JACKSON
NATIONAL LIFE INSURANCE COMPANY

Jackson National Life Insurance Company and Subsidiaries

Consolidated Financial Statements

December 31, 2012 and 2011

Jackson National Life Insurance Company and Subsidiaries

Index to Consolidated Financial Statements
December 31, 2012 and 2011

KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Directors and Stockholder
Jackson National Life Insurance Company:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Jackson National Life Insurance Company and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated income statements, consolidated statements of comprehensive income, equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with the auditing 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, in 2012 the Company has changed its method of accounting for the costs associated with acquiring or renewing insurance contracts due to the retrospective adoption of Accounting Standards Update (ASU) 2010-26: *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. Our opinion is not modified with respect to this matter.

KPMG LLP

Chicago, Illinois
March 12, 2013

Jackson National Life Insurance Company and Subsidiaries

Consolidated Balance Sheets

(In thousands, except per share information)

	December 31, 2012	December 31, 2011
Assets		
Investments:		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost: 2012, $48,858,082; 2011, $38,688,488, including $319,258 and $126,657 at fair value under the fair value option at December 31, 2012 and 2011, respectively)	$ 53,164,638	$ 41,546,295
Trading securities, at fair value	412,813	315,607
Commercial mortgage loans, net of allowance	5,758,997	5,530,370
Policy loans (includes $2,994,756 and $0 at fair value under the fair value option at December 31, 2012 and 2011, respectively)	4,374,211	855,099
Derivative instruments	2,512,658	2,605,468
Other invested assets	1,368,710	1,255,455
Total investments	67,592,027	52,108,294
Cash and cash equivalents	1,150,420	656,253
Accrued investment income	678,442	576,185
Deferred acquisition costs	4,822,587	4,395,174
Reinsurance recoverable	9,876,908	1,409,688
Income taxes receivable	226,465	181,774
Other assets	919,229	875,292
Separate account assets	80,134,446	58,796,937
Total assets	$ 165,400,524	$ 118,999,597
Liabilities and Equity		
Liabilities		
Reserves for future policy benefits and claims payable	$ 17,978,248	$ 5,078,788
Other contract holder funds	52,827,628	44,944,096
Funds held under reinsurance treaties, at fair value under fair value option	3,285,118	-
Debt	292,274	297,695
Securities lending payable	153,747	53,285
Deferred income taxes, net	491,570	704,601
Derivative instruments	1,048,459	1,378,907
Other liabilities	1,862,837	1,654,939
Separate account liabilities	80,134,446	58,796,937
Total liabilities	158,074,327	112,909,248
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	3,766,912	3,730,901
Shares held in trust	(25,065)	(16,779)
Equity compensation reserve	12,943	7,967
Accumulated other comprehensive income, net of tax of $737,463 in 2012 and $387,111 in 2011	2,107,631	1,456,978
Retained earnings	1,409,244	869,753
Total stockholder's equity	7,285,465	6,062,620
Noncontrolling interests	40,732	27,729
Total equity	7,326,197	6,090,349
Total liabilities and equity	$ 165,400,524	$ 118,999,597

See accompanying Notes to Consolidated Financial Statements.

Jackson National Life Insurance Company and Subsidiaries

Consolidated Income Statements

(In thousands)

	Years Ended December 31,		
	2012	**2011**	**2010**
Revenues			
Fee income	$ 2,787,122	$ 2,108,159	$ 1,565,992
Premium	176,270	139,810	142,721
Net investment income	2,780,562	2,644,586	2,704,453
Net realized losses on investments:			
Total other-than-temporary impairments	(172,730)	(305,805)	(319,977)
Portion of other-than-temporary impairments included in other comprehensive income	85,876	218,710	176,719
Net other-than-temporary impairments	(86,854)	(87,095)	(143,258)
Other net investment losses	(630,252)	(673,010)	(1,021,706)
Total net realized losses on investments	(717,106)	(760,105)	(1,164,964)
Other income	80,056	52,350	61,233
Total revenues	5,106,904	4,184,800	3,309,435
Benefits and Expenses			
Death, other policy benefits and change in policy reserves, net of deferrals	614,214	585,296	536,725
Interest credited on other contract holder funds, net of deferrals	1,460,021	1,384,909	1,445,319
Interest expense	44,561	42,881	34,825
Operating costs and other expenses, net of deferrals	1,251,244	1,005,947	863,639
Amortization of deferred acquisition and sales inducement costs	443,676	375,963	18,890
Total benefits and expenses	3,813,716	3,394,996	2,899,398
Pretax income before taxes and noncontrolling interests	1,293,188	789,804	410,037
Income tax expense	355,433	212,072	81,392
Net income	937,755	577,732	328,645
Less: Net (loss) income attributable to noncontrolling interests	(1,736)	4,446	7,288
Net income attributable to Jackson	$ 939,491	$ 573,286	$ 321,357

See accompanying Notes to Consolidated Financial Statements.

Jackson National Life Insurance Company and Subsidiaries
Consolidated Statements of Comprehensive Income
(In thousands)

	Years Ended December 31,		
	2012	2011	2010
Net income	$ 937,755	$ 577,732	$ 328,645
Other comprehensive income, net of tax:			
Net unrealized gains on securities not other-than-temporarily impaired (net of tax expense of: 2012 $403,751; 2011 $393,574; 2010 $465,603)	764,562	701,875	834,357
Net unrealized losses on other-than-temporarily impaired securities (net of tax benefit of: 2012 $25,563; 2011 $67,448; 2010 $55,702)	(47,474)	(125,261)	(103,446)
Reclassification adjustment for (losses) gains included in net income (net of tax (benefit) expense of: 2012 $(27,836); 2011 $(32,447); 2010 $18,711)	(51,696)	(60,260)	34,747
Total other comprehensive income	665,392	516,354	765,658
Comprehensive income	1,603,147	1,094,086	1,094,303
Less: Comprehensive income (loss) attributable to noncontrolling interests	13,003	(24,603)	(23,048)
Comprehensive income attributable to Jackson	$ 1,590,144	$ 1,118,689	$ 1,117,351

See accompanying Notes to Consolidated Financial Statements.

Jackson National Life Insurance Company and Subsidiaries
Consolidated Statements of Equity
(In thousands)

	Common Stock	Additional Paid-In Capital	Shares Held In Trust	Equity Compensation Reserve	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholder's Equity	Non-Controlling Interests	Total Equity
Balances as of December 31, 2009	$ 13,800	$ 3,561,395	$ (1,066)	$ 2,973	$ 63,480	$ 822,931	$ 4,463,513	$ 75,380	$ 4,538,893
Net income	-	-	-	-	-	321,357	321,357	7,288	328,645
Change in unrealized investment gains and losses, net of tax	-	-	-	-	795,994	-	795,994	(30,336)	765,658
Cumulative effect of change in accounting, net	-	-	-	-	52,101	(42,821)	9,280	-	9,280
Capital contribution	-	150,105	-	-	-	-	150,105	-	150,105
Dividends to stockholder	-	-	-	-	-	(275,000)	(275,000)	-	(275,000)
Shares acquired at cost	-	-	(8,465)	-	-	-	(8,465)	-	(8,465)
Shares distributed at cost	-	-	1,343	-	-	-	1,343	-	1,343
Reserve for equity compensation plans	-	-	-	1,532	-	-	1,532	-	1,532
Fair value of shares issued under equity compensation plans	-	-	-	(1,667)	-	-	(1,667)	-	(1,667)
Balances as of December 31, 2010	13,800	3,711,500	(8,188)	2,838	911,575	826,467	5,457,992	52,332	5,510,324
Net income	-	-	-	-	-	573,286	573,286	4,446	577,732
Change in unrealized investment gains and losses, net of tax	-	-	-	-	545,403	-	545,403	(29,049)	516,354
Capital contribution	-	19,401	-	-	-	-	19,401	-	19,401
Dividends to stockholder	-	-	-	-	-	(530,000)	(530,000)	-	(530,000)
Shares acquired at cost	-	-	(17,948)	-	-	-	(17,948)	-	(17,948)
Shares distributed at cost	-	-	9,357	-	-	-	9,357	-	9,357
Reserve for equity compensation plans	-	-	-	7,515	-	-	7,515	-	7,515
Fair value of shares issued under equity compensation plans	-	-	-	(2,386)	-	-	(2,386)	-	(2,386)
Balances as of December 31, 2011	13,800	3,730,901	(16,779)	7,967	1,456,978	869,753	6,062,620	27,729	6,090,349
Net income	-	-	-	-	-	939,491	939,491	(1,736)	937,755
Change in unrealized investment gains and losses, net of tax	-	-	-	-	650,653	-	650,653	14,739	665,392
Capital contribution	-	36,011	-	-	-	-	36,011	-	36,011
Dividends to stockholder	-	-	-	-	-	(400,000)	(400,000)	-	(400,000)
Shares acquired at cost	-	-	(25,220)	-	-	-	(25,220)	-	(25,220)
Shares distributed at cost	-	-	16,934	-	-	-	16,934	-	16,934
Reserve for equity compensation plans	-	-	-	17,107	-	-	17,107	-	17,107
Fair value of shares issued under equity compensation plans	-	-	-	(12,131)	-	-	(12,131)	-	(12,131)
Balances as of December 31, 2012	$ 13,800	$ 3,766,912	$ (25,065)	$ 12,943	$ 2,107,631	$ 1,409,244	$ 7,285,465	$ 40,732	$ 7,326,197

See accompanying Notes to Consolidated Financial Statements.

Jackson National Life Insurance Company and Subsidiaries

Consolidated Statement of Cash Flows

(In thousands)

	Years Ended December 31,		
	2012	**2011**	**2010**
Cash flows from operating activities:			
Net income	$ 937,755	$ 577,732	$ 328,645
Adjustments to reconcile net income to net cash provided by operating activities:			
Net realized (gains) losses on investments	(28,487)	(113,933)	55,495
Net losses on derivatives	585,288	809,328	1,069,971
Interest credited on other contract holder funds, gross	1,473,482	1,396,036	1,464,020
Mortality, expense and surrender charges	(462,531)	(343,983)	(354,070)
Amortization of discount and premium on investments	39,699	5,428	(3,243)
Deferred income tax expense	53,323	153,591	260,445
Share-based compensation	17,107	11,802	12,213
Change in:			
Accrued investment income	(10,276)	(22,423)	(103,629)
Deferred sales inducements and acquisition costs	(832,841)	(810,412)	(1,063,279)
Trading portfolio activity, net	(88,260)	151,494	90,570
Income taxes receivable (payable)	25,030	(130,920)	318,624
Other assets and liabilities, net	261,561	(495,938)	239,074
Net cash provided by operating activities	1,970,850	1,187,802	2,314,836
Cash flows from investing activities:			
Sales, maturities and repayments of:			
Fixed maturities	6,507,615	8,981,098	10,623,808
Commercial mortgage loans	918,780	1,323,959	1,375,297
Purchases of:			
Fixed maturities	(5,294,561)	(8,202,646)	(13,190,087)
Commercial mortgage loans	(1,137,725)	(1,185,257)	(1,045,450)
Policy loans, net	(35,921)	743	(2,901)
Purchase of REALIC, net of cash acquired	(354,172)	-	-
Other investing activities	(1,377,454)	(514,754)	(714,004)
Net cash (used in) provided by investing activities	(773,438)	403,143	(2,953,337)
Cash flows from financing activities:			
Policyholders' account balances:			
Deposits	23,226,461	20,374,771	17,868,878
Withdrawals	(9,101,692)	(8,846,295)	(7,182,166)
Net transfers to separate accounts	(14,164,019)	(12,256,282)	(10,767,308)
(Payments on) proceeds from repurchase agreements	(100,709)	(451,678)	552,458
(Payments on) proceeds from Federal Home Loan Bank notes	(150,000)	150,000	-
Payments on debt	(5,000)	(40,870)	(50,711)
Shares held in trust at cost, net	(8,286)	(8,591)	(7,122)
Payment of cash dividends to Parent	(400,000)	(530,000)	(275,000)
Capital contribution from Parent	-	-	130,000
Net cash (used in) provided by financing activities	(703,245)	(1,608,945)	269,029
Net increase (decrease) in cash and cash equivalents	494,167	(18,000)	(369,472)
Cash and cash equivalents, beginning of year	656,253	674,253	1,043,725
Total cash and cash equivalents, end of year	$ 1,150,420	$ 656,253	$ 674,253
Supplemental Cash Flow Information			
Income tax paid (received)	$ 241,201	$ 170,022	$ (517,756)
Interest paid	$ 22,011	$ 22,356	$ 33,864

See accompanying Notes to Consolidated Financial Statements.

1. Business and Basis of Presentation

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;
- PGDS (US One) LLC ("PGDS"), a wholly owned subsidiary that provides information technology services to Jackson and certain affiliates;
- Hermitage Management, LLC, a wholly owned subsidiary that holds and manages certain mortgage loans and real estate;
- Other insignificant wholly owned subsidiaries; and
- Other partnerships, limited liability companies and variable interest entities ("VIEs") in which Jackson has a controlling interest or is deemed the primary beneficiary.

Acquisition

On September 4, 2012, the Company acquired 100% of the equity of SRLC America Holding Corp. ("SRLC") from Swiss Re Life Capital Ltd ("Swiss Re") for a preliminary purchase price of $663.3 million, which was reduced by an estimated $73.9 million current net operating loss carryback income tax recoverable, resulting in a cash payment of $589.4 million at the time of sale. Subsequent adjustments reduced the preliminary purchase price to $587.3 million, which remains subject to final agreement with Swiss Re. See Note 3 for additional information regarding the acquisition.

SRLC's primary subsidiary was Reassure America Life Insurance Company ("REALIC"), which was merged into Jackson as of December 31, 2012. REALIC's primary business activity involved the acquisition of blocks of life insurance, including corporate owned life insurance, disability income and/or annuity contracts in force. In addition to REALIC, SRLC had other insignificant subsidiaries. Subsequent to the purchase, SRLC was dissolved and its subsidiaries became direct subsidiaries of Jackson.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Intercompany accounts and transactions have been eliminated upon consolidation. In accordance with updated accounting guidance related to deferred acquisition costs, further described below, the Company's 2011 and 2010 consolidated financial statements have been adjusted to reflect the retrospective adoption of this updated guidance. In 2011, Jackson adopted a revised presentation of the balance sheet and income statement, with prior year amounts being reclassified to conform to the current year presentation with no impact on stockholder's equity or net income. In conjunction with this change, the Company reclassified its previously reported risk management activity into other investment losses and net investment income, which is further detailed in Note 5. In addition, certain amounts in the 2011 and 2010 financial statements and notes to the consolidated financial statements have been reclassified to conform to the 2012 presentation.

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, allowances on receivables, liabilities for lawsuits and 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; 8) the value of guarantee obligations; and 9) value of business acquired and its amortization. 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

Changes in Accounting Principles – Adopted in Current Year

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, "Presentation of Comprehensive Income," with an objective of increasing the prominence of items reported in other comprehensive income ("OCI"). This guidance provides entities with the option to present the total of comprehensive income, the components of net income, and the components of OCI either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company adopted this guidance effective January 1, 2012 and chose to present two separate but consecutive statements.

In May 2011, the FASB issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards," which was issued to create a consistent framework for the application of fair value measurement across jurisdictions. The amendments include wording changes to GAAP in order to clarify the FASB's intent about the application of existing fair value measurements and disclosure requirements, as well as to change a particular principle or existing requirement for measuring fair value or disclosing information about fair value measurements. The Company adopted this guidance effective January 1, 2012, with no impact on the Company's consolidated financial statements, and has included the required disclosures.

In October 2010, the FASB issued ASU No. 2010-26, "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts." This guidance 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. Jackson adopted this accounting guidance effective January 1, 2012, on a retrospective basis for all years presented.

The following table summarizes the prior period changes reflected in the Consolidated Balance Sheets and Consolidated Statements of Equity related to the retrospective adoption (in millions):

	As of December 31, 2011			As of December 31, 2010		
	As previously reported	Effect of DAC change	As adjusted	As previously reported	Effect of DAC change	As adjusted
Deferred acquisition costs	$ 5,635	$ (1,240)	$ 4,395	$ 5,306	$ (1,135)	$ 4,171
Deferred income taxes, net	$ 1,142	$ (437)	$ 705	$ 657	$ (400)	$ 256
Other comprehensive income	$ 1,329	$ 128	$ 1,457	$ 837	$ 75	$ 912
Retained earnings	$ 1,800	$ (931)	$ 870	$ 1,636	$ (809)	$ 826

The following table summarizes the prior period changes reflected in the Consolidated Income Statements and Consolidated Statements of Comprehensive Income related to the retrospective adoption (in millions):

	Years ended December 31,					
	2011			2010		
	As previously reported	Effect of DAC change	As adjusted	As previously reported	Effect of DAC change	As adjusted
Operating costs	$ 758	$ 248	$ 1,006	$ 621	$ 243	$ 864
Amortization of deferred acquisition costs	$ 437	$ (61)	$ 376	$ (12)	$ 31	$ 19
Income tax expense	$ 277	$ (65)	$ 212	$ 177	$ (96)	$ 81
Net income attributable to Jackson	$ 695	$ (122)	$ 573	$ 498	$ (178)	$ 321

The Company has also adjusted prior year amounts in cash flows from operations in the statement of cash flows. These adjustments had no impact on the total net cash provided by operating activities.

Changes in Accounting Principles – Not Yet Adopted
In December 2011, the FASB issued ASU No. 2011-11, "Balance Sheet: Disclosures about Offsetting Assets and Liabilities," which requires an entity to disclose information about offsetting and related arrangements. This guidance is effective for fiscal years beginning on or after January 1, 2013. The new disclosures are required to be applied retrospectively for all comparative periods presented. The Company will adopt this guidance effective January 1, 2013 and include all applicable disclosures.

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

Investments
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 $878.0 million and $840.7 million as of December 31, 2012 and 2011, respectively.

Fixed maturities are generally classified as available for sale and are carried at fair value. 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 described in Note 4.

At December 31, 2012 and 2011, all equity holdings were classified as trading. Trading securities are carried at fair value with changes in value included in net investment income.

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

On a periodic basis, Jackson assesses the commercial mortgage loan portfolio for the need for an allowance for loan losses. In determining its allowance for losses, the Company evaluates each loan to determine if it is probable that amounts due according to the contractual terms of the loan agreement will not be collected. The allowance includes loan specific reserves for loans that are determined to be non-performing as a result of this loan review process, and a portfolio reserve for probable incurred but not specifically identified losses for loans which do not carry loan specific reserves. The loan specific portion of the loss allowance is based on the Company's assessment as to ultimate collectability of loan principal and interest, or other value expected in lieu of loan principal and interest. 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. In determining the portfolio reserve for incurred but not specifically identified losses, Jackson considers the current credit composition of the portfolio based on the results of its loan modeling analysis, which considers property type, default statistics, historical losses and other relevant factors to determine probability of default and other default loss estimates. Model assumptions are updated each quarter and, based upon actual loan experience, are considered together with other relevant qualitative factors in making the final portfolio reserve calculations. The valuation allowance for commercial mortgage loans can increase or decrease from period to period based on these factors. Changes in the allowance for loan losses are recorded in investment income.

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 also place loans on non-accrual status. In this case, all cash received is applied against the carrying value of the loan.

Policy loans are loans the Company issues to contract holders that use the cash surrender value of their life insurance policy or annuity contract as collateral. In connection with the acquisition of REALIC, the Company elected the fair value option upon acquisition of policy loans held as collateral for reinsurance, further described below. At December 31, 2012, $3.0 billion of these loans were carried at fair value, which the Company believes is equal to the unpaid principal balances plus accrued investment income. At December 31, 2012, the Company had $1.4 billion of policy loans not held as collateral for reinsurance, which were 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.

The Company 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.

In connection with the acquisition of REALIC, the Company elected the fair value option for certain assets which are held as collateral for reinsurance, as further described below. Accordingly, the Company established a funds held liability, for which the Company also elected the fair value option. The value of the funds held liability is equal to the fair value of the assets held as collateral. The income and any changes in unrealized gains and losses on these assets and the corresponding funds held liability are included in net investment income and have no impact on the Company's consolidated income statement.

The changes in unrealized gains and losses on certain investments which are classified as available for sale and 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, net of tax, and the effect of the adjustment for deferred acquisition costs and deferred sales inducements. The changes in unrealized gains and losses on investments for which Jackson elected the fair value option are included in net investment income.

Derivative Instruments and Embedded Derivatives

The Company enters into financial derivative transactions, including, but not limited to, swaps, 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. There were no charges due to nonperformance by derivative counterparties in 2012, 2011, or 2010.

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 value. The results from derivative financial instruments and embedded derivatives, including net payments, realized gains and losses and changes in value, are reported in net income, as further detailed in Note 5.

Cash and Cash Equivalents

Cash and cash equivalents primarily include money market instruments and deposits in the Federal Home Loan Bank of Indianapolis ("FHLBI").

Fair Value Measurement

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 securities and derivative instruments.

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.

Refer to Note 6 for further discussion of the methodologies used to determine fair values of the Company's financial instruments.

Deferred Acquisition Costs

Under current accounting guidance, certain costs that are directly related to the successful acquisition of new or renewal insurance business can be capitalized as deferred acquisition costs. These costs primarily pertain to commissions and certain costs associated with policy issuance and underwriting. All other acquisition costs are expensed as incurred.

Deferred acquisition costs are increased by interest thereon and amortized into income in proportion to anticipated premium revenues for traditional life policies and in proportion to estimated gross profits, including realized gains and losses and derivative movements, for annuities and interest-sensitive life products. Due to volatility of certain factors that affect gross profits, including realized capital gains and losses and derivative movements, amortization may be a benefit or a charge in any given period. In the event of negative amortization, the related deferred acquisition cost balance is capped at the initial amount capitalized, plus interest. Unamortized deferred acquisition costs are written off when a contract is internally replaced and substantially changed.

As certain available for sale fixed maturities 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 unrealized gains (losses) on fixed maturities available for sale, net of applicable tax, is credited or charged directly to equity as a component of other comprehensive income. Deferred acquisition costs decreased by $1,244.9 million and $866.1 million at December 31, 2012 and 2011, respectively, to reflect this adjustment.

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 assumption for 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, 2012 and 2011, projected returns under mean reversion were below the 15% cap.

Deferred acquisition costs are reviewed periodically to ensure that the unamortized portion does not exceed the expected recoverable amounts. Any amount deemed unrecoverable is written off with a charge through deferred acquisition costs amortization. No such write-offs were required for 2012, 2011, and 2010.

Deferred Sales Inducements

Under current accounting guidance, certain sales inducement costs that are directly related to the successful acquisition of new or renewal insurance business can be capitalized as deferred sales inducement costs. Bonus interest on deferred fixed annuities and contract enhancements on index linked annuities and variable annuities are capitalized as deferred sales inducements and included in other assets. Deferred sales inducements are increased by interest thereon and amortized into income in proportion to estimated gross profits, including realized capital gains and losses and derivative movements. Due to volatility of certain factors that affect gross profits, including realized capital gains and losses and derivative movements, amortization may be a benefit or a charge in any given period. In the event of negative amortization, the related deferred sales inducements balance is capped at the initial amount capitalized, plus interest. Unamortized deferred sales inducements are written off when a contract is internally replaced and substantially changed.

As certain fixed maturities 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 unrealized gains (losses) on fixed maturities available for sale, net of applicable tax, is credited or charged directly to equity as a component of other comprehensive income. Deferred sales inducements decreased by $216.5 million and $147.6 million at December 31, 2012 and 2011, respectively, to reflect this adjustment.

For variable annuity business, the Company employs the same mean reversion methodology as is employed for deferred acquisition costs as described above.

Deferred sales inducements are reviewed periodically to ensure that the unamortized portion does not exceed the expected recoverable amounts. Any amount deemed unrecoverable is written off with a charge through deferred sales inducements amortization. No such write-offs were required for 2012, 2011, and 2010.

Actuarial Assumption Changes (Unlocking)

Annually, or as circumstances warrant, the Company conducts a comprehensive review of the assumptions used for its estimates of future gross profits underlying the amortization of deferred acquisition costs and deferred sales inducements, as well as the valuation of the embedded derivatives and reserves for life insurance and annuity products with living benefit and death benefit guarantees. These assumptions include investment margins, mortality, persistency, rider utilization and policy maintenance expenses. Based on this review, the cumulative balances of deferred acquisition costs, deferred sales inducements and life and annuity reserves are adjusted with an offsetting benefit or charge to net income.

Reinsurance and Funds Held Under Reinsurance Treaties

The Company enters into assumed and ceded reinsurance agreements with other companies in the normal course of business. Ceded reinsurance agreements are reported on a gross basis on the Company's consolidated balance sheets as an asset for amounts recoverable from reinsurers or as a component of other assets or liabilities for amounts, such as premiums, owed to or due from reinsurers. Reinsurance assumed and ceded premiums and benefits paid or provided are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premium income and benefit expenses are reported net of reinsurance assumed and ceded.

In connection with and prior to the previously mentioned acquisition, REALIC entered into three retrocession reinsurance agreements ("retro treaties") with Swiss Reinsurance Company Ltd. ("SRZ"). Pursuant to these retro treaties, REALIC ceded on a 100% coinsurance basis to SRZ and SRZ assumed certain blocks of business written or reinsured by REALIC.

As a result of these retro treaties, the Company holds certain assets, primarily in the form of policy loans and fixed maturities, as collateral for the reinsurance recoverable. Investment income and capital gains (losses) earned on assets held as collateral are paid by the Company to SRZ pursuant to the terms of the treaties. Investment income and capital gains and losses are reported net of investment income and capital gains and losses on funds held under reinsurance treaties, with no impact on the Company's consolidated income statement.

The income credited to SRZ on the funds held for the retro treaties is based on the income earned on those assets, which results in an embedded derivative (total return swap). However, at acquisition, the Company elected the fair value option for the funds held liability, which is carried at fair value with changes in fair value reported in net investment income. Accordingly, the embedded derivative is not bifurcated or separately valued.

Value of Business Acquired

As a result of the acquisition of SRLC in 2012, which is further described in Note 3, the Company has recorded an intangible asset representing the value of business acquired ("VOBA"), which is included in other assets. In connection with the acquisition of insurance policies and investment contracts, a portion of the purchase price is assigned to the right to receive future gross profits from the acquired insurance policies and investment contracts. This intangible asset, or VOBA, represents the actuarially estimated present value of future cash flows from the acquired policies. The Company has established a VOBA intangible asset for the acquired traditional life insurance products and deferred annuity contracts, as a result of the acquisition of SRLC. This intangible asset will be amortized over the life of the business, which approximates 20 years. The unamortized VOBA balance is subject to recoverability testing at the end of each reporting period to ensure that the balance does not exceed the present value of anticipated gross profits.

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.

Jackson files a consolidated federal income tax return with Brooke Life and Jackson National Life Insurance Company of New York. Subsequent to the liquidation of SRLC on September 5, 2012, REALIC also joined the consolidated tax return through the date of its merger into the Company on December 31, 2012. 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 the lesser of the amount calculated on a separate company basis or Jackson's pro-rata share of the actual liability as determined under the consolidated return taking into account only Jackson and Brooke Life.

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. 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 eligibility 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 fifty percent chance of success of the Company's position being sustained by 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 the time of the acquisition of SRLC, REALIC had available approximately $153.7 million in net operating loss ("NOL") carryforwards, which will be subject to limitations under Internal Revenue Code Section 382. Section 382 imposes limitations on the utilization of net operating loss carryforwards in the event of an acquisition of a company with such loss carryforwards. The Section 382 limitation is an annual limitation on the amount of pre-acquisition NOLs that a corporation may use to offset post-acquisition income. Section 382 further limits certain unrealized built-in losses at the time of acquisition. The annual limitation, subject to potential purchase price adjustments, is approximately $20.0 million.

Reserves for Future Policy Benefits and Claims Payable and Other Contract Holder Funds
For traditional life insurance contracts, which include term and whole life, 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. These assumptions are not unlocked unless determined to be deficient. 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 2.75% to 6.0%. Lapse and expense assumptions are based on Company experience. The Company's liability for future policy benefits also includes net liabilities for guaranteed benefits related to certain nontraditional long-duration life and annuity contracts, which are further discussed in Note 10.

For the Company's interest-sensitive life contracts, liabilities approximate the policyholder's account value, plus the unamortized balance of the fair value adjustment related to the REALIC acquired business. For deferred annuities, the liability is the account value, plus the unamortized balance of the fair value adjustment related to the REALIC acquired business. For 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.

Upon acquisition of REALIC, the Company recorded a fair value adjustment related to certain annuity and interest sensitive liability blocks of business to reflect the cost of the interest guarantees within the inforce liabilities, based on the difference between the guaranteed interest rate and an assumed new money guaranteed interest rate. This adjustment was recorded in reserves for future policy benefits and claims payable. This component of the acquired reserves will be reassessed at the end of each period, taking into account changes in the inforce block and the relationship between guaranteed rates and market crediting rates. Any resulting change in the reserve will be recorded as a change in reserve through the consolidated income statement.

The Company has formed both a special purpose vehicle and a statutory business trust, solely for the purpose of issuing Medium Term Note instruments to institutional investors, the proceeds of which are deposited by the Company and secured by the issuance of funding agreements.

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 other investment losses.

Jackson and Squire Re are members of the FHLBI primarily for the purpose of participating in the bank's mortgage-collateralized loan advance program with short-term and long-term funding facilities. Members are required 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.

The Company's stable value business is comprised of the guaranteed investment contracts, funding agreements and FHLBI funding agreement advances described above.

Contingent Liabilities

The Company is a party to legal actions and, at times, regulatory investigations. Given the inherent unpredictability of these matters, it is difficult to estimate their impact on the Company's financial position. A reserve is established for contingent liabilities if it is probable that a loss has been incurred and the amount is reasonably estimable. It is possible that an adverse outcome in certain of the Company's contingent liabilities, or the use of different assumptions in the determination of amounts recorded, could have a material effect upon the Company's financial position. However, it is the opinion of management that the ultimate disposition of contingent liabilities will not have a material adverse effect on the Company's financial condition.

Separate Account Assets and Liabilities

The Company maintains separate account assets, which are reported at fair value. The related liabilities are reported at an amount equivalent to the separate account assets. At December 31, 2012 and 2011, the assets and liabilities associated with variable life and annuity contracts, aggregated $80.1 billion and $58.8 billion, respectively. Investment risks associated with market value changes are borne by the contract holders, except to the extent of minimum guarantees made by the Company. Refer to Note 10 for additional information regarding the Company's contractual guarantees. Separate account net investment income, net investment realized and unrealized gains and losses, and the related liability changes are offset within the same line item in the consolidated income statements. Amounts assessed against the contract holders for mortality, administrative, and other services are reported in revenue as fee income.

Included in the above mentioned assets and liabilities is a Company issued 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, which had a balance of $217.8 million and $185.7 million at December 31, 2012 and 2011, 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.

Debt

Liabilities for the Company's debt are primarily carried at an amount equal to the unpaid principal balance. Original issuance discount or premium and any debt issue costs, if applicable, are recognized as a component of interest expense over the period the debt is expected to be outstanding. Refer to Note 11 for further information regarding the Company's debt.

Share-Based Compensation

As more fully described in Note 16, the Company has certain share award plans that are either equity settled or liability settled. For equity settled share award plans, the Company recognizes compensation expense based on a grant-date award fair value as determined using either the Black-Scholes model or the Monte Carlo model, ratably over the requisite service period of each individual grant, which generally equals the vesting period. For the liability settled share award plans, the associated compensation expense is recognized based on the change in fair value of the award at the end of each reporting period due to cash settlement alternatives.

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 account value for mortality charges, surrenders, variable annuity benefit guarantees and administrative expenses. Fee income also includes revenues related to asset management fees and certain service fees. Surrender benefits are treated as repayments of the policyholder account. Annuity benefit payments are treated as reductions to the policyholder account. Death benefits in excess of the policyholder account are recognized as an expense when incurred. Expenses consist primarily of the interest credited to policyholder deposits. Underwriting and other acquisition expenses are associated with gross profit in order to recognize profit over the life of the business. This is accomplished through deferral and amortization of acquisition costs and sales inducements. Expenses not related to policy acquisition are recognized when incurred.

Investment income is not accrued on securities in default and otherwise where the collection is uncertain. In these cases, receipts of interest on such securities are used to reduce the cost basis of the securities.

Subsequent Events

The Company has evaluated events through March 12, 2013, which is the date the consolidated financial statements were available to be issued.

3. Acquisition

On September 4, 2012, the Company acquired 100% of the equity in SRLC from Swiss Re for a preliminary purchase price of $663.3 million, which was reduced by an estimated $73.9 million current net operating loss carryback income tax recoverable, resulting in an initial cash payment of $589.4 million at the time of sale. Subsequent adjustments reduced the preliminary purchase price to $587.3 million, which remains subject to final agreement with Swiss Re.

SRLC's primary subsidiary was REALIC, which was merged into Jackson as of December 31, 2012. REALIC's primary business activity involved the acquisition of blocks of life insurance, including corporate owned life insurance, disability income and/or annuity contracts in force. In addition to REALIC, SRLC had several other insignificant subsidiaries. Subsequent to the purchase, SRLC was dissolved and its subsidiaries became direct subsidiaries of Jackson. The acquisition expanded Jackson's life insurance base, further diversifying risk, while taking advantage of Jackson's low cost structure. The results of the above mentioned subsidiaries have been included in these consolidated financial statements since the date of acquisition.

In conjunction with the acquisition, which was accounted for under the purchase method of accounting, the Company recorded a VOBA intangible asset of $8.0 million, which is included in other assets. This intangible asset represents the actuarially estimated present value of future cash flows from the acquired policies. The Company has established this VOBA intangible asset for the acquired traditional life insurance products and deferred annuity contracts, as a result of the acquisition. This intangible asset will be amortized over the life of the business, which approximates 20 years. The unamortized VOBA balance is subject to recoverability testing at the end of each reporting period to ensure that the balance does not exceed the present value of anticipated gross profits.

Earnings subsequent to the date of acquisition of the acquired entities are included in the consolidated financial statements of the Company for the year ended December 31, 2012.

The following table summarizes the fair value of SRLC's assets acquired and liabilities assumed, as of the acquisition date of September 4, 2012 (in thousands):

Assets:		
Fixed maturities	$	11,401,180
Trading securities, at fair value		8,946
Commercial mortgage loans		18,326
Policy loans (includes $2,951,560 at fair value under the fair value option)		3,483,191
Cash and cash equivalents		233,176
Accrued investment income		91,981
Reinsurance recoverable		8,647,203
Value of business acquired		8,000
Deferred income taxes, net		618,500
Other assets		131,090
Separate account assets		100,870
Total assets	$	24,742,463
Liabilities:		
Reserves for future policy benefits and claims payable and other contract holder funds	$	20,409,694
Funds held under reinsurance treaties, at fair value under fair value option		3,295,994
Other liabilities		348,557
Separate account liabilities		100,870
Total liabilities	$	24,155,115
Net assets acquired, or purchase price	$	587,348

In accordance with accounting guidance for business combinations, the Company will continue to review the balance sheet and record required adjustments, for up to a twelve month period following the acquisition close date, in order to reflect updated information on certain accruals, related expenses, or other potential valuation adjustments, if further refined information becomes available.

The Company obtained third-party valuations of certain of its reserves on the acquired blocks of business. All estimates, key assumptions, or other valuation methodologies were either provided by or reviewed by the Company. While the Company chose to utilize a third-party valuation firm, the fair value analyses and valuation methodologies related to its reserves represent the conclusions of the Company's management and not the conclusions or statements of any third-party. The Company is continuing to further analyze and refine the valuation methodologies and calculations related to its reserves and any fair value adjustments to the reserves, including any associated reinsurance recoverable. Further refinement of the reserves may also result in a corresponding adjustment to deferred taxes. Any measurement period adjustments determined to be material will be applied retrospectively to the acquisition date in the Company's consolidated financial statements and, depending on the nature of the adjustments, the Company's operating results subsequent to the respective acquisition period could be affected. In addition, certain purchase price adjustments presented to the seller are still subject to finalization and could result in additional adjustments to the purchase price.

The following table presents selected financial information reflecting results since September 4, 2012 of the acquired entities that are included in the Company's consolidated income statements for the year ended December 31, 2012 (in thousands):

Total revenues	$ 355,164
Pretax income	96,480

The following table reflects the unaudited pro forma results for the Company, giving effect to the acquisition as if it had occurred as of the beginning of each of the periods presented and includes the result of certain non-recurring restructuring transactions effected by SRLC prior to the acquisition (in thousands).

	For the Years Ended December 31,	
	2012	**2011**
Total revenues	$ 5,896,740	$ 5,371,487
Total expenses	(4,505,032)	(4,523,526)
Pretax income	1,391,708	847,961
Income tax expense	389,909	205,328
Net income	$ 1,001,799	$ 642,633

While the unaudited pro forma results reflect the combined operations of Jackson and the REALIC acquired business, they are not necessarily indicative, nor are they intended to be indicative, of the financial position and future operating results of the merged companies.

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.

Fixed Maturities

The following table sets forth the composition of the fair value of fixed maturities at December 31, 2012, 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, 2012, the carrying value of investments rated by the Company's affiliated investment advisor totaled $338.0 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 Carrying Value December 31, 2012
AAA	24.2%
AA	4.9%
A	29.5%
BBB	36.1%
Investment grade	94.7%
BB	2.2%
B and below	3.1%
Below investment grade	5.3%
Total fixed maturities	100.0%

At December 31, 2012, based on ratings by NRSROs, of the total carrying value of fixed maturities in an unrealized loss position, 86% were investment grade, 9% were below investment grade and 5% were not rated. Unrealized losses on fixed maturities that were below investment grade or not rated were approximately 38% 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, 2012, the industries accounting for the larger percentage of unrealized losses included computers and electronics (1.45% of fixed maturities gross unrealized losses) and retail (1.11%). The largest unrealized loss related to a single corporate obligor was $3.4 million at December 31, 2012.

At December 31, 2012 and 2011, the amortized cost, gross unrealized gains and losses, fair value and non-credit other than temporary impairment ("OTTI") of available for sale fixed maturities, including $319.3 million and $126.7 million in securities carried at fair value under the fair value option, were as follows (in thousands):

December 31, 2012	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-credit OTTI (2)
Fixed Maturities					
U.S. government securities	$ 5,184,095	$ 408,142	$ 104,555	$ 5,487,682	$ -
Other government securities	1,227,727	2,864	11,848	1,218,743	-
Public utilities	4,152,032	559,519	6,732	4,704,819	-
Corporate securities	29,690,303	3,039,115	40,707	32,688,711	-
Residential mortgage-backed	3,812,349	141,072	78,898	3,874,523	(19,544)
Commercial mortgage-backed	3,800,532	492,460	50,463	4,242,529	(2,859)
Other asset-backed securities	991,044	24,005	67,418	947,631	(12,768)
Total fixed maturities	$ 48,858,082	$ 4,667,177	$ 360,621	$ 53,164,638	$ (35,171)

December 31, 2011	Amortized Cost [1]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-credit OTTI [2]
Fixed Maturities					
Government securities	$ 2,932,197	$ 429,309	$ -	$ 3,361,506	$ -
Public utilities	2,346,651	324,466	881	2,670,236	-
Corporate securities	25,129,745	2,217,024	97,648	27,249,121	6,755
Residential mortgage-backed	4,127,911	146,430	285,434	3,988,907	(177,444)
Commercial mortgage-backed	3,064,184	324,360	59,110	3,329,434	(6,933)
Other asset-backed securities	1,087,800	15,564	156,273	947,091	(59,520)
Total fixed maturities	$ 38,688,488	$ 3,457,153	$ 599,346	$ 41,546,295	$ (237,142)

[1] Amortized cost, apart from the carrying value for securities carried at fair value under the fair value option.

[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.

The amortized cost, gross unrealized gains and losses, and fair value of fixed maturities at December 31, 2012, 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	$ 1,438,984	$ 20,947	$ 282	$ 1,459,649
Due after 1 year through 5 years	7,515,905	711,182	2,166	8,224,921
Due after 5 years through 10 years	21,877,669	2,544,565	14,761	24,407,473
Due after 10 years through 20 years	3,637,342	323,702	17,981	3,943,063
Due after 20 years	5,784,257	409,244	128,652	6,064,849
Residential mortgage-backed	3,812,349	141,072	78,898	3,874,523
Commercial mortgage-backed	3,800,532	492,460	50,463	4,242,529
Other asset-backed securities	991,044	24,005	67,418	947,631
Total	$ 48,858,082	$ 4,667,177	$ 360,621	$ 53,164,638

[1] Amortized cost, apart from the carrying value for securities carried at fair value under the fair value option.

U.S. Treasury securities with a carrying value of $119.0 million and $4.6 million at December 31, 2012 and 2011, respectively, were on deposit with regulatory authorities, as required by law in various states in which business is conducted.

At December 31, 2012, the amortized cost and carrying value of fixed maturities in default that were anticipated to be income producing when purchased were $30 thousand and $7.4 million, respectively. The amortized cost and carrying value of fixed maturities that have been non-income producing for the 12 months preceding December 31, 2012 were $30 thousand and $7.4 million, respectively.

At December 31, 2011, the amortized cost and carrying value of fixed maturities in default that were anticipated to be income producing when purchased were $2.3 million and $7.0 million, respectively. The amortized cost and carrying value of fixed maturities that were non-income producing for the 12 months preceding December 31, 2011 were $2.3 million and $7.0 million, respectively.

At December 31, 2012, fixed maturities include $273.8 million held in trust pursuant to the retro treaties with SRZ.

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 RMBS"). The Company's non-agency RMBS include investments in securities backed by prime, Alt-A, and subprime loans as follows (in thousands):

December 31, 2012	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Prime	$ 723,602	$ 24,411	$ 13,878	$ 734,135
Alt-A	516,043	12,646	7,702	520,987
Subprime	473,891	3,292	54,439	422,744
Total non-agency RMBS	$ 1,713,536	$ 40,349	$ 76,019	$ 1,677,866

December 31, 2011	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Prime	$ 865,197	$ 5,522	$ 79,340	$ 791,379
Alt-A	560,471	2,076	85,280	477,267
Subprime	441,311	61	120,814	320,558
Total non-agency RMBS	$ 1,866,979	$ 7,659	$ 285,434	$ 1,589,204

(1) Amortized cost, apart from the carrying value for securities carried at fair value under the fair value option.

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. Of the Company's investments in Alt-A related mortgage-backed securities, 13% are rated investment grade by at least one NRSRO. Of the Company's investments in subprime related mortgage-backed securities, 29% are rated investment grade by at least one NRSRO. In 2012, the Company recorded other-than-temporary impairment charges of $4.5 million, $11.3 million, and $9.5 million on securities backed by prime, Alt-A and subprime loans, respectively. In 2011, the Company recorded other-than-temporary impairment charges of $14.1 million, $20.2 million, and $4.5 million on securities backed by prime, Alt-A and subprime loans, respectively. 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.

Asset-backed securities also include investments in securities which are collateralized by commercial mortgage loans ("CMBS"). At December 31, 2012, the amortized cost and fair value of the Company's investment in CMBS was $3.8 billion and $4.2 billion, respectively, of which 99% were rated investment grade by at least one NRSRO. In 2012, 2011 and 2010, the Company recorded other-than-temporary impairment charges on CMBS of $3.4 million, $1.0 million and $11.1 million, respectively.

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, 2012, the amortized cost and fair value of the Company's direct investments in bank loans were $87.1 million and $87.7 million, respectively. At December 31, 2011, the amortized cost and fair value of the Company's direct investments in bank loans were $64.9 million and $63.8 million, respectively. The Company did not have any impairments on these securities in 2012, 2011 and 2010.

The following tables summarize 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 maturities have been in a continuous loss position (dollars in thousands):

	December 31, 2012			December 31, 2011		
	Less than 12 months			Less than 12 months		
	Gross Unrealized Losses	Fair Value	# of securities	Gross Unrealized Losses	Fair Value	# of securities
U.S. government securities	$ 104,555	$ 2,276,880	22	$ -	$ -	-
Other government securities	11,848	718,324	28	-	-	-
Public utilities	6,640	264,513	52	373	23,422	2
Corporate securities	38,948	2,317,590	273	57,525	1,615,252	149
Residential mortgage-backed	3,962	541,659	110	66,509	326,993	36
Commercial mortgage-backed	2,835	222,950	32	3,162	82,921	14
Other asset-backed securities	48	75,326	15	56,129	180,432	42
Total temporarily impaired securities	$ 168,836	$ 6,417,242	532	$ 183,698	$ 2,229,020	243

	12 months or longer			12 months or longer		
	Gross Unrealized Losses	Fair Value	# of securities	Gross Unrealized Losses	Fair Value	# of securities
U.S. government securities	$ -	$ -	-	$ -	$ -	-
Other government securities	-	-	-	-	-	-
Public utilities	92	2,682	1	508	6,965	1
Corporate securities	1,759	94,279	16	40,123	259,037	44
Residential mortgage-backed	74,936	568,627	109	218,925	1,013,025	158
Commercial mortgage-backed	47,628	58,608	17	55,948	82,829	21
Other asset-backed securities	67,370	227,255	44	100,144	251,998	58
Total temporarily impaired securities	$ 191,785	$ 951,451	187	$ 415,648	$ 1,613,854	282

	Total			Total		
	Gross Unrealized Losses	Fair Value	# of securities	Gross Unrealized Losses	Fair Value	# of securities
U.S. government securities	$ 104,555	$ 2,276,880	22	$ -	$ -	-
Other government securities	11,848	718,324	28	-	-	-
Public utilities	6,732	267,195	53	881	30,387	3
Corporate securities	40,707	2,411,869	289	97,648	1,874,289	193
Residential mortgage-backed	78,898	1,110,286	219	285,434	1,340,018	194
Commercial mortgage-backed	50,463	281,558	49	59,110	165,750	35
Other asset-backed securities	67,418	302,581	59	156,273	432,430	100
Total temporarily impaired securities	$ 360,621	$ 7,368,693	719	$ 599,346	$ 3,842,874	525

Other-Than-Temporary Impairments on Available For Sale Securities

The Company periodically reviews its available for sale fixed maturities 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 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.

Jackson recognizes 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. 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.

Specifically for Prime and Alt-A RMBS, the default percentage is dependent on the severity of delinquency status, with foreclosures and real estate owned receiving higher rates, but also includes the currently performing loans. As of December 31, 2012 and 2011, default rates for delinquent loans ranged from 15% to 100%. At December 31, 2012 and 2011, loss severities were applied to generate and analyze cash flows of each bond and ranged from 30% to 70% and 30% to 65%, respectively.

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.

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):

	Years Ended December 31,		
	2012	**2011**	**2010**
Available-for-sale securities			
Realized gains on sale	$ 173,337	$ 287,507	$ 440,843
Realized losses on sale	(65,495)	(85,037)	(356,080)
Impairments:			
Total other-than-temporary impairments	(172,730)	(305,805)	(319,977)
Portion of other-than-temporary impairments included in other comprehensive income	85,876	218,710	176,719
Net other-than-temporary impairments	(86,854)	(87,095)	(143,258)
Other	7,499	(1,442)	3,000
Net realized gains (losses) on non-derivative investments	28,487	113,933	(55,495)
Net losses on derivative instruments	(745,593)	(874,038)	(1,109,469)
Total net realized losses on investments	$ (717,106)	$ (760,105)	$ (1,164,964)

Included in net realized losses on investments are impairment charges on commercial mortgage loans and other invested assets of $0, $19.3 million and $5.0 million in 2012, 2011 and 2010, respectively. The net losses on derivative instruments included in the above table are further detailed in Note 5.

The aggregate fair value of securities sold at a loss for the years ended December 31, 2012, 2011, and 2010 was $649.0 million, $1,053.2 million, and $1,926.7 million, respectively, which was approximately 91%, 93%, and 84% of book value, respectively.

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):

	Years Ended December 31,	
	2012	2011
Cumulative credit loss beginning balance	$ 404,756	$ 698,370
Additions:		
New credit losses	26,073	35,724
Incremental credit losses	60,781	32,073
Reductions:		
Securities sold, paid down or disposed of	(124,172)	(361,411)
Securities where there is intent to sell	(3,252)	-
Cumulative credit loss ending balance	$ 364,186	$ 404,756

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 $5.8 billion and $5.5 billion at December 31, 2012 and 2011, respectively, are reported net of an allowance for loan losses of $20.4 million and $20.1 million at each date, respectively. At December 31, 2012, commercial mortgage loans were collateralized by properties located in 42 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 2012, 2011, and 2010, recognized impairment charges against the allowance for loan losses of $8.4 million, $34.5 million, and $17.7 million, respectively. In addition, Jackson recorded an impairment as a realized loss of $9.7 million during 2011.

The following table provides a summary of the allowance for losses in the Company's commercial mortgage loan portfolio at December 31, 2012 and 2011 (in thousands):

	Years Ended December 31,	
Allowance for loan losses:	**2012**	**2011**
Balance at beginning of year	$ 20,106	$ 33,190
Charge-offs	(8,394)	(34,474)
Recoveries	-	-
Net charge-offs	(8,394)	(34,474)
Provision for loan losses	8,683	21,390
Balance at end of year	$ 20,395	$ 20,106

The following table provides a summary of the allowance for losses in Jackson's commercial mortgage loan portfolio (in thousands):

	Allowance for Loan Losses	Recorded Investment
December 31, 2012:		
Individually evaluated for impairment	$ 9,216	$ 204,546
Collectively evaluated for impairment	11,179	5,554,451
Total	$ 20,395	$ 5,758,997
December 31, 2011:		
Individually evaluated for impairment	$ 3,481	$ 214,335
Collectively evaluated for impairment	16,625	5,316,035
Total	$ 20,106	$ 5,530,370

The table below illustrates the delinquency status and accrual status of the carrying value of Jackson's commercial mortgage loan holdings as of December 31, 2012 and 2011 (in thousands). Delinquency status is determined from the date of the first missed contractual payment.

	2012	2011
Accruing		
Current	$ 5,757,487	$ 5,518,802
Less than 60 days delinquent	-	-
60 days to 90 days delinquent	-	-
91 days or more delinquent	904	3,000
Total accruing	5,758,391	5,521,802
Non-accrual	606	8,568
Total	$ 5,758,997	$ 5,530,370

Under Jackson's policy for monitoring commercial mortgage loans, all impaired commercial mortgage loans continue to be closely evaluated subsequent to impairment. The table below summarizes the recorded investment, unpaid principal balance, related loan allowance, average recorded investment and investment income recognized on impaired loans during 2012 and 2011 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Loan Allowance	Average Recorded Investment	Investment Income Recognized
December 31, 2012:					
Impaired Loans with a Valuation Allowance					
Apartment	$ 85,750	$ 113,107	$ 6,500	$ 91,708	$ 4,601
Hotel	41,823	44,502	2,678	39,291	1,655
Office	11,314	11,351	38	11,338	828
Total	138,887	168,960	9,216	142,337	7,084
Impaired Loans without a Valuation Allowance					
Hotel	26,509	30,036	-	30,683	1,742
Office	28,474	31,811	-	42,519	1,582
Retail	-	-	-	750	-
Warehouse	10,676	10,676	-	9,682	633
Total	65,659	72,523	-	83,634	3,957
Total Impaired Loans					
Apartment	85,750	113,107	6,500	91,708	4,601
Hotel	68,332	74,538	2,678	69,974	3,397
Office	39,788	43,162	38	53,857	2,410
Retail	-	-	-	750	-
Warehouse	10,676	10,676	-	9,682	633
Total	$ 204,546	$ 241,483	$ 9,216	$ 225,971	$ 11,041
December 31, 2011:					
Impaired Loans with a Valuation Allowance					
Hotel	$ 41,592	$ 44,920	$ 3,328	$ 41,116	$ 1,658
Office	11,319	11,472	153	11,038	688
Total	52,911	56,392	3,481	52,154	2,346
Impaired Loans without a Valuation Allowance					
Apartment	92,250	113,107	-	105,143	4,601
Hotel	27,109	34,581	-	29,583	1,252
Office	30,084	31,893	-	30,515	594
Retail	3,000	9,618	-	5,179	596
Warehouse	8,981	9,981	-	9,065	660
Total	161,424	199,180	-	179,485	7,703
Total Impaired Loans					
Apartment	92,250	113,107	-	105,143	4,601
Hotel	68,701	79,501	3,328	70,699	2,910
Office	41,403	43,365	153	41,553	1,282
Retail	3,000	9,618	-	5,179	596
Warehouse	8,981	9,981	-	9,065	660
Total	$ 214,335	$ 255,572	$ 3,481	$ 231,639	$ 10,049

The following tables provide information about the credit quality of commercial mortgage loans (in thousands):

December 31, 2012

	In Good Standing	Restructured	Greater than 90 Days Delinquent	In the Process of Foreclosure	Total Carrying Value
Apartment	$ 1,375,303	$ 30,281	$ 904	$ -	$ 1,406,488
Hotel	536,377	53,224	-	-	589,601
Office	889,084	37,032	-	606	926,722
Retail	1,063,642	-	-	-	1,063,642
Warehouse	1,765,268	7,276	-	-	1,772,544
Total	$ 5,629,674	$ 127,813	$ 904	$ 606	$ 5,758,997

December 31, 2011

	In Good Standing	Restructured	Greater than 90 Days Delinquent	In the Process of Foreclosure	Total Carrying Value
Apartment	$ 1,213,009	$ 32,710	$ -	$ -	$ 1,245,719
Hotel	583,824	53,592	-	6,000	643,416
Office	940,026	41,403	-	-	981,429
Retail	1,071,383	-	3,000	-	1,074,383
Warehouse	1,578,147	7,276	-	-	1,585,423
Total	$ 5,386,389	$ 134,981	$ 3,000	$ 6,000	$ 5,530,370

The $3.0 million balance of commercial mortgage loans at December 31, 2011 that were greater than 90 days delinquent were also restructured.

During 2012 and 2011, there were no commercial mortgage loans involved in a troubled debt restructuring.

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.

Revised accounting guidance on certain investment funds eliminated the qualifying special purpose entity exemption for consolidation. Since Jackson was deemed to be the primary beneficiary of Piedmont, consolidation of Piedmont was required in 2010.

As a result of this change, the Company recorded a decrease in retained earnings of $48.2 million upon consolidation of Piedmont. At December 31, 2010, Piedmont's assets of $463.9 million and liabilities to external parties of $26.2 million were 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.

During 2011, Jackson purchased the remaining outstanding external interest and, as a result, Piedmont was terminated.

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 accounting guidance on certain investment funds, the Company was deemed to be the primary beneficiary of MSDW and, therefore, consolidated MSDW. In March 2011, the external debt of MSDW was paid off entirely. As such, Jackson's consolidated financial statements include MSDW assets of $36.5 million and $48.1 million at December 31, 2012 and 2011, respectively.

Other Invested Assets
Other invested assets primarily include investments in limited partnerships, real estate, and other loans. Investments in limited partnerships have carrying values of $1,219.5 million and $1,086.5 million at December 31, 2012 and 2011, respectively. Real estate totaling $149.2 million and $168.9 million at December 31, 2012 and 2011, respectively, includes foreclosed properties with a book value of $0.7 million and $19.2 million, respectively.

Limited Purpose Enhanced Return Entities ("SERVES")
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 initially 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, 2012 could potentially expose Jackson to maximum losses of $51.1 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.

As a result of the additional exposure to SERVES 3 upon entering into the "Option Put and Forbearance Agreement", Jackson determined that it is the primary beneficiary of SERVES 3 and, accordingly, consolidated SERVES 3 in its financial statements. The accompanying consolidated financial statements include the underlying assets of $19.6 million and $49.5 million and net liabilities of $6.3 million and $2.7 million in 2012 and 2011, 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 VIE 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. SERVES 4 notes were sold at par in May 2011.

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, 2012 and 2011, the estimated fair value of loaned securities was $149.5 million and $51.6 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, 2012 and 2011, cash collateral received in the amount of $153.7 million and $53.3 million, respectively, was invested by the agent bank and included in cash and cash equivalents of the Company. 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.

Repurchase Agreements
The Company routinely enters into repurchase agreements whereby the Company agrees 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. During 2012 and 2011, short-term borrowings under such agreements averaged $176.7 million and $316.4 million, respectively, with weighted average interest rates of 0.2% for both years. At December 31, 2012 and 2011, the outstanding balance was $0 and $100.7 million, respectively, which was included within other liabilities in the consolidated balance sheets. Interest expense totaled $0.3 million, $0.5 million, and $0.6 million in 2012, 2011, and 2010, respectively. The highest level of short-term borrowings at any month end was $544.7 million in 2012 and $683.2 million in 2011.

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

	Years Ended December 31,		
	2012	2011	2010
Fixed maturities	$ 2,134,759	$ 2,164,833	$ 2,258,099
Commercial mortgage loans	294,581	283,881	285,123
Limited partnerships	136,649	85,949	69,250
Derivative instruments	160,305	64,710	39,498
Policy loans	172,212	66,860	65,930
Other investment income	30,442	30,458	58,700
Total investment income	2,928,948	2,696,691	2,776,600
Less income on funds held under reinsurance treaties	(93,021)	-	-
Less investment expenses	(55,365)	(52,105)	(72,147)
Net investment income	$ 2,780,562	$ 2,644,586	$ 2,704,453

Investment income of $25.0 million, $17.0 million, and $65.5 million of was recognized on trading securities held at December 31, 2012, 2011, and 2010, respectively. During 2012 and 2011, $0.8 million and $11.2 million, respectively, of investment income was recognized on securities carried at fair value with changes in value recorded through the income statement. During 2012, investment income was reduced $93.0 million for income earned on funds held under reinsurance treaties, including $94.3 million on policy loans, fixed maturity income of $2.8 million and a $3.9 million loss on fixed maturities with fair value recorded through the income statement. The net investment income on derivative instruments included in the above table are further detailed in Note 5.

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, freestanding derivatives are carried at fair value with changes recorded in other investment losses.

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 foreign currency exchange risk 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 other investment losses.

Credit default swaps, with maturities up to five years, are agreements where 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.

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. 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, referred to as 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 other contract holder funds.

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

Interest rate swap agreements 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 2012, 2011 and 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 the Company's freestanding derivative instruments were as follows (in thousands):

December 31, 2012

	Assets		Liabilities		
	Contractual/ Notional Amount (1)	Fair Value	Contractual/ Notional Amount (1)	Fair Value	Net Fair Value
Credit default swaps	$ -	$ -	$ 170,000	$ (7,155)	$ (7,155)
Cross-currency swaps	527,332	140,792	-	-	140,792
Equity index call options	5,557,900	143,780	1,000,000	(238,652)	(94,872)
Equity index futures	-	-	6,212,938	(10,773)	(10,773)
Equity index put options	37,850,000	144,590	-	-	144,590
Interest rate swaps	15,400,000	1,685,430	13,150,000	(788,114)	897,316
Put-swaptions	12,500,000	398,066	-	-	398,066
Total return swaps	-	-	300,000	(3,765)	(3,765)
Total	$ 71,835,232	$ 2,512,658	$ 20,832,938	$ (1,048,459)	$ 1,464,199

December 31, 2011

	Assets		Liabilities		
	Contractual/ Notional Amount (1)	Fair Value	Contractual/ Notional Amount (1)	Fair Value	Net Fair Value
Credit default swaps	$ 45,000	$ 2,207	$ 165,000	$ (11,738)	$ (9,531)
Cross-currency swaps	529,987	142,364	73,200	(11,017)	131,347
Equity index call options	2,817,800	173,605	4,756,897	(492,171)	(318,566)
Equity index futures	-	-	5,636,700	(114,369)	(114,369)
Equity index put options	38,350,000	330,554	1,250,000	(8,725)	321,829
Interest rate swaps	13,800,000	1,476,006	14,350,000	(740,578)	735,428
Put-swaptions	15,500,000	478,798	2,000,000	(309)	478,489
Total return swaps	300,000	1,934	-	-	1,934
Total	$ 71,342,787	$ 2,605,468	$ 28,231,797	$ (1,378,907)	$ 1,226,561

(1) With respect to swaps 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.

The following tables reflect the results of the Company's derivatives, including gains (losses) and change in fair value of freestanding derivative instruments and embedded derivatives (in thousands):

	Year Ended December 31, 2012		
	Other Investment Gains (Losses)	Net Investment Income	Net Gain (Loss)
Credit default swaps	$ 2,376	$ (10,046)	$ (7,670)
Equity index call options	(48,567)	-	(48,567)
Equity index futures	(855,912)	-	(855,912)
Equity index put options	(783,303)	-	(783,303)
Index-linked annuity embedded derivatives	(156,489)	-	(156,489)
Interest rate swaps	167,075	171,600	338,675
Put-swaptions	106,914	(727)	106,187
Total return swaps	-	(522)	(522)
Variable annuity embedded derivatives	822,313	-	822,313
Total	$ (745,593)	$ 160,305	$ (585,288)

	Year Ended December 31, 2011		
	Other Investment Gains (Losses)	Net Investment Income	Net Gain (Loss)
Credit default swaps	$ 9,420	$ (10,452)	$ (1,032)
Equity index call options	77,616	-	77,616
Equity index futures	(528,345)	-	(528,345)
Equity index put options	(270,405)	-	(270,405)
Index-linked annuity embedded derivatives	(8,644)	-	(8,644)
Interest rate swaps	816,426	64,535	880,961
Put-swaptions	469,869	(2,779)	467,090
Total return swaps	-	13,406	13,406
Variable annuity embedded derivatives	(1,439,975)	-	(1,439,975)
Total	$ (874,038)	$ 64,710	$ (809,328)

	Year Ended December 31, 2010		
	Other Investment Gains (Losses)	Net Investment Income	Net Gain (Loss)
Credit default swaps	$ 8,617	$ (10,900)	$ (2,283)
Equity index call options	(63,733)	-	(63,733)
Equity index futures	(537,361)	-	(537,361)
Equity index put options	(524,671)	-	(524,671)
Index-linked annuity embedded derivatives	(211,684)	-	(211,684)
Interest rate swaps	116,276	(15,446)	100,830
Put-swaptions	11,202	3,646	14,848
Spread cap options	(18,089)	31,790	13,701
Total return swaps	-	30,408	30,408
Variable annuity embedded derivatives	109,974	-	109,974
Total	$ (1,109,469)	$ 39,498	$ (1,069,971)

At December 31, 2012 and 2011, the fair value of Jackson's net derivative assets by counterparty were $1,546.6 million and $1,457.1 million, respectively, and held collateral was $1,760.7 million and $1,505.5 million, respectively, related to these agreements. At December 31, 2012 and 2011, the fair value of Jackson's net derivative liabilities by counterparty were $82.4 million and $230.5 million, respectively, and provided collateral was $10.8 million and $172.5 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, 2012 or 2011, Jackson would have to disburse $285.7 million and $106.5 million, respectively, to counterparties, representing the net fair values of derivatives by counterparty, less collateral held.

6. 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, 2012		December 31, 2011	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Assets				
Cash and cash equivalents	$ 1,150,420	$ 1,150,420	$ 656,253	$ 656,253
Fixed maturities [1]	53,164,638	53,164,638	41,546,295	41,546,295
Trading securities	412,813	412,813	315,607	315,607
Commercial mortgage loans	5,758,997	6,194,507	5,530,370	5,937,422
Policy loans [1]	4,374,211	4,374,211	855,099	855,099
Limited partnerships	1,219,515	1,219,515	1,086,546	1,086,546
Derivative instruments	2,512,658	2,512,658	2,605,468	2,605,468
GMIB reinsurance recoverable	416,528	416,528	451,274	451,274
Separate account assets	80,134,446	80,134,446	58,796,937	58,796,937
Liabilities				
Other contract holder funds				
Annuity reserves [2]	$ 39,422,770	$ 41,080,276	$ 36,569,559	$ 35,556,622
Reserves for guaranteed investment contracts	1,123,971	1,138,699	761,638	771,597
Trust instruments supported by funding agreements	1,341,408	1,372,165	1,663,204	1,709,966
Federal Home Loan Bank funding agreements	1,801,108	1,802,855	1,751,020	1,752,556
Funds held under reinsurance treaties	3,285,118	3,285,118	-	-
Debt	292,274	361,585	297,695	323,341
Derivative instruments	1,048,459	1,048,459	1,378,907	1,378,907
Separate account liabilities	80,134,446	80,134,446	58,796,937	58,796,937

(1) Includes items carried at fair value under the fair value option, for which there is a corresponding liability within funds held under reinsurance treaties.
(2) Annuity reserves represent only the components of deposits on investment contracts that are considered to be financial instruments.

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 securities and derivative instruments.

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 fixed maturity securities 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). Limited partnership interests and those 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 measured on both a recurring and nonrecurring basis reported in the following tables.

Fixed Maturity and Trading Securities
The fair values for fixed maturity and trading 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. Typically 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 broker-dealers 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 ongoing 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 broker-dealers 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, 2012 and 2011, 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-dealer quotes, are classified into Level 2 due to their use of market observable inputs.

Commercial Mortgage Loans

Fair values are determined by discounting expected future cash flows at current market interest rates, inclusive of a credit spread, for similar quality loans. Certain loan characteristics considered significant in determining the spread may be based on internally developed estimates. As a result, these investments have been classified as Level 3 within the fair value hierarchy.

Policy Loans

The Company believes the carrying value of policy loans approximates fair value. Policy loans are funds provided to policyholders in return for a claim on the policies values and function like demand deposits which are redeemable upon repayment, death or surrender, and there is only one market price at which the transaction could be settled – the then current carrying value. The funds provided are limited to the cash surrender value of the underlying policy. The nature of policy loans is to have a negligible default risk as the loans are fully collateralized by the value of the policy. Policy loans do not have a stated maturity and the balances and accrued interest are repaid either by the policyholder or with proceeds from the policy. Due to the collateralized nature of policy loans and unpredictable timing of payments, the Company believes the carrying value of policy loans approximates fair value.

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 other investment losses. Freestanding derivatives priced using third party pricing services 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, total return swaps, put swaptions and equity index call and put options. These derivative valuations are determined by third party pricing services using pricing models with inputs that are observable in the market or can be derived principally from, or corroborated by, observable market data.

Limited Partnerships
Fair value for limited partnership interests, which are included in other invested assets, is determined 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, 2012 or 2011.

The Company's limited partnership investments are not redeemable and distributions received are the result of liquidation of the underlying assets of the partnerships. The term of Jackson's interest in the partnerships is generally ten years, but may be extended for a period of time under provisions within the partnership agreements, if applicable. The Company generally has the ability under the partnership agreements to sell its interest to another limited partner with the prior written consent of the general partner. It is not probable and there is no instance where Jackson contemplated selling a limited partnership interest for an amount different from its NAV equivalent.

Funds Held Under Reinsurance Treaties
The fair value of the funds held is equal to the fair value of the assets held as collateral, which primarily consist of policy loans and fixed maturities.

Cash and Cash Equivalents
Cash and cash equivalents primarily include money market instruments and bank deposits. Certain money market instruments are valued using unadjusted quoted prices in active markets and are classified as Level 1.

Separate Account Assets and Liabilities
Separate account assets are comprised of investments 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.

Reserves for Future Policy Benefits and Claims Payable
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 index linked annuities, are determined using projected future cash flows discounted at current market interest rates.

Other Contract Holder Funds
Fair values for guaranteed investment contracts are based on the present value of future cash flows discounted at current market interest rates.

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.

Fair values of the FHLBI funding agreements are based on present value of future cash flows discounted at current market interest rates.

Debt
Carrying value of the Company's short-term debt is considered a reasonable estimate for fair value due to their short-term maturity. Fair values of long-term debt are based on the present value of future cash flows discounted at current market interest rates.

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 other investment losses. 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 discontinued offering the GMAB in 2011.

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 other investment losses. 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 benefit utilization by policyholders under varying conditions, persistency, mortality, 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 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, could likely be significantly different than this fair value.

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, 2012	Total	Level 1	Level 2	Level 3
Assets				
Fixed maturities				
U.S. government securities	$ 5,487,682	$ 5,487,682	$ -	$ -
Other government securities	1,218,743	-	1,218,743	-
Corporate securities	37,393,530	-	37,350,791	42,739
Residential mortgage-backed	3,874,523	-	3,874,492	31
Commercial mortgage-backed	4,242,529	-	4,242,529	-
Other asset-backed securities	947,631	-	941,008	6,623
Trading securities	412,813	342,990	-	69,823
Policy loans	2,994,756	-	-	2,994,756
Limited partnerships	1,219,515	-	-	1,219,515
Derivative instruments	2,512,658	-	2,512,658	-
GMIB reinsurance recoverable	416,528	-	-	416,528
Separate account assets (1)	80,134,446	80,134,446	-	-
Total	$ 140,855,354	$ 85,965,118	$ 50,140,221	$ 4,750,015
Liabilities				
Embedded derivative liabilities (2)	$ 2,185,380	$ -	$ 964,387	$ 1,220,993
Derivative instruments	1,048,459	10,773	1,033,921	3,765
Funds held under reinsurance treaties	3,285,118	-	-	3,285,118
Separate account liabilities	80,134,446	80,134,446	-	-
Total	$ 86,653,403	$ 80,145,219	$ 1,998,308	$ 4,509,876

December 31, 2011	Total	Level 1	Level 2	Level 3
Assets				
Fixed maturities				
Government securities	$ 3,361,506	$ 3,360,159	$ 1,347	$ -
Corporate securities	29,919,357	-	29,887,062	32,295
Residential mortgage-backed	3,988,907	-	3,988,907	-
Commercial mortgage-backed	3,329,434	-	3,329,434	-
Other asset-backed securities	947,091	11,249	925,782	10,060
Trading securities	315,607	255,716	-	59,891
Limited partnerships	1,086,546	-	-	1,086,546
Derivative instruments	2,605,468	-	2,603,534	1,934
GMIB reinsurance recoverable	451,274	-	-	451,274
Separate account assets (1)	58,796,937	58,796,937	-	-
Total	$ 104,802,127	$ 62,424,061	$ 40,736,066	$ 1,642,000
Liabilities				
Embedded derivative liabilities (2)	$ 2,949,878	$ -	$ 871,827	$ 2,078,051
Derivative instruments	1,378,907	114,368	1,264,539	-
Separate account liabilities	58,796,937	58,796,937	-	-
Total	$ 63,125,722	$ 58,911,305	$ 2,136,366	$ 2,078,051

(1) 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 reserves and equity indexed annuities.

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

Level 3 Assets and Liabilities by Price Source
The table below presents the balances of Level 3 assets and liabilities measured at fair value with their corresponding pricing sources (in thousands).

December 31, 2012			
Assets	**Total**	**Internal**	**External**
Fixed Maturities			
Corporate securities	$ 42,739	$ 35,537	$ 7,202
Residential mortgage-backed	31	31	-
Other asset-backed securities	6,623	6,623	-
Trading securities	69,823	140	69,683
Policy loans	2,994,756	2,994,756	-
Limited partnerships	1,219,515	-	1,219,515
GMIB reinsurance recoverable	416,528	416,528	-
Total	$ 4,750,015	$ 3,453,615	$ 1,296,400
Liabilities			
Embedded derivative liabilities [1]	$ 1,220,993	$ 1,220,993	$ -
Derivative instruments	3,765	3,765	-
Funds held under reinsurance treaties	3,285,118	3,285,118	
Total	$ 4,509,876	$ 4,509,876	$ -

[1] Includes the embedded derivative liabilities related to GMWB.

External pricing sources represent unadjusted prices from independent pricing services and independent indicative broker quotes where pricing inputs are not readily available.

Quantitative Information Regarding Internally-Priced Level 3 Assets and Liabilities
The table below presents quantitative information on significant internally-priced Level 3 assets and liabilities (in thousands):

	As of December 31, 2012				
	Fair Value	**Valuation Technique(s)**	**Unobservable Input(s)**	**Range (Weighted Average)**	**Impact of Increase in Input on Fair Value**
Assets					
Fixed maturities					
Corporate securities	$ 35,537	Discounted cash flow	Discount rate	100-519 (408)	Decrease
Other asset-backed securities	6,623	Discounted cash flow	Discount rate	283-610 (513)	Decrease
Policy loans	2,994,756	Outstanding balance	N/A	N/A	N/A
GMIB reinsurance recoverable	416,528	Discounted cash flow	Policyholder behavior	See below	See below
Total	$ 3,453,444				
Liabilities					
Embedded derivative liabilities	$ 1,220,993	Discounted cash flow	Policyholder behavior	See below	See below
Derivative instruments	3,765	Adjusted broker bid	Financing cost spread	1.05%-4.41% (1.25%)	Increase
Funds held under reinsurance treaties	3,285,118	Carrying value of asset	N/A	N/A	N/A
Total	$ 4,509,876				

Sensitivity to Changes in Unobservable Inputs
The following is a general description of sensitivities of significant unobservable inputs and their impact on the fair value measurement for the assets and liabilities reflected in the table above.

Internally-priced corporate securities classified in Level 3 include private debt securities for which no price comparatives or spread levels can be observed. For these securities, a discounted cash flow model was used and the primary unobservable input is an internally-developed discount rate. Significant increases (decreases) in the discount rate would result in a significantly lower (higher) fair value measurement.

Other asset-backed securities classified in Level 3 are fair valued using a discounted cash flow model. Unobservable inputs include an internally developed discount rate. Significant increases (decreases) in the discount rate would result in a significantly lower (higher) fair value measurement.

Residential mortgage-backed securities of $31 thousand and trading securities of $140 thousand are fair valued using techniques incorporating unobservable inputs and are classified in Level 3 of the fair value hierarchy. For these assets, their unobservable inputs and ranges of possible inputs do not materially affect their fair valuations and have been excluded from the quantitative information in the table above.

The GMIB reinsurance recoverable fair value calculation is based on the present value of future cash flows comprised of future expected reinsurance benefit receipts, less future attributed premium payments to reinsurers, over the lives of the contracts. Estimating these cash flows requires actuarially determined assumptions related to expectations concerning policyholder behavior. The more significant actuarial assumptions include benefit utilization, persistency, and mortality. In general, an increase (decrease) in assumed benefit utilization would increase (decrease) the fair value of the reinsurance recoverable; an increase (decrease) in assumed persistency would increase (decrease) the fair value of the reinsurance recoverable; and an increase (decrease) in assumed mortality would decrease (increase) the fair value of the reinsurance recoverable.

Embedded derivative liabilities classified in Level 3 represent the fair value of GMWB and GMAB liabilities. These fair value calculations are 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 actuarially determined assumptions related to expectations concerning policyholder behavior. The more significant actuarial assumptions include benefit utilization, persistency, and mortality. In general, an increase (decrease) in assumed benefit utilization would increase (decrease) the fair value of the liabilities; an increase (decrease) in assumed persistency would increase (decrease) the fair value of the liabilities; and an increase (decrease) in assumed mortality would decrease (increase) the fair value of the liabilities.

Derivative instruments consist of a total return swap based on a reference pool of syndicated bank loan investments. Inputs to fair value include broker quotes for the underlying assets, earnings on the reference pool, and an estimate for the embedded financing cost, which is a significant and unobservable input. Significant increases (decreases) in estimated comparable financing costs would result in a higher (lower) fair value measurement.

The tables below provide rollforwards for 2012 and 2011 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.

		Total Realized/Unrealized Gains (Losses) Included in				
(in thousands)	Fair Value as of January 1, 2012	Net Income	Other Comprehensive Income	Purchases, Sales, Issuances and Settlements	Transfers in and/or (out of) Level 3	Fair Value as of December 31, 2012
Assets						
Fixed maturities						
Corporate securities	$ 32,295	$ 1,655	$ 2,991	$ 31,100	$ (25,302)	$ 42,739
Residential mortgage-backed	-	-	-	31	-	31
Other asset-backed securities	10,060	225	533	(4,195)	-	6,623
Trading securities	59,891	12,094	-	(2,162)	-	69,823
Policy loans (1)	2,951,560	(72,683)	-	115,879	-	2,994,756
Limited partnerships	1,086,546	135,528	-	(2,559)	-	1,219,515
Derivative instruments	1,934	(1,934)	-	-	-	-
GMIB reinsurance recoverable	451,274	(34,746)	-	-	-	416,528
Liabilities						
Embedded derivative liabilities	$ (2,078,051)	$ 857,058	$ -	$ -	$ -	$ (1,220,993)
Derivative instruments	-	(3,765)	-	-	-	(3,765)
Funds held under reinsurance treaties (1)	(3,295,994)	64,879	-	(54,003)	-	(3,285,118)

		Total Realized/Unrealized Gains (Losses) Included in				
(in thousands)	Fair Value as of January 1, 2011	Net Income	Other Comprehensive Income	Purchases, Sales, Issuances and Settlements	Transfers in and/or (out of) Level 3	Fair Value as of December 31, 2011
Assets						
Fixed maturities						
Corporate securities	$ 32,806	$ 1,275	$ 1,676	$ (3,462)	$ -	$ 32,295
Other asset-backed securities	74,813	(3,002)	3,920	(73,868)	8,197	10,060
Trading securities	211,935	15,934	-	(167,978)	-	59,891
Limited partnerships	865,761	84,328	-	136,457	-	1,086,546
Derivative instruments	-	1,934	-	-	-	1,934
GMIB reinsurance recoverable	127,534	323,740	-	-	-	451,274
Liabilities						
Embedded derivative liabilities	$ (313,534)	$ (1,764,517)	$ -	$ -	$ -	$ (2,078,051)
Derivative instruments	(5,831)	5,831	-	-	-	-

(1) Represents fair value at acquisition date for beginning balance.

The components of the amounts included in purchases, sales, issuances and settlements for years ended December 31, 2012 and 2011 shown above are as follows (in thousands):

December 31, 2012	**Purchases**	**Sales**	**Issuances**	**Settlements**	**Total**
Assets					
Fixed maturities					
Corporate securities	$ 35,745	$ (4,645)	$ -	$ -	$ 31,100
Residential mortgage-backed	31	-	-	-	31
Other asset-backed securities	-	(4,195)	-	-	(4,195)
Trading securities	166	(2,328)	-	-	(2,162)
Limited partnerships	234,440	(236,999)	-	-	(2,559)
Policy loans	-	-	136,027	(20,148)	115,879
Total	$ 270,382	$ (248,167)	$ 136,027	$ (20,148)	$ 138,094
Liabilities					
Funds held under reinsurance treaties	$ -	$ -	$ (172,025)	$ 118,022	$ (54,003)

December 31, 2011	**Purchases**	**Sales**	**Issuances**	**Settlements**	**Total**
Assets					
Fixed maturities					
Corporate securities	$ -	$ (3,462)	$ -	$ -	$ (3,462)
Other asset-backed securities	-	(73,868)	-	-	(73,868)
Trading securities	2,629	(170,607)	-	-	(167,978)
Limited partnerships	254,880	(118,423)	-	-	136,457
Total	$ 257,509	$ (366,360)	$ -	$ -	$ (108,851)

For the year ended December 31, 2012, Jackson transferred securities with an amortized cost and fair value of $25.3 million from Level 3 to Level 2 as a result of the Company being able to obtain pricing from an independent, third-party pricing service utilizing significant observable inputs.

For the year ended December 31, 2011, Jackson transferred securities with an amortized cost and fair value of $9.3 million and $8.2 million, respectively, into Level 3 from Level 2 as a result of third party pricing not being available. There were no transfers between Level 1 and 2 of the fair value hierarchy in 2012 or 2011.

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, 2012 and 2011 was as follows (in thousands):

	2012	**2011**
Assets		
Fixed maturities		
Corporate securities	$ 4,646	$ 2,937
Other asset-backed securities	758	(3,865)
Trading securities	12,094	15,915
Limited partnerships	135,946	84,478
Derivative instruments	(1,934)	1,934
GMIB reinsurance recoverable	(34,746)	323,740
Liabilities		
Embedded derivative liabilities	$ 857,058	$ (1,764,517)
Derivative instruments	(3,765)	5,831
Funds held under reinsurance treaties	6,342	-

Nonrecurring Fair Value Measurements

The table below presents the carrying amount and fair value by fair value hierarchy level of certain financial instruments that are not reported at fair value (in thousands).

	Fair Value Hierarchy Level	December 31, 2012 Carrying Value	December 31, 2012 Fair Value	December 31, 2011 Carrying Value	December 31, 2011 Fair Value
Assets					
Cash and cash equivalents	Level 1	$ 1,150,420	$ 1,150,420	$ 656,253	$ 656,253
Commercial mortgage loans	Level 3	5,758,997	6,194,507	5,530,370	5,937,422
Policy loans	Level 3	1,379,455	1,379,455	855,099	855,099
Liabilities					
Other contract holder funds					
Annuity reserves (1)	Level 3	$ 37,237,390	$ 38,894,896	$ 33,619,681	$ 32,606,744
Reserves for guaranteed investment contracts	Level 3	1,123,971	1,138,699	761,638	771,597
Trust instruments supported by funding	Level 3	1,341,408	1,372,165	1,663,204	1,709,966
Federal Home Loan Bank funding agreements	Level 3	1,801,108	1,802,855	1,751,020	1,752,556
Debt	Level 3	292,274	361,585	297,695	323,341

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

Fair Value Option

As described in Note 2, in connection with the acquisition of REALIC, the Company elected the fair value option for certain assets, which are held as collateral for reinsurance. Accordingly, the Company established a funds held liability, for which the Company also elected the fair value option. The value of the funds held liability is equal to the fair value of the assets held as collateral. The income and any changes in unrealized gains and losses on these assets and the corresponding funds held liability are included in net investment income and have no impact on the Company's consolidated income statement. Income and changes in unrealized gains and losses on other assets for which the Company has elected the fair value option are immaterial to the Company's consolidated financial statements.

7. Deferred Policy Acquisition Costs and Deferred Sales Inducement Costs

The balances of and changes in deferred policy acquisition costs, as of and for the years ended December 31 were as follows (in thousands):

	2012	2011	2010
Balance, beginning of year	$ 4,395,174	$ 4,170,644	$ 3,746,711
Deferrals of acquisition costs	1,105,124	1,002,864	938,131
Amortization related to:			
Operations	(443,296)	(622,469)	(293,483)
Derivatives	147,992	225,568	345,556
Net realized (gains) losses	(3,594)	(12,304)	4,621
Total amortization	(298,898)	(409,205)	56,694
Unrealized investment gains	(378,813)	(373,792)	(577,924)
Other	-	4,663	7,031
Balance, end of year	$ 4,822,587	$ 4,395,174	$ 4,170,643

The balances of and changes in deferred sales inducement costs, which are reported in other assets, as of and for the years ended December 31 were as follows (in thousands):

	2012	2011	2010
Balance, beginning of year	$ 602,486	$ 451,096	$ 476,749
Deferrals of sales inducements	171,393	183,517	144,037
Amortization related to:			
Operations	(131,317)	(149,261)	(110,854)
Derivatives	(12,796)	183,744	34,373
Net realized (gains) losses	(665)	(1,241)	897
Total amortization	(144,778)	33,242	(75,584)
Unrealized investment gains	(68,960)	(65,369)	(94,106)
Balance, end of year	$ 560,141	$ 602,486	$ 451,096

8. 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 reinsures certain of its risks to other reinsurers under a yearly renewable term, coinsurance, or modified coinsurance basis. The Company monitors the financial strength rating of reinsurers on a monthly basis.

The Company previously 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, meet the definition of a derivative. Accordingly, the GMIB reinsurance agreement is recorded at fair value on the Company's consolidated balance sheets, with changes in fair value recorded in other investment losses.

As a pre-closing condition to the acquisition described in Note 3, and after receipt of all required regulatory approvals, REALIC entered into three retro treaties with SRZ. Pursuant to these retro treaties, REALIC ceded to SRZ on a 100% coinsurance basis certain blocks of business written or assumed by REALIC. These blocks of business include the disability income and accident and health business written or assumed by REALIC, a mix of life and annuity insurance business written or assumed by REALIC, and the corporate owned life insurance business assumed by REALIC. The effective date of the three retrocession agreements was July 1, 2012.

Pursuant to the retro treaties, the Company holds certain assets, primarily in the form of policy loans and fixed maturities, as collateral for the reinsurance recoverable. Accordingly, the Company established a corresponding funds held under reinsurance treaties liability. At December 31, 2012, this funds held liability was $3.3 billion.

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

	Years Ended December 31,		
	2012	**2011**	**2010**
Direct premiums:			
Life	$ 411,112	$ 257,015	$ 273,247
Accident and health	28,989	3,020	9,058
Plus reinsurance assumed:			
Life	28,233	12,728	13,736
Accident and health	4,765	860	1,122
Less reinsurance ceded:			
Life	(243,470)	(109,407)	(123,621)
Accident and health	(33,754)	(3,880)	(10,180)
Annuity guaranteed benefits	(19,605)	(20,526)	(20,641)
Total net premiums	$ 176,270	$ 139,810	$ 142,721

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

	Years Ended December 31,		
	2012	**2011**	**2010**
Direct benefits			
Life	$ 939,727	$ 668,546	$ 594,368
Accident and health	55,005	1,598	5,220
Annuity guaranteed benefits	86,651	73,756	92,382
Plus reinsurance assumed:			
Life	118,284	27,317	27,934
Accident and health	11,941	468	560
Less reinsurance ceded:			
Life	(292,834)	(118,408)	(121,595)
Accident and health	(66,946)	(2,066)	(5,780)
Deferral of contract enhancements	(157,931)	(172,389)	(125,336)
Change in reserves, net of reinsurance	(79,683)	106,474	68,972
Total benefits	$ 614,214	$ 585,296	$ 536,725

Components of the Company’s reinsurance recoverable as of December 31 were as follows (in thousands):

	December 31,	
	2012	**2011**
Reserves:		
Life	$ 7,144,675	$ 893,963
Accident and health	896,942	5,764
Guaranteed minimum income benefits	416,528	451,274
Other annuity benefits	306,404	23,129
Claims liability	1,078,281	33,411
Other	34,078	2,147
Total	$ 9,876,908	$ 1,409,688

Included in the reinsurance recoverable were reserves ceded to Brooke Life of $44.5 million and $46.2 million at December 31, 2012 and 2011, respectively. The largest amount ceded to any reinsurer at December 31, 2012 totaled $7.0 billion, which was primarily related to the retro treaties.

The following table sets forth the Company's net life insurance in-force (in millions):

	December 31, 2012	December 31, 2011
Direct life insurance in-force	$ 285,991	$ 88,014
Amounts assumed from other companies	26,619	1,334
Amounts ceded to other companies	(171,667)	(47,059)
Net life insurance in-force	$ 140,943	$ 42,289

9. Reserves for Future Policy Benefits and Claims Payable and Other Contract Holder Funds

The following table sets forth the Company's reserves for future policy benefits and claims payable balances as of December 31 (in thousands):

	2012	2011
Traditional life	$ 13,299,494	$ 1,863,584
Guarantee benefits	2,604,567	2,756,329
Claims payable	1,728,784	418,552
Other	345,403	40,323
Total	$ 17,978,248	$ 5,078,788

For traditional life insurance contracts, which include term and whole life, reserves 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 deviation. The acquisition of REALIC increased the Company's traditional life reserves at December 31, 2012 by $12.1 billion.

The Company's liability for future policy benefits also includes liabilities for guarantee benefits related to certain nontraditional long-duration life and annuity contracts, which are further discussed in Note 10.

The following table sets forth the Company's liabilities for other contract holder funds balances as of December 31 (in thousands):

	2012	2011
Interest-sensitive life	$ 9,705,271	$ 5,094,839
Variable annuity fixed option	6,996,151	6,652,194
Fixed annuity	20,352,342	19,141,851
Fixed index annuity	11,507,614	9,879,350
GICs, funding agreements and FHLB advances	4,266,250	4,175,862
Total	$ 52,827,628	$ 44,944,096

For interest-sensitive life contracts, liabilities approximate the policyholder's account value, plus the unamortized balance of the fair value adjustment related to the REALIC acquired business. The liability for fixed index annuities is based on two components, 1) the imputed value of the underlying guaranteed host contract, and 2) the fair value of the embedded option component of the contract. For fixed annuities and other investment contracts, as detailed in the above table, the liability is the policyholder's account value, plus the unamortized balance of the fair value adjustment related to the REALIC acquired business. At December 31, 2012, the Company had interest sensitive life business with minimum guaranteed interest rates ranging from 2.5% to 6.0%, with a 4.67% average guaranteed rate and fixed interest rate annuities with minimum guaranteed rates ranging from 1.0% to 5.5% and a 2.53% average guaranteed rate.

Upon acquisition of REALIC, the Company recorded a fair value adjustment related to certain annuity and interest sensitive liability blocks of business to reflect the cost of the interest guarantees within the inforce liabilities, based on the difference between the guaranteed interest rate and an assumed new money guaranteed interest rate. This adjustment was recorded in reserves for future policy benefits and claims payable. This component of the acquired reserve will be reassessed at the end of each period, taking into account changes in the inforce block and the relationship between guaranteed rates and market crediting rates. Any resulting change in the reserve will be recorded as a change in reserve through the consolidated income statement.

The change in the fair value adjustments noted above have been included in the Company's income statement as a change in reserve.

At December 31, 2012 and 2011, approximately 88% and 83%, respectively, of the Company's fixed interest rate annuity account values correspond to crediting rates that are at the minimum guaranteed interest rates. The following tables show the distribution of the fixed interest rate annuities' account values within the presented ranges of minimum guaranteed interest rates at December 31 (in millions):

	2012			
Minimum Guaranteed Interest Rate	Account Value			
	Fixed	Fixed Index	Variable	Total
1.0%	$ 904.6	$ 1,118.1	$ 2,094.9	$ 4,117.6
>1.0% - 2.0%	3,113.1	6,926.3	3,522.1	13,561.5
>2.0% - 3.0%	9,758.5	3,463.2	1,379.2	14,600.9
>3.0% - 4.0%	2,008.2	-	-	2,008.2
>4.0% - 5.0%	2,467.6	-	-	2,467.6
>5.0% - 5.5%	340.3	-	-	340.3
Total	$ 18,592.3	$ 11,507.6	$ 6,996.2	$ 37,096.1

	2011			
Minimum Guaranteed Interest Rate	Account Value			
	Fixed	Fixed Index	Variable	Total
1.0%	$ 302.4	$ 1,339.0	$ 1,448.1	$ 3,089.5
>1.0% - 2.0%	3,424.6	5,664.2	3,794.8	12,883.6
>2.0% - 3.0%	9,942.9	2,876.2	1,409.3	14,228.4
>3.0% - 4.0%	1,307.0	-	-	1,307.0
>4.0% - 5.0%	2,214.1	-	-	2,214.1
>5.0% - 5.5%	260.1	-	-	260.1
Total	$ 17,451.1	$ 9,879.4	$ 6,652.2	$ 33,982.7

At December 31, 2012 and 2011, approximately 83% and 91%, respectively, of the Company's interest sensitive life business account values correspond to crediting rates that are at the minimum guaranteed interest rates. The following table shows the distribution of the interest sensitive life business account values within the presented ranges of minimum guaranteed interest rates at December 31 (in millions):

Minimum Guaranteed Interest Rate	Account Value - Interest Sensitive Life	
	2012	2011
>2.0% - 3.0%	$ 298.1	$ 202.4
>3.0% - 4.0%	3,479.5	1,779.6
>4.0% - 5.0%	3,407.8	1,066.3
>5.0% - 5.5%	2,519.9	2,046.5
Total	$ 9,705.3	$ 5,094.8

The Company has 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 by the Company and secured by the issuance of funding agreements. Carrying values totaled $0.6 billion and $0.7 billion at December 31, 2012 and 2011, respectively.

The Company has 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, 2012 and 2011 totaled $0.8 billion and $1.0 billion, respectively.

Those Medium Term Note instruments issued in a foreign currency have been 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 translation gains and losses using exchange rates as of the reporting date. Foreign currency translation gains and losses are included in other investment losses.

Jackson and Squire Re are members of the FHLBI primarily for the purpose of participating in the bank's 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. At December 31, 2012 and 2011, the Company held $115.1 million and $107.0 million, respectively, of FHLBI capital stock, supporting $1.8 billion in funding agreements, short-term and long-term borrowing capacity in both years.

10. 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 reserves for future policy benefits and claims payable. Amounts assessed against the contract holders for mortality, administrative, and other services are reported in revenue as fee income. Changes in liabilities for minimum guarantees are reported within death, other policy benefits and change in policy reserves within the consolidated income statement with the exception of changes in embedded derivatives, which are included in other investment losses. Separate account net investment income, net investment realized and unrealized gains and losses, and the related liability changes are offset within the same line item in the consolidated income statements.

At December 31, 2012 and 2011, 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, 2012	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%	$ 66,587.5	$ 2,988.8	64.4 years	
GMWB - Premium only	0%	3,597.7	147.5		
GMWB	0-5%*	5,460.9	142.6		
GMAB - Premium only	0%	86.2	0.8		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		7,401.8	527.4	64.0 years	
GMWB - Highest anniversary only		3,055.3	398.1		
GMWB		1,132.8	222.9		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	4,397.6	565.0	66.4 years	
GMIB	0-6%	2,581.6	762.4		3.3 years
GMWB	0-8%*	50,662.2	3,117.2		

December 31, 2011	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%	$ 49,063.8	$ 4,528.9	64.2 years	
GMWB - Premium only	0%	3,613.5	303.2		
GMWB	0-5%*	4,012.6	904.8		
GMAB - Premium only	0%	83.3	3.0		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		6,218.9	1,053.7	63.7 years	
GMWB - Highest anniversary only		2,883.3	657.6		
GMWB		1,143.0	336.7		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	3,260.8	744.7	66.1 years	
GMIB	0-6%	2,582.0	893.7		4.2 years
GMWB	0-8%*	34,037.8	3,517.2		

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

Amounts shown as GMWB 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:	2012	2011
Equity	$ 61,834.5	$ 44,916.8
Bond	9,221.0	6,606.6
Balanced	7,478.2	5,976.5
Money market	1,244.6	1,052.8
Total	$ 79,778.3	$ 58,552.7

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

	2012	2011	2010
Balance at January 1	$ 466.6	$ 342.0	$ 308.7
Incurred guaranteed benefits	100.2	198.4	125.7
Paid guaranteed benefits	(86.7)	(73.8)	(92.4)
Balance at December 31	$ 480.1	$ 466.6	$ 342.0

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 death, other policy benefits and change in policy reserves, 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, 2012 and 2011 (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 78.0% to 100% of the Annuity 2000 table.
4) Lapse rates varying by contract type, duration and degree the benefit is in-the-money and ranging from 0.50% to 40.0%, with an average of 4.0% during the surrender charge period and 10.0% thereafter.
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 net income. The fair value of these liabilities is determined using stochastic modeling and inputs as further described in Note 6. The fair valued GMWB reserve totaled $1,219.0 million and $2,074.8 million at December 31, 2012 and 2011, respectively, and was reported in reserves for future policy benefits and claims payable.

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 similar to the GMDB liability with the sole exception that the reserve calculation uses a series of stochastic investment performance scenarios. At December 31, 2012 and 2011, these GMWB reserves totaled $21.2 million and $14.7 million, respectively, and were reported in reserves for future policy benefits and claims payable.

GMAB benefits were offered on some variable annuity plans. However, the Company no longer offers these benefits. At December 31, 2012 and 2011, the liability was $2.0 million and $3.2 million, respectively.

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 death, other policy benefits and change in policy reserves, 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, 2012 and 2011 are consistent with those used for calculating the GMDB liability. At December 31, 2012 and 2011, GMIB reserves before reinsurance totaled $16.3 million and $16.0 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. At December 31, 2012, this includes reserves for similar benefits on REALIC UL business acquired during the year. 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 annuitization reserve.

Liabilities for these benefits have been established according to the methodologies described below:

	December 31, 2012			December 31, 2011		
Benefit Type	Liability (in millions)	Net Amount at Risk (in millions)	Weighted Average Attained Age	Liability (in millions)	Net Amount at Risk (in millions)	Weighted Average Attained Age
UL insurance benefit *	$ 785.6	$ 31,610.5	58.1 years	$ 105.1	$ 6,125.9	55.9 years
Two-tier annuitization	3.5	26.8	65.2 years	6.0	31.9	64.7 years
ISWL account balance adjustment	78.9	n/a	n/a	73.0	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, 2012 and 2011:

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 5.5% projected.

The following assumptions and methodology were used to determine the two-tier annuitization benefit liability at December 31, 2012 and 2011:

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%.

11. Debt

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

	2012	2011
Surplus notes	$ 249,377	$ 249,354
Mortgage loans	30,397	30,841
VIE related borrowings	2,500	2,500
FHLBI mortgage loan	10,000	15,000
Total	$ 292,274	$ 297,695

Due in less than 1 year	$ -
Due in more than 1 to 5 years	42,897
Due after 5 years	249,377
Total	$ 292,274

Surplus notes
On March 15, 1997, the Company issued 8.15% surplus notes in the principal amount of $250.0 million due March 15, 2027. These surplus 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 and may not be redeemed at the option of the Company or any holder prior to maturity.

Under Michigan Insurance Law, for statutory reporting purposes, the surplus 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. Interest is payable semi-annually on March 15th and September 15th of each year. Interest expense on the notes was $20.4 million in 2012, 2011, and 2010.

Mortgage loans
At December 31, 2012 and 2011, certain consolidated real estate VIEs had outstanding mortgage loans with a weighted average interest rate of 4.4%, with maturities through 2016. Interest expense totaled $1.4 million, $1.4 million, and $2.1 million in 2012, 2011, and 2010, respectively.

VIE related borrowings
Certain of the Company's VIEs have "equity" classes issued in the form of non-investment grade debt. Accordingly, these equity classes are classified as notes payable rather than minority interest in the consolidated balance sheets. These notes accrue contingent interest expense in addition to the stated coupon. At December 31, 2011, there was a single equity class outstanding that matures in 2016. The outstanding principal amount accrued interest at a weighted average interest rate of 5.3% and 9.4% at December 31, 2012 and 2011, respectively. Interest expense on the notes in 2012, 2011, and 2010 totaled $0.1 million, $0.2 million, and $8.8 million, respectively.

Additionally, certain of the Company's consolidated VIEs issued debt to external parties, which was redeemed in 2011. While outstanding, the principal amount accrued interest at a weighted average interest rate of 0.8% in 2011. Interest expense on the notes totaled $0.2 million and $2.6 million in 2011 and 2010, respectively, which were the only years these VIEs were consolidated in Jackson's consolidated financial statements.

Federal Home Loan Bank Mortgage Loan

In 2010, the Company received a mortgage loan from the FHLBI, under its community investment program. The loan accrues interest at 1.04% and the outstanding balance was $10.0 million and $15.0 million at December 31, 2012 and 2011, respectively. Interest expense totaled $0.1 million and $0.2 million during 2012 and 2011, respectively. At December 31, 2012, the mortgage loan was collateralized by real estate with a carrying value of $20.2 million.

12. Federal Home Loan Bank Advances

The Company entered into a short-term advance program with the FHLBI in which interest rates were either fixed or variable based on the FHLBI cost of funds or market rates. There were no advances outstanding at December 31, 2012. Advances of $150.0 million at an interest rate of 0.14% were outstanding at December 31, 2011. The Company paid interest of $0.3 million in 2012. The Company did not pay interest during 2011 since advances were only drawn in December. Advances were collateralized by CMBS and other structured securities with a carrying value of $165.7 million at December 31, 2011.

13. Income Taxes

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

	Years Ended December 31,		
	2012	**2011**	**2010**
Current tax expense (benefit)	$ 302,110	$ 58,481	$ (179,053)
Deferred tax expense	53,323	153,591	260,445
Federal income tax expense	$ 355,433	$ 212,072	$ 81,392

The federal income tax provisions differ from the amounts determined by multiplying pre-tax income attributable to Jackson by the statutory federal income tax rate of 35% for 2012, 2011 and 2010 as follows (in thousands):

	Years Ended December 31,		
	2012	**2011**	**2010**
Income taxes at statutory rate	$ 452,615	$ 276,431	$ 143,513
Dividends received deduction	(107,412)	(59,136)	(56,390)
Other	10,230	(5,223)	(5,731)
Federal income tax expense	$ 355,433	$ 212,072	$ 81,392
Effective tax rate	27.5%	26.9%	19.8%

Federal income taxes paid (recovered) were $241.2 million, $170.0 million, and $(517.8) million in 2012, 2011, and 2010, respectively. The 2010 tax recovery included $287.7 million due to Internal Revenue Service ("IRS") guidance issued in March 2010 related to the adoption of new statutory reserving requirements for variable annuities in 2009 issued by the National Association of Insurance Commissioners ("NAIC"). 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.

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

	December 31, 2012	December 31, 2011
Gross deferred tax asset		
Difference between financial reporting and the tax basis of:		
Policy reserves and other insurance items	$ 3,120,346	$ 1,846,024
Other-than-temporary impairments and other investment items	76,647	122,244
Deferred compensation	48,067	42,690
Other, net	127,976	66,473
Total gross deferred tax asset	3,373,036	2,077,431
Gross deferred tax liability		
Difference between financial reporting and the tax basis of:		
Deferred acquisition costs and sales inducements	(1,465,119)	(1,511,911)
Other investment items	(315,416)	(246,482)
Other assets	(20,799)	(22,314)
Net unrealized gains on available for sale securities	(2,063,272)	(1,001,325)
Total gross deferred tax liability	(3,864,606)	(2,782,032)
Net deferred tax liability	$ (491,570)	$ (704,601)

The Company is required to evaluate the recoverability of its deferred tax assets and establish a valuation allowance, if necessary, to reduce its deferred tax asset to an amount that is more likely than not to be realizable. Considerable judgment and the use of estimates are required when determining whether a valuation allowance is necessary and, if so, the amount of such valuation allowance. When evaluating the need for a valuation allowance, the Company considers many factors, including: the nature and character of the deferred tax assets and liabilities; taxable income in prior carryback years; future reversals of temporary differences; the length of time carryovers can be utilized; and any tax planning strategies the Company would employ to avoid a tax benefit from expiring unused. Although realization is not assured, management believes as of December 31, 2012, it is more likely than not that the deferred tax assets, will be realized. At December 31 2012 and 2011, the Company did not have a valuation allowance.

At December 31, 2012, the Company had a federal tax ordinary loss carryforward of $153.7 million which expires in 2026, that was attributable to the Company's acquisition of REALIC. Section 382 of the Internal Revenue Code imposes limitations on the utilization of net operating loss carryforwards. The Section 382 limitation is an annual limitation on the amount of pre-acquisition NOLs that a corporation may use to offset post-acquisition income. Section 382 further limits certain unrealized built-in losses at the time of acquisition. The annual limitation, subject to potential purchase price adjustments, is approximately $20.0 million.

In August 2007, the 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 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. In February 2013, the IRS fully conceded the separate account DRD issue in favor of the Company after obtaining approval from the Joint Committee on Taxation.

In February 2012, Brooke Life received a Notice of Proposed Adjustment from the IRS, regarding an assessment related to its tax treatment of interest expense on intercompany debt in 2007 and 2008. Due to the intercompany tax sharing agreement, the effect of an adjustment, if any, would impact Jackson’s total stockholder’s equity. The total aggregate exposure to the Company’s stockholder’s equity is approximately $160.0 million. Brooke Life does not agree with the assessment, believes its current position is sustainable and filed a protest with the Appellate Division of the IRS. In February 2013, the IRS fully conceded the debt/equity issue for years under examination in favor of the Company, subject to approval by the Joint Committee on Taxation.

During 2011, Jackson established a reserve for an unrecognized tax benefit as required for income tax uncertainties. The following table summarizes the changes in the Company’s unrecognized tax benefits, for the years ended December 31, 2012 and 2011 (in thousands).

	2012	2011
Unrecognized tax benefit, beginning of year	$ 45,065	$ -
Additions for tax positions identified	-	45,065
Reduction of tax positions of closed prior years	-	-
Reduction of reserve [1]	(45,065)	-
Unrecognized tax benefit, end of year	$ -	$ 45,065

[1] Elimination of reserve due to issuance of new IRS guidance

The Company has considered both permanent and temporary positions in determining the unrecognized tax benefit rollforward. The total amount of unrecognized benefits represent tax positions for which there is uncertainty about the timing of certain deductions. The timing of such deductions would not affect the annual effective tax rate, excluding the impact of interest and penalties.

Interest totaling $10.4 million related to these unrecognized tax benefits has been included in income tax expense in the consolidated income statement for 2011. The Company has not recorded any amounts for penalties related to unrecognized tax benefits during 2012, 2011, or 2010.

Based on information available as of December 31, 2012, 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.

14. Commitments, Contingencies and Guarantees

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. Jackson has been named in civil litigation proceedings, which appear to be substantially similar to other class action litigation brought against many life insurers including a modal premium case and allegations of misconduct in the sale of insurance products. The Company accrues for legal contingencies once the contingency is deemed to be probable and reasonably estimable. At December 31, 2012 and 2011, Jackson recorded accruals totaling $32.9 million and $19.9 million, 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 $43.1 million and $26.6 million at the end of 2012 and 2011, respectively. Related premium tax offsets were $19.7 million and $15.3 million at December 31, 2012 and 2011, 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, 2012, the Company had unfunded commitments related to its investments in limited partnerships and limited liability companies totaling $528.2 million. At December 31, 2012, unfunded fixed-rate commercial mortgage loan commitments totaled $140.1 million.

The Company has received regulatory inquiries on an industry-wide matter relating to claims settlement practices and compliance with unclaimed property laws. Concurrently, some regulators and state legislatures have required and others are considering proposals that would require life insurance companies to take additional steps to identify unreported deceased policy and contract holders. Additionally, numerous states are contracting with independent firms to perform specific unclaimed property audits or targeted market conduct examinations covering claims settlement practices and procedures for escheating unclaimed property. One such firm has been contracted by treasury departments of 26 states to perform an examination of the Company's practices for handling unclaimed property. Any regulatory audits, related examination activity and internal reviews may result in additional payments to beneficiaries, escheatment of funds deemed abandoned under state laws, administrative penalties and changes in the Company's procedures for the identification of unreported claims and handling of escheatable property.

In 2011, the Company initiated a project to compare its entire policy master file to vendors' databases of known deaths and accrued a $25.0 million provision for potential claims at December 31, 2011. In 2012, the Company incurred losses of $28.0 million, net of policy reserves released upon death, as a result of the project. At December 31, 2012, based on its current analysis, the Company has accrued $28.0 million for estimated remaining claims that have not yet been positively identified.

The Company has two separate service agreements with third party administrators to provide policyholder administrative services. These agreements, subject to certain termination provisions, have ten-year periods and expire in 2019 and 2020.

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, 2012, Jackson recorded a liability of $12.1 million for future lease payments. Lease expense was $28.1 million, $25.2 million, and $22.3 million in 2012, 2011, and 2010, respectively. At December 31, 2012, future minimum payments under these noncancellable operating leases were as follows (in thousands):

2013	$	19,779
2014		17,984
2015		14,360
2016		11,939
2017		6,940
Thereafter		13,881
Total	$	84,883

15. Share-Based Compensation

Certain officers participate in various share award plans relating to Prudential shares and/or American Depositary Receipts ("ADR's") that are tradable on the New York Stock Exchange and are described below.

The Group Performance Share Plan ("GPSP") is a Prudential incentive plan in which all executive directors of Prudential and other senior executives can participate. Awards are granted in the form of a nil cost option with a vesting period of three years. The performance measure for the awards is that Prudential's Total Shareholder Return ("TSR") outperforms an index comprised of peer companies over a three-year period. Vesting of the awards between each performance period is on a straight line sliding scale basis ranging from 0% (less than the peer index TSR return) to 100% (more than 120% of the peer index TSR return). Participants are entitled to the value of reinvested dividends that would have accrued on the shares that vest.

The Business Unit Performance Plan ("BUPP") is a Prudential incentive plan created to provide a common framework under which awards would be made to Chief Executive Officers ("CEO") of Prudential's business units. Awards under this nil cost plan for Jackson's CEO are based on compound annual growth in Jackson Shareholder Capital Value on a European Embedded Value ("EEV") basis with performance measured over three years. Awards granted in 2009 and later are settled in ADR's after vesting. Participants are entitled to receive the value of reinvested dividends over the performance period for those shares/ADR's that vest. The compound annual growth parameters for the awards are based on factors relevant to the U.S. business and vesting between each performance point is on a straight line sliding scale basis ranging from 0% (less than 8% growth) to 100% (more than 12% growth).

In 2011, the Company granted one-off type retention awards to certain key senior executives within Jackson. These awards were subject to the prior approval of the Jackson Remuneration Committee and are nil cost options with a contingent right to receive Prudential ADR's. The awards are contingent upon continued employment of the recipient through the award vesting date. There are no performance measurements with these awards.

In 2012, the Company classifies all the above plans as equity settled plans and, thereby, reflects the net reserve related to the compensation expense and the value of the shares distributed under this plan within the statement of equity. Prior periods have been reclassified to conform to this presentation. At December 31, 2012 and 2011, the Company had $12.9 million and $8.0 million, respectively, reserved for future payments under these plans.

The Company also has a performance-related share award plan which, subject to the prior approval of the Jackson Remuneration Committee, may grant share awards to eligible employees in the form of a contingent right to receive Prudential ADR's, or a conditional allocation of Prudential ADR's. These share awards are based on the compound annual EEV imputed growth in shareholder value of the U.S. business, have vesting periods of four years and are at nil cost to the employee. Share awards vest between 0% (less than 8% growth) and 150% (more than 17.5% growth) of the grant amounts dependent on the compound annual growth rate attained over the performance period. Award holders do not have any right to dividends or voting rights attached to the ADR's granted during the performance period.

The Company classifies this plan as a liability settled plan and, thereby, reflects the accrued compensation expense and the value of the shares distributed under this plan within other liabilities. At December 31, 2012 and 2011, the Company had $23.9 million and $15.6 million, respectively, accrued for future payments under this plan.

The Company either acquires shares/ADR's or reimburses Prudential for the costs of any shares/ADR's that were distributed to participants in the above plans, or are to be distributed in the future. The shares/ADR's acquired for all the share-award plans are held at cost in a trust account for future distributions. The Company reflects the costs of shares/ADR's held within the statement of equity as shares held in trust. At December 31, 2012 and 2011, the Company had $25.1 million and $16.8 million of shares/ADR's held at cost in the trust, respectively.

The Company recognizes share-based compensation expense associated with the equity settled plans based on the grant-date award fair value as determined using either the Black-Scholes model or the Monte Carlo model ratably over the requisite service period of each individual grant, which generally equals the vesting period. For the liability settled share award plans, compensation expense is recognized based on the change in fair value of the award at the end of each reporting period due to the plans cash settlement alternatives.

Total expense related to these share-based performance related compensation plans was as follows (in millions):

	For the Years Ended December 31,		
	2012	2011	2010
Group Performance Share Plan	$ 8.0	$ 2.3	$ 1.5
Business Unit Performance Plan	7.2	3.7	-
Retention Share Plan	2.0	1.5	-
Jackson performance plan	15.8	4.3	10.7
Total compensation expense related to incentive plans	$ 33.0	$ 11.8	$ 12.2
Income tax benefit	$ 11.5	$ 4.1	$ 4.3

The total unrecognized compensation expense related to all share-based plans at December 31, 2012 was $12.9 million with a weighted average remaining period of 1.32 years.

The weighted average share/ADR fair values of share-based awards granted by plan during 2012, 2011 and 2010 were as follows:

	2012	2011	2010
Weighted Average Fair Value:			
Group Performance Share Plan	$ 12.11	$ 12.84	$ 8.33
Business Unit Performance Plan	$ 20.89	$ 21.89	$ 15.48
Jackson performance plan	$ 24.24	$ 23.27	$ 15.97

The weighted average fair value for the Company's performance awards represents the average Prudential ADR price for the thirty days following Prudential's unaudited annual earnings release date. The fair value amounts relating to the equity settled plans were determined using either the Black-Scholes or Monte Carlo option-pricing models. These models are used to calculate fair values for options and awards at the grant date based on the quoted market price of the stock at the measurement date, the dividend yield, expected volatility, risk-free interest rates and expected term. The following assumptions were used in 2012, 2011 and 2010 in determining the GPSP fair value:

	2012	2011	2010
Dividend yield	3.63%	3.33%	3.43%
Expected volatility	32.80%	28.80%	43.00%
Risk-free interest rate	0.30%	1.33%	1.78%
Expected life	3 years	3 years	3 years
Weighted average share price	$ 12.11	$ 12.84	$ 8.33

The expected volatility is measured as the standard deviation of expected share price returns based on statistical analysis of daily share prices over a period up to the grant date equal to the expected life of the options. Risk-free interest rates are United Kingdom gilt rates with projections for three-year terms to match corresponding vesting periods. Dividend yield is determined as the average yield over the year of the grant and expected dividends are not incorporated into the measurement of fair value. For the GPSP, volatility and correlation between Prudential and an index constructed from a simple average of the Total Shareholder Return growth of ten companies is required. For the grants in 2012, an average index volatility and correlation of 32 percent and 76 percent, respectively, were used. Changes to the subjective input assumptions could materially affect the fair value estimate.

At December 31, 2012 and 2011, there were no outstanding non-vested Prudential shares granted.

Outstanding non-vested Prudential ADR's granted were as follows:

	GPSP		BUPP		Performance Award Plan	
	ADR's	Weighted Average Grant Date Fair Value	ADR's	Weighted Average Grant Date Fair Value	ADR's	Weighted Average Grant Date Fair Value
At December 31, 2010	385,459	$ 9.40	385,459	$ 14.80	1,228,400	$ 17.07
Granted	98,824	12.84	98,824	21.89	166,704	23.27
Exercised	-		-		206,000	26.34
Lapsed/Forfeited	-		-		203,745	15.46
At December 31, 2011	484,283	10.10	484,283	16.25	985,359	16.51
Granted	99,628	12.11	99,628	20.89	162,121	24.24
Exercised	234,238		219,598	14.35	220,710	22.73
Lapsed/Forfeited	-		14,640	14.35	77,753	18.49
At December 31, 2012	349,673	$ 10.68	349,673	$ 18.83	849,017	$ 16.19

At December 31, 2012, there were 333,676 non-vested Prudential ADR grants related to the one-off retention award plan, with a weighted average grant date price of $19.45.

16. Statutory Accounting Capital and Surplus

The Company is required to prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the insurance department of the state of domicile. Statutory accounting practices primarily differ from GAAP by charging policy acquisition costs to expense as incurred and establishing future policy benefit liabilities using different actuarial assumptions, as well as valuing investments and certain assets and accounting for deferred income taxes on a different basis.

Under Michigan Insurance Law, while Jackson must provide notification to the Michigan Commissioner prior to payment of any dividend, ordinary dividends on capital stock may only be distributed out of earned surplus, excluding any unrealized capital gains and the effect of permitted practices (referred to as adjusted earned surplus). At December 31, 2012, the adjusted earned surplus of the Company was $1,100.7 million. Ordinary dividends are also limited to the greater of 10% of statutory surplus as of the preceding year-end, excluding any increase arising from the application of permitted practices, or the statutory net income, excluding any realized investment gains, for the twelve month period ended on the preceding December 31. The Commissioner may approve payment of dividends in excess of these amounts, which would be deemed an extraordinary dividend. The maximum amount that would qualify as an ordinary dividend, which would consequently be free from restriction and available for payment of dividends to Brooke Life in 2013, is estimated to be $826.9 million, subject to the availability of adjusted earned surplus as of the dividend date.

The Company received capital contributions from its parent of $36.0 million, $19.4 million, and $150.1 million in 2012, 2011, and 2010, respectively. The capital contributions included $36.0 million, $19.4 million, and $20.1 million in 2012, 2011, and 2010, respectively, from Brooke Life's forgiveness of intercompany tax liabilities. Dividend payments from the Company to its parent were $400.0 million, $530.0 million, and $275.0 million in 2012, 2011, and 2010, respectively.

Statutory capital and surplus of the Company, as reported in its Annual Statement, was $4.3 billion and $3.6 billion at December 31, 2012 and 2011, respectively. Statutory net income (loss) of the Company, as reported in its Annual Statement, was $847.2 million, $(453.2) million, and $769.6 million in 2012, 2011, and 2010, respectively.

The Commissioner has granted Jackson a permitted practice that allows Jackson to carry interest rate swaps at book value, as if the requirements for 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, 2013. At December 31, 2012 and 2011, the effect of the permitted practice decreased statutory surplus by $580.5 million and $474.4 million, net of tax, respectively. The permitted practice had no impact on statutory net income.

Under Michigan Insurance Law, VOBA is reported as an admitted asset if certain criteria are met. In relation to the acquisition of REALIC and pursuant to Michigan Insurance Law at December 31, 2012, the Company reported approximately $470.1 million of statutory basis VOBA, which is fully admissible. Accordingly, the acquisition had no impact on the Company's statutory basis capital and surplus at the acquisition date.

The NAIC has developed certain risk-based capital ("RBC") requirements for life insurance companies. Under those requirements, compliance is determined by a ratio of a company's total adjusted capital, calculated in a manner prescribed by the NAIC ("TAC") to its authorized control level RBC, calculated in a manner prescribed by the NAIC ("ACL RBC"). Companies below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. The minimum level of TAC before corrective action commences is twice ACL RBC ("Company action level RBC"). At December 31, 2012 and 2011, the Company's TAC was more than 400% of the Company action level RBC.

In addition, on the basis of statutory financial statements that insurers file with the state insurance regulators, the NAIC annually calculates twelve financial ratios to assist state regulators in monitoring the financial condition of insurance companies. A usual range of results for each ratio is used as a benchmark and departure from the usual range on four or more of the ratios can lead to inquiries from individual state insurance departments. In 2012 and 2011, there were no significant exceptions with any ratios.

17. 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 $38.7 million, $36.6 million, and $37.2 million to PPM for investment advisory services during 2012, 2011, and 2010, 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 2012, 2011, and 2010 totaled $99.6 million, $94.7 million, and $85.7 million, respectively.

Jackson has entered into shared services administrative agreements with both, NPH and PPMA. Under the shared services administrative agreements, Jackson charged $7.3 million, $8.5 million, and $6.2 million of certain management and corporate services costs to these affiliates in 2012, 2011, and 2010, respectively.

Jackson provides a $40.0 million revolving credit facility to Nicole Finance, Inc., an upstream holding company. The loan, executed in 2011, is unsecured, matures in December 2016, accrues interest at 1.27% per annum and has a commitment fee of 0.10% per annum. There was $26.0 million and $14.7 million outstanding at December 31, 2012 and 2011, respectively. The highest outstanding loan balance during 2012 and 2011 was $26.0 million and $14.7 million, respectively. Interest and commitment fees totaled $0.2 million and $9 thousand during 2012 and 2011, 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, 2012 or 2011. The highest outstanding loan balance during both 2012 and 2011 was $1.0 million. During 2012, 2011, and 2010, interest and commitment fees totaled $0.1 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 no outstanding balance at December 31, 2012 and 2011. The highest outstanding loan balance during both 2012 and 2011 was $7.0 million. Interest and commitment fees totaled $0.1 million, $0.2 million, and $0.1 million during 2012, 2011, and 2010, respectively.

Jackson provides, through its PGDS subsidiary, information technology services to certain Prudential affiliates. Jackson recognized $21.6 million, $21.1 million, and $20.1 million of revenue associated with these services during 2012, 2011, and 2010, 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.

18. 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 $20.9 million, $18.0 million, and $17.4 million in 2012, 2011, and 2010, respectively, comprised solely of the Company's annual contributions to the plan.

The Company maintains non-qualified voluntary deferred compensation plans for certain agents and employees. At December 31, 2012 and 2011, the liability for such plans totaled $130.9 million and $121.5 million, respectively, and is reported in other liabilities. Jackson invests in selected mutual funds in amounts similar to participant elections as a hedge against significant movement in the payout liability. The Company's expense related to these plans, including a match of elective deferrals for the agents' deferred compensation plan, was $25.5 million, $3.6 million, and $22.5 million in 2012, 2011, and 2010, respectively. Investment income (loss) from the mutual funds totaled $18.9 million, $(3.7) million, and $15.7 million in 2012, 2011, and 2010, respectively.

With the acquisition of SRLC, Jackson acquired liabilities related to certain benefit plans which included the Southwestern Life Holdings, Inc. Retiree Benefit Plan, the American Merchants Life Insurance Co. Retiree Benefit Plan, the PennCorp Financial Group, Inc. Retirement and Savings Plan, and the GMAC/Integon obligation. The net liability for these acquired benefit plans was $8.7 million at December 31, 2012.

19. Operating Costs and Other Expenses

The following table is a summary of the Company's operating costs and other expenses (in thousands):

	For the Years Ended December 31,		
	2012	2011	2010
Commission expenses	$ 1,646,678	$ 1,422,681	$ 1,263,012
General and administrative expenses	709,690	586,130	538,758
Deferral of policy acquisition costs	(1,105,124)	(1,002,864)	(938,131)
Total operating costs and other expenses	$ 1,251,244	$ 1,005,947	$ 863,639