2007 JACKSON

GAAP CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

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

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

We have audited the accompanying consolidated balance sheets of Jackson National Life Insurance Company and Subsidiaries as of December 31, 2007 and 2006, and the related consolidated income statements and the consolidated statements of stockholder's equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jackson National Life Insurance Company and Subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007 in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Chicago, Illinois
March 5, 2008

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share information)

December 31,	2007	2006
Assets		
Investments:		
Cash and short-term investments	$ 642,600	$ 946,386
Securities available for sale, at fair value:		
Fixed maturities (amortized cost: 2007, $37,320,138; 2006, $38,022,986)	37,050,644	38,239,906
Equities (cost: 2007, $299,050; 2006, $107,750)	315,730	121,593
Trading securities, at fair value	622,470	549,300
Commercial mortgage loans	5,475,604	5,290,788
Policy loans	829,493	815,725
Other invested assets	1,617,957	1,168,929
Total investments	46,554,498	47,132,627
Accrued investment income	455,208	533,887
Deferred acquisition costs	3,438,686	3,065,327
Deferred sales inducements	359,857	297,051
Reinsurance recoverable	1,024,241	886,967
Income taxes receivable from Parent	7,459	53,799
Deferred income taxes	75,609	16,160
Other assets	189,117	220,016
Separate account assets	29,912,139	22,243,997
Total assets	$ 82,016,814	$ 74,449,831
Liabilities and Stockholder's Equity		
Liabilities		
Policy reserves and liabilities:		
Reserves for future policy benefits and claims payable	$ 2,505,096	$ 2,485,338
Deposits on investment contracts	33,323,783	34,634,715
Guaranteed investment contracts	1,950,925	1,995,013
Trust instruments supported by funding agreements	5,189,453	5,204,275
Federal Home Loan Bank funding agreements	1,403,203	601,397
Short-term borrowings from Parent	32,020	-
Short-term borrowings	250,000	114,381
Long-term borrowings	270,446	287,881
Securities lending payable	225,516	235,888
Other liabilities	1,525,170	1,402,440
Separate account liabilities	29,912,139	22,243,997
Total liabilities	76,587,751	69,205,325
Minority interest	131,210	148,495
Stockholder's 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	2,934,881	2,904,276
Accumulated other comprehensive income (loss), net of tax of $(49,127) in 2007 and $59,665 in 2006	(91,235)	110,807
Retained earnings	2,440,407	2,067,128
Total stockholder's equity	5,297,853	5,096,011
Total liabilities and stockholder's equity	$ 82,016,814	$ 74,449,831

See accompanying notes to consolidated financial statements.

CONSOLIDATED INCOME STATEMENTS (In thousands)

Years Ended December 31,	2007	2006	2005
Revenues			
Premiums	$ 190,300	$ 196,201	$ 199,061
Net investment income	2,945,516	2,904,787	2,879,440
Net realized gains (losses) on investments and capital assets	(90,574)	(57,710)	12,984
Risk management activity	36,458	(105,227)	169,827
Fee income	1,000,661	711,584	509,376
Other income	27,783	62,532	38,815
Total revenues	4,110,144	3,712,167	3,809,503
Benefits and Expenses			
Death and other policy benefits	488,280	490,527	428,162
Interest credited on deposit liabilities	1,409,771	1,450,048	1,434,807
Interest expense on trust instruments supported by funding agreements	278,604	269,577	217,917
Interest expense on Federal Home Loan Bank advances, notes and reverse repurchase agreements	66,647	52,817	50,249
Increase (decrease) in reserves, net of reinsurance	(29,437)	(37,266)	19,466
Commissions	796,876	663,176	537,303
General and administrative expenses	468,582	387,011	341,793
Deferral of policy acquisition costs	(777,230)	(675,098)	(556,564)
Deferral of sales inducements	(140,722)	(101,525)	(92,381)
Amortization of acquisition costs:			
Attributable to operations	552,626	318,443	364,907
Attributable to risk management activity	17,182	(3,302)	64,962
Attributable to net realized gains (losses) on investments	(23,142)	(10,501)	2,671
Amortization of deferred sales inducements:			
Attributable to operations	95,102	109,043	55,639
Attributable to risk management activity	15,979	(35,058)	7,632
Attributable to net realized gains (losses) on investments	(2,940)	(2,576)	459
Amortization of acquired insurance	-	23,578	22,190
Total benefits and expenses	3,216,178	2,898,894	2,899,212
Pretax income before minority interest	893,966	813,273	910,291
Minority interest	(22,396)	(17,236)	(922)
Pretax income	871,570	796,037	909,369
Federal income tax expense	252,291	263,416	315,295
Income before extraordinary gain	619,279	532,621	594,074
Extraordinary gain, net of tax benefit of $908	-	8,944	-
Net income	$ 619,279	$ 541,565	$ 594,074

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME (In thousands)

Years Ended December 31,	2007	2006	2005
Common stock, beginning and end of year	$ 13,800	$ 13,800	$ 13,800
Additional paid-in-capital			
Beginning of year	2,904,276	2,854,533	2,562,214
Capital contributions	30,605	49,743	292,319
End of year	2,934,881	2,904,276	2,854,533
Accumulated other comprehensive income (loss)			
Beginning of year	110,807	263,203	745,430
Net unrealized investment losses, net of reclassification adjustment and net of tax	(202,042)	(152,396)	(482,227)
End of year	(91,235)	110,807	263,203
Retained Earnings			
Beginning of year	2,067,128	1,734,621	1,551,347
Net income	619,279	541,565	594,074
Dividends paid to stockholder	(246,000)	(209,058)	(410,800)
End of year	2,440,407	2,067,128	1,734,621
Total stockholder's equity	$ 5,297,853	$ 5,096,011	$ 4,866,157

Years Ended December 31,	2007	2006	2005
Net income	$ 619,279	$ 541,565	$ 594,074
Net unrealized holding losses arising during the period, net of tax of $(102,737) in 2007; $(86,061) in 2006 and $(243,143) in 2005	(190,798)	(159,828)	(451,661)
Reclassification adjustment for losses (gains) included in net income, net of tax of $(6,055) in 2007; $4,001 in 2006 and $(16,459) in 2005	(11,244)	7,432	(30,566)
Comprehensive income	$ 417,237	$ 389,169	$ 111,847

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands)

Years Ended December 31,	2007	2006	2005
Cash flows from operating activities:			
Net income	$ 619,279	$ 541,565	$ 594,074
Adjustments to reconcile income from continuing operations to net			
cash provided by operating activities:			
Net realized (gains) losses on investments	90,574	57,710	(12,984)
Unrealized (gains) losses on trading portfolio	6,496	(10,937)	(565)
Risk management activity	(36,458)	105,227	(169,827)
Interest credited on deposit liabilities	1,409,771	1,450,048	1,434,807
Interest expense on trust instruments supported by funding agreements	278,604	269,577	217,917
Interest expense on Federal Home Loan Bank funding agreements	50,178	18,147	209
Mortality, expense and surrender charges	(298,384)	(282,931)	(245,877)
Amortization of discount and premium on investments	65,787	76,919	(72,853)
Deferred income tax provision	50,254	22,558	141,115
Change in (net of effects of contribution of subsidiary in 2006):			
Accrued investment income	78,679	19,233	(7,630)
Deferred sales inducements and acquisition costs	(263,145)	(401,934)	(154,653)
Trading portfolio activity, net	(91,761)	(25,082)	(13,522)
Value of acquired insurance	-	23,578	22,190
Income taxes receivable from Parent	46,340	(3,166)	(22,523)
Other assets and liabilities, net	(147,951)	50,624	348,543
Net cash provided by operating activities	1,858,263	1,911,136	2,058,421
Cash flows from investing activities:			
Sales of fixed maturities and equities available for sale	4,810,384	5,384,731	2,889,975
Principal repayments, maturities, calls and redemptions:			
Fixed maturities available for sale	3,074,597	2,593,502	2,956,801
Commercial mortgage loans	845,333	770,151	914,758
Purchases of:			
Fixed maturities and equities available for sale	(7,542,552)	(6,300,678)	(6,676,587)
Commercial mortgage loans	(1,031,580)	(1,067,685)	(1,278,434)
Other investing activities	(143,207)	(543,162)	(419,823)
Net cash provided by (used in) investing activities	12,975	836,859	(1,613,310)
Cash flows from financing activities:			
Policyholders' account balances:			
Deposits	13,262,218	11,232,706	9,355,451
Withdrawals	(8,425,907)	(8,095,806)	(6,598,525)
Net transfers to separate accounts	(6,915,504)	(5,363,753)	(3,564,891)
Proceeds from borrowings	250,000	-	-
Payments on borrowings	(131,831)	(119,543)	(3,747)
Proceeds from short-term borrowings from Parent	32,000	-	-
Payment of cash dividends to Parent	(246,000)	(209,058)	(410,800)
Capital contribution	-	24,150	86,670
Net cash used in financing activities	(2,175,024)	(2,531,304)	(1,135,842)
Net increase (decrease) in cash and short-term investments	(303,786)	216,691	(690,731)
Cash and short-term investments, beginning of year	946,386	729,695	1,420,426
Total cash and short-term investments, end of period	$ 642,600	$ 946,386	$ 729,695

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

1. Nature of Operations

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

The consolidated financial statements include the accounts of the following:

- Life insurers: Jackson and its wholly owned subsidiaries Jackson National Life Insurance Company of New York, Jackson National Life (Bermuda) LTD and Life Insurance Company of Georgia ("Life of Georgia") from May 31, 2005 to December 31, 2005, when it was merged with Jackson;
- Wholly owned broker-dealer, investment management and investment advisor subsidiaries: Jackson National Life Distributors, LLC, Jackson National Asset Management, LLC, Curian Clearing, LLC and Curian Capital, LLC;
- Wholly owned insurance agency: JNL Southeast Agency, LLC;
- PGDS (US One) LLC, a wholly owned subsidiary, was created in 2006 to provide information technology services to Jackson and certain affiliates;
- Tuscany CDO, Limited ("Tuscany"), a variable interest entity created in 2001 to securitize certain fixed maturities owned by Jackson. Jackson was the primary beneficiary of Tuscany until February 2007, when Tuscany was dissolved;
- Other partnerships, limited liability companies and variable interest entities in which Jackson has a controlling interest or is deemed the primary beneficiary.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform with the current year presentation with no impact on stockholder's equity or net income.

The preparation of the consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results may differ from those estimates. Significant estimates or assumptions, as further discussed in the notes, include: 1) valuation of investments and derivative instruments, including fair values of securities without readily ascertainable market values and the determination of when an unrealized loss is other-than-temporary; 2) assessments as to whether certain entities are variable interest entities and which party, if any, should consolidate the entity; 3) assumptions impacting future gross profits, including lapse and mortality rates, expenses, investment returns and policy crediting rates, used in the calculation of amortization of deferred acquisition costs and deferred sales inducements; 4) assumptions used in calculating policy reserves and liabilities, including lapse and mortality rates, expenses and investment returns; 5) assumptions as to future earnings levels being sufficient to realize deferred tax benefits; 6) estimates related to establishment of loan loss reserves, liabilities for lawsuits and the liability for state guaranty fund assessments; and 7) assumptions and estimates associated with the Company's tax positions which impact the amount of recognized tax benefits recorded by the Company.

Changes in Accounting Principles

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("FAS") No. 159, "Fair Value Option for Financial Assets and Financial Liabilities" ("FAS 159"). FAS 159, which is effective for fiscal years beginning after November 15, 2007, allows an entity to make an irrevocable election, on specific election dates, to measure eligible items at fair value, with changes in fair value recognized in the income statement. Adoption will not have an initial impact on the Company's consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109 ("FIN 48") concurrent with Prudential's adoption of FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. FIN 48 requires companies to determine whether it is "more likely than not" that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. Previously recorded income tax benefits that no longer meet this standard are required to be charged to earnings in the period that such determination is made. There was no change in the liability for unrecognized tax benefits resulting from the implementation of FIN 48 and, therefore, the Company did not recognize a cumulative effect adjustment to the balance of retained earnings as of January 1, 2007. The Company does not have a liability for tax exposure reserves as of December 31, 2007 and 2006, and does not anticipate any material change in the total amount of unrecognized tax benefits over the subsequent 12-month period. The adoption did not have an initial impact on the Company's consolidated financial statements.

In September 2006, FASB issued FAS No. 157, "Fair Value Measurements" ("FAS 157"), which establishes a framework for measuring fair value under current accounting pronouncements that require or permit fair value measurement. FAS 157 retains the exchange price notion, but clarifies that exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the most advantageous market for that asset or liability. Fair value measurement is based on assumptions used by market participants in pricing the asset or liability, which may include inherent risk, restrictions on the sale or use of an asset, or nonperformance risk which would include the reporting entity's own credit risk. FAS 157 establishes a three-level fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value. The highest priority is given to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs in situations where there is little or no market activity for the asset or liability. In addition, FAS 157 expands the disclosure requirements for annual and interim reporting to focus on the inputs used to measure fair value, including those measurements using significant unobservable inputs, and the effects of the measurements on earnings. FAS 157 will be applied prospectively and is effective for fiscal years beginning after November 15, 2007. Retrospective application is required for certain financial instruments as a cumulative effect adjustment to the opening balance of retained earnings. Jackson has not yet quantified the impact of adoption on the Company's consolidated financial statements.

In April 2006, the FASB issued FASB Staff Position ("FSP") on Interpretation 46(R)-6, "Determining the Variability to be Considered in Applying FASB Interpretation No. 46(R)" ("FIN 46(R)-6"). The FSP affects the identification of which entities are Variable Interest Entities ("VIE") through a "by design" approach in identifying and measuring the variable interests of the variable interest entity and its primary beneficiary. The requirements became effective beginning in the third quarter of 2006 and are to be applied to all new variable interest entities. The new requirements need not be applied to entities that have previously been analyzed under FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (revised) ("FIN 46R") unless a reconsideration event occurs. The adoption of this guidance did not have an initial impact on the Company's consolidated financial statements.

In February 2006, the FASB issued FAS No. 155, "Accounting for Certain Hybrid Financial Instruments" ("FAS 155"). This statement, effective for financial instruments acquired or issued after the beginning of an entity's first fiscal year after September 15, 2006, allows companies to include changes in fair value of certain hybrid financial instruments in earnings on an instrument-by-instrument basis. Further guidance issued in October 2006 provided an exemption from the provisions of FAS No. 133 for certain financial instruments that would have otherwise been required to recognize embedded derivatives arising as a result of prepayment risk in certain structured securities. As a result, adoption of FAS 155 did not have an initial impact on the Company's consolidated financial statements.

In September 2005, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 05-1, "Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts" ("SOP 05-1"). SOP 05-1 addresses the accounting for deferred acquisition costs on internal replacements other than those described in FAS No. 97, "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments." An internal replacement is defined by SOP 05-1 as a modification in product benefits, features, rights or coverages that occurs by (a) exchanging the contract for a new contract, (b) amending, endorsing or attaching a rider to the contract, or (c) electing a feature or coverage within a contract. Contract modifications resulting in a substantially changed contract should be accounted for as an extinguishment of the replaced contract, and any unamortized deferred acquisition costs, unearned revenue and deferred sales inducements must be written-off. SOP 05-1 is to be applied prospectively and is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. The adoption of SOP 05-1 did not have an initial impact on the Company's consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

In May 2005, the FASB issued FAS No. 154, "Accounting Changes and Error Corrections" ("FAS 154"). FAS 154 requires that, unless impracticable or absent explicit transition requirements specific to the newly adopted accounting principle, companies apply changes in accounting principles on a retrospective basis. FAS 154 is effective for accounting changes and corrections or errors made in fiscal years beginning after December 15, 2005. The adoption of FAS 154 did not have an initial impact on the Company's consolidated financial statements.

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 securities.

Investments

Cash and short-term investments, which primarily include high quality non-asset-backed commercial paper and money market instruments, are carried at amortized cost. These investments have original maturities of three months or less and are considered cash equivalents for reporting cash flows.

Fixed maturities consist primarily of bonds, notes, redeemable preferred stocks, asset-backed securities and structured securities. Acquisition discounts and premiums on fixed maturities are amortized into investment income through call or maturity dates using the interest method. Asset-backed and structured securities are amortized over the estimated redemption period. With regard to structured securities that are considered to be other than high quality or otherwise deemed to be high-risk, meaning the Company might not recover substantially all of its recorded investment due to unanticipated prepayment events, changes in investment yields due to changes in estimated future cash flows are accounted for on a prospective basis. The carrying value of such securities was $494.2 million and $504.9 million as of December 31, 2007 and 2006, respectively.

All fixed maturities are classified as available for sale and are carried at fair value. For declines in fair value considered to be other-than-temporary, the amortized cost basis of fixed maturities is reduced to fair value through an impairment charge included in net realized gains (losses) on investments. In determining whether an other- than-temporary impairment has occurred, the Company considers a security's forecasted cash flows as well as the severity and duration of depressed fair values.

Equities, which include common stocks, non-redeemable preferred stocks and shares of mutual funds purchased as seed money supporting newly established variable funds are generally carried at fair value. Equities are reduced to fair value for declines in fair value considered to be other than temporary. Any impairment charges are included in net realized gains (losses) on investments.

Trading securities primarily consist of private equity securities and investments in mutual funds that support liabilities of the Company's non-qualified voluntary deferred compensation plans. Trading securities are carried at fair value with changes in value included in net investment income. During 2007, 2006 and 2005, $44.6 million, $26.3 million and $5.4 million of investment income was recognized on trading securities held at December 31, 2007, 2006 and 2005, respectively.

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

Policy loans are carried at the unpaid principal balances.

Real estate is carried at the lower of depreciated cost or fair value.

Limited partnership investments are accounted for using the equity method.

Pursuant to the guidance provided by FIN 46R, the Company has concluded that it owns interests in VIEs that represent primary beneficial interests. These VIEs are included in the consolidated financial statements and include entities structured to hold and manage investments, including real estate properties and interests in commercial loans. In addition, Jackson had an investment of $81.5 million and $72.7 million as of December 31, 2007 and 2006, respectively, in debt issued by a VIE structured to hold and manage investments in commercial loans, for which it is not the primary beneficiary.

Realized gains and losses on sales of investments are recognized in income at the date of sale and are determined using the specific cost identification method. The changes in unrealized gains and losses on investments classified as available for sale, net of tax and the effect of the adjustment for deferred acquisition costs and sales inducements, are excluded from net income and included as a component of other comprehensive income (loss) and stockholder's equity.

2. Summary of Significant Accounting Policies (continued)

Derivative Instruments, Embedded Derivatives and Risk Management Activity

The Company enters into financial derivative transactions, including swaps, forwards, 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.

The Company generally uses free-standing derivative instruments for hedging purposes. Additionally, certain liabilities, primarily trust instruments supported by funding agreements, index linked annuities and guarantees offered in connection with variable annuities issued by the Company, contain embedded derivatives as defined by Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"). The Company generally does not account for such derivatives as either fair value or cash flow hedges as might be permitted if specific hedging documentation requirements of FAS 133 were followed. Financial derivatives, including derivatives embedded in certain host liabilities that have been separated for accounting and financial reporting purposes, are carried at fair value. The results from derivative financial instruments and embedded derivatives, including net payments, realized gains and losses and changes in value, are reported in risk management activity.

Interest rate swap agreements generally involve the exchange of fixed and floating payments over the life of the agreement without an exchange of the underlying principal amount and are used for hedging purposes. Interest rate swaps are carried at fair value and included in other invested assets or other liabilities.

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

Forwards consist of interest rate spreadlock agreements, in which the Company locks in the forward interest rate differential between a swap and the corresponding U.S. Treasury security. The forwards are held for investment purposes and are included in other invested assets. The Company had no forwards at December 31, 2007 or 2006.

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

Equity index futures contracts and equity index call and put options, which are used to hedge the Company's obligations associated with its index linked annuities and guarantees in variable annuity products, are included in other invested assets or other liabilities. These annuities contain embedded options whose fair value is included in deposits on investment contracts.

Credit default swaps, with maturities up to five years, represent agreements under which the Company has purchased default protection on certain underlying corporate bonds held in its portfolio. These contracts allow the Company to sell the protected bonds at par value to the counterparty if a "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 and are included in either other invested assets or other liabilities.

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

2. Summary of Significant Accounting Policies (continued)

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

Deferred Acquisition Costs

Certain costs of acquiring new business, principally commissions and certain costs associated with policy issue and underwriting, which vary with and are primarily related to the production of new business, have been capitalized as deferred acquisition costs. Deferred acquisition costs are increased by interest thereon and amortized in proportion to anticipated premium revenues for traditional life policies and in proportion to estimated gross profits for annuities and interest-sensitive life products. Unamortized deferred acquisition costs are written off when a contract is internally replaced and substantially changed, as defined in SOP 05-1. As certain fixed maturities and equities available for sale are carried at fair value, an adjustment is made to deferred acquisition costs equal to the change in amortization that would have occurred if such securities had been sold at their stated fair value and the proceeds reinvested at current yields. The change in this adjustment is included with the change in fair value of fixed maturities and equities available for sale, net of tax, that is credited or charged directly to stockholder's equity and is a component of other comprehensive income (loss). Deferred acquisition costs have been increased by $98.8 million and decreased by $43.2 million at December 31, 2007 and 2006, respectively, to reflect this adjustment.

Deferred Sales Inducements

Bonus interest on deferred fixed annuities and contract enhancements on index linked annuities and variable annuities have been capitalized as deferred sales inducements. Deferred sales inducements are increased by interest thereon and amortized in proportion to estimated gross profits. Unamortized deferred sales inducements are written off when a contract is internally replaced and substantially changed, as defined in SOP 05-1. As certain fixed maturities and equities available for sale are carried at fair value, an adjustment is made to deferred sales inducements equal to the change in amortization that would have occurred if such securities had been sold at their stated fair value and the proceeds reinvested at current yields. The change in this adjustment is included with the change in fair value of fixed maturities and equities available for sale, net of tax, that is credited or charged directly to stockholder's equity and is a component of other comprehensive income (loss). Deferred sales inducements have been increased by $13.7 million and decreased by $16.5 million at December 31, 2007 and 2006, respectively, to reflect this adjustment.

Value of Acquired Insurance

The value of acquired insurance in-force at acquisition date represents the present value of anticipated profits of the business in-force on November 25, 1986 (the date the Company was acquired by Prudential) net of amortization. The value of acquired insurance in-force is amortized in proportion to anticipated premium revenues for traditional life insurance contracts and estimated gross profits for annuities and interest-sensitive life products over a period of 20 years and was fully amortized as of December 31, 2006.

Federal Income Taxes

The Company files income tax returns with the U.S. federal government and various state and local jurisdictions, as well as certain foreign jurisdictions. With few exceptions, the Company is generally no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2004.

The Company provides deferred income taxes on the temporary differences between the tax and financial statement basis of assets and liabilities.

Jackson files a consolidated federal income tax return with Brooke Life, Jackson National Life Insurance Company of New York and Life Insurance Company of Georgia (for the period from May 19, 2005 through December 31, 2005). Jackson National Life (Bermuda) LTD is taxed as a controlled foreign corporation of Jackson. The other affiliated subsidiary entities are limited liability companies with all of their interests owned by Jackson. Accordingly, they are not considered separate entities for income tax purposes; and therefore, are taxed as part of the operations of Jackson. Income tax expense is calculated on a separate company basis.

2. Summary of Significant Accounting Policies (continued)

Policy Reserves and Liabilities

Reserves for future policy benefits and claims payable:

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

Deposits on investment contracts:

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

Trust Instruments Supported by Funding Agreements

Jackson and Jackson National Life Funding, LLC have established a European Medium Term Note program, with up to $7 billion in aggregate principal amount outstanding at any one time. Jackson National Life Funding, LLC was formed as a special purpose vehicle solely for the purpose of issuing instruments to institutional investors, the proceeds of which are deposited with Jackson and secured by the issuance of funding agreements. Carrying values totaled $1.6 billion and $1.7 billion at December 31, 2007 and 2006, respectively.

Jackson and Jackson National Life Global Funding have established a $9 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 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, 2007 and 2006 totaled $3.6 billion and $3.5 billion, respectively.

Instruments issued representing obligations denominated 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 foreign currency transaction gains and losses, are included in the carrying value of the trust instruments supported by funding agreements.

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

Federal Home Loan Bank Advances

Jackson is a member of the regional Federal Home Loan Bank of Indianapolis ("FHLB") primarily for the purpose of participating in its mortgage-collateralized loan advance program. Membership requires the Company to purchase and hold a minimum amount of FHLB capital stock plus additional stock based on outstanding advances. Advances are in the form of short-term notes or funding agreements issued to FHLB. At December 31, 2007 and 2006, Jackson held $82.5 million and $30.0 million, respectively, in FHLB capital stock, supporting $1,650.0 million and $600.0 million, respectively, in funding agreements and short-term borrowings.

Separate Account Assets and Liabilities

The assets and liabilities resulting from individual variable life and annuity contracts, which aggregated $29,758.4 million and $22,113.5 million at December 31, 2007 and 2006, respectively, are segregated in separate accounts. The Company receives administrative fees for managing the funds and other fees for assuming mortality and certain expense risks. Such fees are recorded as earned and included in fee income in the consolidated income statements.

The Company has issued a group variable annuity contract designed for use in connection with and issued to the Company's Defined Contribution Retirement Plan. These deposits are allocated to the Jackson National Separate Account - II and aggregated $153.8 million and $130.5 million at December 31, 2007 and 2006, 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.

2. Summary of Significant Accounting Policies (continued)

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 by provisions for future policy benefits and the deferral and amortization of acquisition costs.

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

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

The Company received $16.0 million from a class action settlement against certain underwriters of WorldCom securities. This settlement was recorded in other income in 2006.

3. Acquisitions

On May 18, 2005, Brooke Life purchased, in exchange for $260.7 million in cash, 100% of the interest in Life of Georgia, a life insurance company domiciled in Georgia, from ING Groep, N.V. ("ING"). Direct costs of $4.4 million were capitalized in connection with the acquisition. On May 31, 2005, Brooke Life contributed 100% of its interest in Life of Georgia to Jackson. The acquisition expanded Jackson's life insurance base while taking advantage of Jackson's low cost structure. The results of Life of Georgia's operations have been included in these consolidated financial statements since acquisition. On December 31, 2005, Life of Georgia was merged into Jackson.

The preliminary purchase price was subject to post-closing adjustments and was initially allocated to the assets acquired and liabilities assumed using management's best estimate of fair value as of the acquisition date. In 2006, an arbitrator ruled in Jackson's favor on certain purchase price adjustments. As a result of this determination and other previously settled amounts, the purchase price was reduced by $11.7 million within the purchase price allocation period.

As of December 31, 2005, Jackson recorded in other assets the value of business acquired totaling $1.1 million. As a result of subsequent purchase price adjustments, this asset was reversed in 2006 and the remaining adjustment resulted in negative goodwill, which was recorded as an extraordinary gain of $8.9 million.

3. Acquisitions (continued)

The following table summarizes the fair value of the assets acquired and liabilities assumed, as adjusted (in thousands):

	Opening Balance Sheet
Cash and short-term investments	$ 86,670
Fixed maturities	1,612,767
Other invested assets	78,129
Accrued investment income	21,516
Deferred income taxes	7,868
Other assets	12,609
Total assets acquired	$ 1,819,559
Reserves for future policy benefits and claims payable	$ 881,083
Deposits on investment contracts	656,161
Other liabilities	20,820
Total liabilities assumed	$ 1,558,064
Net assets acquired	$ 261,495
Adjusted purchase price	$ 253,459
Extraordinary gain on purchase, net of tax benefit	$ 8,944

The following table summarizes Jackson's unaudited pro forma results of operations for the year ended December 31, 2005, assuming the business acquisition had occurred at the beginning of 2005 (in thousands):

	Unaudited Pro Forma
Revenues	$ 4,013,031
Total benefits and expenses	2,976,945
Pretax income from continuing operations	1,035,164
Net income	675,841

The 2005 pro forma amounts include the effects of certain non-recurring restructuring transactions effected by Life of Georgia prior to the acquisition. These transactions included transferring certain assets and liabilities to ING affiliates, resulting in revenue of $120.8 million, expenses of $17.0 million, pretax income from operations of $103.8 million and net income of $67.5 million.

4. Fair Value of Financial Instruments

The following summarizes the basis used by the Company in estimating fair values for financial instruments:

Cash and Short-Term Investments:

Carrying value is considered to be a reasonable estimate of fair value.

Fixed Maturities:

Estimates of fair value for fixed maturity securities are primarily based on or derived from observable valuation inputs, such as broker-dealer quotes, market interest rates, credit quality spreads and liquidity premiums. Market prices obtained from independent pricing services, if available, are used as estimates of fair value, otherwise estimates are developed internally.

At December 31, 2007 and 2006, fixed maturity securities valued internally had an amortized cost of $5.8 billion and $5.7 billion, respectively, and an estimated fair value of $5.8 billion and $5.7 billion, respectively. Estimates of fair value for these fixed maturities are based on the observable valuation inputs described above, with the exception of certain very illiquid asset-backed securities, which are based on internally derived estimates of future cash flows discounted at current market rates. The amortized cost and fair value of these very illiquid asset-backed securities were $332.8 million and $339.8 million, respectively, at December 31, 2007 and $343.7 million and $344.4 million, respectively, at December 31, 2006.

4. Fair Value of Financial Instruments (continued)

Equities and Trading Securities:

Fair values for common and non-redeemable preferred stock are based principally on quoted market prices, if available. For securities that are not actively traded, fair values are estimated using independent pricing services or are analytically determined. Fair values of investments in mutual funds are based on quoted net asset values. Certain public stock positions are fair valued at a discount to their exchange-traded price due to lock-up trading restrictions imposed in connection with initial public offerings. A discount of 15% was applied to two positions at December 31, 2007 totaling $8.6 million and discounts of 10% and 15% were applied to two positions at December 31, 2006 totaling $3.3 million.

Commercial Mortgage Loans:

Fair values are determined by discounting the future cash flows at current market rates. The fair value of mortgages approximated $5,755.9 million and $5,373.1 million at December 31, 2007 and 2006, respectively.

Policy Loans:

Fair value approximates carrying value since policy loan balances reduce the amount payable at death or surrender of the contract.

Derivative Instruments:

Fair values for interest rate swaps, cross-currency swaps, put-swaptions, spread cap options, forwards and total return swaps are determined using estimates of future cash flows discounted at current market rates. Fair values for futures are based on exchange-traded prices. Fair values for equity index call and put options are determined using Black-Scholes option valuation methodologies. Fair values for credit default swaps are based on quoted market prices.

The fair value of the Company's guaranteed minimum withdrawal benefit embedded derivative liability has been calculated based on actuarial assumptions related to the projected cash flows, including benefits and related contract charges, over the expected lives of the contracts, incorporating expectations regarding policyholder behavior in varying economic conditions. Beginning in 2007, the Company offers a guaranteed minimum accumulation benefit on some variable annuity plans. Sales have been minimal as of December 31, 2007.

The Company reinsures essentially 100% of its guaranteed minimum income benefit on a net settled basis. The net settlement is considered an embedded derivative and the Company determines the fair value using actuarial assumptions related to the projected cash flows, including reinsurance premiums and related benefit reimbursements, over the expected lives of the contracts, incorporating expectations regarding policyholder behavior in varying economic conditions.

The nature of these embedded derivative cash flows can be quite varied. Therefore, stochastic techniques are used to generate a variety of market return scenarios for evaluation. The generation of these scenarios and the assumptions as to policyholder behavior involve numerous estimates and subjective judgments including those regarding expected market volatility, correlations of market returns and discount rates, utilization of the benefit by policyholders under varying conditions and policyholder lapsation. At each valuation date, the Company assumes expected returns based on risk-free rates as represented by the LIBOR forward curve rates as of that date and market volatility as determined with reference to implied volatility data and evaluations of historical volatilities for various indices. The risk-free spot rates as represented by the LIBOR spot curve as of the valuation date are used to determine the present value of expected future cash flows produced in the stochastic process.

Separate Account Assets:

Separate account assets are carried at the fair value of the underlying securities.

Annuity Reserves:

Fair values for immediate annuities, without mortality features, are derived by discounting the future estimated cash flows using current interest rates for similar maturities. For deferred annuities, fair value is based on surrender value. The carrying value and fair value of the annuity reserves approximated $27.1 billion and $25.9 billion, respectively, at December 31, 2007 and $28.5 billion and $27.7 billion, respectively, at December 31, 2006.

4. Fair Value of Financial Instruments (continued)

Reserves for Guaranteed Investment Contracts:

Fair value is based on the present value of future cash flows at current pricing rates. The fair value approximated $2.0 billion at both December 31, 2007 and 2006.

Trust Instruments Supported by Funding Agreements:

Fair value is based on the present value of future cash flows at current pricing rates, plus the fair value of embedded derivatives. The fair value approximated $5.2 billion at both December 31, 2007 and 2006.

Federal Home Loan Bank Funding Agreements:

Fair value of the FHLB funding agreements is based on future cash flows discounted at current interest rates. The fair value of the FHLB funding agreements approximated $1,415.2 million and $597.4 million at December 31, 2007 and 2006, respectively.

Borrowings:

Carrying value of the short-term borrowings from Parent of $32.0 million at December 31, 2007 is considered a reasonable estimate for fair value due to the short-term maturity. Carrying value of the FHLB short-term notes of $250.0 million at December 31, 2007 is considered a reasonable estimate for fair value due to the short-term maturity and monthly interest rate reset. Fair value of other borrowings is based on future cash flows discounted at current interest rates. Carrying value and fair value approximated $270.4 million and $311.3 million, respectively, at December 31, 2007, and $402.3 million and $461.5 million, respectively, at December 31, 2006.

Separate Account Liabilities:

Fair value of contracts in the accumulation phase is based on account value less surrender charges. Fair value of contracts in the payout phase is based on the present value of future cash flows at assumed investment rates. The aggregate fair value approximated $28.0 billion and $20.9 billion at December 31, 2007 and 2006, respectively.

5. Investments

Investments are comprised primarily of fixed-income securities, primarily publicly-traded industrial, utility and government bonds, asset-backed securities and 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 interest-sensitive liabilities and to earn a stable return on its investments.

Fixed Maturities

The following table sets forth fixed maturity investments at December 31, 2007, 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, 2007, the carrying value of investments rated by the Company’s affiliated investment advisor totaled $756.0 million. For purposes of the table, if not otherwise rated higher by a nationally recognized statistical rating organization, NAIC Class 1 investments are included in the A rating; Class 2 in BBB; Class 3 in BB and Classes 4 through 6 in B and below.

Investment Rating	Percent of Total Fixed Maturities December 31, 2007
AAA	25.2 %
AA	9.8 %
A	26.4 %
BBB	33.7 %
Investment grade	95.1 %
BB	3.8 %
B and below	1.1 %
Below investment grade	4.9 %
Total fixed maturities	100.0 %

The amortized cost and carrying value of fixed maturities in default that were anticipated to be income producing when purchased were zero and $0.1 million, respectively, at December 31, 2007. The amortized cost and carrying value of fixed maturities that have been non-income producing for the 12 months preceding December 31, 2007 were zero and $0.1 million, respectively, and for the 12 months preceding December 31, 2006 were $4.0 million and $4.1 million, respectively.

5. Investments (continued)

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

December 31, 2007	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed Maturities				
U.S. Treasury securities	$ 11,664	$ 376	$ -	$ 12,040
Foreign governments	1,339	343	-	1,682
Public utilities	2,066,395	50,330	17,537	2,099,188
Corporate securities	23,639,876	417,174	534,342	23,522,708
Asset-backed securities	11,600,864	131,850	317,688	11,415,026
Total fixed maturities	$ 37,320,138	$ 600,073	$ 869,567	$ 37,050,644
Equities	$ 299,050	$ 17,260	$ 580	$ 315,730

December 31, 2006	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed Maturities				
U.S. Treasury securities	$ 11,693	$ -	$ 281	$ 11,412
Foreign governments	1,341	314	-	1,655
Public utilities	2,753,801	62,651	26,298	2,790,154
Corporate securities	25,220,870	530,472	351,648	25,399,694
Asset-backed securities	10,035,281	122,647	120,937	10,036,991
Total fixed maturities	$ 38,022,986	$ 716,084	$ 499,164	$ 38,239,906
Equities	$ 107,750	$ 13,843	$ -	$ 121,593

The amortized cost and fair value of fixed maturities at December 31, 2007, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities where securities can be called or prepaid with or without early redemption penalties.

	Amortized Cost	Fair Value
Due in 1 year or less	$ 787,333	$ 791,467
Due after 1 year through 5 years	9,510,533	9,677,164
Due after 5 years through 10 years	11,808,524	11,583,356
Due after 10 years through 20 years	2,486,502	2,479,043
Due after 20 years	1,126,382	1,104,588
Asset-backed securities	11,600,864	11,415,026
Total	$ 37,320,138	$ 37,050,644

U.S. Treasury securities with a carrying value of $4.0 million and $10.7 million at December 31, 2007 and 2006, respectively, were on deposit with regulatory authorities, as required by law in various states in which business is conducted.

5. Investments (continued)

The fair value and the amount of gross unrealized losses included in accumulated other comprehensive income (loss) in stockholder's equity were as follows (in thousands):

	Less than 12 months		12 months or longer		Total	
December 31, 2007	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Public utilities	$ 885	$ 226,092	$ 16,652	$ 666,783	$ 17,537	$ 892,875
Corporate securities	225,670	5,771,382	308,672	7,277,319	534,342	13,048,701
Asset-backed securities	177,235	3,358,791	140,453	3,154,953	317,688	6,513,744
Subtotal - fixed maturities	403,790	9,356,265	465,777	11,099,055	869,567	20,455,320
Equities	580	68,174	-	-	580	68,174
Total temporarily impaired securities	$ 404,370	$ 9,424,439	$ 465,777	$ 11,099,055	$ 870,147	$ 20,523,494

	Less than 12 months		12 months or longer		Total	
December 31, 2006	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 27	$ 3,063	$ 254	$ 7,280	$ 281	$ 10,343
Public utilities	2,182	513,145	24,116	964,937	26,298	1,478,082
Corporate securities	48,919	3,869,151	302,729	10,212,760	351,648	14,081,911
Asset-backed securities	8,642	2,129,328	112,295	3,740,046	120,937	5,869,374
Subtotal - fixed maturities	59,770	6,514,687	439,394	14,925,023	499,164	21,439,710
Equities	-	-	-	-	-	-
Total temporarily impaired securities	$ 59,770	$ 6,514,687	$ 439,394	$ 14,925,023	$ 499,164	$ 21,439,710

The Company defines its exposure to subprime mortgages as investments in securities collateralized by residential mortgage loans in which the underlying borrowers have a FICO score of 659 or lower. The Company's amortized cost and fair value of mortgage-backed securities collateralized by subprime mortgages were $496.2 million and $473.1 million, respectively, at December 31, 2007. All investments in subprime related mortgage-backed securities are AAA rated by at least one NRSRO. The Company's amortized cost and fair value of mortgage-backed securities collateralized by Alt-A mortgages were $1,397.7 million and $1,314.1 million, respectively, at December 31, 2007. All investments in Alt-A related mortgage-backed securities are rated investment grade by at least one NRSRO.

The Company periodically reviews its fixed maturities and equities on a case-by-case basis to determine if any decline in fair value to below 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, reasons for the decline in value, expectations for the amount and timing of a recovery in fair value and the Company's intent and ability to hold a security to recovery in fair value. If it is determined that a decline in fair value of an investment is temporary, the decline is recorded as an unrealized loss in accumulated other comprehensive income (loss) in stockholder's equity. If the decline is considered to be other-than-temporary, a realized loss is recognized in the consolidated income statements.

Generally, securities with fair values that are less than 80% of amortized cost and other 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 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 must exercise 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 obligations, the macro-economic and micro-economic outlooks for specific industries and issuers. Assessing the duration of asset-backed securities can also involve assumptions regarding underlying collateral such as prepayment rates, default and recovery rates, and third-party servicing capabilities.

5. Investments (continued)

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, the likelihood of recovering the carrying value based on the near term prospects of the issuer and the Company's ability and intent to hold the security until such a recovery may occur. Unrealized losses that are considered to be primarily the result of market conditions are usually determined to be temporary, e.g., minor increases in interest rates, unusual market volatility or industry-related events, and where the Company also believes there exists a reasonable expectation for recovery in the near term and, furthermore, has the intent and ability to hold the investment until maturity or the market recovery. To the extent 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.

The Company applies the provisions of EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" ("EITF 99-20") when evaluating whether impairments on other than high quality asset-backed securities are other-than-temporary. In general, the Company considers an asset-backed security as other than high quality if it is not rated investment grade by at least one NRSRO. The Company regularly updates estimates of cash flows on impaired other than high quality asset-backed securities and, in accordance with EITF 99-20, if there has been an adverse change, an impairment charge is recorded in the consolidated income statement.

There are inherent uncertainties in assessing the fair values assigned to the Company's investments and in determining whether a decline in market value is other-than-temporary. The Company's review of fair value involves several criteria including economic conditions, credit loss experience, other issuer-specific developments and 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 in accumulated other comprehensive income (loss) may be recognized in the consolidated income statement in future periods.

The Company currently intends to hold available for sale securities with unrealized losses not considered other-than-temporary until they mature or recover in value. 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 and realize a loss.

Based on ratings by nationally recognized statistical rating organizations, of the total carrying value for fixed maturities in an unrealized loss position at December 31, 2007, 79.7% were investment grade, 6.5% were below investment grade and 13.8% were not rated. Unrealized losses from fixed maturities that were below investment grade or not rated represented approximately 22.2% 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, 2007, the industries representing the larger unrealized losses included financial services (16.6% of fixed maturities gross unrealized losses) and energy (6.7%). The largest unrealized loss related to a single corporate obligor was $21.8 million at December 31, 2007.

The amount of gross unrealized losses for fixed maturities in a loss position by maturity date of the fixed maturities as of December 31, 2007 were as follows (in thousands):

Less than one year	$ 948
One to five years	108,441
Five to ten years	323,328
More than ten years	119,162
Asset-backed securities	317,688
Total gross unrealized losses	$ 869,567

Commercial Mortgage Loans

Commercial mortgage loans are reported net of allowance for loan losses of $13.4 million and $13.1 million at December 31, 2007 and 2006, respectively. At December 31, 2007, mortgage loans were collateralized by properties located in 37 states. Jackson's 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.

5. Investments (continued)

Securitizations

In November 2003, Jackson executed the Piedmont CDO Trust ("Piedmont") securitization transaction. In this transaction, Jackson contributed $1,159.6 million of asset-backed securities, ultimately to Piedmont, which issued several classes of debt to acquire such securities. The transaction was recorded as a sale; however, Jackson retained beneficial interests in the contributed asset-backed securities of approximately 80% by acquiring certain securities issued by Piedmont. Piedmont is a Qualified Special Purpose Entity and accordingly, is not consolidated in the accompanying financial statements. Jackson's carrying value in securities issued by Piedmont totaled $546.2 million and $636.6 million at December 31, 2007 and 2006, respectively, and was included in asset-backed securities.

Other Invested Assets

Other invested assets primarily include investments in 1) limited partnerships, 2) derivative instruments with positive fair values and 3) real estate. Investments in limited partnerships have carrying values of $651.1 million and $479.9 million at December 31, 2007 and 2006, respectively. Real estate totaling $118.9 million and $109.0 million at December 31, 2007 and 2006, respectively, includes foreclosed properties with a book value of $10.9 million and $10.5 million at December 31, 2007 and 2006, respectively. Limited partnership income recognized by the Company was $177.9 million, $120.3 million and $162.6 million in 2007, 2006 and 2005, respectively.

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

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

	Other Invested Assets		Other Liabilities		
December 31, 2007	Contractual/ Notional Amount	Fair Value	Contractual/ Notional Amount	Fair Value	Net Fair Value
Cross-currency swaps	$ 1,198,115	$ 230,759	$ -	$ -	$ 230,759
Credit default swaps	6,000	287	40,000	(797)	(510)
Equity index call options	1,038,700	93,984	22,718	(17,130)	76,854
Equity index put options	7,250,000	97,973	-	-	97,973
Spread cap options	10,000,000	229,887	-	-	229,887
Put-swaptions	51,000,000	53,160	2,000,000	(1)	53,159
Futures	-	-	738,600	(10,125)	(10,125)
Total return swaps	450,000	11,349	-	-	11,349
Interest rate swaps	3,400,000	58,877	7,140,000	(285,551)	(226,674)
Total	$ 74,342,815	$ 776,276	$ 9,941,318	$ (313,603)	$ 462,673

	Other Invested Assets		Other Liabilities		
December 31, 2006	Contractual/ Notional Amount	Fair Value	Contractual/ Notional Amount	Fair Value	Net Fair Value
Cross-currency swaps	$ 1,051,577	$ 215,382	$ 50,000	$ (1,789)	$ 213,593
Credit default swaps	-	-	36,000	(59)	(59)
Equity index call options	1,140,750	108,472	22,718	(5,446)	103,026
Equity index put options	5,300,000	32,837	-	-	32,837
Put-swaptions	26,500,000	9,559	23,000,000	(459)	9,100
Futures	-	-	535,650	(1,238)	(1,238)
Total return swaps	450,000	24,632	127,000	(13,470)	11,162
Interest rate swaps	4,710,105	104,899	3,890,000	(156,495)	(51,596)
Total	$ 39,152,432	$ 495,781	$ 27,661,368	$ (178,956)	$ 316,825

5. Investments (continued)

Securities Lending

The Company has entered into securities lending agreements with an agent bank whereby blocks of securities are loaned to third parties, primarily major brokerage firms. As of December 31, 2007 and 2006, the estimated fair value of loaned securities was $215.2 million and $306.5 million, respectively. The agreements require a minimum of 102 percent of the fair value of the loaned securities to be held as collateral, calculated on a daily basis. To further minimize the credit risks related to this program, the financial condition of counterparties is monitored on a regular basis. Cash collateral received, in the amount of $225.5 million and $235.9 million at December 31, 2007 and 2006, respectively, was invested by the agent bank and included in short-term investments of the Company. Securities lending payable is included in liabilities for cash collateral received. Other collateral received, generally in the form of securities, totaled zero and $89.2 million at December 31, 2007 and 2006, respectively. Securities lending transactions are used to generate income. Income and expenses associated with these transactions are reported as net investment income.

6. Investment Income, Risk Management Activity and Realized Gains and Losses

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

Years ended December 31,	2007	2006	2005
Fixed maturities	$ 2,320,597	$ 2,363,953	$ 2,340,984
Commercial mortgage loans	328,830	329,047	317,468
Limited partnerships	177,941	120,320	162,550
Other investment income	158,062	137,363	95,229
Total investment income	2,985,430	2,950,683	2,916,231
Less investment expenses	(39,914)	(45,896)	(36,791)
Net investment income	$ 2,945,516	$ 2,904,787	$ 2,879,440

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

Years ended December 31,	2007	2006	2005
Interest rate swaps	$ (167,141)	$ 106,907	$ 160,250
Forwards	-	-	6,891
Put-swaptions	33,710	(10,572)	(3,093)
Futures	14,382	(40,993)	4,086
Equity index call options	(850)	33,460	4,548
Equity index put options	31,439	(64,046)	(19,757)
Total return swaps	(9,180)	10,486	-
Spread cap options	194,444	-	-
Fixed index annuity embedded derivatives	(27,623)	(154,696)	(20,247)
Credit default swaps	(653)	1,447	-
Variable annuity embedded derivatives	(32,070)	12,780	37,149
Risk management activity	$ 36,458	$ (105,227)	$ 169,827

Net realized gains (losses) on investments and capital assets were as follows (in thousands):

Years ended December 31,	2007	2006	2005
Sales of fixed maturities			
Gross gains	$ 128,634	$ 96,911	$ 85,648
Gross losses	(163,380)	(113,800)	(53,395)
Sales of equities			
Gross gains	261	7,796	25,243
Gross losses	(44)	(1,562)	(93)
Sales of real estate			
Gross gains	-	-	19
Sales of capital assets	4,350	-	-
Impairment losses	(60,395)	(47,055)	(44,438)
Total	$ (90,574)	$ (57,710)	$ 12,984

Net realized gains (losses) on investments, net of amounts allocated to minority interest, totaled $(93.1) million, $(66.7) million and $12.0 million in 2007, 2006 and 2005, respectively.

7. Value of Acquired Insurance

The value of acquired insurance in-force at acquisition date represents the present value of anticipated profits of the business in-force on November 25, 1986 (the date the Company was acquired by Prudential). The value of acquired insurance in-force was determined by using assumptions as to interest, persistency and mortality. Profits were then discounted to arrive at the value of the insurance in-force. The value of acquired insurance in-force was fully amortized as of December 31, 2006.

The amortization of acquired insurance was as follows (in thousands):

	2006	2005
Value of acquired insurance:		
Balance, beginning of year	$ 23,578	$ 45,768
Interest, at rates varying from 6.5% to 9.5%	1,108	3,258
Amortization	(24,686)	(25,448)
Balance, end of year	$ -	$ 23,578

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

The Company issues variable contracts through its separate accounts for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contract holder (traditional variable annuities). The Company also issues variable annuity and life contracts through separate accounts where the Company contractually guarantees to the contract holder (variable contracts with guarantees) either a) return of no less than total deposits made to the contract adjusted for any partial withdrawals, b) total deposits made to the contract adjusted for any partial withdrawals plus a minimum return, or c) the highest contract value on a specified anniversary date adjusted for any withdrawals following the contract anniversary. These guarantees include benefits that are payable in the event of death (guaranteed minimum death benefit ("GMDB")), annuitization (guaranteed minimum income benefit ("GMIB")), at specified dates during the accumulation period (guaranteed minimum withdrawal benefit ("GMWB")) or at the end of a specified period (guaranteed minimum accumulation benefit ("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 liabilities. Amounts assessed against the contract holders for mortality, administrative, and other services are included in revenue. Changes in liabilities for minimum guarantees are included in increase in reserves, net of reinsurance in the consolidated income statement, with the exception of changes in embedded derivatives, which are included in risk management activity. Separate account net investment income, net investment gains and losses, and the related liability changes are offset within the same line item in the consolidated income statements.

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

At December 31, 2007 and 2006, the Company had variable contracts with guarantees, where net amount at risk is the amount of guaranteed benefit in excess of current account value, as follows (dollars in millions):

December 31, 2007	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% - 5%	$ 22,618.6	$ 1,234.5	63.6 years	
GMIB	0% - 6%	$ 2,650.7	$ 87.2		6.7 years
GMWB - Premium only		$ 5,646.3	$ 12.5		
GMWB - For life	0% - 5%	$ 1,032.9	$ 1.2		
GMAB - Premium only		$ 19.1	$ 0.1		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		$ 4,791.8	$ 129.7	62.0 years	
GMWB - Highest anniversary only		$ 3,164.6	$ 65.7		
GMWB - For life		$ 1,690.1	$ 37.5		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0% - 5%	$ 2,310.0	$ 48.4	64.1 years	
GMWB - For life	0% - 5%	$ 3,348.7	$ 81.7		

December 31, 2006	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% - 5%	$ 17,035.7	$ 1,218.4	63.3 years	
GMIB	0% - 6%	$ 2,521.8	$ 21.4		7.4 years
GMWB - Premium only		$ 4,927.9	$ 0.3		
GMWB - For life	0% - 5%	$ 996.7	$ 0.1		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		$ 3,265.8	$ 44.9	61.6 years	
GMWB - Highest anniversary only		$ 1,853.6	$ 1.2		
GMWB - For life		$ 543.3	$ 0.2		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0% - 5%	$ 1,785.7	$ 4.8	63.8 years	
GMWB - For life	0% - 5%	$ 961.8	$ 0.3		

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

December 31,	2007	2006
Fund type:		
Equity	$ 24,744.1	$ 18,937.5
Bond	1,881.2	1,508.1
Balanced	2,445.5	1,373.4
Money market	651.2	269.1
Total	$ 29,722.0	$ 22,088.1

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

	2007	2006	2005
Balance at January 1	$ 56.6	$ 37.0	$ 42.0
Incurred guaranteed benefits	86.7	43.6	21.2
Paid guaranteed benefits	(25.3)	(24.0)	(26.2)
Balance at December 31	$ 118.0	$ 56.6	$ 37.0
Balance at December 31, net of reinsurance	$ 4.6	$ 1.9	$ 0.8

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

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

The following assumptions and methodology were used to determine the GMDB liability at both December 31, 2007 and 2006 (except where noted):

1) Use of a series of deterministic investment performance scenarios.
2) Mean investment performance assumption of 8.4% after investment management fees, but before investment advisory fees and mortality and expense charges.
3) Mortality equal to 80.0% of the Annuity 2000 table.
4) Lapse rates varying by contract type, duration and degree the benefit is in-the-money and ranging from 0.5% to 50.0%, with an average of 6.0% during the surrender charge period and 11.0% thereafter at December 31, 2007 and from 2.0% to 50.0%, with an average of 7.0% during the surrender charge period and 13.0% thereafter at December 31, 2006.
5) Discount rate of 8.4%.

Most GMWB reserves are considered to be derivatives under FAS 133 and are recognized at fair value, with the change in fair value included in risk management activity. As the nature of the cash flows used to derive the fair value of these reserves may be quite varied, the fair value is calculated as the average of the results from 1,000 stochastic scenarios. These scenarios incorporate assumptions regarding expected market volatility, correlations of market returns and discount rates, utilization of the benefit by policyholders under varying conditions and policyholder lapsation. At each valuation date, the Company assumes expected returns based on risk-free rates as represented by the LIBOR forward curve as of that date and market volatility as determined with reference to implied volatility data and evaluations of historical volatilities for various indices. The risk-free spot rates as represented by the LIBOR spot curve as of the valuation date are used to determine the present value of expected future cash flows produced in the stochastic process. The negative GMWB reserve at December 31, 2007 and 2006 totaled $10.4 million and $56.0 million, respectively, and is included in other assets. GMAB benefits are offered on some variable annuity plans starting in 2007 and issues are minimal as of December 31, 2007.

Jackson has also issued certain GMWB products that guarantee payments over a lifetime. Reserves for these lifetime benefits are calculated as required by SOP 03-1. At December 31, 2007 and 2006, these SOP 03-1 reserves totaled $4.8 million and $4.6 million, respectively.

The direct GMIB liability is determined at each period end by estimating the expected value of the annuitization benefits in excess of the projected account balance at the date of annuitization and recognizing the excess ratably over the accumulation period based on total expected assessments. The Company regularly evaluates estimates used and adjusts the additional liability balance, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised. The assumptions used for calculating the direct GMIB liability at December 31, 2007 and 2006, are consistent with those used for calculating the GMDB liability. These GMIB SOP 03-1 reserves are minimal at December 31, 2007 and 2006.

Other Liabilities – Insurance and Annuitization Benefits

The Company has established additional reserves for life insurance business due to: universal life ("UL") plans with secondary guarantees, interest-sensitive life ("ISWL") plans that exhibit "profits followed by loss" patterns and account balance adjustments to tabular guaranteed cash values on one interest sensitive life plan. The Company also has a small closed block of two-tier annuities, where different crediting rates are used for annuitization and surrender benefit calculations, for which a liability was established to cover future annuitization benefits in excess of surrender values. The total liability for this block is the low tier funding using the lower credited rate associated with surrenders, plus the SOP 03-1 annuitization reserve.

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

Liabilities for these benefits have been established according to the methodology prescribed in SOP 03-1, as follows:

	December 31, 2007			December 31, 2006		
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	$ 50.7	$ 5,332.3	54.4 years	$ 56.9	$ 4,992.5	54.5 years
Two-tier annuitization	$ 6.5	$ 34.6	61.5 years	$ 6.8	$ 36.5	60.7 years
ISWL account balance adjustment	$ 46.9	n/a	n/a	$ 39.7	n/a	n/a

* Net amount at risk ("NAR") for the UL benefits is for the total of the plans containing any policies having projected non-zero excess benefits, and thus may include NAR for some policies with zero projected excess benefits.

The following assumptions and methodology were used to determine the UL insurance benefit liability at December 31, 2007 and 2006:

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

The following assumptions and methodology were used to determine the two-tier annuitization benefit liability at December 31, 2007 and 2006:

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

9. Borrowings

The aggregate carrying value and fair value of borrowings at December 31, 2007 and 2006 were as follows (in thousands):

	2007		2006	
December 31,	Carrying Value	Fair Value	Carrying Value	Fair Value
Surplus notes	$ 249,280	$ 290,163	$ 249,265	$ 308,550
Tuscany notes	-	-	114,381	114,381
Mortgage loans	17,416	17,416	34,866	34,866
VIE equity classes	3,750	3,750	3,750	3,750
FHLB short-term notes	250,000	250,000	-	-
Short-term borrowings from Parent	32,020	32,020	-	-
Total	$ 552,466	$ 593,349	$ 402,262	$ 461,547
Long-term borrowings	$ 270,446	$ 311,329	$ 287,881	$ 347,166
Short-term borrowings	250,000	250,000	114,381	114,381
Short-term borrowings from Parent	32,020	32,020	-	-
Total	$ 552,466	$ 593,349	$ 402,262	$ 461,547
Due in 2008	$ 299,436	$ 299,436		
Due after 5 years	253,030	293,913		
Total	$ 552,466	$ 593,349		

Surplus notes

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

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

9. Borrowings (continued)

Interest is payable semi-annually on March 15 and September 15 of each year. Interest paid on the Notes was $20.4 million in each of 2007, 2006 and 2005.

Tuscany notes

On December 19, 2001, Tuscany CDO, Limited ("Tuscany"), a VIE in which Jackson was the primary beneficiary, issued $900.0 million of senior and subordinated notes. At issuance, the most senior notes, initially totaling $450.0 million, due February 25, 2010 were sold to unrelated parties with the remaining senior and subordinated notes retained by the Company. The most senior notes were paid in full by August 2006. In 2003, the second most senior notes, initially totaling $129.0 million, due February 25, 2015 were sold to unrelated parties. The remaining outstanding notes were paid in full by February 2007 and Tuscany was liquidated and dissolved. The most senior notes bore interest at LIBOR plus .38% and the second most senior notes bore interest at LIBOR plus .47% (collectively, "Tuscany Notes"). At December 31, 2006, the weighted average rate on the Tuscany Notes was 5.93%. Interest paid totaled $3.5 million, $11.0 million and $6.8 million in 2007, 2006 and 2005, respectively.

Mortgage loans

At December 31, 2007 and 2006, certain consolidated real estate VIEs, have outstanding mortgage loans at a weighted average interest rate of 6.77% and 6.53%, respectively, with maturities through 2008 and 2016, respectively. Interest paid totaled $1.2 million, $2.8 million and $273 thousand in 2007, 2006 and 2005, respectively.

VIE equity classes

Certain of the VIEs have "equity" classes issued in the form of non-investment grade debt maturing in November 2013. Accordingly, these equity classes are classified as notes payable rather than minority interest in the consolidated balance sheets. These notes accrue contingent interest in addition to the stated coupon. The outstanding principal amounts accrued interest at a weighted average interest rate of 6.99% and 7.12% at December 31, 2007 and 2006, respectively. Interest paid on the notes in 2007, 2006 and 2005 totaled $384 thousand, $20.0 million and $664 thousand, respectively.

FHLB short-term notes

On December 15, 2007, Jackson entered into a short-term note program with the FHLB. The FHLB short-term notes mature on March 11, 2008. Interest rates reset monthly and are based on the FHLB Cost of Funds Index plus 19 basis points (4.45% per annum at December 31, 2007). Jackson paid $92 thousand of interest on these notes during 2007.

Short-term borrowings from Parent

On December 21, 2007 Jackson entered into an unsecured cash advance facility with Prudential. The $32 million advance is due December 26, 2008 or earlier upon demand. Interest, at 4.4% per annum, is due on the repayment date.

10. Reverse Repurchase Agreements

During 2007 and 2006, the Company entered into reverse repurchase and dollar roll repurchase agreements whereby the Company agreed to sell and repurchase securities. These activities have been accounted for as financing transactions, with the assets and associated liabilities included in the consolidated balance sheets. Short-term borrowings under such agreements averaged $14.2 million and $33.9 million during 2007 and 2006, respectively, at weighted average interest rates of 5.05% and 4.53%, respectively. There was no outstanding balance as of December 31, 2007 or 2006. Interest paid totaled $0.7 million, $1.5 million and $0.4 million in 2007, 2006 and 2005, respectively. The highest level of short-term borrowings at any month end was $100.0 million in 2007 and $230.0 million in 2006.

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

In connection with the purchase of Life of Georgia, Jackson acquired certain lines of business that were 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.

With the approval of the Michigan Commissioner of Insurance, Jackson cedes the guaranteed minimum death benefit coverage associated with certain variable annuities issued prior to 2002 to an affiliate, Prudential Atlantic Reinsurance Company, Dublin, Ireland ("PARC"). PARC is a wholly owned subsidiary of Prudential.

11. Reinsurance (continued)

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

Years ended December 31,	2007	2006	2005
Direct premiums:			
Life	$ 328,787	$ 345,020	$ 347,831
Accident and health	20,211	22,018	14,855
Plus reinsurance assumed:			
Life	21,834	23,444	12,629
Accident and health	1,744	2,101	1,232
Less reinsurance ceded:			
Life	(131,537)	(137,715)	(134,258)
Accident and health	(21,955)	(24,119)	(16,087)
Guaranteed annuity benefits	(28,784)	(34,548)	(27,141)
Total net premiums	$ 190,300	$ 196,201	$ 199,061

Premiums ceded for guaranteed annuity benefits included $17.2 million, $24.5 million and $19.4 million premiums ceded to PARC during 2007, 2006 and 2005, respectively.

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

December 31,	2007	2006
Reserves:		
Life	$ 785,467	$ 735,904
Accident and health	27,231	32,560
Guaranteed annuity benefits	140,473	70,675
Claims liability	57,205	37,997
Other	13,865	9,831
Total	$1,024,241	$ 886,967

Reserves reinsured through Brooke Life were $54.9 million and $56.8 million at December 31, 2007 and 2006, respectively. Reserves reinsured through PARC were $113.3 million and $54.7 million at December 31, 2007 and 2006, respectively.

12. Federal Income Taxes

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

Years ended December 31,	2007	2006	2005
Current tax expense	$ 202,037	$ 240,858	$ 174,180
Deferred tax expense	50,254	22,558	141,115
Federal income tax expense	$ 252,291	$ 263,416	$ 315,295

The federal income tax provisions differ from the amounts determined by multiplying pretax income by the statutory federal income tax rate of 35% for 2007, 2006 and 2005 were as follows (in thousands):

Years ended December 31,	2007	2006	2005
Income taxes at statutory rate	$ 305,050	$ 278,612	$ 318,279
Dividends received deduction	(48,896)	(15,156)	(3,437)
Other	(3,863)	(40)	453
Provision for federal income taxes	$ 252,291	$ 263,416	$ 315,295
Effective tax rate	28.9%	33.1%	34.7%

Federal income taxes paid were $126.0 million, $214.0 million and $165.1 million in 2007, 2006 and 2005, respectively.

12. Federal Income Taxes (continued)

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

December 31,	2007	2006
Gross deferred tax asset		
Difference between financial reporting and the tax basis of:		
Policy reserves and other insurance items	$ 917,329	$ 860,143
Investments	117,960	138,758
Deferred compensation	67,737	56,866
Net unrealized losses on available for sale securities	88,501	-
Other, net	100,599	48,543
Total gross deferred tax asset	1,292,126	1,104,310
Gross deferred tax liability		
Difference between financial reporting and the tax basis of:		
Deferred acquisition costs and sales inducements	(1,152,693)	(976,968)
Other assets	(50,607)	(3,354)
Net unrealized gains on available for sale securities	-	(80,579)
Other, net	(13,217)	(27,249)
Total gross deferred tax liability	(1,216,517)	(1,088,150)
Net deferred tax asset	$ 75,609	$ 16,160

Management believes that it is more likely than not that the results of future operations and investment activity will generate sufficient taxable income to realize the gross deferred tax asset.

At December 31, 2007, the Company had no federal tax capital loss carryforwards available for future use.

In August, 2007, the IRS issued Revenue Ruling 2007-54 that would have changed accepted industry and IRS interpretations of the statutes governing the computation of the Dividends Received Deduction ("DRD") on separate account assets held in connection with variable annuity and life contracts, but that ruling was suspended by Revenue Ruling 2007-61. Revenue Ruling 2007-61 also announced the Treasury Department's and the IRS' intention to issue regulations with respect to certain computational aspects of the DRD on separate account assets held in connection with variable contracts. Any regulations that the IRS ultimately proposes for issuance in this area will be subject to public notice and comment, at which time insurance companies and other interested parties will have the opportunity to raise legal and practical questions about the content, scope and application of such regulations. Although regulations that represent a substantial change in an interpretation of the law are generally given a prospective effective date, there is no assurance that the change will not be retrospectively applied. As a result, depending on the ultimate timing and substance of any such regulations, which are unknown at this time, such future regulations could result in the elimination of some or all of the separate account DRD tax benefit that the Company receives. During 2007 and 2006, the Company recognized an income tax benefit of $48.9 million and $15.2 million, respectively, related to the separate account DRD.

13. Commitments and Contingencies

The Company and its subsidiaries are involved in litigation arising in the ordinary course of business. It is the opinion of management that the ultimate disposition of such litigation will not have a material adverse affect on the Company's financial condition or results of operations. Jackson has been named in civil litigation proceedings, which appear to be substantially similar to other class action litigation brought against many life insurers alleging misconduct in the sale of insurance products. The Company accrues for legal contingencies once the contingency is deemed to be probable and estimable. Accordingly, at December 31, 2007 and 2006, Jackson had recorded accruals totaling $35.0 million and $11.0 million, respectively. Additionally, in connection with the purchase of Life of Georgia, Jackson assumed a $9.4 million liability related to a class action lawsuit. This liability has been fully indemnified by ING Groep, N.V. (“ING”) and an indemnification receivable equal to the liability has been included in other assets. The liability and indemnification receivable are reduced as payments are made by ING and totaled $2.0 million and $9.4 million at December 31, 2007 and 2006, respectively.

13. Commitments and Contingencies (continued)

The Company had unfunded commitments related to its investments in limited partnerships and limited liability companies totaling $281.4 million at December 31, 2007. Unfunded fixed-rate commercial mortgage loan commitments and available lines of credit totaled $206.8 million and $18.6 million, respectively, at December 31, 2007.

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, 2007, Jackson recorded a liability of $9.9 million for future lease payments. Lease expense was $17.1 million, $23.0 million and $28.5 million in 2007, 2006 and 2005, respectively. Future minimum payments under these noncancellable operating leases are as follows (in thousands):

2008	$ 8,043
2009	6,648
2010	5,935
2011	6,100
2012	6,155
Thereafter	31,126
Total	$ 64,007

Jackson subleased office space under several operating leases that expire at various dates through 2008. Total future lease income to be received on the subleased property is $0.8 million. Lease income for the subleased property totaled $0.7 million per year in 2007, 2006 and 2005.

14. Stockholder's Equity

Under Michigan Insurance Law, dividends on capital stock can only be distributed out of earned surplus, unless the Commissioner approves the dividend prior to payment. Furthermore, without the prior approval of the Commissioner, dividends cannot be distributed if all dividends made within the preceding 12 months exceed the greater of statutory net income less realized gains or 10% of the Company's statutory surplus for the prior year. In 2008, the maximum amount of dividends that can be paid by the Company without prior approval of the Commissioner under this limitation approximates $490.0 million.

The Company received capital contributions from its parent of $30.6 million, $49.7 million and $292.3 million in 2007, 2006 and 2005, respectively. The capital contributions included $30.6 million, $29.1 million and $31.6 million in 2007, 2006 and 2005, respectively, from Brooke Life's forgiveness of an intercompany tax liability. Contributions received in 2006 also included the transfer of $6.9 million in net assets of an affiliate. Contributions received in 2005 also included common stock of $260.7 million in Life of Georgia. Dividend payments were $246.0 million, $209.1 million and $410.8 million in 2007, 2006 and 2005, respectively. Dividends paid in 2005 include $260.8 million paid to Brooke Life to fund the purchase of Life of Georgia.

Statutory capital and surplus of the Company, as reported in its Annual Statement, was $4.0 billion and $3.7 billion at December 31, 2007 and 2006, respectively. Statutory net income of the Company, as reported in its Annual Statement, was $490.0 million, $412.3 million and $565.1 million in 2007, 2006 and 2005, respectively. Statutory net income included pre-acquisition Life of Georgia net income of $112.1 million in 2005, in accordance with statutory guidelines.

15. 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 $34.1 million, $35.9 million and $35.6 million to PPM for investment advisory services during 2007, 2006 and 2005, respectively.

Jackson has entered into shared services administrative agreements with affiliates National Planning Holdings, Inc. and PPMA. Under the shared services administrative agreements, Jackson charged $5.0 million, $5.2 million and $5.0 million of certain management and corporate services expenses to affiliates in 2007, 2006 and 2005, respectively.

Jackson provides a $40.0 million revolving credit facility to PPMA. The loan is unsecured, matures on September 9, 2008, accrues interest at LIBOR plus 2% per annum, and has a commitment fee of 0.25% per annum. There was no balance outstanding at December 31, 2007 or 2006. The highest outstanding loan balance during 2007 and 2006 was $26.0 million and $11.5 million, respectively. Interest and commitment fees totaled $524 thousand, $175 thousand and $306 thousand during 2007, 2006 and 2005, respectively.

16. Benefit Plans

The Company has a defined contribution retirement plan covering substantially all employees. To be eligible to participate in the Company's contribution, an employee must have attained the age of 21, have 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 up to 6 percent of a participant's elective contribution to the plan during the year. The Company's expense related to this plan was $12.3 million, $8.9 million and $7.2 million in 2007, 2006 and 2005, respectively.

The Company maintains non-qualified voluntary deferred compensation plans for certain agents and employees. At December 31, 2007 and 2006, the liability for such plans totaled $194.0 million and $162.4 million, respectively and is included in other liabilities. Jackson invests general account assets in selected mutual funds in amounts similar to participant elections as a hedge against significant movement in the payout liability. The Company's expense related to these plans, including a match of elective deferrals for the agents' deferred compensation plan, was $18.4 million, $21.5 million and $18.6 million in 2007, 2006 and 2005, respectively. Investment income on the mutual funds totaled $15.0 million, $18.3 million and $9.7 million in 2007, 2006 and 2005, respectively.