positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease. The Company is generally no longer subject to United States federal, state or local income tax examinations by taxing authorities for tax years that began before 2005.

11. Commitments and Contingencies

The Company and its subsidiaries are involved in litigation arising in the ordinary course of business. It is the opinion of management that the ultimate disposition of such litigation will not have a material adverse affect on the Company's financial condition or results of operations. Jackson has been named in civil litigation proceedings, which appear to be substantially similar to other class action litigation brought against many life insurers alleging misconduct in the sale of insurance products. The Company accrues for legal contingencies once the contingency is deemed to be probable and estimable. Accordingly, at December 31, 2009 and 2008 Jackson recorded accruals totaling $16.0 million and $31.0 million, respectively. Additionally, in connection with the purchase of Life of Georgia, Jackson assumed a $9.4 million liability related to a class action lawsuit. This liability has been fully indemnified by ING Groep, N.V. (“ING”) and an indemnification receivable equal to the liability has been recorded in other assets. The liability and indemnification receivable are adjusted as claims are reported and payments are made by ING and totaled $0.6 million and $2.2 million at December 31, 2009 and 2008, respectively.

State guaranty funds provide payments for policyholders of insolvent life insurance companies. These guaranty funds are financed by assessments of solvent insurance companies based on location, volume and types of business. The Company estimated its reserve for future state guaranty fund assessments based on data received from the National Organization of Life and Health Insurance Guaranty Associations. Based on data received at the end of 2009 and 2008, the Company’s reserve for future state guaranty fund assessments was $24.9 million and $26.0 million, respectively. The Company believes the reserve is adequate for all anticipated payments for known insolvencies.

The Company had unfunded commitments related to its investments in limited partnerships and limited liability companies totaling $548.0 million at December 31, 2009. Unfunded fixed-rate commercial mortgage loan commitments and available lines of credit totaled $143.1 million and $3.7 million, respectively, at December 31, 2009.

11. Commitments and Contingencies (continued)

The Company leases office space, land and equipment under several operating leases that expire at various dates through 2051. Certain leases include escalating lease rates, lease abatements and other incentives and, as a result, at December 31, 2009, Jackson recorded a liability of $8.5 million for future lease payments. Lease expense was $20.6 million, $22.7 million and $17.1 million in 2009, 2008 and 2007, respectively. Future minimum payments under these noncancellable operating leases are as follows (in thousands):

2010	$	8,511
2011		8,969
2012		9,099
2013		9,346
2014		7,304
Thereafter		17,863
Total	$	61,092

Jackson subleased office space under several operating leases that expired at various dates through 2009. There is no future lease income to be received on the subleased property. Lease income for the subleased property totaled $0.2 million in 2009 and $0.7 million per year in 2008 and 2007.

12. Statutory Accounting Capital and Surplus

Under Michigan Insurance Law, dividends on capital stock can only be distributed out of earned surplus, adjusted to exclude any unrealized capital gains and the effect of permitted practices, unless the Commissioner approves the dividend prior to payment. At December 31, 2009, the adjusted earned surplus of Jackson National Life Insurance Company was $217.4 million. Furthermore, without the prior approval of the Commissioner, dividends are also subject to restrictions relating to statutory surplus and/or statutory earnings. The maximum dividend which can be paid in 2010, subject to the availability of earned surplus, without prior approval of the Michigan Commissioner of Insurance, is $377.0 million.

The Company received capital contributions from its parent of $592.4 million, $34.1 million and $30.6 million in 2009, 2008 and 2007, respectively. The capital contributions included $21.4 million, $34.1 million and $30.6 million in 2009, 2008 and 2007, respectively, from Brooke Life's forgiveness of an intercompany tax liability. Dividend payments from the Company to its parent were $250.0 million, $313.1 million and $246.0 million in 2009, 2008 and 2007, respectively.

Statutory capital and surplus of the Company, as reported in its Annual Statement, was $4.0 billion and $3.7 billion at December 31, 2009 and 2008, respectively. Statutory net income (loss) of the Company, as reported in its Annual Statement, was $373.6 million, $(623.4) million and $490.0 million in 2009, 2008 and 2007, respectively.

Effective for 2008 reporting, the Commissioner granted Jackson three permitted practices. One permitted practice allowed Jackson to carry interest rate swaps at book value, as if statutory hedge accounting were in place, instead of at fair value as would have been otherwise required. Jackson was also required to demonstrate the effectiveness of its interest rate swap program pursuant to the Michigan Insurance Code. The Commissioner also granted a permitted practice to allow Jackson to recognize book to tax differences that will reverse within the next 3 years (instead of 1 year as required by the NAIC) when determining the admissable deferred tax asset (subject to a limitation of 15% of capital and surplus versus the 10% limitation imposed by the NAIC guidance). Finally, the Commissioner granted a permitted practice to allow Jackson to use an average interest rate in calculating certain regulatory capital requirements. In 2009, the permitted practice with respect to the interest rate swaps was renewed until October 1, 2010, while the other two expired October 1, 2009. The total effect of these permitted practices was to increase statutory surplus by $188.4 million and $845.0 million at December 31, 2009 and 2008, respectively, and reduce authorized control level required capital by $81.5 million at December 31, 2008. These permitted practices had no impact on statutory net income (loss).

13. Other Related Party Transactions

The Company's investment portfolio is managed by PPM America, Inc. ("PPMA"), a registered investment advisor, and PPM Finance, Inc. (collectively, "PPM"). PPM is ultimately a wholly owned subsidiary of Prudential. The Company paid $36.8 million, $35.9 million and $34.1 million to PPM for investment advisory services during 2009, 2008 and 2007, respectively.

National Planning Holdings, Inc. ("NPH"), Jackson's affiliated broker-dealer network, distributes products issued by Jackson and receives commissions and fees from Jackson. Commissions and fees paid by Jackson to NPH during 2009, 2008 and 2007 totaled $76.7 million, $57.4 million and $65.9 million, respectively.

Jackson has entered into shared services administrative agreements with affiliates, NPH and PPMA. Under the shared services administrative agreements, Jackson charged $4.5 million, $5.1 million and $5.0 million of certain management and corporate services costs to these affiliates in 2009, 2008 and 2007, respectively.

Jackson provides a $40.0 million revolving credit facility to PPMA. The loan is unsecured, matures in September 2013, accrues interest at LIBOR plus 2% per annum, and has a commitment fee of 0.25% per annum. There was no balance outstanding at December 31, 2009 or 2008. The highest outstanding loan balance during 2009 and 2008 was $10.0 million and $20.0 million, respectively. Interest and commitment fees totaled $128 thousand, $177 thousand and $524 thousand during 2009, 2008 and 2007, respectively.

Beginning in June 2009, Jackson provides a $20.0 million revolving credit facility to Brooke Holdings, LLC, an upstream holding company. The loan is unsecured, matures in June 2014, accrues interest at LIBOR plus 2% per annum and has a commitment fee of 0.25% per annum. There was no balance at December 31, 2009. The highest outstanding loan balance during 2009 was $1.4 million. Interest and commitment fees totaled $35 thousand during 2009.

Beginning in 2008, Jackson provides, through its PGDS subsidiary, information technology services to certain Prudential affiliates. Jackson recognized $19.2 million and $10.4 million in revenue associated with these services during 2009 and 2008, respectively. This revenue is included in other income on the accompanying consolidated income statement. This revenue is substantially equal to the costs incurred by PGDS to provide the services.

Short-term borrowings from Parent

During 2007, Jackson entered into an unsecured cash advance facility with Prudential. The $32.0 million advance was repaid in full during 2008. Jackson paid $1.1 million and $20 thousand of interest on this loan during 2008 and 2007, respectively.

14. Benefit Plans

The Company has a defined contribution retirement plan covering substantially all employees and certain affiliates. To be eligible to participate in the Company's contribution, an employee must have attained the age of 21, completed at least 1,000 hours of service in a 12-month period and passed their 12-month employment anniversary. In addition, the employee must be employed on the applicable January 1 or July 1 entry date. The Company's annual contributions, as declared by the board of directors, are based on a percentage of eligible compensation paid to participating employees during the year. In addition, the Company matches a participant's elective contribution, up to 6 percent of eligible compensation, to the plan during the year. The Company's expense related to this plan was $16.3 million, $12.1 million and $12.3 million in 2009, 2008 and 2007, respectively.

The Company maintains non-qualified voluntary deferred compensation plans for certain agents and employees. At December 31, 2009 and 2008, the liability for such plans totaled $136.3 million and $171.2 million, respectively, and is reported in other liabilities. Jackson invests general account assets in selected mutual funds in amounts similar to participant elections as a hedge against significant movement in the payout liability. The Company's (income) expense related to these plans, including a match of elective deferrals for the agents' deferred compensation plan, was $34.8 million, $(54.6) million and $18.4 million in 2009, 2008 and 2007,

14. Benefit Plans (continued)

respectively. Investment income (expense) on the mutual funds totaled $27.1 million, $(62.9) million and $15.0 million in 2009, 2008 and 2007, respectively.