JACKSON
NATIONAL LIFE INSURANCE COMPANY

Jackson National Life Insurance Company and Subsidiaries

Consolidated Financial Statements

December 31, 2010

Jackson National Life Insurance Company and Subsidiaries

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December 31, 2010

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 (the Company) as of December 31, 2010 and 2009, 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, 2010. 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, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010 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.

As discussed in Note 4 to the consolidated financial statements, during 2010 the Company consolidated entities formerly considered to be QSPEs due to the adoption of ASU 2010-10, "Amendment for Certain Investment Funds", as of January 1, 2010.

KPMG LLP

Chicago, Illinois
March 7, 2011

Jackson National Life Insurance Company and Subsidiaries
Consolidated Financial Statements

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

	December 31, 2010	December 31, 2009
Assets		
Investments:		
Cash and short-term investments	$ 674,253	$ 1,043,725
Securities available for sale, at fair value:		
Fixed maturities (amortized cost: 2010, $39,222,320; 2009, $36,791,797, including fair value through profit and loss: 2010, $345,038; 2009, $0)	40,801,885	36,368,034
Trading securities, at fair value	467,101	557,671
Commercial mortgage loans	5,700,365	5,983,571
Policy loans	855,842	852,941
Derivative instruments	1,010,377	837,728
Other invested assets	1,038,012	866,023
Total investments	50,547,835	46,509,693
Accrued investment income	553,762	450,133
Deferred acquisition costs	5,305,670	4,738,901
Deferred sales inducements	451,096	476,749
Reinsurance recoverable	1,089,539	1,133,118
Income taxes receivable from Parent	50,854	369,478
Deferred income taxes	-	89,678
Other assets	166,923	192,042
Separate account assets	48,854,037	33,329,412
Total assets	$ 107,019,716	$ 87,289,204
Liabilities and Equity		
Liabilities		
Policy reserves and liabilities:		
Reserves for future policy benefits and claims payable	$ 3,149,572	$ 3,194,039
Deposits on investment contracts	39,916,376	38,283,062
Guaranteed investment contracts	700,090	920,101
Trust instruments supported by funding agreements	2,209,268	2,331,458
Federal Home Loan Bank funding agreements	1,750,989	1,750,965
Long-term borrowings	338,805	288,680
Securities lending payable	58,115	34,203
Deferred income taxes	656,577	-
Derivative instruments	1,250,807	745,214
Other liabilities	1,886,751	1,234,646
Separate account liabilities	48,854,037	33,329,412
Total liabilities	100,771,387	82,111,780
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	3,711,500	3,561,395
Accumulated other comprehensive income, net of tax of $53,280 in 2010 and $(356,307) in 2009	837,006	76,344
Retained earnings	1,633,691	1,450,505
Total stockholder's equity	6,195,997	5,102,044
Noncontrolling interests	52,332	75,380
Total equity	6,248,329	5,177,424
Total liabilities and equity	$ 107,019,716	$ 87,289,204

See accompanying Notes to Consolidated Financial Statements.

Consolidated Income Statements
(In thousands)

	Years Ended December 31,		
	2010	**2009**	**2008**
Revenues			
Fee income	$ 1,565,992	$ 1,082,281	$ 1,069,910
Premiums	142,721	115,231	170,161
Net investment income	2,664,955	2,577,794	2,662,099
Net realized losses on investments:			
Total other-than-temporary impairments	(319,977)	(1,196,893)	(913,692)
Portion of other-than-temporary impairments included in other comprehensive income (loss)	176,719	422,186	-
Net other-than-temporary impairments	(143,258)	(774,707)	(913,692)
Other investment gains (losses)	87,763	166,829	(289,542)
Total net realized losses on investments	(55,495)	(607,878)	(1,203,234)
Risk management activity	(1,069,971)	(912,080)	(466,638)
Other income	61,233	61,112	107,763
Total revenues	3,309,435	2,316,460	2,340,061
Benefits and Expenses			
Death and other policy benefits	593,089	583,573	514,148
Interest credited on deposit liabilities	1,404,217	1,461,137	1,406,066
Interest expense on trust instruments supported by funding agreements	59,803	82,131	196,175
Interest expense on Federal Home Loan Bank advances, notes and reverse repurchase agreements	34,825	49,767	71,295
Increase (decrease) in reserves, net of reinsurance	68,972	(536,828)	164,027
Commissions	1,263,012	980,903	739,798
General and administrative expenses	539,711	447,617	478,320
Deferral of policy acquisition costs	(1,180,950)	(944,596)	(719,724)
Deferral of sales inducements	(144,037)	(132,196)	(113,232)
Amortization of acquisition costs:			
Attributable to operations	361,603	108,240	926,903
Attributable to risk management activity	(443,295)	(341,509)	(103,491)
Attributable to net realized losses on investments	(5,553)	(72,349)	(164,503)
Amortization of deferred sales inducements:			
Attributable to operations	97,729	43,542	39,836
Attributable to risk management activity	(21,247)	(1,203)	59,694
Attributable to net realized losses on investments	(897)	(10,062)	(15,770)
Total benefits and expenses	2,626,982	1,718,167	3,479,542
Pretax income (loss)	682,453	598,293	(1,139,481)
Federal income tax expense (benefit)	176,737	182,536	(172,081)
Income (loss) before extraordinary loss	505,716	415,757	(967,400)
Extraordinary loss, net of tax benefit of $4,651 in 2008	-	-	(8,638)
Net income (loss)	505,716	415,757	(976,038)
Less: Net income (loss) attributable to noncontrolling interests	7,288	(12,415)	5,825
Net income (loss) attributable to Jackson	$ 498,428	$ 428,172	$ (981,863)

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, 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
Comprehensive income:							
Net income				498,428	498,428	7,288	505,716
Net unrealized gains (losses) on securities not other-than-temporarily impaired, net of tax of $422,473			784,594		784,594	(30,336)	754,258
Net unrealized losses on other-than-temporarily impaired securities, net of tax of $ (54,663)			(101,517)		(101,517)		(101,517)
Reclassification adjustment for losses included in net income, net of tax of $15,223			28,270		28,270		28,270
Total comprehensive income (loss)			711,347	498,428	1,209,775	(23,048)	1,186,727
Cumulative effect of change in accounting, net of DAC			49,315	(40,242)	9,073		9,073
Capital contribution		150,105			150,105		150,105
Dividends to stockholder				(275,000)	(275,000)		(275,000)
Balances as of December 31, 2010	$ 13,800	$ 3,711,500	$ 837,006	$ 1,633,691	$ 6,195,997	$ 52,332	$ 6,248,329

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows
(In thousands)

	Years Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net income (loss)	$ 505,716	$ 415,757	$ (976,038)
Adjustments to reconcile income (loss)			
to net cash provided by operating activities:			
Net realized losses on investments	55,495	607,878	1,203,234
Risk management activity	1,069,971	912,080	466,638
Interest credited on deposit liabilities	1,404,217	1,461,137	1,406,066
Interest expense on trust instruments supported by funding agreements	59,803	82,131	196,175
Interest expense on Federal Home Loan Bank funding agreements	22,678	28,906	57,928
Mortality, expense and surrender charges	(354,070)	(327,521)	(321,484)
Amortization of discount and premium on investments	(3,243)	(1,235)	28,168
Deferred income tax expense (benefit)	355,790	409,848	(113,368)
Change in:			
Accrued investment income	(103,629)	46,654	(41,579)
Deferred sales inducements and acquisition costs	(1,336,646)	(1,350,132)	(90,287)
Trading portfolio activity, net	90,570	268,154	101,064
Income taxes receivable from Parent	318,624	(200,147)	(161,872)
Other assets and liabilities, net	222,438	213,440	212,972
Net cash provided by operating activities	2,307,714	2,566,950	1,967,617
Cash flows from investing activities:			
Sales of fixed maturities and equities available for sale	8,689,802	9,001,912	2,248,000
Principal repayments, maturities, calls and redemptions:			
Fixed maturities available for sale	1,934,006	2,166,500	2,964,781
Commercial mortgage loans	1,375,297	742,080	407,640
Purchases of:			
Fixed maturities and equities available for sale	(13,190,087)	(10,029,527)	(7,622,992)
Commercial mortgage loans	(1,045,450)	(351,711)	(1,310,760)
Other investing activities	(716,905)	(1,534,559)	473,947
Net cash used in investing activities	(2,953,337)	(5,305)	(2,839,384)
Cash flows from financing activities:			
Policyholders' account balances:			
Deposits	17,868,878	14,123,189	12,846,221
Withdrawals	(7,182,166)	(9,543,370)	(9,029,910)
Net transfers to separate accounts	(10,767,308)	(6,984,733)	(2,442,002)
Proceeds from repurchase agreements	552,458	-	-
Proceeds from borrowings	15,000	-	550,000
Payments on borrowings	(65,711)	(150,000)	(634,047)
Proceeds and payments on short-term borrowings from Parent	-	-	(32,000)
Payment of cash dividends to Parent	(275,000)	(250,000)	(313,101)
Capital contribution from Parent	130,000	571,000	-
Net cash provided by (used in) financing activities	276,151	(2,233,914)	945,161
Net (decrease) increase in cash and short-term investments	(369,472)	327,731	73,394
Cash and short-term investments, beginning of year	1,043,725	715,994	642,600
Total cash and short-term investments, end of year	$ 674,253	$ 1,043,725	$ 715,994

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 accounts, after the elimination of intercompany accounts and transactions, 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 upon consolidation. Certain prior year amounts have been reclassified to conform with the current year presentation with no impact on stockholder's equity or net income.

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 January 1, 2010, the Company adopted Accounting Standards Update No. 2009-16, "Accounting for Transfers of Financial Assets" ("ASU 2009-16"). This accounting guidance amends the current guidance on transfers of financial assets by eliminating the qualifying special-purpose entity ("QSPE") 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.

On January 1, 2010, the Company adopted ASU 2010-10, "Amendment for Certain Investment Funds," 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 regarding a company's involvement in VIEs. The adoption of ASU 2010-10 and ASU 2009-16 occurred simultaneously, requiring the consolidation of entities formerly considered to be QSPEs and decreasing retained earnings by $40.2 million. Additional details on the application of this change in accounting principles are included in Note 4.

Changes in Accounting Principles – Adopted in Prior Years
On January 1, 2009, the Company adopted Accounting Standards Codification ("ASC") 320-10-65, "Debt and Equity Securities – Transition and Open Effective Date Information" (previously FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments"). ASC 320-10-65 requires entities to separate an other-than-temporary impairment of a debt security into two components when there are credit related losses associated with the impaired debt security for which management believes it does not have the intent to sell the security and is not more likely than not to be required to sell the security before recovery of its amortized cost basis. The difference between the fair value and the amortized cost of the security is presented as an other-than-temporary impairment charge within earnings, with an offset for any non-credit related loss component of the charge to be recognized in other comprehensive income. ASC 320-10-65 required companies to record, as of the period of adoption, a cumulative effect adjustment to reclassify the non-credit portion of a previously recognized other-than-temporary impairment from retained earnings to other comprehensive income, if, as of the date of adoption, the company did not intend to sell the security before anticipated recovery of its amortized cost basis. Upon adoption, the Company transferred $186.6 million ($126.9 million net of deferred acquisition costs and sales inducements) of non-credit related impairments from retained earnings to other comprehensive income.

Changes in Accounting Principles – Not Yet Fully Adopted
In January 2010, the FASB issued ASU No. 2010-06, "Improving Disclosures about Fair Value Measurements," which requires additional disclosures related to transfers between Levels 1 and 2 and for fair value measurement activity in Level 3. Additional information to be provided will include purchases, sales, issuances, and settlements on a gross basis. This ASU also clarifies certain other existing disclosure requirements including the level of disaggregation and disclosures around inputs and valuation techniques. The accounting guidance for new disclosures and clarification of existing disclosures is effective for periods beginning after December 15, 2009. The additional disclosures related to activity in Level 3 are effective for fiscal years beginning after December 15, 2010. As required, the additional disclosures effective for periods beginning after December 15, 2009, are included herein. The remaining required disclosures, effective for fiscal years beginning after December 15, 2010, will be included in the Company's consolidated financial statements for the year ending December 31, 2011.

In April 2010, the FASB issued ASU No. 2010-15, "How Investments Held through Separate Accounts Affect an Insurer's Consolidation Analysis of Those Investments." This guidance clarifies that an insurance entity should not consider any separate account interests held for the benefit of policyholders in an investment to be the insurer's interests and should not combine those interests with its general account interest in the same investment when assessing the investment for consolidation, unless the separate account interests are held for the benefit of a related policyholder, as defined in the Variable Interest Entities Subsections of Subtopic 810-10 and those Subsections require the consideration of related parties. This accounting guidance will be effective on January 1, 2011, and is not expected to impact the Company's consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

In October 2010, the FASB issued ASU No. 2010-26, "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts." ASU 2010-26 clarifies which costs related to the acquisition or renewal of insurance contracts can be deferred by insurance entities. The guidance also specifies that only costs directly related to the successful acquisition of new or renewal contracts can be capitalized. All other acquisition related costs should be expensed as incurred. This accounting guidance will be effective on January 1, 2012 and can be applied either prospectively or retrospectively. Jackson has not yet determined the impact this guidance will have on the Company's consolidated financial statements upon adoption.

In July 2010, the FASB issued ASU No. 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," which requires significant new disclosures about the allowance for credit losses and the credit quality of financing receivables. The FASB has elected to defer the disclosures related to troubled debt restructurings included within this ASU. Those disclosures are expected to be effective for 2011 reporting. The remaining disclosures under ASU No. 2010-20 were not deferred and have been included within Note 4.

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 effective interest method. Discounts and premiums on asset-backed securities are amortized over the estimated redemption period. Certain asset-backed securities 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. For these securities, 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 $878.5 million and $953.4 million as of December 31, 2010 and 2009, respectively.

Fixed maturities are generally 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. If management believes the Company does not intend to sell the security and is not more likely than not 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 periods prior to January 1, 2009, Jackson recognized an other-than-temporary impairment when the Company did not expect full recovery of amortized cost or did not have the intent and ability to hold a security to recovery and impairment losses were recognized in net realized losses on investments for the full difference between fair value and amortized cost.

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. At December 31, 2010 and 2009, all equity holdings were 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.

2. Summary of Significant Accounting Policies (continued)

Commercial mortgage loans are carried at aggregate unpaid principal balances, net of unamortized discounts and premiums and an allowance for loan losses.

On a periodic basis, Jackson assesses each commercial mortgage loan in the portfolio for the need of an allowance for loan losses. This review contemplates a variety of factors which may include, but are not limited to, current economic conditions, the physical condition of the property, the financial condition of the borrower, and the near and long-term prospects for change in these conditions. As deemed appropriate, Jackson recognizes an allowance for loan losses through a charge to investment income. This allowance may be reduced when the exposure on a particular loan is deemed to have been reduced or eliminated, either through the termination of the mortgage loan, recognition of an impairment charge, or a reversal of the conditions that led to the allowance. Separately, Jackson also reviews individual loans in the portfolio for impairment based on an assessment of the factors identified above. Impairment charges recognized are recorded initially against the established loan loss allowance and, if necessary, any additional amounts are recorded as realized losses. As deemed necessary based on cash flow expectations and other factors, Jackson may place loans on non-accrual status. In this case, all cash received is applied against the carrying value of the loan.

Policy loans are carried at the unpaid principal balances.

Other invested assets primarily include investments in limited partnerships and real estate. Carrying values for limited partnership investments are determined by using the proportion of Jackson's investment in each fund (NAV equivalent) as a practical expedient for fair value. Real estate is carried at the lower of depreciated cost or fair value.

Pursuant to the guidance provided for in ASC 810, the Company concluded that it holds interests in VIEs that represent primary beneficial interests. These consolidated VIEs include entities structured to hold and manage investments.

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 certain investments which are 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. The changes in unrealized gains and losses on investments for which Jackson elected the fair value option are included in net income (loss) along with the related adjustment for deferred acquisition costs and deferred sales inducements.

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 was reported in net investment income. There were no such losses in 2010 or 2009.

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 freestanding 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

2. Summary of Significant Accounting Policies (continued)

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. A review of assumptions used for estimating future gross profits underlying the amortization of deferred acquisition costs is conducted on an annual basis. Based on results of the annual review, the deferred acquisition cost balance is adjusted, with an offsetting credit or charge to amortization expense.

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, along with the change in fair value of equity and fixed maturities available for sale, net of applicable tax, is credited or charged directly to stockholder's equity as a component of other comprehensive income. Deferred acquisition costs have been decreased by $598.5 million and increased by $131.9 million at December 31, 2010 and 2009, respectively, to reflect this adjustment. Effective January 1, 2009, in connection with the adoption of amended accounting guidance, Jackson reclassified $53.0 million of deferred acquisition costs amortization from retained earnings to accumulated other comprehensive income.

For variable annuity business, the Company employs a mean reversion methodology that is applied with the objective of adjusting the amortization of deferred acquisition costs that would otherwise be highly volatile due to fluctuations in the level of future gross profits arising from changes in equity market levels. The mean reversion methodology achieves this objective by applying a dynamic adjustment to the level of expectations of short-term future investment returns. Under the methodology, the projected returns for the next five years are set such that, when combined with the actual returns for the current and preceding two years, the average rate of return over the eight year period is 8.4%, after investment management fees. The mean reversion methodology does, however, include a cap and a floor of 15% and 0% per annum, respectively, on the projected return for each of the next five years. Projected returns after the next five years are set at 8.4%. At December 31, 2010 and 2009, future projected returns were capped at the 15% level.

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. A review of assumptions used for estimating future gross profits underlying the amortization of deferred sales inducements is conducted on an annual basis. Based on results of the annual review, the deferred sales inducement balance is adjusted, with an offsetting credit or charge to amortization expense. 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, along with the change in fair value of equity and fixed maturities available for sale, net of applicable tax, is credited or charged directly to stockholder's equity as a component of other comprehensive income. Deferred sales inducements have been decreased by $82.2 million and increased by $11.9 million at December 31, 2010 and 2009, respectively, to reflect this adjustment. Effective January 1, 2009, in connection with the adoption of amended accounting guidance, Jackson reclassified $6.7 million of deferred sales inducements amortization 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 2007.

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. All other subsidiaries 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 sales inducements and the provisions for future policy benefits and expenses. Deferred tax assets and liabilities are measured using the tax rates expected to be in effect when such benefits are realized. In accordance with 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. At December 31, 2010 and 2009, the Company had no unrecognized tax benefits.

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, persistency 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 6.0%. Lapse and expense assumptions are based on Company experience. See Note 6 for description of general account reserves related to variable annuity guarantees.

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.

2. Summary of Significant Accounting Policies (continued)

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 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 $1.0 billion at December 31, 2010 and 2009, 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, 2010 and 2009 totaled $1.2 billion and $1.3 billion, respectively.

Those medium term note instruments issued 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 with short-term and long-term funding facilities. 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 or long-term notes or funding agreements issued to FHLBI. At December 31, 2010 and 2009, the Company held $112.1 million and $117.6 million, respectively, of FHLBI capital stock, supporting $1.8 billion and $1.8 billion, respectively, in funding agreements, short-term and long-term borrowing capacity.

Separate Account Assets and Liabilities

The assets and liabilities associated with individual variable life and annuity contracts, which aggregated $48.9 billion and $33.3 billion at December 31, 2010 and 2009, 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 $176.6 million and $142.2 million at December 31, 2010 and 2009, 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, variable annuity benefit guarantees 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

2. Summary of Significant Accounting Policies (continued)

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 when incurred.

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.

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 $2.5 million, $16.8 million and $48.8 million in 2010, 2009 and 2008, respectively, was included in other income.

Subsequent Events

The Company has evaluated events through March 7, 2011, which is the date the financial statements were available to be issued.

3. Fair Value Measurements

The following table 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, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and short-term investments	$ 674,253	$ 674,253	$ 1,043,725	$ 1,043,725
Fixed maturities	40,801,885	40,801,885	36,368,034	36,368,034
Trading securities	467,101	467,101	557,671	557,671
Commercial mortgage loans	5,700,365	5,953,073	5,983,571	5,939,175
Policy loans	855,842	684,503	852,941	680,569
Limited partnerships	865,761	865,761	704,688	704,688
Other loans	19,410	19,313	24,410	22,358
Derivative instruments	1,010,377	1,010,377	837,728	837,728
GMIB reinsurance recoverable	127,534	127,534	141,459	141,459
Separate account assets	48,854,037	48,854,037	33,329,412	33,329,412
Liabilities				
Annuity reserves (1)	$ 33,829,330	$ 25,847,154	$ 32,475,348	$ 24,927,600
Reserves for guaranteed investment contracts	700,090	735,869	920,101	968,519
Trust instruments supported by funding agreements	2,209,268	2,266,664	2,331,458	2,371,266
Federal Home Loan Bank funding agreements	1,750,989	1,637,555	1,750,965	1,572,456
Borrowings	338,805	358,407	288,680	294,466
Derivative instruments	1,250,807	1,250,807	745,214	745,214
Separate account liabilities	48,854,037	48,854,037	33,329,412	33,329,412

(1) - Annuity reserves represent only the components of deposits on investment contracts that are considered to be financial instruments.

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). Embedded derivative instruments that are valued using unobservable inputs are 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 materially from the values that would have been used had an active market existed. 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. Certain securities are priced using broker-dealer quotes, which may utilize proprietary inputs and models. Additionally, the majority of these quotes are non-binding.

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.

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.

For those securities that were internally valued at December 31, 2010 and 2009, an internally developed model was used to determine the fair value. The pricing model used by the Company utilizes current spread levels of similarly rated securities to determine the market discount rate for the security. Furthermore, appropriate risk premiums for illiquidity and non-performance are incorporated 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.

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, including broker quotes, are classified into Level 2 due to their use of market observable inputs.

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

3. Fair Value Measurements (continued)

Policy Loans
Fair values are determined using projected future cash flows, based on assumptions as to expected mortality and lapse rates, and discounted at current market interest rates.

Freestanding Derivative Instruments
Freestanding derivative instruments are reported at fair value, which reflects the estimated amounts, net of payment accruals, which the Company would receive or pay upon sale or termination of the contracts at the reporting date. Changes in fair value are included in risk management activity. Freestanding 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.

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

Freestanding 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.

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, 2010.

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.

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.

3. Fair Value Measurements (continued)

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 recorded 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 under the guaranteed 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, with changes in fair value recorded in risk management activity. Due to the inability to economically reinsure or hedge new issues of the GMIB, the Company discontinued offering the benefit in 2009.

Fair values for GMWB and GMAB embedded derivatives, as well as GMIB reinsurance recoverables, are calculated using internally developed models because active, observable markets do not exist for those guaranteed benefits.

The fair value calculation is based on the present value of future cash flows comprised of future expected benefit payments, less future attributed rider fees, over the lives of the contracts. Estimating these cash flows requires numerous estimates and subjective judgments related to capital market inputs, as well as actuarially determined assumptions related to expectations concerning policyholder behavior. Capital market inputs include expected market rates of return, market volatility, correlations of market index returns to funds, fund performance and discount rates. The more significant actuarial assumptions include the benefit utilization by policyholders under varying conditions, persistency, mortality assumptions and withdrawal rates. Because of the dynamic and complex nature of these cash flows, best estimate assumptions, plus risk margins, and a stochastic process involving the generation of thousands of scenarios that assume risk neutral returns consistent with swap rates are used.

At each valuation date, the Company assumes expected returns based on LIBOR swap rates as of that date to determine the value of expected future cash flows produced in the stochastic process. Volatility assumptions are based on a weighting of available market data for implied market 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 discount 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. Estimates of future policyholder behavior are subjective and are based primarily on the Company's experience.

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.

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

3. Fair Value Measurements (continued)

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.

Financial Instruments Measured at Fair Value on a Recurring Basis
The following table summarizes the Company's assets and liabilities that are carried at fair value by hierarchy levels (in thousands):

December 31, 2010	Total	Level 1	Level 2	Level 3
Assets				
Fixed maturities				
Government securities	$ 3,848,246	$ 3,817,832	$ 30,414	$ -
Public utilities	2,708,660	-	2,707,928	732
Corporate securities	24,816,251	-	24,784,177	32,074
Residential mortgage-backed	4,348,262	-	4,348,262	-
Commercial mortgage-backed	3,764,136	-	3,764,136	-
Other asset-backed securities	1,316,330	11,193	1,230,324	74,813
Trading securities	467,101	255,166	-	211,935
Limited partnerships	865,761	-	-	865,761
Derivative instruments	1,010,377	-	1,010,377	-
GMIB reinsurance recoverable	127,534	-	-	127,534
Separate account assets (1)	48,854,037	48,854,037	-	-
Total	$ 92,126,695	$ 52,938,228	$ 37,875,618	$ 1,312,849
Liabilities				
Embedded derivative liabilities (2)	$ 1,249,972	$ -	$ 936,438	$ 313,534
Derivative instruments	1,250,807	117,449	1,127,527	5,831
Long-term borrowings	26,207	-	26,207	-
Total	$ 2,526,986	$ 117,449	$ 2,090,172	$ 319,365

December 31, 2009	Total	Level 1	Level 2	Level 3
Assets				
Fixed maturities				
Government securities	$ 612,144	$ 610,511	$ 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 liabilities (2)	$ 1,121,510	$ -	$ 684,077	$ 437,433
Derivative instruments	745,214	21,393	696,591	27,230
Total	$ 1,866,724	$ 21,393	$ 1,380,668	$ 464,663

(1) Pursuant to 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 tables below provide rollforwards for 2010 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. Additionally, the Company's policy for determining and disclosing transfers between levels is to recognize transfers using beginning of period balances.

(in thousands)	Fair Value as of January 1, 2010	Total Realized/Unrealized Gains (Losses) Included in: Net Income	Other Comprehensive Income	Purchases, Issuances and Settlements	Transfers in and/or (out of) Level 3	Fair Value as of December 31, 2010
Assets						
Fixed maturities						
Public utilities	$ 13,338	$ (1,809)	$ 1,870	$ (8,165)	$ (4,502)	$ 732
Corporate securities	472,466	803	4,611	(158,439)	(287,367)	32,074
Residential mortgage-backed	2,969	(4,583)	7,038	(5,424)	-	-
Commercial mortgage-backed	77,899	(1,579)	16,203	(43,852)	(48,671)	-
Other asset-backed securities	902,956	(2,444)	13,683	(386,693)	(452,689)	74,813
Equities and trading securities	246,045	64,689	-	(98,799)	-	211,935
Limited partnerships	704,689	67,466	-	93,606	-	865,761
Derivative instruments	281,989	(26,551)	-	(99,003)	(156,435)	-
GMIB reinsurance recoverable	141,459	(13,925)	-	-	-	127,534
Liabilities						
Embedded derivative liabilities	(437,433)	123,899	-	-	-	(313,534)
Derivative instruments	(27,230)	21,399	-	-	-	(5,831)

(in thousands)	Fair Value as of January 1, 2009	Total Realized/Unrealized Gains (Losses) Included in: Net Income	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 liabilities	(1,123,947)	686,514	-	-	-	(437,433)
Derivative instruments	(102,586)	75,356	-	-	-	(27,230)

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.

3. Fair Value Measurements (continued)

Upon adoption of ASC 820-10, certain broker priced assets were classified as Level 3 holdings as a result of illiquidity in the market and the resultant lack of observability into the assumptions used to produce those fair values. During 2010, as a result of changes in the level of observability of these inputs, Jackson determined that these assets would be more appropriately categorized in Level 2. As a result, Jackson transferred securities with an amortized cost and fair value of $1,059.5 million and $775.3 million, respectively, and derivative assets with a fair value of $156.4 million from Level 3 to Level 2 during 2010.

The portion of gains (losses) included in net income or other comprehensive income attributable to the change in unrealized gains and losses on Level 3 financial instruments still held at December 31, 2010 and 2009, was as follows (in thousands):

	December 31, 2010	December 31, 2009
Assets		
Fixed maturities		
Public utilities	$ -	$ 2,211
Corporate securities	2,635	86,801
Residential mortgage-backed	-	(3,622)
Commercial mortgage-backed	-	(22,045)
Other asset-backed securities	2,891	(256,877)
Trading securities	28,905	(79,483)
Limited partnerships	68,169	(90,210)
Derivative instruments	-	146,235
GMIB reinsurance recoverable	(13,925)	(108,009)
Liabilities		
Embedded derivative liabilities	$ 123,899	$ 686,514
Derivative instruments	21,399	75,356

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, 2010, 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, 2010, the carrying value of investments rated by the Company's affiliated investment advisor totaled $148.4 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, 2010
AAA	25.5%
AA	6.1%
A	27.1%
BBB	35.4%
Investment grade	94.1%
BB	2.9%
B and below	3.0%
Below investment grade	5.9%
Total fixed maturities	100.0%

At December 31, 2010, based on ratings by NRSROs, of the total carrying value of fixed maturities in an unrealized loss position, 70% were investment grade, 19% were below investment grade and 11% were not rated. Unrealized losses on fixed maturities that were below investment grade or not rated represented approximately 49% 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, 2010, the industries accounting for the larger percentage of unrealized losses included banking/finance (7.26% of fixed maturities gross unrealized losses) and energy (2.78%). The largest unrealized loss related to a single corporate obligor was $16.0 million at December 31, 2010.

The amortized cost, gross unrealized gains and losses, fair value and non-credit OTTI of available for sale fixed maturities, including $345.0 million in securities carried at fair value with changes in value recorded through the income statement, were as follows (in thousands):

December 31, 2010	Amortized Cost [(1)]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-credit OTTI [(2)]
Fixed Maturities					
Government securities	$ 3,789,201	$ 62,052	$ 3,007	$ 3,848,246	$ -
Public utilities	2,514,868	205,830	12,038	2,708,660	-
Corporate securities	23,362,634	1,597,001	143,384	24,816,251	(12,184)
Residential mortgage-backed	4,542,139	138,232	332,109	4,348,262	158,502
Commercial mortgage-backed	3,549,421	277,898	63,183	3,764,136	8,192
Other asset-backed securities	1,464,057	18,831	166,558	1,316,330	17,757
Total fixed maturities	$ 39,222,320	$ 2,299,844	$ 720,279	$ 40,801,885	$ 172,267

(1) Carrying value for securities carried at fair value with changes in value recorded through the income statement.
(2) Represents the amount of cumulative non-credit OTTI gains (losses) recognized in other comprehensive income on securities for which credit impairments have been recorded.

4. Investments (continued)

December 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-credit OTTI (1)
Fixed Maturities					
Government securities	$ 628,834	$ 590	$ 17,280	$ 612,144	$ -
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 for which credit impairments have been recorded.

The amortized cost, gross unrealized gains and losses, and fair value of fixed maturities at December 31, 2010, 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 (1) Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Due in 1 year or less	$ 928,124	$ 19,963	$ 272	$ 947,815
Due after 1 year through 5 years	7,291,484	486,124	9,239	7,768,369
Due after 5 years through 10 years	16,746,163	1,037,411	72,203	17,711,371
Due after 10 years through 20 years	2,692,371	161,072	29,023	2,824,420
Due after 20 years	2,008,561	160,313	47,692	2,121,182
Residential mortgage-backed	4,542,139	138,232	332,109	4,348,262
Commercial mortgage-backed	3,549,421	277,898	63,183	3,764,136
Other asset-backed securities	1,464,057	18,831	166,558	1,316,330
Total	$ 39,222,320	$ 2,299,844	$ 720,279	$ 40,801,885

(1) Carrying value for securities carried at fair value with changes in value recorded through the income statement.

U.S. Treasury securities with a carrying value of $4.2 million and $4.1 million at December 31, 2010 and 2009, respectively, were on deposit with regulatory authorities, as required by law in various states in which business is conducted.

At December 31, 2010, the amortized cost and carrying value of fixed maturities in default that were anticipated to be income producing when purchased were $2.9 million and $8.8 million, respectively. The amortized cost and carrying value of fixed maturities that have been non-income producing for the 12 months preceding December 31, 2010 were $2.9 million and $8.8 million, respectively, and for the 12 months preceding December 31, 2009 were $4.1 million and $4.3 million, 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, 2010	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Prime	$ 1,073,242	$ 12,511	$ 134,826	$ 950,927
Alt-A	736,193	2,786	95,028	643,951
Subprime	475,652	1,076	99,128	377,600
Total non-agency RMBS	$ 2,285,087	$ 16,373	$ 328,982	$ 1,972,478

(1) Carrying value for securities carried at fair value with changes in value recorded through the income statement.

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

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. 28% of the Company's investments in Alt-A related mortgage-backed securities are rated investment grade by at least one NRSRO. 37% of the Company's investments in subprime related mortgage-backed securities are rated triple-A by at least one NRSRO. In 2010, the Company recorded other-than-temporary impairment charges of $23.0 million, $50.5 million, and $11.4 million on securities backed by prime, Alt-A and subprime loans, respectively. 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.

Asset-backed securities also include investments in securities which are collateralized by commercial mortgage loans ("CMBS"). At December 31, 2010, the amortized cost and fair value of the Company's investment in CMBS was $3.6 billion and $3.8 billion, respectively, of which 99% were rated investment grade by at least one NRSRO. In 2010, the Company recorded other-than-temporary impairment charges of $11.1 million on CMBS. No other-than-temporary impairment charges were recorded on CMBS during 2009 or 2008.

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. At December 31, 2010, the amortized cost and fair value of the Company's direct investments in bank loans were $115.1 million and $118.5 million, respectively.

4. Investments (continued)

The following table summarizes 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):

	December 31, 2010			December 31, 2009		
	Less than 12 months			Less than 12 months		
	Gross Unrealized Losses	Fair Value	# of securities	Gross Unrealized Losses	Fair Value	# of securities
Government securities	$ 3,007	$ 480,177	3	$ 17,280	$ 605,607	3
Public utilities	10,655	264,765	19	7,704	286,119	25
Corporate securities	81,721	2,936,548	176	56,900	2,306,980	238
Residential mortgage-backed	4,255	112,509	23	220,138	1,724,086	158
Commerical mortgage-backed	4,152	203,927	18	25,716	320,072	45
Other asset-backed securities	2,923	146,656	17	122,857	573,973	49
Total temporarily impaired securities	$ 106,713	$ 4,144,582	256	$ 450,595	$ 5,816,837	518
	12 months or longer			12 months or longer		
	Gross Unrealized Losses	Fair Value	# of securities	Gross Unrealized Losses	Fair Value	# of securities
Government securities	$ -	$ -	-	$ -	$ -	-
Public utilities	1,383	6,941	2	8,308	60,565	11
Corporate securities	61,663	491,829	61	307,576	2,894,472	314
Residential mortgage-backed	327,854	1,590,392	173	590,339	1,365,474	190
Commerical mortgage-backed	59,031	145,344	31	302,268	1,552,264	135
Other asset-backed securities	163,635	442,578	81	256,261	466,000	95
Total temporarily impaired securities	$ 613,566	$ 2,677,084	348	$ 1,464,752	$ 6,338,775	745
	Total			Total		
	Gross Unrealized Losses	Fair Value	# of securities	Gross Unrealized Losses	Fair Value	# of securities
Government securities	$ 3,007	$ 480,177	3	$ 17,280	$ 605,607	3
Public utilities	12,038	271,706	21	16,012	346,684	36
Corporate securities	143,384	3,428,377	237	364,476	5,201,452	552
Residential mortgage-backed	332,109	1,702,901	196	810,477	3,089,560	348
Commerical mortgage-backed	63,183	349,271	49	327,984	1,872,336	180
Other asset-backed securities	166,558	589,234	98	379,118	1,039,973	144
Total temporarily impaired securities	$ 720,279	$ 6,821,666	604	$ 1,915,347	$ 12,155,612	1,263

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 and the 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

4. Investments (continued)

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. This assessment may 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 (e.g., minor increases in interest rates, temporary market illiquidity or volatility, or industry-related events) are usually determined to be temporary, 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.

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 reliance 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 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 amortized cost 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 exists:

- 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 characteristics and transaction structure.

4. Investments (continued)

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.

These estimates reflect a combination of data derived by third parties and internally developed assumptions. Where possible, this data is benchmarked against other third-party sources. In addition, these estimates are extrapolated along a default timing curve to estimate the total lifetime pool default rate.

Effective January 1, 2009, 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 reflect 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 other-than-temporarily impaired securities is recorded in other comprehensive income.

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

	2010	2009	2008
Available-for-sale securities			
Realized gains on sale	$ 440,843	$ 464,044	$ 58,059
Realized losses on sale	(356,080)	(209,720)	(347,601)
Impairments:			
Total other-than-temporary impairments	(319,977)	(1,196,893)	(913,692)
Portion of other-than-temporary impairments included in other comprehensive income	176,719	422,186	-
Net other-than-temporary impairments	(143,258)	(774,707)	(913,692)
Transfer to trading portfolio	-	(87,491)	-
Other	3,000	(4)	-
Net realized losses on investments	$ (55,495)	$ (607,878)	$ (1,203,234)

Included in net realized losses on investments are impairment charges on other invested assets of $5.0 million in 2010 and on equities of $84.6 million in 2008. There were no such impairment charges in 2009.

The aggregate fair value of securities sold at a loss for the years ended December 31, 2010, 2009 and 2008 was $1,926.7 million, $1,334.7 million and $1,795.5 million, respectively, which was approximately 84%, 86% and 84% 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 years ending December 31,	
	2010	**2009**
Cumulative credit loss beginning balance	$ 1,062,190	$ -
Adoption of new accounting guidance related to other-than-temporary impairments	-	547,558
Additions:		
New credit losses	61,354	572,104
Incremental credit losses	76,904	202,603
Reductions:		
Securities sold, paid down or disposed of	(502,078)	(260,075)
Cumulative credit loss ending balance	$ 698,370	$ 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 $5.7 billion and $6.0 billion at December 31, 2010 and 2009, respectively, are reported net of an allowance for loan losses of $33.2 million and $14.2 million at each date, respectively. At December 31, 2010, 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 2010 and 2009, recognized impairment charges of $17.7 million and $13.8 million, respectively. There were no such impairment charges in 2008.

4. Investments (continued)

The following table provides a summary of the allowance for losses in Jackson's commercial mortgage loan portfolio at December 31, 2010 and 2009 (in thousands):

Allowance for loan losses:	**2010**	**2009**
Balance at beginning of year	$ 14,246	$ 15,987
Charge-offs	(17,717)	(13,750)
Recoveries	-	-
Net charge-offs	(17,717)	(13,750)
Provision for loan losses	36,661	12,009
Balance at end of year	$ 33,190	$ 14,246

The table below illustrates the delinquency status and accrual status of Jackson's commercial mortgage loan holdings as of December 31, 2010 and 2009 (in thousands). Delinquency status is determined from the date of the first missed contractual payment.

	Accruing						
	Current	**Less than 60 days delinquent**	**60 days to 90 days delinquent**	**90 days or more delinquent**	**Total accruing**	**Non-accrual**	**Total**
2010	$5,627,862	$ 57,078	$ -	$ -	$5,684,940	$15,425	$5,700,365
2009	5,966,747	-	-	16,824	5,983,571	-	5,983,571

During 2010, Jackson reduced interest income by $0.4 million on commercial mortgage loans that had been placed on non-accrual. There were no comparable reductions during 2009.

Under Jackson's policy for monitoring commercial mortgage loans, all impaired commercial mortgage loans continue to carry some level of allowance subsequent to impairment. The table below illustrates the unpaid balance, net carrying amount, related loan allowance, average recorded investment and interest income recognized on impaired loans during 2010 and 2009 (in thousands):

	2010	**2009**
Unpaid loan balance	$ 98,161	$ 15,210
Net carrying amount	75,613	10,439
Related loan allowance	4,081	21
Average recorded investment	89,235	13,911
Interest income recognized	3,649	1,051

Securitizations

In 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. Prior to 2010, Piedmont, a qualified special purpose entity, was not consolidated by Jackson.

In 2010, ASC 2009-16 eliminated the qualifying special-purpose entity exemption for consolidation. Since Jackson was deemed to be the primary beneficiary of Piedmont, consolidation of Piedmont is now required.

4. Investments (continued)

Effective January 1, 2010, as a result of adoption of ASC 2009-16, the Company recorded a decrease in retained earnings of $48.2 million upon consolidation of Piedmont. As a result of this consolidation and after elimination, at December 31, 2010, Piedmont's assets of $463.9 million and liabilities to external parties of $26.2 million are included in Jackson's financial statements. At the date of adoption, Jackson also elected to carry the assets and liabilities in the Piedmont trust at fair value, with changes in fair value reflected in the consolidated income statement. The creditors of Piedmont do not have recourse to the general credit of Jackson.

In 2001, Jackson executed the Morgan Stanley Dean Witter Capital I, Series 2001-PPM ("MSDW") securitization transaction. Jackson contributed commercial mortgages with a total principal amount of $623.6 million to MSDW and retained beneficial interest. Prior to 2010, MSDW, a qualified special purpose entity, was not consolidated by Jackson.

Effective January 1, 2010, as a result of adoption of ASC 2009-16, the Company was deemed to be the primary beneficiary of MSDW and, therefore, now consolidates MSDW. The Company recorded an increase in retained earnings of $8.0 million due to the consolidation of MSDW. As a result of this consolidation and after elimination, at December 31, 2010, MSDW's assets of $80.6 million and liabilities to external parties of $14.7 million are included in Jackson's consolidated financial statements. The creditors of MSDW do not have recourse to the general credit of Jackson.

Other Invested Assets
Other invested assets primarily include investments in limited partnerships and real estate. Investments in limited partnerships have carrying values of $865.8 million and $704.7 million at December 31, 2010 and 2009, respectively. Real estate totaling $152.8 million and $136.9 million at December 31, 2010 and 2009, respectively, includes foreclosed properties with a book value of $13.8 million and $13.6 million, 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. Based on the Company's initial analysis, it concluded that SERVES 2 was a VIE and that the Company was the primary beneficiary. At December 31, 2009, the underlying assets of $48.2 million and net liabilities of $4.0 million were included in Jackson's consolidated financial statements. SERVES 2 was liquidated on August 12, 2010.

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. Based on the Company's initial analysis, it concluded that SERVES 3 was a VIE and that the Company 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 3 entity in exchange for the counterparty forbearing its right to initiate forced liquidation of the entity under certain market value triggers. During 2009, Jackson entered into revised forbearance agreements with this counterparty. The support provided by the agreement at December 31, 2010 could potentially expose Jackson to maximum losses of $227.5 million, if circumstances allowed the forbearance period to cease. Jackson believes that, so long as the forbearance period continues, the risk of loss under the agreement is remote.

4. Investments (continued)

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 in 2008, 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 $42.8 million and $48.8 million and net liabilities of $8.4 million and $29.8 million in 2010 and 2009, respectively, of this entity. The creditors of SERVES 3 do not have recourse to the general credit of Jackson.

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 the agreement described above. As a result of this forebearance agreement, Jackson's maximum loss under SERVES 4 is $292.4 million. Jackson believes that, so long as the forbearance period continues, the risk of loss under the agreement is remote. 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, 2010 and 2009, the estimated fair value of loaned securities was $56.7 million and $83.3 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. At December 31, 2010 and 2009, cash collateral received in the amount of $58.1 million and $34.2 million, 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,		
	2010	2009	2008
Fixed maturities	$ 2,258,099	$ 2,242,491	$ 2,283,388
Commercial mortgage loans	285,123	330,194	347,483
Limited partnerships	69,250	(89,829)	10,618
Other investment income	124,630	158,717	85,555
Total investment income	2,737,102	2,641,573	2,727,044
Less investment expenses	(72,147)	(63,779)	(64,945)
Net investment income	$ 2,664,955	$ 2,577,794	$ 2,662,099

4. Investments (continued)

During 2010, 2009 and 2008, $65.5 million, $57.2 million and $(85.7) million of investment income (loss) was recognized on trading securities held at December 31, 2010, 2009 and 2008, respectively. During 2010, $54.7 million of investment income was recognized on securities carried at fair value with changes in value recorded through the income statement.

5. Derivative Instruments

Jackson's business model includes the acceptance, monitoring and mitigation of risk. Specifically, Jackson considers, 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. As a result, derivatives are carried at fair value with changes recorded in income.

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 unrealized 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 various call and put options and put spreads), 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 insurance products 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.

5. Derivative Instruments (continued)

Interest rate swap agreements used for hedging purposes 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. Interest rate swaps are carried at fair value. During 2010, the Company entered into various interest rate swap transactions to more closely match the overall asset and liability duration.

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

December 31, 2010

	Assets		Liabilities		
	Contractual/ Notional Amount (1)	Fair Value	Contractual/ Notional Amount (1)	Fair Value	Net Fair Value
Cross-currency swaps	$ 593,451	$ 175,454	$ 270,906	$ (34,720)	$ 140,734
Credit default swaps	40,000	372	210,000	(19,730)	(19,358)
Equity index call options	5,502,500	125,641	1,356,897	(462,209)	(336,568)
Equity index put options	12,600,000	215,768	-	-	215,768
Put-swaptions	20,500,000	46,930	6,000,000	(34,387)	12,543
Equity index futures	-	-	4,228,875	(117,450)	(117,450)
Total return swaps	-	-	300,000	(5,831)	(5,831)
Interest rate swaps	11,250,000	446,212	13,300,000	(576,480)	(130,268)
Total	$ 50,485,951	$ 1,010,377	$ 25,666,678	$ (1,250,807)	$ (240,430)

December 31, 2009

	Assets		Liabilities		
	Contractual/ Notional Amount (1)	Fair Value	Contractual/ Notional Amount (1)	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

(1) 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)

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,		
	2010	2009	2008
Interest rate swaps	$ 100,830	$ 407,233	$ (790,029)
Put-swaptions	14,848	7,052	(20,493)
Futures	(537,361)	(396,329)	353,607
Equity index call options	(63,733)	(6,895)	(103,769)
Equity index put options	(524,671)	(792,760)	760,135
Total return swaps	30,408	74,470	(91,138)
Spread cap options	13,701	101,520	76,414
Credit default swaps	(2,283)	(24,990)	(34,845)
Fixed index annuity embedded derivatives	(211,684)	(189,464)	262,028
Variable annuity embedded derivatives	109,974	(91,917)	(878,548)
Risk management activity	$ (1,069,971)	$ (912,080)	$ (466,638)

At December 31, 2010 and 2009, the fair value of Jackson's net derivative assets by counterparty were $308.3 million and $387.5 million, respectively, and held collateral was $282.3 million and $348.6 million, respectively, related to these agreements. At December 31, 2010 and 2009, the fair value of Jackson's net derivative liabilities by counterparty were $548.7 million and $294.9 million, respectively, and provided collateral was $484.3 million and $341.4 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, 2010 or 2009, Jackson would have to disburse $38.4 million and been able to claim $85.4 million, respectively, from counterparties. 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. 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, 2010 and 2009, the Company provided 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, 2010	Minimum Return	Account Value	Net Amount at Risk	Weighted Average Attained Age	Average Period until Expected Annuitization
Return of net deposits plus a minimum return					
GMDB	0-6%	$ 39,987.3	$ 3,297.3	64.0 years	
GMWB - Premium only	0%	4,293.0	233.4		
GMWB - For life	0-5%*	3,124.5	649.5		
GMAB - Premium only	0%	74.8	1.6		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		5,858.8	730.0	63.3 years	
GMWB - Highest anniversary only		3,147.5	537.3		
GMWB - For life		1,333.7	306.3		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	2,767.8	486.9	65.7 years	
GMIB	0-6%	3,026.4	654.6		5.1 years
GMWB - For life	0-8%*	23,525.1	1,052.8		

December 31, 2009	Minimum Return	Account Value	Net Amount at Risk	Weighted Average Attained Age	Average 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		

* Ranges shown based on simple interest. The upper limits of 5%, 7%, or 8% simple interest are approximately equal to 4.1%, 5.5%, and 6%, respectively, on a compound interest basis over a typical 10-year bonus period.

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

Amounts shown as GMWB 'for-life' above include a 'not-for-life' component up to the point at which the guaranteed withdrawal benefit is exhausted, after which benefits paid are considered to be 'for-life' benefits. The liability related to this 'not-for-life' portion is valued as an embedded derivative, while the 'for-life' benefits are valued as an insurance liability (see below). For this table, the net amount at risk of the 'not-for-life' component is the undiscounted excess of the guaranteed withdrawal benefit over the account value, and that of the 'for-life' component is the estimated value of additional life contingent benefits paid after the guaranteed withdrawal benefit is exhausted.

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

	December 31,	
Fund type:	2010	2009
Equity	$ 37,327.4	$ 24,993.8
Bond	5,350.1	3,778.1
Balanced	5,237.9	3,529.8
Money market	705.7	843.8
Total	$ 48,621.1	$ 33,145.5

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

	2010	2009	2008
Balance at January 1	$ 308.7	$ 434.3	$ 118.0
Incurred guaranteed benefits	125.7	21.0	392.0
Paid guaranteed benefits	(92.4)	(146.6)	(75.7)
Balance at December 31	$ 342.0	$ 308.7	$ 434.3
Balance at December 31, net of reinsurance	$ 342.0	$ 308.7	$ 301.0

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 liability balance through the income statement within reserves, net of reinsurance, if actual experience or other evidence suggests that earlier assumptions should be revised.

The following assumptions and methodology were used to determine the GMDB liability at both December 31, 2010 and 2009 (except where otherwise noted):

1) Use of a series of deterministic investment performance scenarios, based on historical average market volatility.
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, 2010 and 2009.
5) Discount rate of 8.4%.

Most GMWB reserves are considered to be derivatives under current accounting guidance 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 $313.5 million and $437.4 million at December 31, 2010 and 2009, respectively, and was included in reserves for future policy benefits.

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

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, 2010 and 2009, these GMWB reserves totaled $46.5 million and $29.1 million, respectively, and were included in reserves for future policy benefits.

GMAB benefits are offered on some variable annuity plans and issues have been minimal as of December 31, 2010.

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 liability balance through the income statement within reserves, net of reinsurance, 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, 2010 and 2009, are consistent with those used for calculating the GMDB liability. At December 31, 2010 and 2009, GMIB reserves before reinsurance totaled $7.5 million and $5.1 million, respectively.

Other Liabilities – Insurance and Annuitization Benefits
The Company has established additional reserves for life insurance business for: 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. A liability is established to cover future annuitization benefits in excess of surrender values. The total liability for this block is the surrender value, 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, 2010			December 31, 2009		
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 *	$ 84.9	$ 5,850.5	55.7 years	$ 46.4	$ 5,533.3	55.5 years
Two-tier annuitization	6.2	32.6	63.9 years	6.3	33.3	63.1 years
ISWL account balance adjustment	66.3	n/a	n/a	61.4	n/a	n/a

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

The following assumptions and methodology were used to determine the UL insurance benefit liability at December 31, 2010 and 2009:

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.

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

The following assumptions and methodology were used to determine the two-tier annuitization benefit liability at December 31, 2010 and 2009:

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 was as follows (in thousands):

	December 31, 2010	December 31, 2009
Surplus notes	$ 249,333	$ 249,314
Mortgage loans	31,150	33,116
VIE related borrowings	43,322	6,250
FHLBI mortgage loan	15,000	-
Total	$ 338,805	$ 288,680

Due in more than 1 to 5 years	$ 58,007
Due after 5 years	280,798
Total	$ 338,805

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 2010, 2009 and 2008.

Mortgage loans

At December 31, 2010 and 2009, certain consolidated real estate VIEs had outstanding mortgage loans with a weighted average interest rate of 4.4% and 7.1%, respectively, with maturities through 2016. Interest paid totaled $2.1 million, $2.2 million and $1.9 million in 2010, 2009 and 2008, respectively.

VIE related borrowings

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% at December 31, 2010 and 2009. Interest paid on the notes in 2010, 2009 and 2008 totaled $8.8 million, $0.4 million and $0.6 million, respectively.

7. Borrowings (continued)

Additionally, Piedmont and MSDW have issued debt to external parties of $26.2 million and $14.7 million, respectively, maturing in 2012 and 2031, respectively. The outstanding principal amounts accrued interest at a weighted average interest rate of 3.1% at December 31, 2010. Interest paid on the notes totaled $2.6 million in 2010, the only year these VIEs were consolidated in these financial statements.

Federal Home Loan Bank Advances
Jackson is a member of the FHLBI, as described in Note 2, primarily for the purpose of participating in its mortgage-collateralized loan advance program with short-term and long-term funding facilities. Advances are in the form of short-term or long-term notes or funding agreements issued to FHLBI and are collateralized by CMBS and other structured securities.

In 2010, Jackson received a mortgage loan from the FHLBI, under its community investment program. The loan accrues interest at 1.04% and the outstanding balance was $15.0 million as of December 31, 2010. Jackson did not pay any interest on this mortgage loan during 2010, as the loan was executed in mid-December. At December 31, 2010, the mortgage loan was collateralized by real estate with a carrying value of $17.3 million.

Jackson maintains short-term funding facilities 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. During 2010, Jackson did not utilize its short-term funding facility. In 2009, Jackson's short-term notes averaged $77.4 million at an average interest rate of 0.3%. Jackson paid interest of $0.3 million and $7.0 million on its short-term notes during 2009 and 2008, respectively.

8. Repurchase Agreements

During 2010 and 2009, the Company entered into 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 $289.1 million and $29.3 million during 2010 and 2009, respectively, at weighted average interest rates of 0.2% and 0.2%, respectively. The outstanding balance was $552.5 million as of December 31, 2010. There was no outstanding balance as of December 31, 2009. Interest paid totaled $0.6 million, $0.1 million and $0.2 million in 2010, 2009 and 2008, respectively. The highest level of short-term borrowings at any month end was $552.5 million in 2010 and $250.0 million in 2009.

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 either 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 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, paying a

9. Reinsurance (continued)

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 deferred acquisition cost amortization.

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

	Years ended December 31, 2010	2009	2008
Direct premiums:			
Life	$ 273,247	$ 289,755	$ 314,096
Accident and health	9,058	10,867	13,048
Plus reinsurance assumed:			
Life	13,736	15,020	18,830
Accident and health	1,122	1,207	1,273
Less reinsurance ceded:			
Life	(123,621)	(125,084)	(133,308)
Accident and health	(10,180)	(12,074)	(14,321)
Guaranteed annuity benefits	(20,641)	(64,460)	(29,457)
Total net premiums	$ 142,721	$ 115,231	$ 170,161

Premiums ceded for guaranteed annuity benefits included $44.4 million and $15.6 million to PARC during 2009 and 2008, respectively. No premium was ceded to PARC in 2010.

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

	December 31, 2010	2009
Reserves:		
Life	$ 874,904	$ 851,802
Accident and health	18,966	21,114
Guaranteed minimum income benefits	127,534	141,459
Other annuity benefits	25,184	27,525
Claims liability	40,748	89,595
Other	2,203	1,623
Total	$ 1,089,539	$ 1,133,118

Included in the reinsurance recoverable were reserves ceded to Brooke Life of $47.7 million and $50.0 million at December 31, 2010 and 2009, respectively. The largest amount ceded to any reinsurer at December 31, 2010 totaled $364.9 million.

10. Federal Income Taxes

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

	Years ended December 31,		
	2010	2009	2008
Current tax benefit	$ (179,053)	$ (227,312)	$ (58,713)
Deferred tax expense (benefit)	355,790	409,848	(113,368)
Federal income tax expense (benefit)	$ 176,737	$ 182,536	$ (172,081)

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 2010, 2009 and 2008 as follows (in thousands):

	Years ended December 31,		
	2010	2009	2008
Income taxes at statutory rate	$ 238,858	$ 213,748	$ (400,857)
Dividends received deduction	(56,390)	(27,331)	(73,524)
Deferred tax asset valuation allowance	-	-	302,731
Other	(5,731)	(3,881)	(431)
Federal income tax expense (benefit)	$ 176,737	$ 182,536	$ (172,081)
Effective tax rate	25.9%	29.9%	15.0%

Federal income taxes (recovered) paid were $(517.8) million, $(48.6) million and $69.0 million in 2010, 2009 and 2008, respectively. The 2010 tax recovery included $287.7 million due to Internal Revenue Service guidance issued in March 2010 related to the adoption of new statutory reserving requirements for variable annuities in 2009. This new tax guidance required that the tax reserve decrease recognized upon implementation of the transition to the new reserving methodology be amortized over 10 years. Approximately $822.1 million of the additional tax reserve deduction was available to carryback and offset the prior year's taxable income. For GAAP, this guidance resulted in a current tax recoverable, offset by a decrease in a deferred tax asset, with no impact on total tax expense.

10. Federal Income Taxes (continued)

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

	December 31, 2010	December 31, 2009
Gross deferred tax asset		
Difference between financial reporting and the tax basis of:		
Policy reserves and other insurance items	$ 1,394,786	$ 1,238,212
Other-than-temporary impairments and other investment items	202,358	255,863
Deferred compensation	41,498	47,670
Net unrealized losses on available for sale securities	-	152,665
Other, net	144,945	114,307
Total gross deferred tax asset	1,783,587	1,808,717
Gross deferred tax liability		
Difference between financial reporting and the tax basis of:		
Deferred acquisition costs and sales inducements	(1,796,823)	(1,618,547)
Other assets	(96,579)	(94,282)
Net unrealized gains on available for sale securities	(543,647)	-
Other, net	(3,115)	(6,210)
Total gross deferred tax liability	(2,440,164)	(1,719,039)
Net deferred tax (liability) asset	$ (656,577)	$ 89,678

During 2008, Jackson recorded a valuation allowance, included in deferred tax expense, of $302.7 million against the deferred tax assets related to 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 was now more likely than not that the full tax benefit of the losses would be realized. Since the reversal of the valuation allowance was due to unrealized gains emerging in 2009, the valuation allowance was reversed 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 gross deferred tax assets.

At December 31, 2010, the Company had no federal tax ordinary loss carryforwards.

At December 31, 2010, the Company had federal tax capital loss carryforwards totaling $24.8 million, which expire on December 31, 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's 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

10. Federal Income Taxes (continued)

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 did not agree with the assessment and filed a protest with the Appellate Division of the IRS. No reserve has been 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 $56.4 million, $27.3 million and $73.5 million during 2010, 2009 and 2008, respectively.

At December 31, 2010 and 2009, the Company had no reserve for an unrecognized tax benefit.

The Company has considered both permanent and temporary positions in determining the unrecognized tax benefit rollforward. There were no unrecognized tax benefits that, if recognized, would have affected the effective tax rate at both December 31, 2010 and 2009.

Interest expense totaling $0.8 million related to unrecognized tax benefits is included in income tax expense in the consolidated income statement for 2008 with none in 2010 and 2009. The Company has not recorded any amounts for penalties related to unrecognized tax benefits during 2010, 2009 or 2008.

Based on information available as of December 31, 2010, 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 prior to 2007.

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. At December 31, 2010 and 2009, Jackson recorded accruals totaling $29.0 million and $16.0 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, which are adjusted as claims are reported and payments are made by ING, totaled $0.4 million and $0.6 million at December 31, 2010 and 2009, respectively.

State guaranty funds provide payments for policyholders of insolvent life insurance companies. These guaranty funds are financed by assessing 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, the Company’s reserve for future state guaranty fund assessments was $24.9 million at the end of both 2010 and 2009. Related premium tax offsets were $14.6 million and $15.7 million at December 31, 2010 and 2009, respectively. While Jackson cannot predict the amount and timing of any future assessments, the Company believes the reserve is adequate for all anticipated payments for known insolvencies.

At December 31, 2010, the Company had unfunded commitments related to its investments in limited partnerships and limited liability companies totaling $568.0 million. At December 31, 2010, unfunded fixed-rate commercial mortgage loan commitments totaled $137.3 million.

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, 2010, Jackson recorded a liability of $7.9 million for future lease payments. Lease expense was $22.3 million, $20.6 million and $22.7 million in 2010, 2009 and 2008, respectively. At December 31, 2010, future minimum payments under these noncancellable operating leases were as follows (in thousands):

2011	$	9,741
2012		11,518
2013		12,119
2014		10,528
2015		10,086
Thereafter		30,414
Total	$	84,406

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, 2010, the adjusted earned surplus of Jackson National Life Insurance Company was $562.8 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 2011, subject to the availability of earned surplus, without prior approval of the Commissioner is $769.6 million.

The Company received capital contributions from its parent of $150.1 million, $592.4 million and $34.1 million in 2010, 2009 and 2008, respectively. The capital contributions included $20.1 million, $21.4 million and $34.1 million in 2010, 2009 and 2008, respectively, from Brooke Life's forgiveness of intercompany tax liabilities. Dividend payments from the Company to its parent were $275.0 million, $250.0 million and $313.1 million in 2010, 2009 and 2008, respectively.

Statutory capital and surplus of the Company, as reported in its Annual Statement, was $4.4 billion and $4.0 billion at December 31, 2010 and 2009, respectively. Statutory net income (loss) of the Company, as reported in its Annual Statement, was $769.6 million, $373.6 million and $(623.4) million in 2010, 2009 and 2008, respectively.

The Commissioner has granted Jackson a permitted practice that allows 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 is required to demonstrate the effectiveness of its interest rate swap program pursuant to the Michigan Insurance Code. This permitted practice expires on October 1, 2011. At December 31, 2010 and 2009, the effect of the permitted practice increased statutory surplus by $130.3 million and $188.4 million, respectively. The permitted practice had no impact on statutory net income.

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 $37.2 million, $36.8 million and $35.9 million to PPM for investment advisory services during 2010, 2009 and 2008, 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 2010, 2009 and 2008 totaled $85.7 million, $76.7 million and $57.4 million, respectively.

13. Other Related Party Transactions (continued)

Jackson has entered into shared services administrative agreements with both, NPH and PPMA. Under the shared services administrative agreements, Jackson charged $6.2 million, $4.5 million and $5.1 million of certain management and corporate services costs to these affiliates in 2010, 2009 and 2008, 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, 2010 or 2009. The highest outstanding loan balance during 2010 and 2009 was $21.0 million and $10.0 million, respectively. During 2010, 2009 and 2008, interest and commitment fees totaled $0.2 million, $0.1 million and $0.2 million, respectively.

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 $7.0 million outstanding at December 31, 2010. The highest outstanding loan balance during 2010 and 2009 was $7.0 million and $1.4 million, respectively. Interest and commitment fees totaled $0.1 million and $35 thousand during 2010 and 2009, respectively.

Jackson provides, through its PGDS subsidiary, information technology services to certain Prudential affiliates. Jackson recognized $20.1 million, $19.2 million and $10.4 million of revenue associated with these services during 2010, 2009 and 2008, respectively. This revenue is included in other income in the accompanying consolidated income statement. This revenue is substantially equal to the costs incurred by PGDS to provide the services, which are reported in general and administrative expenses in the consolidated income statements.

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 $17.4 million, $16.3 million and $12.1 million in 2010, 2009 and 2008, respectively.

The Company maintains non-qualified voluntary deferred compensation plans for certain agents and employees. At December 31, 2010 and 2009, the liability for such plans totaled $119.2 million and $136.3 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 expense (income) related to these plans, including a match of elective deferrals for the agents’ deferred compensation plan, was $22.5 million, $34.8 million and $(54.6) million in 2010, 2009 and 2008, respectively. Investment income (expense) from the mutual funds totaled $15.5 million, $27.1 million and $(62.9) million in 2010, 2009 and 2008, respectively.