JACKSON
NATIONAL LIFE INSURANCE COMPANY

Jackson National Life Insurance Company and Subsidiaries

Consolidated Financial Statements

December 31, 2014 and 2013

Jackson National Life Insurance Company and Subsidiaries

Index to Consolidated Financial Statements
December 31, 2014 and 2013

KPMG LLP
Suite 500
191 West Nationwide Blvd.
Columbus, OH 43215-2568

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Jackson National Life Insurance Company and Subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated income statements, consolidated statements of comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jackson National Life Insurance Company and Subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Columbus, Ohio
March 6, 2015

Jackson National Life Insurance Company and Subsidiaries
Consolidated Balance Sheets
(In thousands, except per share information)

	December 31, 2014	December 31, 2013
Assets		
Investments:		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost: 2014, $48,245,495; 2013, $48,620,014, including $142,642 and $164,803 at fair value under the fair value option at December 31, 2014 and 2013, respectively)	$ 50,978,577	$ 49,729,105
Trading securities, at fair value	530,418	541,228
Commercial mortgage loans, net of allowance	5,998,253	6,080,080
Policy loans (includes $3,156,550 and $3,131,161 at fair value under the fair value option at December 31, 2014 and 2013, respectively)	4,477,083	4,477,040
Derivative instruments	1,428,084	1,267,974
Other invested assets (includes $1,176,633 and $1,310,369 at fair value under the fair value option at December 31, 2014 and 2013, respectively)	1,381,684	1,470,800
Total investments	64,794,099	63,566,227
Cash and cash equivalents	1,399,091	986,383
Accrued investment income	687,503	682,149
Deferred acquisition costs	7,455,336	6,212,220
Reinsurance recoverable	9,323,159	9,285,104
Deferred income taxes, net	13,956	110,393
Other assets	1,119,762	2,192,276
Separate account assets	127,459,274	108,787,279
Total assets	$ 212,252,180	$ 191,822,031
Liabilities and Equity		
Liabilities		
Reserves for future policy benefits and claims payable	$ 13,574,469	$ 11,974,963
Other contract holder funds	57,685,319	57,884,519
Funds held under reinsurance treaties, at fair value under fair value option	3,431,854	3,396,987
Debt	328,737	284,489
Securities lending payable	196,633	95,754
Derivative instruments	391,805	852,953
Other liabilities	2,542,453	2,506,665
Separate account liabilities	127,459,274	108,787,279
Total liabilities	205,610,544	185,783,609
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	3,816,079	3,801,965
Shares held in trust	(27,084)	(22,752)
Equity compensation reserve	14,130	18,448
Accumulated other comprehensive income, net of tax expense (benefit) of $398,736 in 2014 and $(113,674) in 2013	1,478,565	526,947
Retained earnings	1,311,175	1,657,406
Total stockholder's equity	6,606,665	5,995,814
Noncontrolling interests	34,971	42,608
Total equity	6,641,636	6,038,422
Total liabilities and equity	$ 212,252,180	$ 191,822,031

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	2014	2013	2012
Revenues			
Fee income	$ 4,512,152	$ 3,801,275	$ 2,787,122
Premium	264,341	286,771	176,270
Net investment income	3,002,581	3,144,646	2,780,562
Net realized losses on investments:			
Total other-than-temporary impairments	(56,161)	(49,930)	(172,730)
Portion of other-than-temporary impairments included in other comprehensive income	29,549	29,146	85,876
Net other-than-temporary impairments	(26,612)	(20,784)	(86,854)
Other net investment losses	(3,377,910)	(1,969,669)	(630,252)
Total net realized losses on investments	(3,404,522)	(1,990,453)	(717,106)
Other income	98,338	154,714	80,056
Total revenues	4,472,890	5,396,953	5,106,904
Benefits and Expenses			
Death, other policy benefits and change in policy reserves, net of deferrals	1,183,680	1,026,392	614,214
Interest credited on other contract holder funds, net of deferrals	1,563,202	1,636,071	1,460,021
Interest expense	38,417	42,036	44,561
Operating costs and other expenses, net of deferrals	1,616,062	1,480,719	1,251,244
Amortization of deferred acquisition and sales inducement costs	(263,564)	284,618	443,676
Total benefits and expenses	4,137,797	4,469,836	3,813,716
Pretax income before noncontrolling interests	335,093	927,117	1,293,188
Income tax (benefit) expense	(10,407)	166,997	355,433
Net income	345,500	760,120	937,755
Less: Net (loss) income attributable to noncontrolling interests	(5,269)	4,958	(1,736)
Net income attributable to Jackson	$ 350,769	$ 755,162	$ 939,491

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,		
	2014	**2013**	**2012**
Net income	$ 345,500	$ 760,120	$ 937,755
Other comprehensive income (loss), net of tax:			
Net unrealized gains (losses) on securities not other-than-temporarily impaired (net of tax expense (benefit) of: 2014 $543,831; 2013 $(807,429); 2012 $403,751)	1,007,605	(1,487,770)	764,562
Net unrealized losses on other-than-temporarily impaired securities (net of tax benefit of: 2014 $8,410; 2013 $7,984; 2012 $25,563)	(15,618)	(14,826)	(47,474)
Reclassification adjustment for losses included in net income (net of tax benefit of: 2014 $23,011; 2013 $43,708; 2012 $27,836)	(42,737)	(81,170)	(51,696)
Total other comprehensive income (loss)	949,250	(1,583,766)	665,392
Comprehensive income (loss)	1,294,750	(823,646)	1,603,147
Less: Comprehensive (loss) income attributable to noncontrolling interests	(7,637)	1,876	13,003
Comprehensive income (loss) attributable to Jackson	$1,302,387	$ (825,522)	$1,590,144

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, 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
Net income	-	-	-	-	-	755,162	755,162	4,958	760,120
Change in unrealized investment gains and losses, net of tax	-	-	-	-	(1,580,684)	-	(1,580,684)	(3,082)	(1,583,766)
Capital contribution	-	35,053	-	-	-	-	35,053	-	35,053
Dividends to stockholder	-	-	-	-	-	(507,000)	(507,000)	-	(507,000)
Shares acquired at cost	-	-	(21,208)	-	-	-	(21,208)	-	(21,208)
Shares distributed at cost	-	-	23,521	-	-	-	23,521	-	23,521
Reserve for equity compensation plans	-	-	-	13,129	-	-	13,129	-	13,129
Fair value of shares issued under equity compensation plans	-	-	-	(7,624)	-	-	(7,624)	-	(7,624)
Balances as of December 31, 2013	13,800	3,801,965	(22,752)	18,448	526,947	1,657,406	5,995,814	42,608	6,038,422
Net income	-	-	-	-	-	350,769	350,769	(5,269)	345,500
Change in unrealized investment gains and losses, net of tax	-	-	-	-	951,618	-	951,618	(2,368)	949,250
Capital contribution	-	14,114	-	-	-	-	14,114	-	14,114
Dividends to stockholder	-	-	-	-	-	(697,000)	(697,000)	-	(697,000)
Shares acquired at cost	-	-	(32,640)	-	-	-	(32,640)	-	(32,640)
Shares distributed at cost	-	-	28,308	-	-	-	28,308	-	28,308
Reserve for equity compensation plans	-	-	-	10,266	-	-	10,266	-	10,266
Fair value of shares issued under equity compensation plans	-	-	-	(14,584)	-	-	(14,584)	-	(14,584)
Balances as of December 31, 2014	$ 13,800	$ 3,816,079	$ (27,084)	$ 14,130	$ 1,478,565	$ 1,311,175	$ 6,606,665	$ 34,971	$ 6,641,636

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	2014	**2013**	**2012**
Cash flows from operating activities:			
Net income	$ 345,500	$ 760,120	$ 937,755
Adjustments to reconcile net income to net cash provided by operating activities:			
Net realized gains on investments	(83,997)	(81,145)	(28,487)
Net losses on derivatives	3,236,398	1,865,137	585,288
Interest credited on other contract holder funds, gross	1,577,180	1,650,459	1,473,482
Mortality, expense and surrender charges	(745,227)	(743,799)	(462,531)
Amortization of discount and premium on investments	67,724	49,408	39,699
Deferred income tax expense	(415,974)	277,078	53,323
Share-based compensation	46,384	39,947	32,946
Change in:			
Accrued investment income	(5,354)	(3,707)	(10,276)
Deferred sales inducements and acquisition costs	(1,387,067)	(848,133)	(832,841)
Trading portfolio activity, net	10,810	(128,415)	(88,260)
Income taxes receivable (payable)	134,624	86,261	25,030
Other assets and liabilities, net	395,956	85,812	245,722
Net cash provided by operating activities	3,176,957	3,009,023	1,970,850
Cash flows from investing activities:			
Sales, maturities and repayments of:			
Fixed maturities	5,644,799	5,798,733	6,507,615
Commercial mortgage loans	1,392,066	1,339,273	918,780
Purchases of:			
Fixed maturities	(5,242,317)	(5,543,494)	(5,294,561)
Commercial mortgage loans	(1,314,647)	(1,654,026)	(1,137,725)
Purchase of REALIC, net of cash acquired	-	(17,696)	(354,172)
Other investing activities	(1,087,486)	(2,489,841)	(1,413,375)
Net cash used in investing activities	(607,585)	(2,567,051)	(773,438)
Cash flows from financing activities:			
Policyholders' account balances:			
Deposits	26,279,026	25,196,030	23,226,461
Withdrawals	(13,386,586)	(11,810,633)	(9,101,692)
Net transfers to separate accounts	(14,267,126)	(14,094,490)	(14,164,019)
Net (payments on) proceeds from repurchase agreements	(125,646)	415,271	(100,709)
Net proceeds from (payments on) Federal Home Loan Bank notes	-	200,000	(150,000)
Net proceeds from (payments on) debt	45,000	(7,500)	(5,000)
Shares held in trust at cost, net	(4,332)	2,313	(8,286)
Payment of cash dividends to Parent	(697,000)	(507,000)	(400,000)
Net cash used in financing activities	(2,156,664)	(606,009)	(703,245)
Net increase (decrease) in cash and cash equivalents	412,708	(164,037)	494,167
Cash and cash equivalents, beginning of year	986,383	1,150,420	656,253
Cash and cash equivalents, end of year	$ 1,399,091	$ 986,383	$ 1,150,420
Supplemental Cash Flow Information			
Income tax paid (received)	$ 256,829	$ (241,921)	$ 241,201
Interest paid	$ 21,798	$ 21,900	$ 22,011

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"), VFL International Life Company SPC, LTD 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 real estate related investments;
- Other insignificant wholly owned subsidiaries; and
- Other insignificant 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 a $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 through December 31, 2012 reduced the preliminary purchase price from $663.3 million to $587.3 million, which was subject to final agreement with Swiss Re. In 2013, after finalizing the opening balance sheet and the resolution of purchase price discussions with Swiss Re, the final purchase price was settled at $605.1 million.

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. Certain amounts in the 2013 notes to the consolidated financial statements have been reclassified to conform to the 2014 presentation.

During 2014, the Company identified certain balance sheet misclassifications through the application of its internal controls over financial reporting. After consideration was given to both qualitative and quantitative factors, the misclassifications were considered to be immaterial to the previously issued December 31, 2013 consolidated financial statements. The 2013 balances were corrected and resulted in a reduction of reinsurance recoverable and reserves for future policy benefits and claims payable of $761.6 million and a reclassification from reserves for future policy benefits and claims payable to other contract holder funds of $4,411.4 million. These items had no impact on the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of equity or consolidated statements of cash flows.

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 but not limited to, policyholder behavior, 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 but not limited to, policyholder behavior, mortality rates, expenses, investment returns and policy crediting rates; 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) value of guaranteed benefits; and 9) value of business acquired, its recoverability and 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 July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," in order to explicitly define the financial statement presentation requirements in GAAP. ASU No. 2013-11 provides that unrecognized tax benefits should be presented as a reduction of a deferred tax asset for a net operating loss or other tax credit carryforward when settlement in this manner is available under the tax law. Effective January 1, 2014, the Company adopted ASU No. 2013-11 with no impact on the Company's consolidated financial statements.

In June 2013, the FASB issued ASU No. 2013-08, "Financial Services – Investment Companies – Amendments to the Scope, Measurement, and Disclosure Requirements," which amends the criteria a company must meet to qualify as an investment company and provides comprehensive accounting guidance for assessing whether an entity is an investment company. Effective January 1, 2014, the Company adopted ASU No. 2013-08 with no impact on the Company's consolidated financial statements.

Changes in Accounting Principles – Issued but Not Yet Adopted

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements – Going Concern," which defines management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern and to provide related disclosures in the footnotes. Management is required to evaluate for each annual period whether it is probable that the entity will not be able to meet its obligations as they become due within one year after the date that financial statements are issued, or available to be issued. ASU No. 2014-15 is effective for periods beginning after December 15, 2016 and is not expected to have an impact on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings and Disclosures." The new guidance changes the accounting for repurchase-to-maturity transactions and repurchase financing such that they will be consistent with secured borrowing accounting. In addition, the guidance requires new disclosures for all repurchase agreements and securities lending transactions. ASU No. 2014-11 is effective for periods beginning after December 15, 2014 and is not expected to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers," which clarifies the principles of recognizing revenue. This standard establishes the core principle of recognizing revenue to depict the transfer of promised goods or services in an amount that reflects the consideration the entity expects to be entitled in exchange for those goods or services. The FASB defines a five-step process which systematically identifies the various components of the revenue recognition process, culminating with the recognition of revenue upon satisfaction of an entity's performance obligation. The guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from cost incurred to obtain or fulfill a contract. This guidance does not apply to insurance contracts within the scope of Accounting Standards Codification Topic 944, "Financial Services – Insurance." Early adoption is not permitted. ASU No. 2014-09 is effective retrospectively for periods beginning after December 15, 2016. The Company is currently assessing the impact of the guidance on the Company's consolidated financial statements and 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, 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 $662.8 million and $826.3 million as of December 31, 2014 and 2013, 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 3.

Equity securities are 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 the aggregate unpaid principal balance, adjusted for any applicable unamortized discount or premium, impairments or allowance for loan losses.

On a periodic basis, the Company assesses the commercial mortgage loan portfolio for the need for an allowance for loan losses. In determining its allowance for loan 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 performing loans. 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 net investment income.

Separately, the Company also reviews individual loans in the portfolio for impairment based on an assessment of the factors identified above. Impairment charges recognized are recorded initially against the established loan loss allowance and, if necessary, any additional amounts are recorded as realized losses. As deemed necessary based on cash flow expectations and other factors, Jackson may place loans on non-accrual status. In this case, all cash received is applied against the carrying value of the loan.

Policy loans are 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, 2014 and 2013, $3.2 billion and $3.1 billion of these loans were carried at fair value, respectively, which the Company believes is equal to the unpaid principal balances plus accrued investment income. At both December 31, 2014 and 2013, the Company had $1.3 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. The Company has elected the fair value option for limited partnerships, which is consistent with the role of these investments within the investment portfolio. Carrying values for limited partnership investments are determined by using the proportion of the Company's investment in each fund (Net Asset Value ("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 are comprised of 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 statements.

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 2014, 2013, or 2012.

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, may contain embedded derivative instruments. Further details regarding Jackson's derivative positions are included in Note 4. 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 freestanding derivative 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 4.

Cash and Cash Equivalents
Cash and cash equivalents primarily include money market instruments and bank deposits.

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. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. All financial 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 determines 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 may be 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 5 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 fixed maturities available for sale are carried at fair value, an adjustment is made to deferred acquisition costs equal to the change in amortization that would have occurred if such securities had been sold at their stated fair value and the proceeds reinvested at current yields. This adjustment, along with the change in net 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. At December 31, 2014 and 2013, deferred acquisition costs decreased by $725.9 million and $591.0 million, 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 this 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 7.4% for both 2014 and 2013, 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. At December 31, 2014 and 2013, projected returns after the next five years were set at 7.4%. At December 31, 2014 and 2013, projected returns under mean reversion were within the range bounded by the 15% cap and 0% floor.

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 2014, 2013, and 2012.

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 net 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. At December 31, 2014 and 2013, deferred sales inducements decreased by $129.9 million and $104.8 million, 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 2014, 2013, and 2012.

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, but may not be limited to, policyholder behavior, mortality rates, expenses, investment returns and policy crediting rates. Based on this review, the cumulative balances of deferred acquisition costs, deferred sales inducements and life and annuity guaranteed benefit reserves are adjusted with a corresponding 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, the Company ceded to SRZ on a 100% coinsurance basis, subject to pre-existing reinsurance with other parties, certain blocks of business written or assumed 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 realized gains or losses earned on assets held as collateral are paid by the Company to SRZ, pursuant to the terms of the treaties. Investment income and realized gains and losses are reported net of investment income and realized gains and losses on funds held under reinsurance treaties, with no net impact on the Company's consolidated income statements.

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, the Company 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 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. Jackson National Life (Bermuda) LTD and VFL International Life Company SPC, LTD are taxed as controlled foreign corporations of Jackson. With the exception of several insignificant wholly owned subsidiaries that aren't included in the Jackson consolidated tax return, 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 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.

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 the reserve is determined to be deficient. Mortality assumptions range from 25% to 175% of the 1975-1980 Basic Select and Ultimate tables depending on policy duration. Interest rate assumptions range from 2.5% 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 9.

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 is reassessed at the end of each period, taking into account changes in the inforce block. Any resulting change in the reserve is recorded as a change in reserve through the consolidated income statements.

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

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 with 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, including unrealized foreign currency 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 gains and losses using exchange rates as of the reporting date. Foreign currency gains and losses are included in other investment losses.

Jackson and Squire Re are members of the Federal Home Loan Bank of Indianapolis ("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 institutional products 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 is unlikely to have a material adverse effect on the Company's financial position.

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, 2014 and 2013, the assets and liabilities associated with variable life and annuity contracts were $127.5 billion and $108.8 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 9 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 balances of $332.0 million and $290.6 million at December 31, 2014 and 2013, 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 10 for further information regarding the Company's debt.

Share-Based Compensation

As more fully described in Note 14, 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 certain 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 direct 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 6, 2015, which is the date the consolidated financial statements were available to be issued.

3. Investments

Investments are comprised primarily of fixed-income securities, primarily publicly-traded corporate 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, 2014, 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, 2014, the carrying value of investments rated by the Company's affiliated investment advisor totaled $256.6 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, 2014
AAA	22.2%
AA	6.4%
A	31.6%
BBB	34.8%
Investment grade	95.0%
BB	2.8%
B and below	2.2%
Below investment grade	5.0%
Total fixed maturities	100.0%

At December 31, 2014, based on ratings by NRSROs, of the total carrying value of fixed maturities in an unrealized loss position, 83% were investment grade, 7% were below investment grade and 10% were not rated. Unrealized losses on fixed maturities that were below investment grade or not rated were approximately 28% 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, 2014, the industries accounting for the larger percentage of unrealized losses included energy (31% of fixed maturities gross unrealized losses) and basic industry (8%). The largest unrealized loss related to a single corporate obligor was $7.4 million at December 31, 2014.

At December 31, 2014 and 2013, 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 $142.6 million and $164.8 million in securities carried at fair value under the fair value option, were as follows (in thousands):

December 31, 2014	Amortized Cost [1]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-credit OTTI [2]
Fixed Maturities					
U.S. government securities	$ 4,839,189	$ 318,904	$ 23,373	$ 5,134,720	$ -
Other government securities	1,061,471	5,088	9,445	1,057,114	-
Public utilities	4,197,016	445,398	5,803	4,636,611	-
Corporate securities	31,436,874	1,923,803	191,462	33,169,215	-
Residential mortgage-backed	2,365,030	90,801	23,545	2,432,286	(46,350)
Commercial mortgage-backed	3,397,229	226,476	16,766	3,606,939	137
Other asset-backed securities	948,686	28,005	34,999	941,692	(21,846)
Total fixed maturities	$ 48,245,495	$ 3,038,475	$ 305,393	$ 50,978,577	$ (68,059)

December 31, 2013	Amortized Cost [1]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-credit OTTI [2]
Fixed Maturities					
U.S. government securities	$ 4,923,547	$ 116,113	$ 522,827	$ 4,516,833	$ -
Other government securities	1,160,904	247	163,165	997,986	(150)
Public utilities	4,190,566	323,127	61,707	4,451,986	-
Corporate securities	30,876,619	1,732,115	550,449	32,058,285	-
Residential mortgage-backed	2,901,888	61,468	60,532	2,902,824	(17,496)
Commercial mortgage-backed	3,578,810	293,747	45,670	3,826,887	(4,154)
Other asset-backed securities	987,680	19,266	32,642	974,304	(3,790)
Total fixed maturities	$ 48,620,014	$ 2,546,083	$ 1,436,992	$ 49,729,105	$ (25,590)

[1] Amortized cost, apart from the carrying value for securities carried at fair value under the fair value option.
[2] Represents the amount of 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, 2014, by contractual maturity, are shown below (in thousands). Actual 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	$ 1,492,621	$ 26,739	$ 90	$ 1,519,270
Due after 1 year through 5 years	8,990,596	775,738	8,001	9,758,333
Due after 5 years through 10 years	22,076,976	1,165,875	138,291	23,104,560
Due after 10 years through 20 years	2,967,120	246,546	9,184	3,204,482
Due after 20 years	6,007,237	478,295	74,517	6,411,015
Residential mortgage-backed	2,365,030	90,801	23,545	2,432,286
Commercial mortgage-backed	3,397,229	226,476	16,766	3,606,939
Other asset-backed securities	948,686	28,005	34,999	941,692
Total	$ 48,245,495	$ 3,038,475	$ 305,393	$ 50,978,577

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

Fixed maturities with a carrying value of $116.0 million and $105.4 million at December 31, 2014 and 2013, respectively, were on deposit with regulatory authorities, as required by law in various states in which business is conducted.

At December 31, 2014 and 2013, fixed maturities include $129.7 million and $144.6 million, respectively, 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, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Prime	$ 404,048	$ 17,209	$ 3,973	$ 417,284
Alt-A	361,607	19,156	2,854	377,909
Subprime	371,339	7,715	13,931	365,123
Total non-agency RMBS	$ 1,136,994	$ 44,080	$ 20,758	$ 1,160,316

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Prime	$ 516,277	$ 13,852	$ 6,730	$ 523,399
Alt-A	443,920	6,093	5,451	444,562
Subprime	442,376	6,433	25,475	423,334
Total non-agency RMBS	$ 1,402,573	$ 26,378	$ 37,656	$ 1,391,295

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.

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

	December 31, 2014			December 31, 2013		
	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	$ 518	$ 36,181	4	$ 40,578	$ 1,090,585	10
Other government securities	100	31,717	2	81,564	556,464	34
Public utilities	496	47,956	12	48,065	978,938	90
Corporate securities	95,577	2,722,165	267	398,549	8,198,063	693
Residential mortgage-backed	1,190	109,022	20	21,660	747,039	77
Commercial mortgage-backed	728	171,336	10	23,436	772,286	61
Other asset-backed securities	13,647	201,095	31	2,454	201,089	31
Total temporarily impaired securities	$ 112,256	$ 3,319,472	346	$ 616,306	$ 12,544,464	996
	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	$ 22,854	$ 1,387,984	14	$ 482,249	$ 1,631,975	11
Other government securities	9,345	577,550	22	81,601	352,888	14
Public utilities	5,307	195,916	29	13,642	84,753	22
Corporate securities	95,886	2,658,508	255	151,900	1,176,967	142
Residential mortgage-backed	22,355	385,243	91	38,872	614,345	142
Commercial mortgage-backed	16,038	319,483	36	22,234	132,909	21
Other asset-backed securities	21,352	165,403	26	30,188	164,027	28
Total temporarily impaired securities	$ 193,137	$ 5,690,087	473	$ 820,686	$ 4,157,864	380
	Total			**Total**		
	Gross Unrealized Losses	**Fair Value**	**# of securities**	**Gross Unrealized Losses**	**Fair Value**	**# of securities**
U.S. government securities	$ 23,372	$ 1,424,165	18	$ 522,827	$ 2,722,560	21
Other government securities	9,445	609,267	24	163,165	909,352	48
Public utilities	5,803	243,872	41	61,707	1,063,691	112
Corporate securities	191,463	5,380,673	522	550,449	9,375,030	835
Residential mortgage-backed	23,545	494,265	111	60,532	1,361,384	219
Commercial mortgage-backed	16,766	490,819	46	45,670	905,195	82
Other asset-backed securities	34,999	366,498	57	32,642	365,116	59
Total temporarily impaired securities	$ 305,393	$ 9,009,559	819	$ 1,436,992	$ 16,702,328	1,376

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) and where the Company also believes there exists a reasonable expectation for recovery in the near term are usually determined to be temporary. 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.

The Company recognizes other-than-temporary impairments on debt securities in an unrealized loss position when any 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 assumed 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, 2014 and 2013, assumed default rates for delinquent loans ranged from 15% to 100%. At December 31, 2014 and 2013, assumed loss severities were applied to generate and analyze cash flows of each security and ranged from 25% to 70%.

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 only 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 losses on investments (in thousands):

	Years Ended December 31,		
	2014	**2013**	**2012**
Available-for-sale securities			
Realized gains on sale	$ 166,300	$ 135,023	$ 173,337
Realized losses on sale	(57,383)	(34,448)	(65,495)
Impairments:			
Total other-than-temporary impairments	(56,161)	(49,930)	(172,730)
Portion of other-than-temporary impairments included in other comprehensive income	29,549	29,146	85,876
Net other-than-temporary impairments	(26,612)	(20,784)	(86,854)
Other	1,692	1,354	7,499
Net realized gains on non-derivative investments	83,997	81,145	28,487
Net losses on derivative instruments	(3,488,519)	(2,071,598)	(745,593)
Total net realized losses on investments	$ (3,404,522)	$ (1,990,453)	$ (717,106)

The net losses on derivative instruments included in the above table are further detailed in Note 4.

The aggregate fair value of securities sold at a loss for the years ended December 31, 2014, 2013, and 2012 was $790.3 million, $640.4 million, and $649.0 million, respectively, which was approximately 93%, 95%, and 91% 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, 2014	2013
Cumulative credit loss beginning balance	$ 318,204	$ 364,186
Additions:		
New credit losses	8,802	5,310
Incremental credit losses	14,522	12,268
Reductions:		
Securities sold, paid down or disposed of	(56,384)	(60,996)
Securities where there is intent to sell	(8,272)	(2,564)
Cumulative credit loss ending balance	$ 276,872	$ 318,204

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

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

Commercial Mortgage Loans
Commercial mortgage loans of $6.0 billion and $6.1 billion at December 31, 2014 and 2013, respectively, are reported net of an allowance for loan losses of $5.8 million and $11.5 million at each date, respectively. At December 31, 2014, commercial mortgage loans were collateralized by properties located in 44 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 2014, 2013, and 2012, recognized impairment charges against the allowance for loan losses of $9.0 million, $1.0 million, and $8.4 million, respectively. In addition, Jackson recorded impairments as a realized loss of $2.7 million during 2014 and $3.2 million during 2013. In 2012, Jackson did not record any impairments as a realized loss.

The following table provides a summary of the allowance for losses in the Company's commercial mortgage loan portfolio at December 31, 2014 and 2013 (in thousands):

	Years Ended December 31,	
Allowance for loan losses:	**2014**	**2013**
Balance at beginning of year	$ 11,532	$ 20,395
Charge-offs	(9,043)	(1,049)
Recoveries	524	-
Net charge-offs	(8,519)	(1,049)
Provision (reduction) for loan losses	2,741	(7,814)
Balance at end of year	$ 5,754	$ 11,532

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

	December 31, 2014		December 31, 2013	
	Allowance for Loan Losses	Recorded Investment	Allowance for Loan Losses	Recorded Investment
Individually evaluated for impairment	$ -	$ 20,701	$ 352	$ 79,371
Collectively evaluated for impairment	5,754	5,977,552	11,180	6,000,709
Total	$ 5,754	$ 5,998,253	$ 11,532	$ 6,080,080

As of December 31, 2014 and 2013, the Company's commercial mortgage loan portfolio is current and accruing interest. Delinquency status is determined from the date of the first missed contractual payment.

Under Jackson's policy for monitoring commercial mortgage loans, all impaired commercial mortgage loans are 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 2014 and 2013 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Loan Allowance	Average Recorded Investment	Investment Income Recognized
December 31, 2014:					
Impaired Loans with a Valuation Allowance					
Office	$ -	$ -	$ -	$ 663	$ 34
Impaired Loans without a Valuation Allowance					
Apartment	821	821	-	839	66
Hotel	19,880	19,880	-	41,762	2,735
Office	-	-	-	13,850	3,507
Warehouse	-	-	-	2,678	344
Total	20,701	20,701	-	59,129	6,652
Total Impaired Loans					
Apartment	821	821	-	839	66
Hotel	19,880	19,880	-	41,762	2,735
Office	-	-	-	14,513	3,541
Warehouse	-	-	-	2,678	344
Total	$ 20,701	$ 20,701	$ -	$ 59,792	$ 6,686

	Recorded Investment	Unpaid Principal Balance	Related Loan Allowance	Average Recorded Investment	Investment Income Recognized
December 31, 2013:					
Impaired Loans with a Valuation Allowance					
Office	$ 7,950	$ 9,173	$ 352	$ 5,827	$ 391
Impaired Loans without a Valuation Allowance					
Apartment	863	863	-	15,175	843
Hotel	49,721	52,978	-	61,608	3,266
Office	20,837	20,837	-	25,013	1,169
Warehouse	-	-	-	2,100	164
Total	71,421	74,678	-	103,896	5,442
Total Impaired Loans					
Apartment	863	863	-	15,175	843
Hotel	49,721	52,978	-	61,608	3,266
Office	28,787	30,010	352	30,840	1,560
Warehouse	-	-	-	2,100	164
Total	$ 79,371	$ 83,851	$ 352	$ 109,723	$ 5,833

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

	December 31, 2014				
	In Good Standing	Restructured	Greater than 90 Days Delinquent	In the Process of Foreclosure	Total Carrying Value
Apartment	$ 1,917,788	$ -	$ -	$ -	$ 1,917,788
Hotel	529,418	19,880	-	-	549,298
Office	707,001	-	-	-	707,001
Retail	1,149,619	-	-	-	1,149,619
Warehouse	1,674,547	-	-	-	1,674,547
Total	$ 5,978,373	$ 19,880	$ -	$ -	$ 5,998,253

	December 31, 2013				
	In Good Standing	Restructured	Greater than 90 Days Delinquent	In the Process of Foreclosure	Total Carrying Value
Apartment	$ 1,891,670	$ -	$ -	$ -	$ 1,891,670
Hotel	494,660	49,721	-	-	544,381
Office	740,004	28,787	-	-	768,791
Retail	1,149,405	-	-	-	1,149,405
Warehouse	1,725,833	-	-	-	1,725,833
Total	$ 6,001,572	$ 78,508	$ -	$ -	$ 6,080,080

During 2014, there were no commercial mortgage loans involved in troubled debt restructuring.

The following table provides information about commercial mortgage loans involved in a troubled debt restructuring during 2013 (in thousands, except number of contracts):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructuring			
Office	1	$ 6,477	$ 7,950

Securitizations
In 2001, Jackson executed the Morgan Stanley Dean Witter Capital I, Series 2001-PPM ("MSDW") securitization transaction, contributing commercial mortgages to MSDW and retaining a beneficial interest. 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. As such, Jackson's consolidated financial statements include MSDW assets of $14.6 million and $25.4 million at December 31, 2014 and 2013, respectively.

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. As a result of the additional exposure to SERVES 3 upon entering into option put and forbearance agreements in 2008 and 2009, Jackson determined that it was the primary beneficiary and, accordingly, consolidated SERVES 3 in its financial statements. In August 2013, SERVES 3 was unwound.

Other Invested Assets
Other invested assets primarily include investments in limited partnerships and real estate. At December 31, 2014 and 2013, investments in limited partnerships had carrying values of $1,176.6 million and $1,310.4 million, respectively. At December 31, 2014 and 2013, real estate totaling $205.1 million and $160.4 million, respectively, included foreclosed properties with a book value of $0.7 million in both years.

Securities Lending

The Company has entered into securities lending agreements with agent banks whereby blocks of securities are loaned to third parties, primarily major brokerage firms. As of December 31, 2014 and 2013, the estimated fair value of loaned securities was $189.2 million and $93.6 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 these programs, the financial condition of counterparties is monitored on a regular basis. At December 31, 2014 and 2013, cash collateral received in the amount of $196.6 million and $95.8 million, respectively, was invested by the agent banks 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 2014 and 2013, short-term borrowings under such agreements averaged $97.6 million and $229.4 million, respectively, with weighted average interest rates of 0.12% and 0.08% during 2014 and 2013, respectively. At December 31, 2014 and 2013, the outstanding balance was $289.6 million and $415.3 million, respectively, which was included within other liabilities in the consolidated balance sheets. Interest expense totaled $0.1 million, $0.2 million, and $0.3 million in 2014, 2013, and 2012, respectively. The highest level of short-term borrowings at any month end was $289.6 million in 2014 and $691.5 million in 2013.

Investment Income

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

	Years Ended December 31,		
	2014	**2013**	**2012**
Fixed maturities	$ 2,271,890	$ 2,240,592	$ 2,134,759
Commercial mortgage loans	296,056	307,361	294,581
Limited partnerships	153,378	267,892	136,649
Derivative instruments	252,121	206,461	160,305
Policy loans	395,857	391,089	172,212
Other investment income	4,926	56,838	30,442
Total investment income	3,374,228	3,470,233	2,928,948
Less: income on funds held under reinsurance treaties	(305,760)	(263,196)	(93,021)
Less: investment expenses	(65,887)	(62,391)	(55,365)
Net investment income	$ 3,002,581	$ 3,144,646	$ 2,780,562

Investment income of $3.6 million, $64.9 million, and $25.0 million was recognized on trading securities held at December 31, 2014, 2013 and 2012, respectively. In addition, investment income (loss) of $9.1 million, $(25.1) million and $0.8 million, respectively, was recognized on securities carried at fair value recorded through income.

During 2014, investment income was reduced by $305.8 million for expense incurred on the liability for funds held under reinsurance treaties, including $296.1 million on policy loans, $2.5 million of fixed maturity income and a $7.2 million gain on fixed maturities with fair value recorded through the income statement. During 2013, investment income was reduced by $263.2 million for expense incurred on the liability for funds held under reinsurance treaties, including $287.1 million on policy loans, $5.5 million of fixed maturity income and a $29.6 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 is further detailed in Note 4.

4. 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, including 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 net 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 movements in interest rates. Written put-swaptions may be 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. Linked put-swaptions are presented at the fair value of the net position for each pair of contracts. Non-linked put-swaptions are carried at fair value.

Equity index futures contracts and equity index options (including various call and put options, interest rate-contingent options, and put spreads), which are used to hedge the Company's equity risk, including obligations associated with its fixed index annuities and guarantees in variable annuity products, are carried at fair value. These insurance products contain embedded options whose fair values are reported in other contract holder funds and reserves for future policy benefits and claims payable.

Total return swaps, for which the Company receives 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.

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

	December 31, 2014				
	Assets		Liabilities		
	Contractual/ Notional Amount (1)	Fair Value	Contractual/ Notional Amount (1)	Fair Value	Net Fair Value
Cross-currency swaps	$ 10,530	$ 2,241	$ -	$ -	$ 2,241
Equity index call options	6,500,000	14,324	-	-	14,324
Equity index futures	-	-	6,567,680	-	-
Equity index put options	72,750,000	342,284	-	-	342,284
Interest rate swaps	15,000,000	974,643	8,150,000	(391,475)	583,168
Put-swaptions	5,750,000	94,592	250,000	(330)	94,262
Total	$ 100,010,530	$ 1,428,084	$ 14,967,680	$ (391,805)	$ 1,036,279

	December 31, 2013				
	Assets		Liabilities		
	Contractual/ Notional Amount (1)	Fair Value	Contractual/ Notional Amount (1)	Fair Value	Net Fair Value
Credit default swaps	$ -	$ -	$ 25,000	$ (363)	$ (363)
Cross-currency swaps	358,896	79,846	-	-	79,846
Equity index call options	5,548,700	218,624	-	-	218,624
Equity index futures	-	-	6,075,630	-	-
Equity index put options	42,550,000	119,739	-	-	119,739
Interest rate swaps	12,000,000	794,520	13,200,000	(796,468)	(1,948)
Put-swaptions	1,500,000	55,245	6,500,000	(56,122)	(877)
Total	$ 61,957,596	$ 1,267,974	$ 25,800,630	$ (852,953)	$ 415,021

(1) The notional amount for swaps and put-swaptions represents the stated principal balance used as a basis for calculating payments. The contractual amount for futures and options 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, 2014		
	Other Investment Gains (Losses)	Net Investment Income	Net Gain (Loss)
Credit default swaps	$ 363	$ (363)	$ -
Equity index call options	(47,177)	-	(47,177)
Equity index futures	(751,595)	-	(751,595)
Equity index put options	(725,175)	-	(725,175)
Fixed index annuity embedded derivatives	(267,544)	-	(267,544)
Interest rate swaps	585,021	252,381	837,402
Put-swaptions	198,504	103	198,607
Variable annuity embedded derivatives	(2,480,916)	-	(2,480,916)
Total	$ (3,488,519)	$ 252,121	$ (3,236,398)

	Year Ended December 31, 2013		
	Other Investment Gains (Losses)	Net Investment Income	Net Gain (Loss)
Credit default swaps	$ 6,791	$ (7,479)	$ (688)
Equity index call options	187,474	-	187,474
Equity index futures	(1,746,460)	-	(1,746,460)
Equity index put options	(800,394)	-	(800,394)
Fixed index annuity embedded derivatives	(455,149)	-	(455,149)
Interest rate swaps	(895,185)	210,166	(685,019)
Put-swaptions	(248,510)	48	(248,462)
Total return swaps	-	3,726	3,726
Variable annuity embedded derivatives	1,879,835	-	1,879,835
Total	$ (2,071,598)	$ 206,461	$ (1,865,137)

	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)
Fixed index 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)

All of Jackson's trade agreements for freestanding, over-the-counter derivatives 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. At December 31, 2014 and 2013, the fair value of Jackson's net derivative assets by counterparty were $1,050.8 million and $692.8 million, respectively, and held collateral was $1,065.1 million and $787.7 million, respectively, related to these agreements. At December 31, 2014 and 2013, the fair value of Jackson's net derivative liabilities by counterparty was $14.5 million and $277.7 million, respectively, and provided collateral was $18.5 million and $208.2 million, respectively, related to these agreements. If all of the downgrade provisions had been triggered at December 31, 2014 or 2013, in aggregate, Jackson would have had to disburse $10.3 million and $164.5 million, respectively, to counterparties, representing the net fair values of derivatives by counterparty, less collateral held.

Offsetting Assets and Liabilities

The Company's derivative instruments, repurchase agreements and securities lending agreements are subject to master netting arrangements and collateral arrangements. A master netting arrangement with a counterparty creates a right of offset for amounts due to and due from that same counterparty that is enforceable in the event of a default or bankruptcy. The Company recognizes amounts subject to master netting arrangements on a gross basis within the consolidated balance sheets.

The following tables present the gross and net information about the Company's financial instruments subject to master netting arrangements (in thousands):

	December 31, 2014						
	Gross Amounts Recognized	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets: Financial Instruments (1)	Cash Collateral	Securities Collateral (2)	Net Amount
Financial Assets:							
Derivative assets	$ 1,428,084	$ -	$ 1,428,084	$ 377,316	$ 108,563	$ 894,033	$ 48,172
Financial Liabilities:							
Derivative liabilities	$ 391,805	$ -	$ 391,805	$ 377,316	$ -	$ 8,848	$ 5,641
Securities loaned	196,633	-	196,633	-	196,633	-	-
Repurchase agreements	289,625	-	289,625	-	-	289,625	-
Total financial liabilities	$ 878,063	$ -	$ 878,063	$ 377,316	$ 196,633	$ 298,473	$ 5,641

	December 31, 2013						
	Gross Amounts Recognized	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets: Financial Instruments (1)	Cash Collateral	Securities Collateral (2)	Net Amount
Financial Assets:							
Derivative assets	$ 1,267,974	$ -	$ 1,267,974	$ 575,206	$ 6,540	$ 686,228	$ -
Financial Liabilities:							
Derivative liabilities	$ 852,953	$ -	$ 852,953	$ 575,206	$ -	$ 208,221	$ 69,526
Securities loaned	95,754	-	95,754	-	95,754	-	-
Repurchase agreements	415,271	-	415,271	-	-	415,271	-
Total financial liabilities	$ 1,363,978	$ -	$ 1,363,978	$ 575,206	$ 95,754	$ 623,492	$ 69,526

(1) Represents the amount that could be offset under master netting or similar arrangements that management elects not to offset on the consolidated balance sheets.

(2) Excludes initial margin amounts for exchange-traded derivatives.

In the above tables, the amounts of assets or liabilities presented in the Company's consolidated balance sheets are offset first by financial instruments that have the right of offset under master netting or similar arrangements with any remaining amount reduced by the amount of cash and securities collateral. The actual amount of collateral may be greater than amounts presented in the tables. The above tables exclude net embedded derivative liabilities of $3,090.3 million and $343.9 million for 2014 and 2013, respectively, as these derivatives are not subject to master netting arrangements. In addition, repurchase agreements are presented within other liabilities in the consolidated balance sheets.

5. 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 described in Note 2.

	December 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Fixed maturities [1]	$ 50,978,577	$ 50,978,577	$ 49,729,105	$ 49,729,105
Trading securities	530,418	530,418	541,228	541,228
Commercial mortgage loans	5,998,253	6,289,683	6,080,080	6,302,268
Policy loans [1]	4,477,083	4,477,083	4,477,040	4,477,040
Derivative instruments	1,428,084	1,428,084	1,267,974	1,267,974
Limited partnerships	1,176,633	1,176,633	1,310,369	1,310,369
Cash and cash equivalents	1,399,091	1,399,091	986,383	986,383
GMIB reinsurance recoverable	338,694	338,694	136,147	136,147
Embedded derivative assets	-	-	939,224	939,224
Separate account assets	127,459,274	127,459,274	108,787,279	108,787,279
Liabilities				
Other contract holder funds and reserves for future policy benefits and claims payable				
Annuity reserves [2]	$ 39,788,696	$ 43,818,946	$ 38,809,845	$ 40,927,655
Reserves for guaranteed investment contracts	1,878,038	1,890,937	1,840,191	1,840,641
Trust instruments supported by funding agreements	1,315,639	1,335,450	803,688	821,224
Federal Home Loan Bank funding agreements	1,873,843	1,839,594	1,773,829	1,773,014
Funds held under reinsurance treaties	3,431,854	3,431,854	3,396,987	3,396,987
Debt	328,737	394,309	284,489	346,601
Securities lending payable	196,633	196,633	95,754	95,754
Derivative instruments	391,805	391,805	852,953	852,953
Repurchase agreements	289,625	289,625	415,271	415,271
Federal Home Loan Bank advances	200,015	200,015	200,011	200,011
Separate account liabilities	127,459,274	127,459,274	108,787,279	108,787,279

(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 other contract holder funds and reserves for future policy benefits and claims payable that are considered to be financial instruments.

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

As a result of typical trading volumes and the lack of specific quoted market prices for most fixed maturities, independent pricing services will normally derive the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available market observable information as outlined above. If there are no recently reported trades, the independent pricing services and 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 fair value 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. 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, represent 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, 2014 and 2013, 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 generally determined by discounting expected future cash flows at current market interest rates, inclusive of a credit spread, for similar quality loans. For loans whose value is dependent upon the underlying property, fair value is determined to be the estimated value of the collateral. Certain characteristics considered significant in determining the spread or collateral value 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
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, 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, 2014 or 2013.

The Company's limited partnership investments are not redeemable and distributions received are generally 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.

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.

Other Contract Holder Funds
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.

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 the present value of future cash flows discounted at current market interest rates.

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.

Debt
Fair values for the Company's surplus notes and other long-term debt are generally determined by prices obtained from independent broker dealers or discounted cash flow models. Such prices are derived from market observable

inputs and are classified as Level 2. Values for mortgage loans issued by consolidated VIEs are based on the VIEs' values, which may include unobservable inputs and are classified as Level 3 and are also included in debt.

Securities Lending Payable
The Company's securities lending payable is set equal to the cash collateral received. Due to the short-term nature of the loans, carrying value is a reasonable estimate of fair value and is classified as Level 2.

Repurchase Agreements
Carrying value of the Company's repurchase agreements, which are included in other liabilities, is considered a reasonable estimate of fair value due to their short-term maturities and are classified as Level 2.

Federal Home Loan Bank Advances
Carrying value of the Company's Federal Home Loan Bank advances, which are included in other liabilities, is considered a reasonable estimate of fair value due to their short-term maturities and are classified as Level 2.

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 reinsurance recoverable on 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 certain 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 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, fund allocation, persistency, mortality, and withdrawal rates. Best estimate assumptions plus risk margins are used as applicable.

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 a stochastic process. Volatility assumptions are based on a weighting of available market data for implied market volatility for durations up to 10 years, grading to a historical volatility level by year 15, where such long-term historical volatility levels contain an explicit risk margin. 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 asset or liability, which is currently unknown, could likely be significantly different than this fair value.

Assets and Liabilities Measured at Fair Value on a Recurring Basis
The following tables summarize the Company's assets and liabilities that are carried at fair value by hierarchy levels (in thousands):

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Assets				
Fixed maturities				
U.S. government securities	$ 5,134,720	$ 5,134,720	$ -	$ -
Other government securities	1,057,114	-	1,057,114	-
Public Utilities	4,636,611	-	4,636,611	-
Corporate securities	33,169,215	-	33,168,934	281
Residential mortgage-backed	2,432,286	-	2,432,275	11
Commercial mortgage-backed	3,606,939	-	3,597,553	9,386
Other asset-backed securities	941,692	-	930,202	11,490
Trading securities	530,418	493,692	-	36,726
Policy loans	3,156,550	-	-	3,156,550
Derivative instruments	1,428,084	-	1,428,084	-
Limited partnerships	1,176,633	-	-	1,176,633
GMIB reinsurance recoverable	338,694	-	-	338,694
Separate account assets	127,459,274	127,459,274	-	-
Total	$ 185,068,230	$ 133,087,686	$ 47,250,773	$ 4,729,771
Liabilities				
Embedded derivative liabilities (1)	$ 3,090,287	$ -	$ 1,346,047	$ 1,744,240
Funds held under reinsurance treaties	3,431,854	-	-	3,431,854
Derivative instruments	391,805	-	391,805	-
Separate account liabilities (2)	127,459,274	127,459,274	-	-
Total	$ 134,373,220	$ 127,459,274	$ 1,737,852	$ 5,176,094

(1) Includes the embedded derivative liabilities related to GMWB reserves and fixed index annuities.

(2) The value of the separate account liabilities is set equal to the value of the separate account assets.

	December 31, 2013			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Fixed maturities				
U.S. government securities	$ 4,516,833	$ 4,516,833	$ -	$ -
Other government securities	997,986	-	997,986	-
Public Utilities	4,451,985	-	4,451,985	-
Corporate securities	32,058,285	-	32,039,272	19,013
Residential mortgage-backed	2,902,825	-	2,902,811	14
Commercial mortgage-backed	3,826,887	-	3,826,429	458
Other asset-backed securities	974,304	-	964,755	9,549
Trading securities	541,228	470,752	-	70,476
Policy loans	3,131,161	-	-	3,131,161
Derivative instruments	1,267,974	-	1,267,974	-
Limited partnerships	1,310,369	-	-	1,310,369
GMIB reinsurance recoverable	136,147	-	-	136,147
Embedded derivative assets (1)	939,224	-	-	939,224
Separate account assets	108,787,279	108,787,279	-	-
Total	$ 165,842,487	$ 113,774,864	$ 46,451,212	$ 5,616,411
Liabilities				
Embedded derivative liabilities (2)	$ 1,283,153	$ -	$ 1,283,153	$ -
Funds held under reinsurance treaties	3,396,987	-	-	3,396,987
Derivative instruments	852,953	-	852,953	-
Separate account liabilities (3)	108,787,279	108,787,279	-	-
Total	$ 114,320,372	$ 108,787,279	$ 2,136,106	$ 3,396,987

(1) Includes the embedded derivatives related to GMWB reserves.

(2) Includes the embedded derivative liabilities related to fixed index annuities.

(3) The value of the separate account liabilities is set equal to the value of the separate account assets.

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, 2014		
Assets	**Total**	**Internal**	**External**
Fixed Maturities			
Corporate securities	$ 281	$ 281	$ -
Residential mortgage-backed	11	11	-
Commercial mortgage-backed	9,386	9,386	-
Other asset-backed securities	11,490	11,490	-
Trading securities	36,726	249	36,477
Policy loans	3,156,550	3,156,550	-
Limited partnerships	1,176,633	-	1,176,633
GMIB reinsurance recoverable	338,694	338,694	-
Total	$ 4,729,771	$ 3,516,661	$ 1,213,110
Liabilities			
Embedded derivative liabilities [1]	$ 1,744,240	$ 1,744,240	$ -
Funds held under reinsurance treaties	3,431,854	3,431,854	-
Total	$ 5,176,094	$ 5,176,094	$ -

	December 31, 2013		
Assets	**Total**	**Internal**	**External**
Fixed Maturities			
Corporate securities	$ 19,013	$ 19,013	$ -
Residential mortgage-backed	14	14	-
Commercial mortgage-backed	458	458	-
Other asset-backed securities	9,549	9,549	-
Trading securities	70,476	249	70,227
Policy loans	3,131,161	3,131,161	-
Limited partnerships	1,310,369	-	1,310,369
GMIB reinsurance recoverable	136,147	136,147	-
Embedded derivative assets [1]	939,224	939,224	-
Total	$ 5,616,411	$ 4,235,815	$ 1,380,596
Liabilities			
Funds held under reinsurance treaties	$ 3,396,987	$ 3,396,987	$ -

[1] Includes the embedded derivatives related to GMWB reserves.

External pricing sources for securities represent unadjusted prices from independent pricing services and independent indicative broker quotes where pricing inputs are not readily available. Limited partnership interests are valued using externally prepared financial statements provided by partnership management.

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, 2014				
	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range in bps (Weighted Average)	Impact of Increase in Input on Fair Value
Assets					
Fixed maturities					
Commercial mortgage-backed	$ 9,386	Discounted cash flow	Discount rate	0-275 (138)	Decrease
Other asset-backed securities	11,490	Discounted cash flow	Discount rate	262-486 (414)	Decrease
Policy loans	3,156,550	Outstanding balance	N/A	N/A	N/A
GMIB reinsurance recoverable	338,694	Discounted cash flow	See below	See below	See below
Total	$ 3,516,120				
Liabilities					
Embedded derivative liabilities	$ 1,744,240	Discounted cash flow	See below	See below	See below
Funds held under reinsurance treaties	3,431,854	Carrying value of asset	N/A	N/A	N/A
Total	$ 5,176,094				

	As of December 31, 2013				
	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range in bps (Weighted Average)	Impact of Increase in Input on Fair Value
Assets					
Fixed maturities					
Corporate securities	$ 19,013	Discounted cash flow	Discount rate	1054-1129 (1092)	Decrease
Other asset-backed securities	9,549	Discounted cash flow	Discount rate	239-529 (447)	Decrease
Policy loans	3,131,161	Outstanding balance	N/A	N/A	N/A
GMIB reinsurance recoverable	136,147	Discounted cash flow	See below	See below	See below
Embedded derivative assets	939,224	Discounted cash flow	See below	See below	See below
Total	$ 4,235,094				
Liabilities					
Funds held under reinsurance treaties	$ 3,396,987	Carrying value of asset	N/A	N/A	N/A

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.

Commercial mortgage-backed securities and 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.

As of December 31, 2014, corporate securities of $281 thousand, residential mortgage-backed securities of $11 thousand, and trading securities of $249 thousand are fair valued using techniques incorporating unobservable inputs and are classified in Level 3 of the fair value hierarchy. As of December 31, 2013, residential mortgage-backed securities of $14 thousand, commercial mortgage-backed securities of $458 thousand, and trading securities of $249 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 and long-term market volatility. The more significant policyholder behavior actuarial assumptions include benefit utilization, fund allocation, 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 allocation to equity funds 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; an increase (decrease) in assumed mortality would decrease (increase) the fair value of the reinsurance recoverable; and an increase (decrease) in long-term market volatility would increase (decrease) 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 and long-term market volatility. The more significant actuarial assumptions include benefit utilization, fund allocation, 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 allocation to equity funds would increase (decrease) the fair value of the liabilities; an increase (decrease) in assumed persistency would increase (decrease) the fair value of the liabilities; an increase (decrease) in assumed mortality would decrease (increase) the fair value of the liabilities; and an increase (decrease) in long-term market volatility would increase (decrease) the fair value of the liabilities.

The tables below provide rollforwards for 2014 and 2013 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 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, 2014	Net Income	Other Comprehensive Income	Purchases, Sales, Issuances and Settlements	Transfers in and/or (out of) Level 3	Fair Value as of December 31, 2014
Assets						
Fixed maturities						
Corporate securities	$ 19,013	$ 822	$ 1,642	$ (21,196)	$ -	$ 281
Residential mortgage-backed	14	17	-	(20)	-	11
Commercial mortgage-backed	458	(2,175)	1,882	(526)	9,747	9,386
Other asset-backed securities	9,549	272	100	4,055	(2,486)	11,490
Trading securities	70,476	(4,151)	-	(29,599)	-	36,726
Policy loans	3,131,161	2,251	-	23,138	-	3,156,550
Limited partnerships	1,310,369	(125,719)	-	(8,017)	-	1,176,633
GMIB reinsurance recoverable	136,147	202,547	-	-	-	338,694
Liabilities						
Embedded derivative liabilities	$ 939,224	$ (2,683,464)	$ -	$ -	$ -	$ (1,744,240)
Funds held under reinsurance treaties	(3,396,987)	(15,879)	-	(18,988)	-	(3,431,854)

		Total Realized/Unrealized Gains (Losses) Included in				
(in thousands)	Fair Value as of January 1, 2013	Net Income	Other Comprehensive Income	Purchases, Sales, Issuances and Settlements	Transfers in and/or (out of) Level 3	Fair Value as of December 31, 2013
Assets						
Fixed maturities						
Corporate securities	$ 42,739	$ 793	$ (1,754)	$ (11,406)	$ (11,359)	$ 19,013
Residential mortgage-backed	31	(2)	-	(15)	-	14
Commercial mortgage-backed	-	1,068	(1,068)	-	458	458
Other asset-backed securities	6,623	2,879	651	(8,776)	8,172	9,549
Trading securities	69,823	2,237	-	(1,584)	-	70,476
Policy loans	2,994,756	6,787	-	129,618	-	3,131,161
Limited partnerships	1,219,515	252,955	-	(162,101)	-	1,310,369
GMIB reinsurance recoverable	416,528	(280,381)	-	-	-	136,147
Liabilities						
Embedded derivative liabilities	$ (1,220,993)	$ 2,160,217	$ -	$ -	$ -	$ 939,224
Derivative instruments	(3,765)	3,765	-	-	-	-
Funds held under reinsurance treaties	(3,285,118)	4,924	-	(116,793)	-	(3,396,987)

The components of the amounts included in purchases, sales, issuances and settlements for years ended December 31, 2014 and 2013 shown above are as follows (in thousands):

	December 31, 2014				
	Purchases	**Sales**	**Issuances**	**Settlements**	**Total**
Assets					
Fixed maturities					
Corporate securities	$ 42	$ (21,238)	$ -	$ -	$ (21,196)
Residential mortgage-backed	-	(20)	-	-	(20)
Commercial mortgage-backed	-	(526)	-	-	(526)
Other asset-backed securities	5,000	(945)	-	-	4,055
Trading securities	1,009	(30,608)	-	-	(29,599)
Policy loans	-	-	312,213	(289,075)	23,138
Limited partnerships	166,539	(174,556)	-	-	(8,017)
Total	$ 172,590	$ (227,893)	$ 312,213	$ (289,075)	$ (32,165)
Liabilities					
Funds held under reinsurance treaties	$ -	$ -	$ (478,489)	$ 459,501	$ (18,988)

	December 31, 2013				
	Purchases	**Sales**	**Issuances**	**Settlements**	**Total**
Assets					
Fixed maturities					
Corporate securities	$ 239	$ (11,645)	$ -	$ -	$ (11,406)
Residential mortgage-backed	-	(15)	-	-	(15)
Other asset-backed securities	-	(8,776)	-	-	(8,776)
Trading securities	625	(2,209)	-	-	(1,584)
Policy loans	-	-	226,647	(97,029)	129,618
Limited partnerships	132,713	(294,814)	-	-	(162,101)
Total	$ 133,577	$ (317,459)	$ 226,647	$ (97,029)	$ (54,264)
Liabilities					
Funds held under reinsurance treaties	$ -	$ -	$ (341,662)	$ 224,869	$ (116,793)

As a result of the Company being able to obtain pricing from an independent pricing service utilizing significant observable inputs, securities with a fair value of $2.5 million and $34.4 million were transferred from Level 3 to Level 2 during 2014 and 2013, respectively. During 2014 and 2013, the Company transferred securities with a fair value of $9.7 million and $31.7 million, respectively, from Level 2 to Level 3 as a result of the use of significant unobservable inputs as the Company was not able to obtain pricing from an independent, third-party price service. There were no transfers between Level 1 and 2 of the fair value hierarchy in 2014 or 2013.

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, 2014 and 2013 was as follows (in thousands):

	2014	2013
Assets		
Fixed maturities		
Corporate securities	$ -	$ (1,013)
Residential mortgage-backed	17	12
Commercial mortgage-backed	(292)	-
Other asset-backed securities	100	3,394
Trading securities	(4,136)	2,237
Limited partnerships	(125,309)	253,187
GMIB reinsurance recoverable	202,547	(280,381)
Liabilities		
Embedded derivative liabilities	$ (2,683,464)	$ 2,160,217
Funds held under reinsurance treaties	(13,959)	10,915

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, 2014		December 31, 2013	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Assets					
Commercial mortgage loans	Level 3	$ 5,998,253	$ 6,289,683	$ 6,080,080	$ 6,302,268
Policy loans	Level 3	1,320,533	1,320,533	1,345,879	1,345,879
Liabilities					
Other contract holder funds					
Annuity reserves (1)	Level 3	$ 36,698,409	$ 40,728,659	$ 37,526,692	$ 39,644,502
Reserves for guaranteed investment contracts	Level 3	1,878,038	1,890,937	1,840,191	1,840,641
Trust instruments supported by funding agreements	Level 3	1,315,639	1,335,450	803,688	821,224
Federal Home Loan Bank funding agreements	Level 3	1,873,843	1,839,594	1,773,829	1,773,014
Debt - mortgage loans (2)	Level 3	29,309	29,309	30,088	30,088
Debt - all other	Level 2	299,428	365,000	254,401	316,513
Securities lending payable	Level 2	196,633	196,633	95,754	95,754
Repurchase agreements	Level 2	289,625	289,625	415,271	415,271
Federal Home Loan Bank advances	Level 2	200,015	200,015	200,011	200,011

(1) Annuity reserves represent only the components of other contract holder funds that are considered to be financial instruments.
(2) Represents mortgage loans associated with certain consolidated VIEs.

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 statements. 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.

6. Deferred Acquisition Costs and Deferred Sales Inducements

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

	2014	2013	2012
Balance, beginning of year	$ 6,212,220	$ 4,822,587	$ 4,395,174
Deferrals of acquisition costs	1,093,265	1,077,016	1,105,124
Amortization related to:			
Operations	(708,735)	(544,047)	(443,296)
Derivatives	1,012,613	217,606	147,992
Net realized gains	(19,141)	(14,905)	(3,594)
Total amortization	284,737	(341,346)	(298,898)
Unrealized investment (gains) losses	(134,886)	653,963	(378,813)
Balance, end of year	$ 7,455,336	$ 6,212,220	$ 4,822,587

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

	2014	2013	2012
Balance, beginning of year	$ 784,285	$ 560,141	$ 602,486
Deferrals of sales inducements	30,238	55,735	171,393
Amortization related to:			
Operations	(122,943)	(135,270)	(131,317)
Derivatives	105,082	194,553	(12,796)
Net realized gains	(3,312)	(2,555)	(665)
Total amortization	(21,173)	56,728	(144,778)
Unrealized investment (gains) losses	(25,078)	111,681	(68,960)
Balance, end of year	$ 768,272	$ 784,285	$ 560,141

7. 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 regularly monitors the financial strength rating of reinsurers.

The Company has also 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 with 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 net investment losses.

As a pre-closing condition to the acquisition, 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, subject to pre-existing reinsurance with other parties, 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 policy loans and fixed maturities, as collateral. This collateral is reported as a liability as funds held under reinsurance treaties on the consolidated balance sheets. At both December 31, 2014 and 2013, this funds held liability was $3.4 billion.

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

	Years Ended December 31,		
	2014	**2013**	**2012**
Direct premium:			
Life	$ 642,010	$ 668,878	$ 411,112
Accident and health	65,024	70,214	28,989
Plus reinsurance assumed:			
Life	67,558	66,242	28,233
Accident and health	11,893	13,602	4,765
Less reinsurance ceded:			
Life	(427,173)	(429,499)	(243,470)
Annuity guaranteed benefits	(18,054)	(18,850)	(19,605)
Accident and health	(76,917)	(83,816)	(33,754)
Total premium	$ 264,341	$ 286,771	$ 176,270

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

	Years Ended December 31, 2014	2013	2012
Direct benefits:			
Life	$ 1,407,976	$ 1,331,828	$ 939,727
Accident and health	108,323	142,827	55,005
Annuity guaranteed benefits	60,121	69,403	86,651
Plus reinsurance assumed:			
Life	244,807	384,181	118,284
Accident and health	32,694	32,723	11,941
Less reinsurance ceded:			
Life	(599,852)	(577,884)	(292,834)
Accident and health	(141,017)	(175,550)	(66,946)
Deferral of contract enhancements	(16,258)	(41,396)	(157,931)
Change in reserves, net of reinsurance	86,886	(139,740)	(79,683)
Total benefits	$ 1,183,680	$ 1,026,392	$ 614,214

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

	December 31, 2014	2013
Reserves:		
Life	$ 7,134,878	$ 7,197,629
Accident and health	623,795	658,165
Guaranteed minimum income benefits	338,694	136,147
Other annuity benefits	240,385	252,601
Claims liability	977,022	1,032,977
Other	8,385	7,585
Total	$ 9,323,159	$ 9,285,104

Included in the reinsurance recoverable were reserves ceded to Brooke Life of $39.3 million and $42.1 million at December 31, 2014 and 2013, respectively. The largest amount ceded to any reinsurer at December 31, 2014 totaled $6.3 billion, which was primarily related to the retro treaties, which are fully collateralized.

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

	December 31, 2014	2013
Direct life insurance in-force	$ 249,709	$ 266,587
Amounts assumed from other companies	23,592	24,733
Amounts ceded to other companies	(150,422)	(160,270)
Net life insurance in-force	$ 122,879	$ 131,050

Prior to the Company's acquisition of REALIC, reserve requirements for certain term policies with a ceding insurer were in dispute between the ceding insurer and Swiss Re. Under the terms of the purchase agreement, Jackson was obligated to continue the negotiations. In October 2013, all parties agreed on a resolution, which resulted in the ceding insurer recapturing a portion of the business that was ceded to the Company, resulting in additional income of $10.9 million. There were no similar transactions in 2014.

8. 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):

	2014	2013
Traditional life	$ 6,610,023	$ 6,877,626
Guaranteed benefits	3,526,259	1,496,350
Claims payable	867,401	907,389
Accident and health	1,436,681	1,505,714
Other	1,134,105	1,187,884
Total	$ 13,574,469	$ 11,974,963

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 rates, persistency and expenses, plus provisions for adverse deviation.

The Company's liability for future policy benefits also includes liabilities for guaranteed benefits related to certain nontraditional long-duration life and annuity contracts, which are further discussed in Note 9.

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

	2014	2013
Interest-sensitive life	$ 13,369,749	$ 13,523,818
Variable annuity fixed option	6,808,521	6,950,944
Fixed annuity	19,843,325	20,260,118
Fixed index annuity	12,596,205	12,731,932
GICs, funding agreements and FHLB advances	5,067,519	4,417,707
Total	$ 57,685,319	$ 57,884,519

For interest-sensitive life contracts, liabilities approximate the policyholder's account value, plus the remaining balance of the fair value adjustment related to the REALIC acquired business, which is further discussed below. 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, 2014, the Company had interest sensitive life business with minimum guaranteed interest rates ranging from 2.5% to 6.0%, with a 4.65% average guaranteed rate and fixed interest rate annuities with minimum guaranteed rates ranging from 1.0% to 5.5% and a 2.47% 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 is reassessed at the end of each period, taking into account changes in the inforce block. Any resulting change in the reserve is recorded as a change in reserve through the consolidated income statements.

At both December 31, 2014 and 2013, approximately 88% 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):

	2014			
Minimum	**Account Value**			
Guaranteed Interest Rate	**Fixed**	**Fixed Index**	**Variable**	**Total**
1.0%	$ 2,071.1	$ 1,477.2	$ 2,571.4	$ 6,119.7
>1.0% - 2.0%	1,903.4	7,463.8	2,906.6	12,273.8
>2.0% - 3.0%	9,294.1	3,655.2	1,330.5	14,279.8
>3.0% - 4.0%	1,932.2	-	-	1,932.2
>4.0% - 5.0%	2,442.8	-	-	2,442.8
>5.0% - 5.5%	321.9	-	-	321.9
Total	$ 17,965.5	$ 12,596.2	$ 6,808.5	$ 37,370.2

	2013			
Minimum	**Account Value**			
Guaranteed Interest Rate	**Fixed**	**Fixed Index**	**Variable**	**Total**
1.0%	$ 1,480.2	$ 1,108.7	$ 2,395.9	$ 4,984.8
>1.0% - 2.0%	2,666.1	7,922.6	3,202.4	13,791.1
>2.0% - 3.0%	9,390.1	3,700.6	1,352.6	14,443.3
>3.0% - 4.0%	2,010.6	-	-	2,010.6
>4.0% - 5.0%	2,481.6	-	-	2,481.6
>5.0% - 5.5%	327.1	-	-	327.1
Total	$ 18,355.7	$ 12,731.9	$ 6,950.9	$ 38,038.5

At December 31, 2014 and 2013, approximately 81% and 82%, 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, excluding the business that is subject to the previously mentioned retro treaties, at December 31 (in millions):

Minimum	**Account Value - Interest Sensitive Life**	
Guaranteed Interest Rate	**2014**	**2013**
>2.0% - 3.0%	$ 303.6	$ 301.0
>3.0% - 4.0%	3,532.7	3,613.5
>4.0% - 5.0%	3,074.1	3,160.0
>5.0% - 6.0%	2,360.2	2,412.6
Subtotal	9,270.6	9,487.1
Retro treaties	4,099.1	4,036.7
Total	$ 13,369.7	$ 13,523.8

The Company has established a European Medium Term Note program, with up to $5.8 billion in aggregate principal amount outstanding at any one time. Jackson National Life Funding, LLC was formed as a special purpose vehicle solely for the purpose of issuing Medium Term Note instruments to institutional investors, the proceeds of which are deposited with Jackson and secured by the issuance of funding agreements. Carrying values totaled nil and $0.2 billion at December 31, 2014 and 2013, respectively.

The Company has established a $12.0 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, 2014 and 2013 totaled $1.3 billion and $0.6 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 net 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, 2014 and 2013, the Company held $108.1 million and $115.1 million, respectively, of FHLBI capital stock, supporting $2.1 billion and $2.0 billion in funding agreements, short-term and long-term borrowing capacity in 2014 and 2013, respectively.

9. 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 account adjusted for any partial withdrawals, b) total deposits made to the account adjusted for any partial withdrawals plus a minimum return, or c) the highest account 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), at 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 statements with the exception of changes in embedded derivatives, which are included in other net 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, 2014 and 2013, 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, 2014	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%	$ 100,332.3	$ 2,282.0	65.0 years	
GMWB - Premium only	0%	3,354.6	50.0		
GMWB	0-5%*	411.7	26.1		
GMAB - Premium only	0%	82.2	0.1		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		10,261.6	301.4	65.0 years	
GMWB - Highest anniversary only		3,322.4	133.2		
GMWB		1,293.7	90.9		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	6,202.9	471.4	67.5 years	
GMIB	0-6%	2,486.9	561.6		1.4 years
GMWB	0-8%*	89,383.7	3,169.6		

December 31, 2013	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%	$ 87,759.0	$ 2,067.8	64.7 years	
GMWB - Premium only	0%	3,742.8	59.2		
GMWB	0-5%*	478.5	29.7		
GMAB - Premium only	0%	95.1	0.2		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		9,146.4	221.2	64.6 years	
GMWB - Highest anniversary only		3,376.5	154.0		
GMWB		1,449.3	104.0		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	5,833.0	360.1	66.9 years	
GMIB	0-6%	2,720.0	524.5		2.4 years
GMWB	0-8%*	76,340.6	1,801.2		

* 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:	2014	2013
Equity	$ 78,075.2	$ 67,128.6
Bond	17,369.3	16,633.6
Balanced	20,117.6	17,884.1
Money market	1,052.1	1,164.1
Total	$ 116,614.2	$ 102,810.4

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

	2014	2013
Balance at January 1	$ 579.1	$ 480.1
Incurred guaranteed benefits	266.9	167.5
Paid guaranteed benefits	(59.3)	(68.5)
Balance at December 31	$ 786.7	$ 579.1

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, 2014 and 2013 (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 7.4% after investment management fees, but before investment advisory fees and mortality and expense charges.
3) Mortality equal to 61% 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 0.5% to 40.0%, with an average of 4.0% during the surrender charge period and 9.0% thereafter in 2014 and 2013.
5) Discount rates: 7.4% on 2014 and 2013 issues, 8.4% on 2012 and prior issues.

Most GMWB reserves are considered to be derivatives under current accounting guidance and are recognized at fair value, as previously defined, 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 5. The fair valued GMWB had a reserve liability of $1,744.4 million at December 31, 2014, and was reported in reserves for future policy benefits and claims payable. The fair valued GMWB had an asset value of $938.7 million at December 31, 2013 and was reported in other assets.

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, 2014 and 2013, these GMWB reserves totaled $53.0 million and $9.7 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. The GMAB had an asset value of $0.2 million and $0.5 million at December 31, 2014 and 2013, 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, 2014 and 2013 are consistent with those used for calculating the GMDB liability. At December 31, 2014 and 2013, GMIB reserves before reinsurance totaled $29.4 million and $20.7 million, respectively.

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

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

	December 31, 2014			December 31, 2013		
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 *	$ 809.8	$ 28,103.8	59.5 years	$ 793.3	$ 29,865.8	58.8 years
Two-tier annuitization	2.5	22.4	66.2 years	2.9	23.6	65.5 years
ISWL account balance adjustment	100.4	n/a	n/a	90.8	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, 2014 and 2013:

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 credited interest rates, approximately 4.0% to 5.5%.

The following assumptions and methodology were used to determine the two-tier annuitization benefit liability at December 31, 2014 and 2013:

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 equal to credited interest rates, approximately 3.0% to 4.0%.

10. Debt

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

	2014	2013
Surplus notes	$ 249,428	$ 249,401
Mortgage loans	29,309	30,088
FHLBI mortgage loan	-	5,000
FHLBI bank loan	50,000	-
Total	$ 328,737	$ 284,489

Due in less than 1 year	$ 15,492
Due in more than 1 to 5 years	13,817
Due after 5 years	299,428
Total	$ 328,737

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 2014, 2013, and 2012.

Mortgage loans
At December 31, 2014 and 2013, 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 $1.3 million, $1.3 million, and $1.4 million in 2014, 2013, and 2012, respectively.

Federal Home Loan Bank Loan
In 2014, the Company received a loan from the FHLBI under its community investment program, which is due January 31, 2034. The loan accrues interest at 0.14% and the outstanding balance was $50.0 million at December 31, 2014. During 2014, interest expense totaled $71 thousand. At December 31, 2014, the loan was collateralized by mortgage-related securities and commercial mortgage loans with a carrying value of $67.4 million.

11. 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. Advances of $200.0 million were outstanding at December 31, 2014 and 2013 and were recorded in other liabilities. The Company paid interest of $23 thousand, $0.1 million and $0.3 million on such advances in 2014, 2013 and 2012, respectively. At December 31, 2014, advances were collateralized by mortgage-related securities and commercial mortgage loans with a value of $270.7 million.

12. Income Taxes

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

	Years Ended December 31,		
	2014	2013	2012
Current tax expense (benefit)	$ 405,567	$ (110,081)	$ 302,110
Deferred tax (benefit) expense	(415,974)	277,078	53,323
Federal income tax (benefit) expense	$ (10,407)	$ 166,997	$ 355,433

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 2014, 2013 and 2012 as follows (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Income taxes at statutory rate	$ 117,283	$ 324,491	$ 452,615
Dividends received deduction	(125,394)	(136,844)	(107,412)
Other	(2,296)	(20,650)	10,230
Federal income tax (benefit) expense	$ (10,407)	$ 166,997	$ 355,433
Effective tax rate	-3.1%	18.0%	27.5%

Federal income taxes paid (refunded) were $ 256.8 million, $(241.9) million, and $241.2 million in 2014, 2013, and 2012, respectively.

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

	December 31,	
	2014	2013
Gross deferred tax asset		
Difference between financial reporting and the tax basis of:		
Policy reserves and other insurance items	$ 3,616,046	$ 2,807,663
Other-than-temporary impairments and other investment items	70,069	107,736
Deferred compensation	73,761	62,302
Net operating loss carryforward	86,270	89,696
Other, net	63,740	28,847
Total gross deferred tax asset	3,909,886	3,096,244
Gross deferred tax liability		
Difference between financial reporting and the tax basis of:		
Deferred acquisition costs and sales inducements	(2,460,711)	(2,034,230)
Net unrealized gains on available for sale securities	(1,417,521)	(925,387)
Other, net	(17,698)	(26,234)
Total gross deferred tax liability	(3,895,930)	(2,985,851)
Net deferred tax asset	$ 13,956	$ 110,393

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, 2014, it is more likely than not that the deferred tax assets, will be realized. At December 31, 2014 and 2013, the Company did not have a valuation allowance.

At December 31, 2014, the Company had a federal tax ordinary loss carryforward of $246.5 million which begins to expire 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 is approximately $21.0 million.

In 2007, the Internal Revenue Service ("IRS") issued Revenue Ruling 2007-54 that would have changed accepted industry and IRS interpretations of the statutes governing the computation of the Dividends Received Deduction ("DRD") on separate account assets held in connection with variable annuity and life contracts, but that ruling was suspended by Revenue Ruling 2007-61. Revenue Ruling 2007-61 also announced the Treasury Department's and the IRS's intention to issue regulations with respect to certain computational aspects of the DRD on separate account assets held in connection with variable contracts. In February 2014, the IRS issued Revenue Ruling 2014-7, which merely republishes the noncontroversial first holding of Revenue 2007-54 regarding the amount of life insurance reserves taken into account for tax purposes for a variable annuity when some or all of the reserves are part of the Company's separate account reserves. The new revenue ruling modifies and supersedes Revenue Ruling 2007-54, which effectively revokes the controversial second holding of Revenue Ruling 2007-54 that had a negative impact on DRD computations. The new ruling also states that Revenue Ruling 2007-61 is obsolete. This administrative action does not foreclose future regulations on the computation of the Company's share of the DRD. However, it is likely that any regulations that the IRS 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, for the years under examination, 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 $160.4 million. Brooke Life did not agree with the assessment, believed its current position was sustainable and filed a protest with the Appellate Division of the IRS. In March 2014, the IRS fully conceded the debt/equity issue for years under examination in favor of the Company.

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.

The Company has not recorded any amounts for penalties related to unrecognized tax benefits during 2014, 2013, or 2012.

Based on information available as of December 31, 2014, 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.

13. 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 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, 2014 and 2013, Jackson recorded accruals totaling $8.5 million and $18.4 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 $5.4 million and $21.7 million at the end of 2014 and 2013, respectively. Related premium tax offsets were $3.0 million and $9.1 million at December 31, 2014 and 2013, 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.

In the first quarter of 2014, Jackson commenced a review of its wholly owned subsidiaries (Curian Capital, LLC and Curian Clearing, LLC). During its review, Jackson discovered that Curian Capital’s receipt of certain fees may have been inconsistent with applicable regulations. Jackson promptly reported these issues to regulatory authorities and retained independent outside legal counsel to conduct a thorough investigation. As of December 31, 2014, Curian Capital has recorded expenses of $61.5 million related to actual expenses incurred/customer payments and a provision for currently estimable outstanding exposures related to these issues. The reserve represents Jackson’s best estimate of the outstanding exposure as of December 31, 2014. Continuing work and regulatory discussions may result in future expenses. These expenses are not estimable at this time. Based on current information, however, management believes that any additional exposure is unlikely to be material to Jackson.

At December 31, 2014, the Company had unfunded commitments related to its investments in limited partnerships and limited liability companies totaling $516.5 million. At December 31, 2014, unfunded commitments related to fixed-rate commercial mortgage loans and other fixed maturities totaled $114.2 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 life insurance companies to take additional steps to identify unreported deceased policy and contract holders. Additionally, certain 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. 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.

Jackson continually reviews active and recently terminated policies compared to vendors’ databases of known deaths. At December 31, 2014 and 2013, Jackson accrued $20.0 million and $21.1 million, respectively, for estimated remaining exposure relating to these inquiries.

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 terms 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, 2014, Jackson recorded a liability of $8.8 million for future lease payments. Lease expense was $29.8 million, $30.7 million, and $28.1 million in 2014, 2013, and 2012, respectively. At December 31, 2014, future minimum payments under these noncancellable operating leases were as follows (in thousands):

2015	$	20,386
2016		18,110
2017		11,732
2018		10,048
2019		9,400
Thereafter		24,347
Total	$	94,023

14. 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.

The Company classifies all of the above plans as equity settled plans and, therefore, reflects the net reserve related to the compensation expense and the value of the shares distributed under this plan within the statement of equity. At December 31, 2014 and 2013, the Company had $14.1 million and $18.4 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. In 2013, this plan was replaced by the Prudential Long-Term Incentive Plan ("PLTIP") as further described below.

The PLTIP is a Prudential incentive plan in which the Company 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, subject to the prior approval of the Jackson Remuneration Committee. These share awards vest based on the achievement of planned IFRS pretax operating income for the U.S. business, have vesting periods of three years and are at nil cost to the employee. Share awards vest between 0% (less than 90% of plan) and 100% (more than 110% of plan) of the grant amounts dependent on IFRS pretax operating income 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. Upon vesting, a number of ADRs equivalent to the value of dividends that otherwise would have been received over the performance period are added to vested awards.

The Company classifies these plans as liability settled plans and, therefore, reflects the accrued compensation expense and the value of the shares distributed under the plans within other liabilities. At December 31, 2014 and 2013, the Company had $54.2 million and $31.3 million, respectively, accrued for future payments under these plans.

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 may 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 consolidated statement of equity as shares held in trust. At December 31, 2014 and 2013, the Company had $27.1 million and $22.8 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,		
	2014	**2013**	**2012**
Group Performance Share Plan	$ 3.9	$ 4.9	$ 8.0
Business Unit Performance Plan	3.4	5.0	7.2
Retention Share Plan	2.9	3.2	2.0
Jackson performance plan	5.6	16.8	15.8
Prudential LTIP plan	30.6	10.0	-
Total compensation expense related to incentive plans	$ 46.4	$ 39.9	$ 33.0
Income tax benefit	$ 16.2	$ 14.0	$ 11.5

The total unrecognized compensation expense related to all share-based plans at December 31, 2014 was $64.4 million with a weighted average remaining period of 2.26 years.

During 2014, there were no new grants under the GPSP, BUPP, retention or performance plans.

The weighted average share/ADR fair values of share-based awards granted by plan during 2014, 2013 and 2012 were as follows:

	2014	2013	2012
Weighted Average Fair Value:			
Group Performance Share Plan	$ -	$ -	$ 12.11
Business Unit Performance Plan	$ -	$ -	$ 20.89
Jackson performance plan	$ -	$ -	$ 24.24
Prudential LTIP plan	$ 42.89	$ 32.55	$ -

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 in determining the GPSP fair value:

	2012
Dividend yield	3.63%
Expected volatility	32.80%
Risk-free interest rate	0.30%
Expected life	3 years
Weighted average share price	$ 12.11

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. Changes to the subjective input assumptions could materially affect the fair value estimate. At December 31, 2014 and 2013, there were no outstanding non-vested Prudential shares granted.

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

	GPSP		BUPP		Performance Award Plan		Prudential LTIP 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	ADR's	Weighted Average Grant Date Fair Value
At December 31, 2012	349,673	$ 10.68	349,673	$ 18.83	849,017	$ 16.19	-	$ -
Granted	-	-	-	-	-	-	1,395,667	32.55
Exercised	100,813	8.33	100,813	15.48	346,957	10.31	-	-
Lapsed/Forfeited	50,408	8.33	50,408	15.48	25,036	21.19	19,444	32.14
At December 31, 2013	198,452	12.47	198,452	21.39	477,024	20.21	1,376,223	32.56
Granted	-	-	-	-	-	-	1,115,709	42.89
Exercised	98,824	12.84	99,824	21.89	217,638	15.97	-	-
Lapsed/Forfeited	-	-	-	-	16,844	23.75	117,301	35.57
At December 31, 2014	99,628	$ 12.11	98,628	$ 20.89	242,542	$ 23.76	2,374,631	$ 37.26

At December 31, 2014, there were 94,971 non-vested Prudential ADR grants related to the one-off retention award plan, with a weighted average grant date price of $19.09.

15. 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 of insurance 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, 2014, the adjusted earned surplus of the Company was $934.6 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 net 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 2015, is estimated to be $857.9 million, subject to the availability of adjusted earned surplus as of the dividend date.

The Company received capital contributions from its parent of $14.1 million, $35.1 million, and $36.0 million in 2014, 2013, and 2012, respectively, from Brooke Life's forgiveness of intercompany tax liabilities. Dividend payments from the Company to its parent were $697.0 million, $507.0 million, and $400.0 million in 2014, 2013, and 2012, respectively.

Statutory capital and surplus of the Company, as reported in its Annual Statement, was $4.5 billion and $4.4 billion at December 31, 2014 and 2013, respectively. Statutory net income of the Company, as reported in its Annual Statement, was $878.3 million, $741.3 million, and $847.2 million in 2014, 2013, and 2012, 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, 2015. At December 31, 2014 and 2013, the effect of the permitted practice (decreased) increased statutory surplus by $(555.1) million and $1.2 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, the Company reported $376.6 million and $425.8 million of statutory basis VOBA at December 31, 2014 and 2013, respectively, which is fully admissible.

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, 2014, 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 2014 and 2013, there were no significant exceptions with any ratios.

16. 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 $45.0 million, $45.7 million, and $38.7 million to PPM for investment advisory services during 2014, 2013, and 2012, 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 2014, 2013, and 2012 totaled $106.4 million, $102.1 million, and $99.6 million, respectively.

Jackson has entered into shared services administrative agreements with both NPH and PPMA. Under the shared services administrative agreements, Jackson charged $9.8 million, $7.1 million, and $7.3 million of certain management and corporate services costs to these affiliates in 2014, 2013, and 2012, 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. The outstanding balance at December 31, 2014 and 2013 was nil and $9.5 million, respectively. The highest outstanding loan balance during 2014 and 2013 was $16.8 million and $26.0 million, respectively. During 2014, 2013, and 2012, interest and commitment fees totaled $0.1 million, $0.2 million, and $0.2 million, respectively.

Jackson provides a $40.0 million revolving credit facility to PPMA. The loan is unsecured, matures in September 2018, accrues interest at LIBOR plus 2% per annum and has a commitment fee of 0.25% per annum. There were no advances on the loan in 2014 or 2013. Interest and commitment fees totaled $0.1 million each year for 2014, 2013, and 2012.

Jackson provides a $20.0 million revolving credit facility to Brooke Holdings, LLC, an upstream holding company. The loan is unsecured, matures in June 2019, accrues interest at LIBOR plus 2% per annum and has a commitment fee of 0.25% per annum. The outstanding balance at December 31, 2014 and 2013 was $0.1 million and nil, respectively. The highest outstanding loan balance during 2014 and 2013 was $0.1 million and nil, respectively. Interest and commitment fees totaled $0.1 million each year for 2014, 2013, and 2012.

Jackson provides, through its PGDS subsidiary, information technology services to certain Prudential affiliates. Jackson recognized $18.6 million, $20.2 million, and $21.6 million of revenue associated with these services during

2014, 2013, and 2012, respectively. This revenue is included in other income in the accompanying consolidated income statements. 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.

17. 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 $25.9 million, $25.4 million, and $20.9 million in 2014, 2013, and 2012, respectively.

The Company maintains non-qualified voluntary deferred compensation plans for certain agents and employees of Jackson and certain affiliates. At December 31, 2014 and 2013, the liability for such plans totaled $496.9 million and $419.5 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 $30.2 million, $56.4 million, and $25.5 million in 2014, 2013, and 2012, respectively. Investment income from the mutual funds totaled $13.2 million, $40.7 million, and $18.9 million in 2014, 2013, and 2012, respectively.

18. 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,		
	2014	2013	2012
Commission expenses	$ 1,922,651	$ 1,752,884	$ 1,646,678
General and administrative expenses	786,676	804,851	709,690
Deferral of policy acquisition costs	(1,093,265)	(1,077,016)	(1,105,124)
Total operating costs and other expenses	$ 1,616,062	$ 1,480,719	$ 1,251,244

19. Reclassifications Out of Accumulated Other Comprehensive Income

The following table represents changes in the balance of AOCI, net of income tax, related to unrealized investment gains (losses) (in thousands):

	December 31,	
	2014	2013
Balance, beginning of year	$ 526,947	$ 2,107,631
OCI before reclassifications	991,987	(1,502,596)
Amounts reclassified from AOCI	(42,737)	(81,170)
Less: Comprehensive loss attributable to noncontrolling interest	2,368	3,082
Balance, end of year	$ 1,478,565	$ 526,947

The following table represents amounts reclassified out of AOCI (in thousands):

AOCI Components	Amounts Reclassified from AOCI		Affected Line Item in the Consolidated Income Statement
	December 31, 2014	December 31, 2013	
Net unrealized investment loss:			
Net realized loss on investments	$ (59,422)	$ (123,157)	Other net investment losses
Other-than-temporary impairments	(6,326)	(1,721)	Total other-than-temporary impairments
Net unrealized loss before income taxes	(65,748)	(124,878)	
Income tax benefit	23,011	43,708	
Reclassifications, net of income taxes	$ (42,737)	$ (81,170)	