



Jackson National Life Global Funding

U.S. \$17,000,000,000

GLOBAL DEBT ISSUANCE PROGRAM

This supplement (this “***Fourth Base Prospectus Supplement***”) is supplemental to and must be read in conjunction with the Offering Memorandum dated June 1, 2017 (the “***Base Prospectus***”) and prior Base Prospectus Supplements, specifically, the First Base Prospectus Supplement dated August 22, 2017, the Second Base Prospectus Supplement dated November 28, 2017 and the Third Base Prospectus Supplement dated March 27, 2018 (referred to herein as the “***Prior Base Prospectus Supplements***”) prepared by Jackson National Life Global Funding (the “***Issuer***”), under the Issuer’s Global Debt Issuance Program for the issuance of senior secured medium-term notes (the “***Notes***”).

This Fourth Base Prospectus Supplement has been approved by the Central Bank of Ireland, as competent authority under the Directive 2003/71/EC (the “***Prospectus Directive***”). The Central Bank of Ireland only approves this Fourth Base Prospectus Supplement as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive.

This document constitutes a base prospectus supplement for the purposes of Article 16 of the Prospectus Directive. References herein to this document are to this Fourth Base Prospectus Supplement incorporating Annex 1 and Annex 2, hereto.

Annex 1 of this Fourth Base Prospectus Supplement, which amends and supplements the “Financial Statements” section beginning on page F-i of the Base Prospectus, contains the text of the Jackson National Life Insurance Company (“**Jackson**”) yearly audited statutory financial statements as of and for the years ended December 31, 2017 and 2016 (including any notes and schedules thereto, the “***2017 and 2016 Audited Statutory Financial Statements***”).

Annex 2 of this Fourth Base Prospectus Supplement, which amends and supplements the “Result of Operations” subsection of the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section beginning on page 54 of the Base Prospectus, includes the Management Discussion and Analysis of Results of Operation, Financial Condition and Liquidity of Jackson for the year ended December 31, 2017.

Copies of the 2017 and 2016 Audited Statutory Financial Statements and 2017 Statutory Financial Statements will be made available for inspection at the offices of the parties at whose offices documents are to be available for inspection as identified in “General Information” in the Base Prospectus.

Except as disclosed in this Fourth Base Prospectus Supplement, there has been no other significant new factor, material mistake or inaccuracy relating to the information included in the Base Prospectus and the Prior Base Prospectus Supplements.

Each of the Issuer and Jackson accepts responsibility for the information contained in this Fourth Base Prospectus Supplement. To the best of the knowledge of each of the Issuer and Jackson (having taken all reasonable care to ensure that such is the case) the information contained in this Fourth Base Prospectus Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Where there is any inconsistency among the Base Prospectus, the Prior Base Prospectus Supplements and this Fourth Base Prospectus Supplement, the language used in this Fourth Base Prospectus Supplement shall prevail.

Fourth Base Prospectus Supplement dated April 18, 2018

Annex 1



Jackson National Life Insurance Company

Statutory Financial Statements

December 31, 2017 and 2016



Jackson National Life Insurance Company

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Independent Auditors' Report

To the Audit Committee of the Board of Directors
Jackson National Life Insurance Company:

Report on the Financial Statements

We have audited the accompanying financial statements of Jackson National Life Insurance Company, which comprise the statutory statements of admitted assets, liabilities, capital and surplus as of December 31, 2017 and 2016, and the related statutory statements of operations and capital and surplus, and cash flow for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with statutory accounting practices prescribed or permitted by the Michigan Department of Insurance and Financial Services. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in note 2 to the financial statements, the financial statements are prepared by Jackson National Life Insurance Company using statutory accounting practices prescribed or permitted by the Michigan Department of Insurance and Financial Services, which is a basis of accounting other than U.S. generally accepted accounting principles. Accordingly, the financial statements are not intended to be presented in accordance with U.S. generally accepted accounting principles.

The effects on the financial statements of the variances between the statutory accounting practices and U.S. generally accepted accounting principles also are described in note 2 to the financial statements.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the variances between statutory accounting practices and U.S. generally accepted accounting principles discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with U.S. generally accepted accounting principles, the financial position of Jackson National Life Insurance Company as of December 31, 2017 and 2016, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, capital and surplus of Jackson National Life Insurance Company as of December 31, 2017 and 2016, and the results of its operations and its cash flow for the years then ended, in accordance with statutory accounting practices prescribed or permitted by the Michigan Department of Insurance and Financial Services described in note 2.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the Supplemental Schedule of Selected Financial Data, Supplemental Investment Risk Interrogatories, and Summary Investment Schedule is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Michigan Department of Insurance and Financial Services. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

/s/KPMG LLP

Columbus, Ohio
April 11, 2018

Jackson National Life Insurance Company
Statutory Statements of Admitted Assets, Liabilities, Capital and Surplus
December 31, 2017 and 2016

(In thousands, except per share information)

	2017	2016
Admitted Assets		
Bonds	\$ 43,842,502	\$ 46,228,419
Preferred stocks, at statement value (cost: 2017, \$0; 2016, \$147)	-	147
Common stocks - unaffiliated, at fair value (cost: 2017, \$136,889; 2016, \$401,271)	137,289	412,737
Common stocks - affiliated, on equity basis (cost: 2017, \$482,323; 2016, \$501,660)	557,059	475,654
Cash and short-term investments	990,424	586,612
Mortgage loans	8,441,517	7,480,130
Policy loans	4,468,858	4,420,561
Limited partnership interests	1,127,733	1,210,471
Real estate	228,772	235,561
Derivatives	1,754,628	371,608
Other invested assets	355,256	350,344
Total cash and invested assets	61,904,038	61,772,244
Investment income due and accrued	706,560	839,013
Premiums deferred and uncollected	375,603	80,372
Federal income taxes receivable	335,507	57,492
Net deferred tax asset	505,603	1,614,865
Value of business acquired and goodwill	229,264	278,392
Amounts due (to) from reinsurers	(233,823)	61,224
Receivable from parent, subsidiaries and affiliates	47,939	920,216
Other admitted assets	11,562	4,345
From separate accounts statement	164,905,515	139,153,016
Total admitted assets	\$ 228,787,768	\$ 204,781,179
Liabilities, Capital and Surplus		
Liabilities:		
Aggregate reserves for life, accident and health and annuity contracts	\$ 47,734,859	\$ 50,536,968
Liability for deposit-type contracts	10,250,092	8,395,984
Policy and contract claims	709,539	717,695
Other contract liabilities	64,675	45,057
Remittances in process	25,826	7,698
Interest maintenance reserve	171,915	300,588
Commissions payable and expense allowances on reinsurance assumed	109,235	95,970
Asset valuation reserve	354,418	370,085
Funds held under reinsurance treaties with unauthorized reinsurers	3,592,822	3,508,651
Funds held under coinsurance	289,852	303,664
General expenses and taxes due and accrued	218,076	186,440
Accrued transfers to separate accounts	(5,774,286)	(5,807,039)
Borrowed money and interest thereon	687,533	592,549
Repurchase agreements	-	411,857
Payable for securities lending	64,246	108,865
Derivatives	-	20,249
Other liabilities	1,499,342	914,014
From separate accounts statement	164,905,515	139,153,016
Total liabilities	224,903,659	199,862,311
Capital and surplus:		
Capital stock (par value \$1.15 per share; 50,000 shares authorized; 12,000 shares issued and outstanding)	13,800	13,800
Surplus notes	249,522	249,488
Gross paid-in and contributed surplus	3,233,811	3,233,811
Special surplus funds	(480,182)	(412,970)
Unassigned surplus	867,158	1,834,739
Total capital and surplus	3,884,109	4,918,868
Total liabilities, capital and surplus	\$ 228,787,768	\$ 204,781,179

See accompanying Notes to Statutory Financial Statements.

Jackson National Life Insurance Company
Statutory Statements of Operations
For the Years Ended December 31, 2017 and 2016
(In thousands)

	<u>2017</u>	<u>2016</u>
Income:		
Premiums and annuity considerations	\$ 19,004,546	\$ 18,631,372
Considerations for supplementary contracts with life contingencies	7,640	8,595
Net investment income	3,692,816	3,902,994
Amortization of interest maintenance reserve	103,499	168,694
Commissions and expense allowances on reinsurance ceded	46,164	371,162
Fee income from separate accounts	4,010,439	3,341,243
Other income	346,441	280,739
Total income	<u>27,211,545</u>	<u>26,704,799</u>
Benefits and other deductions:		
Death and other benefits	17,948,360	14,318,108
Decrease in aggregate reserves	(2,802,109)	(42,291)
Commissions	1,828,593	1,598,167
General insurance expenses	706,268	606,180
Taxes, licenses and fees	45,637	58,899
Amortization of value of business acquired and goodwill	49,128	49,128
Interest on funds withheld treaties	343,194	320,027
Change in loading and other	(1,003)	2,738
Reinsurance on in-force business	(42,547)	365,294
Net transfers to separate accounts	<u>5,281,415</u>	<u>5,365,112</u>
Total benefits and other deductions	<u>23,356,936</u>	<u>22,641,362</u>
Gain from operations before federal income tax expense and net realized capital losses	3,854,609	4,063,437
Dividends to policyholders	<u>9,896</u>	<u>10,637</u>
Gain from operations after dividends to policyholders and before federal income taxes	3,844,713	4,052,800
Federal income tax expense	<u>1,048,078</u>	<u>1,960,492</u>
Gain from operations before net realized capital losses	2,796,635	2,092,308
Net realized capital losses, less tax benefit of \$1,289,812 in 2017 and \$1,309,684 in 2016, excluding tax expense of \$13,530 in 2017 and \$78,126 in 2016 transferred to the IMR	<u>(2,628,205)</u>	<u>(2,656,147)</u>
Net income (loss)	<u>\$ 168,430</u>	<u>\$ (563,839)</u>

See accompanying Notes to Statutory Financial Statements.

Jackson National Life Insurance Company
Statutory Statements of Capital and Surplus
For the Years Ended December 31, 2017 and 2016
(In thousands)

	Capital stock	Surplus notes	Surplus			Total
			Gross paid-in and contributed	Special funds	Unassigned	
Balances at December 31, 2015	\$ 13,800	\$ 249,457	\$ 3,233,811	\$ (355,525)	\$ 1,576,908	\$ 4,718,451
Net loss	-	-	-	-	(563,839)	(563,839)
Change in net unrealized capital gains and losses	-	-	-	-	237,345	237,345
Change in net deferred income tax	-	-	-	-	906,246	906,246
Change in asset valuation reserve	-	-	-	-	2,205	2,205
Change in non-admitted assets	-	-	-	-	(139,418)	(139,418)
Change in liability for reinsurance in unauthorized companies	-	-	-	-	(2)	(2)
Surplus notes accretion	-	31	-	-	-	31
Dividends to stockholder	-	-	-	-	(550,000)	(550,000)
Change in surplus as a result of reinsurance	-	-	-	-	365,294	365,294
Change in surplus as a result of permitted practice	-	-	-	(57,445)	-	(57,445)
Balances at December 31, 2016	13,800	249,488	3,233,811	(412,970)	1,834,739	4,918,868
Net income	-	-	-	-	168,430	168,430
Change in net unrealized capital gains and losses	-	-	-	-	294,238	294,238
Change in net deferred income tax	-	-	-	-	(631,189)	(631,189)
Change in asset valuation reserve	-	-	-	-	15,667	15,667
Change in non-admitted assets	-	-	-	-	(172,176)	(172,176)
Change in liability for reinsurance in unauthorized companies	-	-	-	-	(4)	(4)
Surplus notes accretion	-	34	-	-	-	34
Dividends to stockholder	-	-	-	-	(600,000)	(600,000)
Change in surplus as a result of reinsurance	-	-	-	-	(42,547)	(42,547)
Change in surplus as a result of permitted practice	-	-	-	(67,212)	-	(67,212)
Balances at December 31, 2017	\$ 13,800	\$ 249,522	\$ 3,233,811	\$ (480,182)	\$ 867,158	\$ 3,884,109

See accompanying Notes to Statutory Financial Statements.

Jackson National Life Insurance Company
Statutory Statements of Cash Flow
For the Years Ended December 31, 2017 and 2016
(In thousands)

	2017	2016
Cash from operations:		
Operating receipts:		
Premiums and annuity considerations	\$ 18,709,973	\$ 18,127,675
Net investment income	3,635,585	3,641,217
Other	4,359,057	3,643,070
Total cash received from operations	26,704,615	25,411,962
Operating disbursements:		
Benefit payments	17,383,648	13,990,673
Commissions, general expenses and taxes	2,506,607	2,304,874
Net transfers to separate accounts	5,248,661	5,638,678
Federal income taxes	49,750	338,461
Total cash disbursed from operations	25,188,666	22,272,686
Net cash from operations	1,515,949	3,139,276
Cash from investments:		
Proceeds from investments sold, matured, or repaid:		
Bonds	9,704,157	10,559,614
Stocks	342,087	17,296
Mortgage loans	1,123,875	1,147,299
Limited partnerships and other invested assets	(2,262,426)	(2,770,956)
Total investment proceeds	8,907,693	8,953,253
Cost of investments acquired:		
Bonds	6,553,668	10,300,634
Stocks	40,099	197,922
Mortgage loans	2,086,813	2,196,376
Real estate	2,425	18,134
Limited partnerships and other invested assets	2,227,873	1,323,193
Total investments acquired	10,910,878	14,036,259
Net increase in policy loans	(48,297)	(47,113)
Net cash used in investments	(2,051,482)	(5,130,119)
Cash from financing and miscellaneous sources:		
Cash provided (applied):		
Borrowed funds	94,960	494,961
Net deposits on deposit-type contracts	1,854,108	1,233,940
Dividends paid to stockholder	(600,000)	(550,000)
Other	(409,723)	621,590
Net cash from financing and miscellaneous sources	939,345	1,800,491
Net change in cash and short-term investments	403,812	(190,352)
Cash and short-term investments at beginning of year	586,612	776,964
Cash and short-term investments at end of year	\$ 990,424	\$ 586,612
Cash flow information for non-cash transactions:		
Bonds acquired to settle reinsurance transaction	\$ (762,324)	\$ -
Proceeds on exchanges of debt for debt and/or equity interests	\$ 317,942	\$ -

See accompanying Notes to Statutory Financial Statements.

Jackson National Life Insurance Company
Notes to Statutory Financial Statements
December 31, 2017 and 2016

Note 1 - Organization

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 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 49 states and the District of Columbia. There is not substantial doubt about the Company's ability to continue as a going concern.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting practices prescribed or permitted by the Michigan Department of Insurance and Financial Services ("statutory"), which vary in some respects from U.S. generally accepted accounting principles ("GAAP") and include the following: (1) the costs related to acquiring business, principally commissions, bonus interest on certain products and certain policy issue and underwriting costs, are charged to income in the year incurred and, thus, are not capitalized and amortized over the periods benefited; (2) recognition of the value of business acquired ("VOBA") and goodwill is limited and is amortized over the life of the business acquired, up to ten years; (3) assets must be included in the statement of admitted assets, liabilities, capital and surplus at "admitted asset value," with "non-admitted assets" excluded through a charge to surplus; (4) bonds are generally carried at amortized cost and, for investments carried at fair value, changes in investment valuations are recorded in surplus (under GAAP, investments are generally carried at fair value, amortized cost for mortgage loans and policy loans, with changes in valuation recorded in other comprehensive income); (5) investments in subsidiaries or companies where Jackson has a controlling interest or is the primary beneficiary of a variable interest entity are reported as investments, but are consolidated under GAAP; (6) a net deferred tax asset ("DTA"), for the tax effect of timing differences between book and tax assets and liabilities, is only reported as an admitted asset to the extent that it is realizable within three years and represents less than 15% of capital and surplus (adjusted to exclude any net DTAs, electronic data processing ("EDP") equipment and operating system software and any net positive goodwill), subject to limits set by Statement of Statutory Accounting Principles ("SSAP") No. 101, with the change in net deferred tax asset or liability being recorded directly to surplus; (7) assets and liabilities for certain derivative contracts are reported net for statutory, but are reported gross under GAAP; (8) for derivative instruments carried at fair value, changes in fair value are recorded directly to surplus (under GAAP, derivative instruments are carried at fair value with changes in fair value generally recorded in income); (9) future policy benefit reserves for life insurance are based on statutory mortality and interest requirements without the consideration of withdrawals; (10) the Commissioners' Annuity Reserve Valuation Method ("CARVM") expense allowance associated with statutory reserving practices for deferred variable annuities held in the separate accounts is reported in the general account as a negative liability; (11) reserve credits for reinsurance ceded are netted against the reserve liability, but are reported as assets under GAAP; (12) surplus notes issued by the Company are recorded as surplus rather than as a liability under GAAP; (13) an asset valuation reserve ("AVR") is established by a direct charge to surplus to offset future potential credit related investment losses; (14) realized gains and losses, net of tax, resulting from changes in interest rates on fixed income investments are deferred in the interest maintenance reserve ("IMR") and amortized into investment income over the approximate remaining life of the investment sold; (15) gains or losses resulting from market value adjustments ("MVA") on policies and contracts backed by assets that are valued at book/adjusted carrying value are deferred in the IMR and amortized in a manner consistent with the determination of the MVA; (16) premiums for universal life and investment-type products, other than GICs and annuities certain, are recognized as income, but are accounted for as deposits to policyholders' accounts under GAAP; (17) net after tax gains on reinsurance transactions comprised of contracts in force at the date of the transaction are excluded from net income and recorded directly to surplus, and amortized into income as earnings emerge from the business reinsured; (18) statements of cash flow are prepared under a prescribed format, which differs from the indirect format under GAAP; and (19) there is no presentation of comprehensive income.

Jackson National Life Insurance Company
Notes to Statutory Financial Statements
December 31, 2017 and 2016

A reconciliation of the Company's statutory to GAAP net income and statutory capital and surplus to GAAP stockholder's equity is as follows (in millions):

	Years Ended December 31,	
	2017	2016
Statutory net income (loss)	\$ 168.4	\$ (563.8)
Adjustments:		
Future policy benefits and policyholders' account balances	17.9	(409.5)
Deferred acquisition costs and sales inducements	912.3	1,083.3
Net investment income, less interest on funds held	(695.1)	(668.0)
Net realized gains on investments	3,869.2	4,315.0
Fair value of hedging instruments	(3,376.7)	(4,008.3)
Amortization of value of business acquired and goodwill	46.7	46.7
Separate account CARVM allowance	48.8	31.1
Federal income taxes	(549.1)	757.3
Other, net	(39.6)	188.6
GAAP net income	<u>\$ 402.8</u>	<u>\$ 772.4</u>

	December 31,	
	2017	2016
Statutory capital and surplus	\$ 3,884.1	\$ 4,918.9
Adjustments:		
Future policy benefits and policyholders' account balances	(5,514.5)	(5,143.5)
Deferred acquisition costs and sales inducements	11,540.9	10,628.6
Valuation of derivatives	417.9	627.7
Separate account CARVM allowance	(5,791.9)	(5,840.9)
Interest maintenance reserve	171.9	300.6
Asset valuation reserve	362.5	383.4
Federal income taxes	212.5	(164.7)
Valuation of investments	1,860.0	1,313.6
Surplus notes	(249.5)	(249.5)
Value of business acquired and goodwill	(193.6)	(240.3)
Non-admitted assets	134.3	93.8
Other, net	104.3	4.8
GAAP stockholder's equity	<u>\$ 6,938.9</u>	<u>\$ 6,632.5</u>

The Department of Insurance and Financial Services ("DIFS") recognizes statutory accounting practices prescribed or permitted by the state of Michigan for determining and reporting the financial condition and results of operations of an insurance company, and for determining its solvency under Michigan Insurance Law. The DIFS has adopted the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual ("NAIC SAP") to the extent that the accounting practices, procedures, and reporting standards are not modified by the Michigan Insurance Code. The state of Michigan has adopted certain prescribed accounting practices that differ from those defined in NAIC SAP. The commissioner of insurance also has the right to permit other specific practices that deviate from prescribed practices.

Jackson National Life Insurance Company
Notes to Statutory Financial Statements
December 31, 2017 and 2016

Under Michigan law, the value of the book of business arising from the acquisition of a subsidiary or through reinsurance may be recognized as an admitted asset if certain criteria are met. In NAIC SAP, goodwill may be admitted in amounts not to exceed 10% of an insurer's capital and surplus, as adjusted, and is eliminated in the event of a merger.

As a result of an acquisition accounted for as a statutory purchase in accordance with SSAP No. 68, the Company has goodwill attributed to the VOBA. The VOBA value is fully recoverable by the present value of the future cash flows of the business acquired. Under Michigan law, the entire balance is recognized as an admitted asset. While the VOBA also meets the NAIC SAP definition of goodwill, under statutory goodwill accounting in accordance with paragraph 13 of SSAP No. 68, the entire VOBA of \$229.3 million at December 31, 2017, would be a reduction from the Michigan basis capital and surplus, as shown in the following table.

The Valuation of Life Insurance Policies Model Regulation ("Model 830", also known as Regulation XXX), was effective for NAIC SAP in 2001. The state of Michigan did not permit Model 830 for reserve calculations until January 1, 2002. Thus, reserves for life business issued in calendar year 2001 are not valued according to Model 830 and NAIC SAP, but rather, are valued under the prior method of the Standard Valuation Law, referred to as the 'unitary' method.

Actuarial Guideline XXXV ("Actuarial Guideline 35") was adopted by the NAIC in December 1998. The purpose of Actuarial Guideline 35 is to interpret the standards for the valuation of statutory reserves for fixed index annuities. NAIC SAP requires application of Actuarial Guideline 35 for all fixed index annuities issued after December 31, 2000. Michigan law prescribes the valuation of fixed index annuities without consideration of Actuarial Guideline 35. As a result, and as demonstrated in the Company's reconciliation of net income and capital and surplus between NAIC SAP and practices prescribed or permitted by the state of Michigan below, Actuarial Guideline 35 is not reflected in the Company's accounts as of December 31, 2017 and 2016.

Permitted Practice

Effective December 31, 2008, the Company received approval from the DIFS regarding the use of a permitted practice. Since being initially granted, the permitted practice has been extended annually by the commissioner with a current expiration date of October 1, 2018. Any increase in capital and surplus resulting from this permitted practice may not be considered by the Company when determining the surplus available for dividends, nor in the determination of the nature of dividends as ordinary or extraordinary.

The permitted practice allows the Company to report the effectiveness of its hedging program related to interest rate swaps consistent with the system the Company has adopted in accordance with Section 943 (2) of the Michigan Insurance Code, as opposed to SSAP No. 86 – *Accounting for Derivative Instruments and Hedging Activities*. As a result, hedging transactions thus identified as effective were reported pursuant to the accounting guidance set forth in NAIC SSAP No. 86. The effect of this permitted practice, reflected as special surplus funds, was to decrease capital and surplus by \$480.2 million at December 31, 2017 and \$413.0 million at December 31, 2016, with no effect on net income.

Jackson National Life Insurance Company
Notes to Statutory Financial Statements
December 31, 2017 and 2016

Reconciliation to NAIC SAP

A reconciliation of the Company's net income and capital and surplus between NAIC SAP and practices prescribed or permitted by the state of Michigan is shown below (in millions):

	Years Ended December 31,	
	2017	2016
Net income (loss), as stated herein	\$ 168.4	\$ (563.8)
Adjustments - prescribed practices:		
Valuation of Life Insurance Policies Model Regulation (XXX):		
Decrease in aggregate reserves for life and accident and health policies and contracts	0.9	0.7
Actuarial Guideline 35:		
Increase in aggregate reserves for life and accident and health policies and contracts	(0.7)	(5.0)
Amortization of value of business acquired	49.1	49.1
Prescribed practices adjustment	49.3	44.8
Tax effect of prescribed practice differences	0.1	1.7
Net income (loss), NAIC SAP	<u>\$ 217.8</u>	<u>\$ (517.3)</u>

	December 31,	
	2017	2016
Statutory Capital and Surplus, as stated herein	\$ 3,884.1	\$ 4,918.9
Adjustments - prescribed practices:		
Aggregate reserve for life policies and contracts		
Valuation of Life Insurance Policies Model Regulation (XXX):		
Reserve per Michigan basis	9.8	10.2
Reserve per NAIC SAP	25.8	27.0
Model Regulation (XXX) adjustment	(16.0)	(16.8)
Actuarial Guideline 35:		
Reserve per Michigan basis	7,580.5	8,019.5
Reserve per NAIC SAP	7,607.8	8,046.2
Actuarial Guideline 35 adjustment	(27.3)	(26.7)
Value of business acquired	(229.3)	(278.4)
Tax effect of prescribed practice differences	13.4	13.3
Net impact of prescribed practices	(259.2)	(308.6)
Adjustments - permitted practice:		
SSAP No. 86 - effectiveness of interest rate swaps per permitted practice	417.5	599.6
Tax effect of permitted practice differences	62.7	(186.6)
Net impact of permitted practice	480.2	413.0
Statutory capital and surplus, NAIC SAP	<u>\$ 4,105.1</u>	<u>\$ 5,023.3</u>

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New and Pending Accounting Pronouncements

In May 2017, the Statutory Accounting Principles Working Group (“SAPWG”) adopted substantive revisions to SSAP No. 26R, *Bonds*, to remove Securities Valuation Office-identified instruments from the definition of a bond and provide separate statutory accounting guidance for these instruments. The revisions incorporate the GAAP definition of a security into the definition of a bond and incorporates definitions for non-bond, fixed-income instruments (i.e. bond exchange traded funds.) The revisions to SSAP No. 26R were adopted on a prospective basis on December 31, 2017, with no impact on the statutory financial statements.

In December 2016, the SAPWG adopted substantive revisions to SSAP No. 2, *Cash, Cash Equivalents, Drafts, and Short-Term Investments*, to reclassify investments in money market funds from short-term investments to cash equivalents. In addition, the revisions require money market mutual funds to be reported at fair value and provide a practical expedient to use net asset value (“NAV”) for estimating fair value, with any unrealized gains and losses accounted for in accordance with SSAP No. 7, *Asset Valuation Reserve and Interest Maintenance Reserve*. SSAP No. 2R was adopted on a prospective basis on December 31, 2017, with no material impact on the statutory financial statements.

In August 2016, the SAPWG adopted amendments to SSAP No. 26, *Bonds*, and SSAP No. 43R, *Loan-Backed and Structured Securities*, to clarify the amount of investment income and/or realized gain/loss to be reported upon liquidation of an investment prior to its scheduled termination date. At January 1, 2017, the Company adopted these revisions on a prospective basis, the impact of which is included in Note 6.

In 2015, Michigan became the 39th state to adopt the NAIC’s 2009 revised Valuation Manual (Principles Based Reserves). The Valuation Manual became operative in a majority of states, including Michigan, on January 1, 2017. It applies prospectively to contracts issued on/after that date. In Michigan, the Valuation Manual is currently effective, at the company’s option, for policies or blocks of policies acquired by the company through a business acquisition or reinsurance transaction, regardless of when the policies were issued. The Company elected to utilize the three year deferral period option to implement changes to reserving practices. Jackson does not expect the impact of the Valuation Manual on the statutory financial statements will be significant, as the Company no longer issues new life insurance policies.

In addition, the NAIC has been conducting an industry consultation with the aim of reducing the complexity in the variable annuity statutory balance sheet and risk management. Following a quantitative impact study, changes have been proposed to the current framework and are exposed for comment until early March 2018. The potential impact of this proposal on the statutory financial statements has not been determined.

Estimates

The preparation of the accompanying financial statements and notes requires the use of estimates and assumptions about future events that affect the amounts reported in the financial statements and the accompanying notes. Significant estimates or assumptions, as further discussed in the notes, include: 1) valuation of investments and derivative instruments, including fair values of securities deemed to be in an illiquid market and the determination of when an impairment is other-than-temporary; 2) assumptions used in calculating policy reserves and liabilities, including, but not limited to mortality rates, policyholder behavior, expenses, investment returns and policy crediting rates; 3) assumptions as to future earnings levels being sufficient to realize deferred tax benefits and whether or not certain deferred tax assets will reverse within three years; 4) estimates related to liabilities for lawsuits and establishment of liability for state guaranty fund assessments; 5) assumptions and estimates associated with the Company’s tax positions which impact the amount of recognized tax benefits recorded by the Company; and 6) assumptions as to future earnings levels of acquired business being sufficient to recover the VOBA and goodwill. These estimates and assumptions are based on management’s best estimates and judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors as deemed appropriate. As facts and circumstances dictate, these estimates and assumptions may be adjusted. Since future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in estimates, including those resulting from continuing changes in the economic environment, will be reflected in the financial statements in the periods the estimates are changed.

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Reinsurance Transactions

Effective December 30, 2016, the Company executed a reserve financing transaction whereby \$623.3 million of level premium term reserves were ceded to a captive subsidiary, Squire Reassurance Company II, Inc. (“Squire Re II”), under a funds withheld 100% coinsurance treaty. As a result, in a non-cash transaction, the Company recorded a ceding commission of \$319.2 million, equal to the excess of statutory basis reserves over the reserves calculated in accordance with Actuarial Guideline 48. The effect of the transaction was that the risk on the \$319.2 million of statutory basis redundant term life reserves was transferred to a third party reinsurer. See Note 7 for additional information.

Effective December 31, 2016, the Company amended its variable annuity reinsurance agreement with its subsidiary, Jackson National Life Insurance Company of New York (“Jackson New York”), a life insurance company. Prior to the amendment, the agreement ceded to Jackson 90% of the guaranteed minimum withdrawal benefits liability associated with variable annuity contracts issued by Jackson New York. The purpose of the amendment was to transfer to Jackson 90% of the total variable annuity contract risk associated with variable annuities issued by Jackson New York on a coinsurance basis (modified coinsurance for separate account liabilities). The amendment covers all existing and future issues of variable annuity contracts issued by Jackson New York. The contracts reinsured were in force at the transaction date and the Company assumed \$1.1 billion of reserves, partially offset by \$304.4 million of CARVM allowance. This transfer allows for better alignment with risk mitigation strategies employed at the parent company level. Because of the differences in variable annuity reserve modeling between the Company and Jackson New York, the transaction resulted in a \$46.2 million after tax benefit to the Company. See Note 7 for additional information.

As a result of the previously mentioned amended reinsurance agreement, the net receivable of \$905.9 million was reported as a receivable from affiliate at December 31, 2016 and settled through a transfer of securities and cash in 2017. Accordingly, the transaction resulted in the transfer to Jackson of Jackson New York’s \$25.3 million IMR related to the securities, which was reported direct to surplus as IMR transferred on reinsurance settlement.

As both of these reinsurance transactions resulted in gains and were comprised of contracts in force at the date of the transaction, the net, after tax, impact of the transactions of \$365.3 million was excluded from net income and recorded directly to surplus, and will be amortized into income as earnings emerge from the business reinsured.

Investments

Bonds not backed by other loans are stated at amortized cost except those with an NAIC designation of “6,” which are stated at the lower of amortized cost or fair value. Acquisition premiums and discounts are amortized into investment income through call or maturity dates using the effective interest method.

Jackson recognizes an other-than-temporary impairment for non-loan-backed securities when the Company does not expect full recovery of amortized cost. These impairment losses are recognized in net realized capital losses for the full difference between fair value and amortized cost.

Loan-backed and structured securities, hereafter collectively referred to as “loan-backed securities,” are also stated at amortized cost except those with an NAIC carry rating of “6,” which are carried at the lower of amortized cost or fair value. The retrospective adjustment method is used to value loan-backed securities where the collection of all contractual cash flows is probable. For loan-backed securities where the collection of all contractual cash flows is not probable, the Company:

- Recognizes the accretable yield over the life of the loan-backed security as determined at the acquisition or transaction date;
- Continues to estimate cash flows expected to be collected at least quarterly; and
- Recognizes an other-than-temporary impairment loss if the loan-backed security is impaired (i.e., the fair value is less than the amortized cost basis) and if the Company does not expect to recover the entire amortized cost basis when compared to the present value of cash flows expected to be collected.

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Investments are reduced to estimated fair value (discounted cash flows for loan-backed securities) for declines in value that are determined to be other-than-temporary. 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.

If the Company intends to sell an impaired loan-backed security or does not have the intent and ability to retain the impaired loan-backed security for a period of time sufficient to recover the amortized cost basis, an other-than-temporary impairment has occurred. In these situations, the other-than-temporary impairment loss recognized is the difference between the amortized cost basis and fair value. For loan-backed securities, the credit portion of the recognized loss is recorded to the AVR and the non-credit portion is recorded to the IMR. If the Company does not expect to recover the entire amortized cost basis when compared to the present value of cash flows expected to be collected, it cannot assert that it has the ability to recover the loan-backed security's amortized cost basis even though it has no intent to sell and has the intent and ability to retain the loan-backed security. Therefore, an other-than-temporary impairment has occurred and a realized loss is recognized for the non-interest related decline, which is calculated as the difference between the loan-backed security's amortized cost basis and the present value of cash flows expected to be collected.

For situations where an other-than-temporary impairment is recognized, the previous amortized cost basis less the other-than-temporary impairment recognized as a realized loss becomes the new amortized cost basis of the loan-backed security. The new amortized cost basis is not adjusted for subsequent recoveries in fair value. Therefore, the prospective adjustment method is used for periods subsequent to other-than-temporary impairment loss recognition.

Unaffiliated common stocks are stated at fair value. The Company's investments in subsidiaries are recorded based on the equity method. Insurance subsidiaries are reported at their audited statutory capital and surplus and non-insurance subsidiaries are carried at their audited net worth as determined under GAAP. Included in common stocks is the Company's 100% interest in the common stock of Jackson New York. The Company has non-admitted \$6.1 million of the unaudited equity of eight subsidiaries.

Preferred stocks are stated at cost, except those with an NAIC Securities Valuation Office rating of "4" to "6," which are reported at the lower of cost or fair value.

Limited partnership interests, including limited liability company interests, are carried at fair value based on the GAAP equity of the investee. Distributions of earnings from these entities are recorded as investment income and unrealized gains and losses are credited or charged directly to surplus. Included in limited partnership interests was \$55.4 million and \$90.3 million at December 31, 2017 and 2016, respectively, of the Company's 100% ownership of member interests in the following entities: Jackson National Asset Management, LLC, an investment advisor and transfer agent; and Jackson National Life Distributors, LLC, a broker dealer. The Company has non-admitted its 100% ownership interests totaling \$28.9 million and \$17.3 million at December 31, 2017 and 2016, respectively, in Squire Reassurance Company LLC, a captive reinsurance company; Curian Capital, LLC, which terminated its separately managed account program on February 19, 2016 and de-registered as a Securities and Exchange Commission ("SEC") investment advisor in October 2016; Curian Clearing, LLC, which had served exclusively as the clearing broker dealer for the Curian Capital separately managed account program and de-registered as an SEC regulated broker dealer on September 13, 2017; PGDS (US One), LLC, an information technology service provider; and Hermitage Management, LLC ("Hermitage"), which holds and manages certain real estate related investments.

The Company also acquires controlling ownership interests in companies through troubled debt restructuring arrangements. These investments are held for sale and are not operated as subsidiaries. These equity investments are carried at fair value.

Derivative instruments afforded hedge accounting treatment are accounted for in a manner consistent with the hedged items. Derivative instruments not afforded hedge accounting treatment are stated at fair value. See Note 5 for more information on derivative instruments.

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Cash and short-term investments, which primarily include high quality money market instruments, are carried at amortized cost. These investments have original maturities of twelve months or less, and are considered cash equivalents for reporting cash flow.

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

On a periodic basis, Jackson assesses the commercial mortgage loan portfolio for the need for an allowance for loan losses. In determining its allowance for loan losses, the Company evaluates each loan to determine if it is probable that amounts due according to the contractual terms of the loan agreement will not be collected. The allowance includes loan specific reserves for loans that are determined to be non-performing as a result of this loan review process. The loan specific portion of the loss allowance is based on the Company's assessment as to ultimate collectability of loan principal and interest, or other value expected in lieu of loan principal and interest. This review contemplates a variety of factors which may include, but are not limited to, current economic conditions, the physical condition of the property, the financial condition of the borrower, and the near and long-term prospects for change in these conditions. Changes in the allowance for loan losses are recorded in surplus.

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

Policy loans are loans the Company issues to contract holders that use the cash surrender value of their life insurance policy or annuity contract as collateral. Policy loans are carried at unpaid principal balances.

Real estate is carried at depreciated cost and net of encumbrances. Buildings are depreciated over their estimated useful life, up to 40 years.

Realized capital gains and losses are recorded at the date of sale and are calculated on a specific cost identification basis.

Life and Annuity Reserves

Aggregate reserves for life insurance policies are based on statutory mortality and interest requirements without consideration for withdrawals. With respect to ordinary policies, the mortality assumptions range from the American Experience Table to the 1980/2001 Commissioners' Standard Ordinary Tables with interest assumptions ranging from 1.50% to 6.25%. With respect to older industrial policies, the mortality assumptions range from the American Experience Table to the 1961 Commissioners' Standard Industrial Table with interest assumptions ranging from 2.50% to 6.00%. As of both December 31, 2017 and 2016, approximately 28% of the life reserves were calculated on a net level reserve basis and 72% were calculated on a modified reserve basis.

Reserves for variable annuity products and related guarantees are determined using Actuarial Guideline 43. Actuarial Guideline 43 reserves are set at the greater of a standard scenario calculation and a principles-based stochastic calculation. The standard scenario calculation is based on the prescribed valuation tables and valuation interest rates applicable to issue years of the policies involved, as well as other generally prescribed assumptions as to policyholder behavior. The stochastic calculation uses prudent estimate assumptions for items such as expenses, mortality and policyholder behavior, as well as "real world" stochastically generated equity and interest rate scenarios. Both the standard scenario and stochastic calculations are adjusted to reflect the impact of hedge instruments owned on the valuation date, and in the case of the stochastic calculation, future assumed hedging activity.

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Actuarial Guideline 43 defines the minimum reserving standard for variable annuities. However, in setting reported statutory reserves for variable annuities, Jackson considers additional metrics and attempts to balance several other considerations, including the desire to maintain strong and stable capital and financial strength ratios. At December 31, 2017, the Company had no additional voluntary variable annuity guaranteed benefit reserves recorded in excess of those required under minimum statutory standards. In 2016, the Company recorded \$400.0 million of additional voluntary variable annuity guaranteed benefit reserves to partially mitigate the market risk component of the risk based capital (“RBC”) calculation as determined under C-3 Phase II.

As previously described in Note 1, Michigan law prescribes the valuation of fixed index annuities without consideration of Actuarial Guideline 35.

The majority of all other annuity reserves and GIC deposits are established with an interest rate assumption ranging from 2.50% to 8.75% and are carried at the greater of the cash surrender value or the greatest present value of the guaranteed benefits discounted at statutory valuation interest rates.

Jackson and Jackson National Life Funding, LLC have established a European Medium Term Note program, with up to \$5.8 billion in aggregate principal amount outstanding at any one time. Jackson National Life Funding, LLC was formed as a special purpose vehicle solely for the purpose of issuing Medium Term Note instruments to institutional investors, the proceeds of which are deposited with Jackson and secured by the issuance of funding agreements. The liability for the outstanding balances at December 31, 2017 and 2016 totaled \$10.6 million and \$10.5 million, respectively, and these liabilities are included in liability for deposit-type contracts. Issued instruments representing obligations denominated in a foreign currency have been hedged for changes in exchange rates using cross-currency swaps.

Jackson and Jackson National Life Global Funding have established a \$17.0 billion aggregate Global Medium Term Note program. Jackson National Life Global Funding was formed as a statutory business trust, solely for the purpose of issuing Medium Term Note instruments to institutional investors, the proceeds of which are deposited with Jackson and secured by the issuance of funding agreements. The liability for the outstanding balances at December 31, 2017 and 2016 totaled \$5.7 billion and \$3.8 billion, respectively, and these liabilities are included in liability for deposit-type contracts. Issued instruments representing obligations denominated in a foreign currency have been hedged for changes in exchange rates using cross-currency swaps.

Jackson is a member of the Federal Home Loan Bank of Indianapolis (“FHLBI”) primarily for the purpose of participating in the bank’s mortgage-collateralized loan advance program with short-term and long-term funding facilities. Members are required to purchase and hold a minimum amount of FHLBI capital stock, plus additional stock based on outstanding advances. Advances are in the form of short-term or long-term notes or funding agreements issued to FHLBI. At both December 31, 2017 and 2016, Jackson held \$125.4 million of FHLBI capital stock, supporting \$1.9 billion and \$1.8 billion of funding agreements at December 31, 2017 and 2016, respectively, included in liability for deposit-type contracts. The Company also held \$600.1 million of short-term borrowings and a bank loan with an outstanding balance of \$87.4 million at December 31, 2017. The Company held \$500.1 million of short-term borrowings and a bank loan with an outstanding balance of \$92.5 million at December 31, 2016.

Interest Maintenance Reserve

The Company is required to maintain an IMR, which is a reserve for the net, after tax, accumulated unamortized realized gains and losses on sales of fixed income investments primarily attributable to changes in interest rates. Net realized gains and losses charged or credited to the IMR are amortized into investment income over the approximate remaining life of the investment sold using the grouped method.

Gains or losses resulting from MVA on policies and contracts backed by assets that are valued at book/adjusted carrying value are deferred in the IMR and amortized in a manner consistent with the determination of the MVA using the grouped method. In 2017, MVA losses of \$0.2 million, less a tax benefit of \$0.1 million, were transferred to the IMR. In 2016, MVA losses of \$0.6 million, less a tax benefit of \$0.3 million, were transferred to the IMR.

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Asset Valuation Reserve

The Company is required to maintain an AVR, which is computed in accordance with a formula prescribed by the NAIC and represents a provision for potential credit related investment losses. Changes in the AVR are recorded directly to surplus.

Revenue and Expense Recognition

Premiums for traditional life insurance are recognized as revenue when due. Annuity considerations are recognized as revenue when collected. GICs and other investment products with no mortality risk are accounted for using deposit accounting. Accordingly, premiums and withdrawals for GICs and other investment products are not reflected in the statement of operations, but are credited or charged directly to policyholders' accounts, while interest credited to the policyholders' accounts is reflected in the statement of operations. Fee income is recognized as revenue when earned. Commission and expense allowances, which are commission and expense reimbursements related to reinsurance ceded to other companies, are recognized as revenue when due. The CARVM allowance represents the excess of separate account contract values over statutory separate account reserves for variable annuities and variable life. Benefits, claims and expenses (including the change in CARVM allowance) are recognized when incurred. Commissions, general expenses, and taxes, licenses and fees, including costs of acquiring new business, are charged to operations as incurred.

Investment Income

Income due and accrued was excluded from surplus on the following basis:

Bonds - securities in default and otherwise where collection is uncertain.

Mortgage loans - loans in foreclosure deemed in default, delinquent greater than one year or where collection of interest is uncertain.

Real estate - properties where rent is in arrears for more than three months.

Income due and accrued on investments where collection is not likely has been excluded from net investment income. For the years ended December 31, 2017 and 2016, the amounts excluded from investment income were \$4.8 million and \$6.0 million, respectively.

Furniture and Equipment

Furniture and equipment are carried at cost less accumulated depreciation, which is charged to operations on a straight line basis over the estimated useful lives of the related assets. Furniture and EDP equipment and software are depreciated over three to seven years. Furniture and equipment, except for certain EDP equipment and software reported in other admitted assets, is non-admitted. Depreciation expense on admitted assets totaled \$0.7 million and nil for 2017 and 2016, respectively, while depreciation expense on non-admitted assets totaled \$39.4 million and \$14.4 million in 2017 and 2016, respectively.

Federal Income Taxes

Federal income taxes are charged to operations based on current taxable income. Current year federal income tax expense is based on financial reporting income or loss adjusted for certain timing differences, which are the result of dissimilar financial reporting and tax basis accounting methods. A net DTA, for the tax effect of timing differences between financial reporting and the tax basis of assets and liabilities, is allowed to be reported as an admitted asset only to the extent that it is realizable within three years and represents less than 15% of capital and surplus (adjusted to exclude any net DTAs, EDP equipment and operating system software and any net positive goodwill), with the change in net deferred tax asset or liability being recorded directly to surplus.

Non-admitted Assets

Certain assets designated as "non-admitted assets" (principally net deferred tax assets not realizable within three years, agents' debit balances, furniture, equipment, computer software, prepaid expenses, certain other receivables, and investments in certain common stocks and limited liability corporations) have been excluded from the statutory statements of admitted assets, liabilities, capital and surplus by a direct charge to surplus.

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Separate Account Assets and Liabilities

The assets and liabilities associated with variable life and annuity contracts, which aggregated \$164.6 billion and \$138.9 billion at December 31, 2017 and 2016, respectively, are segregated in non-guaranteed separate accounts. The Company receives fees for assuming mortality and certain expense risks and for providing guaranteed benefits under the variable annuity contracts. These fees are recorded as earned.

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 non-guaranteed Jackson National Separate Account – II and aggregated \$267.7 million and \$264.7 million at December 31, 2017 and 2016, respectively.

Value of Business Acquired

The value of business acquired relates to the acquisition of Reassure America Life Insurance Company ("REALIC") in 2012. The VOBA is amortized over the estimated life of the business, not to exceed 10 years. During both 2017 and 2016, the Company recorded amortization expense of \$49.1 million in the statement of operations.

Subsequent Events

The Company has evaluated events through April 11, 2018, which is the date the financial statements were available to be issued.

Note 3 - Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

Bonds and Equity Securities

The fair values for bonds and equity securities are determined using information available from independent pricing services, broker-dealer quotes, or internally derived estimates. Priority is given to publicly available prices from independent sources, when available. Securities for which the independent pricing service does not provide a quotation are either submitted to independent broker-dealers for prices or priced internally. Typical inputs used by these three pricing methods include, but are not limited to, reported trades, benchmark yields, credit spreads, liquidity premiums, and/or estimated cash flows based on default and prepayment assumptions.

As a result of typical trading volumes and the lack of specific quoted market prices for most fixed maturities, independent pricing services will normally derive the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available market observable information as outlined above. If there are no recently reported trades, the independent pricing services and broker-dealers may use matrix or pricing model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at relevant market rates. Certain securities are priced using broker-dealer quotes, which may utilize proprietary inputs and models. Additionally, the majority of these quotes are non-binding.

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

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

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

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For those securities that were internally valued at December 31, 2017 and 2016, the pricing model used by the Company utilizes current spread levels of similarly rated securities to determine the market discount rate for the security. Furthermore, appropriate risk premiums for illiquidity and non-performance are incorporated in the discount rate. Cash flows, as estimated by the Company using issuer-specific default statistics and prepayment assumptions, are discounted to determine an estimated fair value.

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

At December 31, 2017 and 2016, bonds valued internally, including matrix-priced securities, had a book/adjusted carrying value of \$5.8 billion and \$5.4 billion, respectively, and an estimated fair value of \$6.0 billion and \$5.6 billion, respectively.

Commercial Mortgage Loans

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

Policy Loans

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

Derivative Instruments

Fair values for derivatives priced using valuation models incorporate inputs that are predominantly observable in the market. Inputs used to value derivatives include, but are not limited to, interest rate swap curves, credit spreads, interest rates, counterparty credit risk, equity volatility and equity index levels.

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

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

A derivative instrument containing Level 1 or Level 2 inputs could be classified as a Level 3 financial instrument if it includes at least one significant Level 3 input.

Limited Partnership Interests

Fair value for limited partnership interests is determined using the proportion of Jackson's investment in each fund ("NAV equivalent") as a practical expedient for fair value. No adjustments to these amounts were deemed necessary at December 31, 2017 or 2016. Limited partnership interests are categorized as Level 3 assets.

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Separate Account Assets

Separate account assets are comprised of investments in mutual funds that transact regularly, but do not trade in active markets as they are not publicly available, and are categorized as Level 2 assets.

Annuity Reserves

Fair values for immediate annuities, without mortality features, are derived by discounting the future estimated cash flows using current market interest rates for similar maturities. Fair values for deferred annuities, including fixed index annuities, are determined using projected future cash flows discounted at current market interest rates.

Reserves for Guaranteed Investment Contracts

Fair value is based on the present value of future cash flows discounted at current market interest rates.

Payable for Securities Lending

The Company's payable for securities lending is set equal to the cash collateral received. Due to the short-term nature of the loans, carrying value is a reasonable estimate of fair value.

Funds Held Under Reinsurance Treaties

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

Repurchase Agreements

Carrying value of the Company's repurchase agreements is considered a reasonable estimate of fair value due to their short-term maturities.

Separate Account Liabilities

Separate account liabilities are carried at the fair value of the separate account assets.

Debt

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

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Fair Value Measurements at Reporting Date

The following tables provide information about the Company's financial assets and liabilities that are carried at fair value by hierarchy levels (in thousands):

	December 31, 2017			Total
	Level 1	Level 2	Level 3	
Assets at fair value:				
Government bonds	\$ -	\$ 96	\$ -	\$ 96
Common stock	125,411	11,767	111	137,289
Subtotal	125,411	11,863	111	137,385
Limited partnership interests	-	-	1,127,733	1,127,733
Derivatives ⁽¹⁾	-	1,748,697	5,931	1,754,628
Separate account assets	-	164,905,515	-	164,905,515
Total assets at fair value	<u>\$ 125,411</u>	<u>\$ 166,666,075</u>	<u>\$ 1,133,775</u>	<u>\$ 167,925,261</u>
Liabilities at fair value:				
Derivatives	\$ -	\$ -	\$ -	\$ -

	December 31, 2016			Total
	Level 1	Level 2	Level 3	
Assets at fair value:				
Government bonds	\$ -	\$ 92	\$ -	\$ 92
Common stock	137,545	275,081	111	412,737
Subtotal	137,545	275,173	111	412,829
Limited partnership interests	-	-	1,210,471	1,210,471
Derivatives ⁽¹⁾	-	352,638	18,970	371,608
Separate account assets	-	139,153,016	-	139,153,016
Total assets at fair value	<u>\$ 137,545</u>	<u>\$ 139,780,827</u>	<u>\$ 1,229,552</u>	<u>\$ 141,147,924</u>
Liabilities at fair value:				
Derivatives	\$ -	\$ 20,249	\$ -	\$ 20,249

⁽¹⁾ Excludes interest rate swaps measured on a cost basis in accordance with the permitted practice (see Note 2).

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Changes in Level 3 Assets Measured at Fair Value

The Company's policy for determining and disclosing transfers between levels is to recognize transfers using beginning of period balances. The following tables summarize the changes in assets measured at fair value classified in Level 3 (in thousands). Gains and losses reported in these tables may include changes in fair value that are attributable to both observable and unobservable inputs.

	Balance as of January 1, 2017	Transfers in Level 3	Transfers out Level 3	Total gains and (losses) included in net income	Total gains and (losses) included in surplus	Purchases, issuances, sales and settlements	Balance as of December 31, 2017
Assets							
Common stock	\$ 111	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 111
Limited partnerships	1,210,471	-	(79)	(41,812)	(6,201)	(34,646)	1,127,733
Derivatives	18,970	-	-	(115,418)	62,084	40,295	5,931
	Balance as of January 1, 2016	Transfers in Level 3	Transfers out Level 3	Total gains and (losses) included in net income	Total gains and (losses) included in surplus	Purchases, issuances, sales and settlements	Balance as of December 31, 2016
Assets							
Common stock	\$ 111	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 111
Limited partnerships	1,198,805	-	(8,699)	(52,005)	38,100	34,270	1,210,471
Derivatives	97,352	-	-	(124,453)	7,348	38,723	18,970

The components of the amounts included in purchases, sales, issuances and settlements shown above are as follows (in thousands):

	December 31, 2017				
	Purchases	Sales	Issuances	Settlements	Total
Assets					
Limited partnerships	\$ 152,357	\$ (187,003)	\$ -	\$ -	\$ (34,646)
Derivatives	40,295	-	-	-	40,295
Total	\$ 192,652	\$ (187,003)	\$ -	\$ -	\$ 5,649
	December 31, 2016				
	Purchases	Sales	Issuances	Settlements	Total
Assets					
Limited partnerships	\$ 179,031	\$ (144,761)	\$ -	\$ -	\$ 34,270
Derivatives	39,573	(850)	-	-	38,723
Total	\$ 218,604	\$ (145,611)	\$ -	\$ -	\$ 72,993

For the year ended December 31, 2017 and 2016, other invested assets with a fair value of \$0.1 million and \$8.7 million, respectively, were transferred out of Level 3 as a result of a change in classification to non-admitted. There were no transfers between Level 1 and Level 2 of the fair value hierarchy during 2017 or 2016.

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Aggregate Fair Value of the Company's Financial Instruments

The following tables detail the aggregate fair value of the Company's financial instruments (in thousands):

December 31, 2017	Aggregate	Admitted			
Description	Fair Value	Value	Level 1	Level 2	Level 3
Assets at fair value:					
Bonds	\$ 46,287,965	\$ 43,842,502	\$ 5,629,083	\$ 40,658,880	\$ 2
Common stock	137,289	137,289	125,411	11,767	111
Mortgage loans	8,554,827	8,441,517	-	-	8,554,827
Cash and cash equivalents	990,424	990,424	990,424	-	-
Policy loans	4,468,858	4,468,858	-	-	4,468,858
Derivatives	2,172,521	1,754,628	-	2,166,590	5,931
Limited partnership interests	1,127,733	1,127,733	-	-	1,127,733
Securities lending assets	64,246	64,246	64,246	-	-
Separate account assets	164,905,515	164,905,515	-	164,905,515	-
Total assets at fair value	\$ 228,709,378	\$ 225,732,712	\$ 6,809,164	\$207,742,752	\$ 14,157,462
Liabilities at fair value:					
Reserves for life insurance and annuities ⁽¹⁾	\$ 44,559,245	\$ 34,788,166	\$ -	\$ 1,184,999	\$ 43,374,246
Liability for deposit-type contracts	10,295,264	10,250,092	-	-	10,295,264
Payable for securities lending	64,246	64,246	-	64,246	-
Funds held under reinsurance treaties with unauthorized reinsurers	3,603,473	3,592,822	-	-	3,603,473
Funds held under coinsurance	290,904	289,852	-	-	290,904
Separate account liabilities	164,905,515	164,905,515	-	164,905,515	-
Borrowed money and interest thereon	687,533	687,533	-	687,533	-
Total liabilities at fair value	\$ 224,406,180	\$ 214,578,226	\$ -	\$166,842,293	\$ 57,563,887
December 31, 2016					
Description	Aggregate	Admitted			
Description	Fair Value	Value	Level 1	Level 2	Level 3
Assets at fair value:					
Bonds	\$ 47,996,773	\$ 46,228,419	\$ 6,208,642	\$ 41,788,127	\$ 4
Preferred stock	2,219	147	2,219	-	-
Common stock	412,737	412,737	137,545	275,081	111
Mortgage loans	7,548,758	7,480,130	-	-	7,548,758
Cash and cash equivalents	(203,416)	(203,416)	(203,416)	-	-
Short-term investments	790,028	790,028	790,028	-	-
Policy loans	4,420,561	4,420,561	-	-	4,420,561
Derivatives	971,580	371,608	-	952,610	18,970
Limited partnership interests	1,210,471	1,210,471	-	-	1,210,471
Securities lending assets	108,865	108,865	108,865	-	-
Separate account assets	139,153,016	139,153,016	-	139,153,016	-
Total assets at fair value	\$ 202,411,592	\$ 199,972,566	\$ 7,043,883	\$182,168,834	\$ 13,198,875
Liabilities at fair value:					
Reserves for life insurance and annuities ⁽¹⁾	\$ 44,413,458	\$ 37,259,835	\$ -	\$ 1,075,766	\$ 43,337,692
Liability for deposit-type contracts	8,497,265	8,395,984	-	-	8,497,265
Payable for securities lending	108,865	108,865	-	108,865	-
Funds held under reinsurance treaties with unauthorized reinsurers	3,523,106	3,508,651	-	-	3,523,106
Funds held under coinsurance	303,664	303,664	-	-	303,664
Separate account liabilities	139,153,016	139,153,016	-	139,153,016	-
Repurchase agreements	411,857	411,857	-	411,857	-
Derivatives	20,249	20,249	-	20,249	-
Borrowed money and interest thereon	592,549	592,549	-	592,549	-
Total liabilities at fair value	\$ 197,024,029	\$ 189,754,670	\$ -	\$141,362,302	\$ 55,661,727

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

There were no financial instruments for which it was not practicable to estimate fair value.

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Note 4 - Investments

Investments are comprised primarily of debt securities and commercial mortgage loans. Debt securities primarily include publicly traded industrial, loan-backed, utility and government bonds. Loan-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 GICs on which it has committed to pay a declared rate of interest. The Company's strategy of investing in fixed-income securities aims to ensure matching of the asset yield with the amounts credited to the interest-sensitive liabilities and to earn a stable return on its investments.

With the Company's primarily fixed-rate securities portfolio, it is exposed to interest rate risk, which is the risk that interest rates will change and cause a change in the value of its investments. Additionally, changes in interest rates may cause certain interest-sensitive products to become uncompetitive or may cause disintermediation. The Company mitigates this risk by charging fees for surrenders in early policy years, by offering products that transfer this risk to the purchaser and/or by attempting to match the maturity schedule of its assets with the expected payouts of its liabilities. To the extent that liabilities come due more quickly than assets mature, the Company could potentially have to borrow funds or sell assets prior to maturity and potentially recognize a gain or loss.

Debt Securities, Common and Preferred Stock

Debt securities consist of bonds and short-term investments. Cost or amortized cost, gross unrealized gains and losses, estimated fair value and book/adjusted carrying value of the Company's debt securities and unaffiliated equity investments are as follows (in thousands):

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Book/Adjusted Carrying Value
December 31, 2017					
Governments	\$ 5,150,886	\$ 525,525	\$ 4,092	\$ 5,672,319	\$ 5,150,886
Special revenue and special assessment	666,762	146,831	4,817	808,776	666,742
Industrial and miscellaneous	34,045,138	1,758,960	73,696	35,730,402	34,045,138
Residential mortgage-backed	824,879	58,973	2,965	880,887	824,879
Commercial mortgage-backed	1,968,225	41,351	4,160	2,005,416	1,968,225
Other asset-backed	1,186,632	19,054	15,521	1,190,165	1,186,632
Total debt securities	43,842,522	2,550,694	105,251	46,287,965	43,842,502
Common and preferred stock	136,889	538	138	137,289	137,289
Total securities	<u>\$ 43,979,411</u>	<u>\$2,551,232</u>	<u>\$ 105,389</u>	<u>\$ 46,425,254</u>	<u>\$ 43,979,791</u>
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Book/Adjusted Carrying Value
December 31, 2016					
Governments	\$ 6,257,350	\$ 392,437	\$ 397,461	\$ 6,252,326	\$ 6,257,350
Special revenue and special assessment	723,474	153,815	4,199	873,090	723,450
Industrial and miscellaneous	35,227,356	1,706,416	174,585	36,759,187	35,227,356
Residential mortgage-backed	1,165,743	66,095	7,284	1,224,554	1,165,743
Commercial mortgage-backed	2,483,911	58,004	13,416	2,528,499	2,483,911
Other asset-backed	1,160,637	18,205	29,696	1,149,146	1,160,637
Total debt securities	47,018,471	2,394,972	626,641	48,786,802	47,018,447
Common and preferred stock	408,313	7,306	663	414,956	412,884
Total securities	<u>\$ 47,426,784</u>	<u>\$ 2,402,278</u>	<u>\$ 627,304</u>	<u>\$ 49,201,758</u>	<u>\$ 47,431,331</u>

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The amount of gross unrealized losses and the associated estimated fair value of debt securities and stocks (excluding wholly-owned subsidiaries) are as follows (in thousands):

	Less than 12 months		12 months or longer		Total	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
December 31, 2017						
Governments	\$ 627	\$ 209,028	\$ 3,465	\$ 262,654	\$ 4,092	\$ 471,682
Special revenue and special assessment	31	2,886	4,786	55,069	4,817	57,955
Industrial and miscellaneous	40,053	3,126,150	33,643	1,353,222	73,696	4,479,372
Residential mortgage-backed	107	29,997	2,858	64,812	2,965	94,809
Commercial mortgage-backed	2,359	382,723	1,801	72,619	4,160	455,342
Other asset-backed	2,291	381,554	13,230	226,973	15,521	608,527
Total debt securities	45,468	4,132,338	59,783	2,035,349	105,251	6,167,687
Common and preferred stock	138	3,983	-	-	138	3,983
Total temporarily impaired securities	\$ 45,606	\$ 4,136,321	\$ 59,783	\$ 2,035,349	\$ 105,389	\$ 6,171,670

	Less than 12 months		12 months or longer		Total	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
December 31, 2016						
Governments	\$ 397,461	\$ 4,086,056	\$ -	\$ -	\$ 397,461	\$ 4,086,056
Special revenue and special assessment	4,199	31,378	-	-	4,199	31,378
Industrial and miscellaneous	153,669	6,624,682	20,916	516,138	174,585	7,140,820
Residential mortgage-backed	660	73,665	6,624	90,109	7,284	163,774
Commercial mortgage-backed	9,027	546,679	4,389	28,242	13,416	574,921
Other asset-backed	5,325	414,243	24,371	113,497	29,696	527,740
Total debt securities	570,341	11,776,703	56,300	747,986	626,641	12,524,689
Common and preferred stock	663	275,084	-	-	663	275,084
Total temporarily impaired securities	\$ 571,004	\$ 12,051,787	\$ 56,300	\$ 747,986	\$ 627,304	\$ 12,799,773

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Book/Adjusted Carrying Value
December 31, 2017					
Prime	\$ 164,000	\$ 11,492	\$ 856	\$ 174,636	\$ 164,000
Alt-A	143,365	21,466	412	164,419	143,365
Subprime	137,618	7,766	1,185	144,199	137,618
Total non-agency RMBS	\$ 444,983	\$ 40,724	\$ 2,453	\$ 483,254	\$ 444,983
December 31, 2016					
Prime	\$ 219,456	\$ 10,021	\$ 1,777	\$ 227,700	\$ 219,456
Alt-A	193,849	16,761	1,858	208,752	193,849
Subprime	206,395	7,918	3,081	211,232	206,395
Total non-agency RMBS	\$ 619,700	\$ 34,700	\$ 6,716	\$ 647,684	\$ 619,700

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The Company defines its exposure to non-agency RMBS as follows. Prime loan-backed securities are collateralized by mortgage loans made to the highest rated borrowers. Alt-A loan-backed securities are collateralized by mortgage loans made to borrowers who lack credit documentation or necessary requirements to obtain prime borrower rates. Subprime loan-backed securities are collateralized by mortgage loans made to borrowers that have a FICO score of 680 or lower. 99% of the Company's investments in Alt-A related mortgage-backed securities and 100% of the Company's investments in subprime related mortgage-backed securities are rated investment grade by the NAIC.

Debt securities also include investments in securities, which are collateralized by commercial mortgage loans ("CMBS"). The carrying value and estimated fair value of the Company's investment in CMBS are \$2.0 billion and \$2.0 billion, respectively, at December 31, 2017. Of these investments, 100% are rated investment grade by the NAIC.

Corporate securities include direct investments in below investment grade syndicated bank loans. Unlike most corporate debentures, syndicated bank loans are collateralized by specific tangible assets of the borrowers. As such, investors in these securities that become impaired have historically experienced less severe losses than corporate bonds. At December 31, 2017, the carrying value and estimated fair value of the Company's direct investments in bank loans are \$64.4 million and \$64.1 million, respectively.

At December 31, 2017, of the total carrying value for bonds in an unrealized loss position, 94% were investment grade and 6% were below investment grade based on NAIC designation. Unrealized losses on bonds that were below investment grade comprised approximately 13% of the aggregate gross unrealized losses on debt securities.

Corporate bonds in an unrealized loss position were diversified across industries. As of December 31, 2017, the industries comprising the larger proportion of unrealized losses included consumer goods (13% of corporate bonds gross unrealized losses) and telecom (13%). The largest unrealized loss related to a single corporate obligor was \$6.8 million at December 31, 2017.

The amortized cost, gross unrealized gains and losses, estimated fair value and book/adjusted carrying value of debt securities at December 31, 2017, by contractual maturity, are shown below (in thousands). Actual maturities may differ from contractual maturities where securities can be called or pre-paid with or without early redemption penalties.

Maturity distribution	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Book/ Adjusted Carrying Value
Due in 1 year or less	\$ 1,265,635	\$ 19,060	\$ 60	\$ 1,284,635	\$ 1,265,615
Due after 1 year through 5 years	11,748,093	501,773	7,995	12,241,871	11,748,093
Due after 5 years through 10 years	16,388,147	525,465	46,360	16,867,252	16,388,147
Due after 10 years through 20	2,818,225	434,580	11,965	3,240,840	2,818,225
Due after 20 years	7,642,686	950,438	16,225	8,576,899	7,642,686
Residential mortgage-backed	824,879	58,973	2,965	880,887	824,879
Commercial mortgage-backed	1,968,225	41,351	4,160	2,005,416	1,968,225
Other asset-backed	1,186,632	19,054	15,521	1,190,165	1,186,632
Total debt securities	<u>\$43,842,522</u>	<u>\$ 2,550,694</u>	<u>\$ 105,251</u>	<u>\$ 46,287,965</u>	<u>\$ 43,842,502</u>

Effective yields, which are used to calculate amortization, are adjusted periodically to reflect actual payments to date and anticipated future payments. Other than as discussed below for certain loan-backed securities, resultant adjustments to carrying values are included in investment income using the retrospective method. Prepayment assumptions for loan-backed securities were obtained from independent providers of broker-dealer estimates.

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With regard to certain loan-backed securities deemed to be high-risk, meaning the Company might not recover substantially all of its recorded investment, changes in investment yields due to changes in estimated future cash flows are accounted for on a prospective basis. The book/adjusted carrying value of securities changing from the retrospective to the prospective methodology in 2017 and 2016 was \$4.7 million and nil, respectively.

Debt securities are classified into six NAIC quality categories. These categories range from Class 1 (the highest) to Class 6 (the lowest). Performing securities are designated Classes 1 - 5. Securities in or near default are designated Class 6. Securities designated as Class 3, 4, 5, and 6 are non-investment grade securities. If a designation is not currently available from the NAIC, the Company's investment advisor provides the designation. At December 31, 2017, the Company's investment advisor provided the designation for debt securities with carrying values and estimated fair values of \$381.2 million and \$380.9 million, respectively.

The NAIC approved guidance to adjust the ratings (NAIC 1 through NAIC 6) for CMBS, RMBS and certain asset-backed securities. For CMBS and RMBS, the guidance replaces nationally recognized statistical rating organizations ("NRSRO") ratings with a two-step process based upon the book and/or carrying values of each security and prices derived from models developed by an independent third party contracted by the NAIC. For certain asset-backed securities, the guidance replaces NRSRO ratings with a two-step process based upon the book and/or carrying values of each security and prices derived from generic models. This method acknowledges that securities which have a lower comparative carrying value would have a lower risk of further loss and, therefore, a higher rating.

The Company's debt securities by NAIC designation are as follows at December 31, 2017 (in thousands):

Quality category per NAIC designation	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Book/Adjusted Carrying Value
Class 1	\$ 24,097,427	\$ 1,611,982	\$ 54,623	\$ 25,654,786	\$ 24,097,427
Class 2	18,343,944	886,124	37,447	19,192,621	18,343,944
Class 3	1,034,203	38,044	9,530	1,062,717	1,034,203
Class 4	348,760	13,711	3,588	358,883	348,760
Class 5	18,068	671	43	18,696	18,068
Class 6	120	162	20	262	100
Total debt securities	<u>\$ 43,842,522</u>	<u>\$ 2,550,694</u>	<u>\$ 105,251</u>	<u>\$ 46,287,965</u>	<u>\$ 43,842,502</u>

The book/adjusted carrying value and fair value of debt securities in default that were anticipated to be income producing when purchased were \$96 thousand and \$96 thousand, respectively, at December 31, 2017 and \$0.9 million and \$4.1 million, respectively, at December 31, 2016. The book/adjusted carrying value and fair value of debt securities that were non-income producing for the 12 months preceding December 31, 2017 were \$96 thousand and \$96 thousand, respectively, and for the 12 months preceding December 31, 2016 were \$5 thousand and \$1.7 million, respectively.

Debt securities with a book/adjusted carrying value of \$93.9 million and \$117.9 million at December 31, 2017 and 2016, respectively, were on deposit with regulatory authorities as required by law in various states in which business is conducted.

At December 31, 2017 and 2016, debt securities with a book/adjusted carrying value of \$1,683.5 million and \$1,694.3 million, respectively, were held in trust pursuant to the 100% coinsurance transactions ("retro treaties") with Swiss Re Life Capital Ltd ("Swiss Re") discussed in Note 7.

At December 31, 2017 and 2016, debt securities with a book/adjusted carrying value of \$274.7 million and \$264.3 million, respectively, were held pursuant to the Squire Re II reinsurance treaty.

At December 31, 2017 and 2016, debt securities with a book/adjusted carrying value of \$845.1 million and \$812.4 million, respectively, were held in trust pursuant to the Jackson New York reinsurance treaty.

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Other-Than-Temporary Impairment

The Company periodically reviews its debt securities and equities on a case-by-case basis to determine if any decline in fair value to below cost or amortized cost is other-than-temporary. Factors considered in determining whether a decline is other-than-temporary include the length of time a security has been in an unrealized loss position, the severity of the unrealized loss and the reasons for the decline in value and expectations for the amount and timing of a recovery in fair value, and the Company's intent and ability not to sell a security prior to a recovery in fair value. If it is determined that a decline in fair value of an investment is temporary, an impairment loss is not recorded. If the decline is considered to be other-than-temporary, a realized loss is recorded in the statement of operations. The AVR is also charged for the realized loss, with an offsetting credit to surplus.

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

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

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

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

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

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

Specifically for prime and Alt-A RMBS, the assumed default percentage is dependent on the severity of delinquency status, with foreclosures and real estate owned receiving higher rates, but also includes the currently performing loans. As of December 31, 2017 and 2016, assumed default rates for delinquent loans ranged from 15% to 100%. At both December 31, 2017 and 2016, assumed loss severities were applied to generate and analyze cash flows of each bond and ranged from 25% to 70%.

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

The Company currently intends to hold securities with unrealized losses not considered other-than-temporary until they mature or for sufficient time to recover the amortized cost. However, if there are changes in the specific facts and circumstances surrounding a security, or the outlook for its industry sector, the Company may sell the security and realize a loss.

There were no loan-backed securities with a recognized other-than-temporary impairment where the Company has either the intent to sell the securities or may be forced to sell the securities prior to a recovery in value as of the statement date.

In 2017 and 2016, the Company recognized other-than-temporary impairments of \$0.9 million and \$15.3 million, respectively, related to loan-backed and structured securities. See Note 17 for a table detailing securities with recognized other-than-temporary impairment charges during 2017, where the Company has (or had at the quarterly reporting date) the intent and ability to hold the securities for sufficient time to recover the amortized cost.

The following table summarizes other-than-temporary impairment charges recorded for the years ended December 31, 2017 and 2016 (in thousands):

	<u>2017</u>	<u>2016</u>
Residential mortgage-backed securities:		
Prime	\$ 347	\$ 455
Alt-A	390	1,049
Subprime	135	538
Industrial and miscellaneous	1,340	40,874
Asset-backed securities	-	13,218
Limited partnership interests	47,220	62,698
Other	676	58
Total other-than-temporary impairment charges	<u>\$ 50,108</u>	<u>\$ 118,890</u>

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Realized Gains and Losses on Investments

Net realized gains and losses on investments are as follows (in thousands):

	Years Ended December 31,	
	2017	2016
Sales of bonds		
Gross gains	\$ 167,147	\$ 638,790
Gross losses	(196,305)	(180,051)
Sales of stocks		
Gross gains	9,750	9,694
Gross losses	(25)	(45)
Derivative instruments	(3,884,241)	(4,169,256)
Other assets	(458)	822
Other-than-temporary impairment losses	(50,108)	(118,890)
Net realized losses	<u>\$ (3,954,240)</u>	<u>\$ (3,818,936)</u>
Net gains allocated to IMR	\$ (36,223)	\$ 146,895
Net losses allocated to AVR	(3,945,370)	(3,925,011)
Net losses unallocated	27,353	(40,820)
Net realized losses	<u>\$ (3,954,240)</u>	<u>\$ (3,818,936)</u>
Net losses allocated to AVR	\$ (3,945,370)	\$ (3,925,011)
Net losses unallocated	27,353	(40,820)
Tax benefit	1,289,812	1,309,684
Reported net realized losses	<u>\$ (2,628,205)</u>	<u>\$ (2,656,147)</u>

Proceeds from the sale of bonds totaled \$6.2 billion and \$6.8 billion in 2017 and 2016, respectively.

Loan-Backed and Structured Securities

The Company has no significant concentrations as defined in SSAP No. 27, *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk, Financial Instruments with Concentrations of Credit Risk and Disclosures about Fair Value of Financial Instruments*, arising from its investment in loan-backed securities.

The following table summarizes loan-backed and structured securities in an unrealized loss position as of December 31, 2017 (in thousands):

	<u>Total</u>	<u><12 Months</u>	<u>12+ Months</u>
Fair value	\$ 1,158,679	\$ 794,274	\$ 364,405
Unrealized loss	\$ 22,646	\$ 4,757	\$ 17,889

At December 31, 2017, the carrying value and fair value of all loan-backed and structured securities, regardless of whether the security was in an unrealized loss position, were \$4.0 billion and \$4.1 billion, respectively.

Mortgage Loans on Commercial Real Estate

At December 31, 2017, mortgage loans were collateralized by properties located in 41 states. Jackson's commercial mortgage loan portfolio does not include single-family residential mortgage loans, and is therefore not exposed to the risk of defaults associated with residential subprime mortgage loans. The minimum and maximum lending rates for loans issued in 2017 were 3.0% and 8.8%, respectively. The maximum percentage of any one loan to the value of the security at the time of the loan, exclusive of insured or guaranteed or purchase money mortgages, was 79.7%.

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The following table provides a summary of the allowance for losses in the Company's commercial mortgage loan portfolio at December 31, 2017 (in thousands):

Allowance for loan losses:	<u>2017</u>
Balance at beginning of year	\$ -
Additions	766
Recoveries	-
Net	<u>766</u>
Provision for loan losses	-
Balance at end of year	<u><u>\$ 766</u></u>

There was no allowance for losses in Jackson's commercial mortgage loan portfolio during 2016.

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

	<u>December 31, 2017</u>	
	<u>Allowance for Loan Losses</u>	<u>Recorded Investment</u>
Individually evaluated for impairment	\$ 766	\$ 3,100
Collectively evaluated for impairment	-	-
Total	<u><u>\$ 766</u></u>	<u><u>\$ 3,100</u></u>

The Company did not have investments in impaired loans at December 31, 2016.

As of December 31, 2017 and 2016, the Company's commercial mortgage loan portfolio is current and accruing interest. Delinquency status is determined from the date of the first missed contractual payment.

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

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Loan Allowance</u>	<u>Average Recorded Investment</u>	<u>Investment Income Recognized</u>
December 31, 2017:					
Impaired Loans with a Valuation					
Allowance					
Retail	\$ 3,100	\$ 3,866	\$ 766	\$ 2,097	\$ 235
Warehouse	-	-	-	-	-
Total	<u>\$ 3,100</u>	<u>\$ 3,866</u>	<u>\$ 766</u>	<u>\$ 2,097</u>	<u>\$ 235</u>
Impaired Loans without a Valuation					
Allowance					
Retail	\$ -	\$ -	\$ -	\$ -	\$ -
Warehouse	-	-	-	1,623	75
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,623</u>	<u>\$ 75</u>
Total Impaired Loans					
Retail	\$ 3,100	\$ 3,866	\$ 766	\$ 2,097	\$ 235
Warehouse	-	-	-	1,623	75
Total	<u>\$ 3,100</u>	<u>\$ 3,866</u>	<u>\$ 766</u>	<u>\$ 3,720</u>	<u>\$ 310</u>

During 2016, there were no impaired commercial mortgage loans.

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

December 31, 2017					
	In Good Standing ⁽¹⁾	Restructured	Greater than 90 Days Delinquent	In the Process of Foreclosure	Total Carrying Value
Apartment	\$ 2,863,787	\$ -	\$ -	\$ -	\$ 2,863,787
Hotel	705,541	-	-	-	705,541
Office	880,956	-	-	-	880,956
Retail	1,612,106	-	-	-	1,612,106
Warehouse	2,379,127	-	-	-	2,379,127
Total	\$ 8,441,517	\$ -	\$ -	\$ -	\$ 8,441,517
December 31, 2016					
	In Good Standing ⁽²⁾	Restructured	Greater than 90 Days Delinquent	In the Process of Foreclosure	Total Carrying Value
Apartment	\$ 2,431,863	\$ -	\$ -	\$ -	\$ 2,431,863
Hotel	630,419	-	-	-	630,419
Office	827,405	-	-	-	827,405
Retail	1,280,961	-	-	-	1,280,961
Warehouse	2,309,482	-	-	-	2,309,482
Total	\$ 7,480,130	\$ -	\$ -	\$ -	\$ 7,480,130

(1) Includes mortgage loans which the Company is a participant or co-lender of \$132.1 million, \$36.8 million, \$14.7 million, and \$49.2 million in the categories of apartment, hotel, retail and warehouse, respectively.

(2) Includes mortgage loans which the Company is a participant or co-lender of \$169.5 million, \$15.5 million, and \$26.7 million in the categories of apartment, hotel, and retail, respectively.

During 2017 and 2016, there were no commercial mortgage loans involved in troubled debt restructuring.

Limited Partnership and Limited Liability Interests

The unaffiliated limited partnerships and limited liability companies in which the Company has an interest primarily invest in securities. Income recognized by the Company on all limited partnerships and limited liability companies was \$813.4 million and \$853.2 million in 2017 and 2016, respectively. In 2017 and 2016, \$(17.6) million and \$(25.4) million, respectively, of net unrealized gains (losses) were credited directly to surplus, including \$607.7 million and \$660.1 million, respectively, of dividends and membership distributions from subsidiaries. The Company recognized impairment writedowns of \$47.2 million and \$62.7 million on limited partnerships and limited liability companies during 2017 and 2016, respectively. See Note 15 for more information on the Curian Capital, LLC and Curian Clearing, LLC impairments during 2017 and 2016.

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Securities Lending

The Company has entered into securities lending agreements with agent banks whereby blocks of securities are loaned to third parties, primarily major brokerage firms. At December 31, 2017 and 2016, the estimated fair value of loaned securities was \$62.1 million and \$105.5 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 these programs, the financial condition of the counterparties is monitored on a regular basis. At December 31, 2017 and 2016, unrestricted cash collateral received in the amount of \$64.2 million and \$108.9 million, respectively, was included in other invested assets of the Company. In 2017 and 2016, an offsetting liability for the overnight and continuous loan of \$64.2 million and \$108.9 million, respectively, is included in payable for securities lending in the accompanying statutory statements of admitted assets, liabilities, capital and surplus.

Restricted Assets

At December 31, 2017, the Company has the following assets pledged to others as collateral or otherwise restricted (in thousands):

Restricted Asset Category	Gross Restricted			Total Current Year Admitted Restricted	Percentage	
	Total General Account	Total Prior Year	Increase/ (Decrease)		Gross Restricted to Total Assets	Admitted Restricted to Total Admitted
	Repurchase agreements	\$ -	\$ 495,254	\$ (495,254)	\$ -	0.00%
FHLB capital stock	125,392	125,392	-	125,392	0.05%	0.05%
On deposit with state	93,880	117,910	(24,030)	93,880	0.04%	0.04%
Pledged as collateral to FHLB	4,021,892	3,629,074	392,818	4,021,892	1.76%	1.76%
Pledged as collateral for derivatives	1,096,109	1,312,782	(216,673)	1,096,109	0.48%	0.48%
Securities loaned for sec. lending agreements	62,102	98,775	(36,673)	62,102	0.03%	0.03%
Total restricted assets	<u>\$ 5,399,375</u>	<u>\$ 5,779,187</u>	<u>\$ (379,812)</u>	<u>\$ 5,399,375</u>	<u>2.36%</u>	<u>2.36%</u>

The assignment of an NAIC 5* designation to a debt security occurs when the necessary documentation for a full credit analysis does not exist but the security is current on all contractual payments and the Company expects the security to make full payment of all contractual principal and interest. At December 31, 2017, the Company's investments in debt securities with an NAIC 5* designation is as follows (dollars in thousands):

Investment	Number of 5* Securities		Aggregate BACV		Aggregate Fair Value	
	Current Year	Prior Year	Current Year	Prior Year	Current Year	Prior Year
Bonds	1	1	\$ 9,801	\$ 9,844	\$ 9,876	\$ 9,800
LB&SS	-	2	-	179	-	154
Total	<u>1</u>	<u>3</u>	<u>\$ 9,801</u>	<u>\$ 10,023</u>	<u>\$ 9,876</u>	<u>\$ 9,954</u>

Note 5 – Derivative Instruments

The Company enters into financial derivative transactions, including, but not limited to, swaps, put-swaptions, futures and options to reduce and manage business risks. These transactions manage the risk of a change in the value, yield, price, cash flows, credit quality or degree of exposure with respect to assets, liabilities or future cash flows, which the Company has acquired or incurred.

Derivative instruments are held primarily for hedging purposes. Derivative instruments afforded hedge accounting treatment are stated at either amortized cost or fair value and are accounted for in a manner consistent with the hedged items. Derivative instruments not afforded hedge accounting treatment are stated at fair value. Hedge accounting practices are supported by cash flow matching, duration matching and/or scenario testing.

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Fair values for derivative instruments are based on quoted market prices, estimates received from independent pricing services, or valuation pricing models, and generally reflect the estimated amounts that the Company would receive or pay upon sale or termination of the contracts as of the reporting date.

Cash requirements for derivative instrument activities are limited to settlements, payment commitments on swaps, margin requirements on cleared derivatives, and collateral posting requirements in accordance with derivatives' counterparty agreements.

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 non-performance by counterparties; however, it does not anticipate non-performance. There were no charges incurred related to derivative counterparty non-performance during 2017 or 2016.

All of the Company's significant over-the-counter financial derivative counterparty master agreements contain netting provisions allowing for the offset of contractual payments either due from or due to counterparties. To the extent that the net market value of aggregate contracts with individual counterparties exceeds established threshold amounts, collateral posting in favor of the exposed party is required. Collateral must be high quality liquid securities or cash as directed by the agreements.

All of these master agreements also contain downgrade triggers that allow the party potentially harmed by the downgrade to, at its option, cause the related transactions to be unwound at market value or to be assigned to a different counterparty. All of these triggers are set in the BBB range and refer to Jackson's claims paying rating and the counterparty's senior debt rating. The intent of the triggers is to provide for a more orderly unwind of positions than might otherwise take place in the event of a bankruptcy. During 2017 and 2016, no counterparties triggered an event.

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

With the permitted practice described in Note 2, interest rate swap agreements at December 31, 2017 and 2016 are included in derivatives reported at amortized cost. Net amounts paid or received on interest rate swaps and interest accruals are included in investment income.

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

Put-swaption contracts and put-swaption contracts written are included in the related assets and liabilities for derivatives at fair value. Changes in fair value are recorded as unrealized capital gains or losses.

Equity index futures contracts and equity index options (including various call and put options, interest rate-contingent options, currency-contingent options, and put spreads) are used to hedge the Company's overall net exposure to equities. Treasury futures contracts are used to hedge movements in interest rates. Treasury futures, equity index futures contracts and equity index options (including various call and put options) are recorded in derivatives at fair value. Changes in fair value are recorded as unrealized capital gains or losses.

Futures contracts are executed on regulated exchanges through brokers. Carrying value is equal to the initial cash margin and is included in derivative assets. Changes in variation margin are recorded as unrealized capital gains or losses.

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Cross-currency swaps, which embody spot and forward currency swaps and, in some cases, interest rate and equity index swaps, are entered into for the purpose of hedging the Company issued foreign currency denominated GICs.

Cross-currency swaps are included in derivatives at amortized cost. Amounts paid or received are netted with amounts paid or received on the hedged foreign currency denominated GICs. Changes in fair value are recorded as unrealized capital gains or losses.

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

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

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

	December 31, 2017						Net Fair Value
	Assets			Liabilities			
	Contractual/ Notional Amount	Carrying Value	Fair Value	Contractual/ Notional Amount	Carrying Value	Fair Value	
Cross-currency swaps	\$ 616,154	\$ 14,738	\$ 15,081	\$ -	\$ -	\$ -	\$ 15,081
Equity index call options	31,500,000	1,642,827	1,642,827	-	-	-	1,642,827
Equity index put options	23,750,000	97,061	97,062	-	-	-	97,062
Put-swaptions	2,000,000	2	2	-	-	-	2
Equity futures	11,599	-	-	-	-	-	-
Treasury futures	3,000	-	-	-	-	-	-
Interest rate swaps	17,000,000	-	417,549	-	-	-	417,549
Total	\$ 74,880,753	\$ 1,754,628	\$ 2,172,521	\$ -	\$ -	\$ -	\$ 2,172,521

	December 31, 2016						Net Fair Value
	Assets			Liabilities			
	Contractual/ Notional Amount	Carrying Value	Fair Value	Contractual/ Notional Amount	Carrying Value	Fair Value	
Cross-currency swaps	\$ 332,297	\$ (7,239)	\$ (6,885)	\$ -	\$ -	\$ -	\$ (6,885)
Equity index call options	25,500,000	306,692	306,692	-	-	-	306,692
Equity index put options	37,000,000	70,172	70,172	5,000,000	(25,782)	(25,782)	44,390
Put-swaptions	2,000,000	1,984	1,984	2,250,000	5,533	5,533	7,517
Equity futures	11,749	-	-	-	-	-	-
Treasury futures	3,000	-	-	-	-	-	-
Interest rate swaps	20,250,000	-	599,617	-	-	-	599,617
Total	\$ 85,097,046	\$ 371,609	\$ 971,580	\$ 7,250,000	\$ (20,249)	\$ (20,249)	\$ 951,331

All of Jackson's master swap agreements contain credit downgrade provisions that allow a party to assign or terminate derivative transactions if the counterparty's credit rating declines below an established limit. At December 31, 2017 and 2016, the fair value of Jackson's net derivative assets by counterparty were \$2,172.5 million and \$953.7 million, respectively, and held collateral was \$2,574.8 million and \$1,098.6 million, respectively, related to these agreements. At December 31, 2017 and 2016, the fair value of Jackson's net derivative liabilities by counterparty was nil and \$2.4 million, respectively, and provided collateral was nil and \$0.9 million, respectively, related to these agreements. If all of the downgrade provisions had been triggered at December 31, 2017 or 2016, in aggregate, Jackson would have had to disburse \$402.2 million and \$146.4 million, respectively, to counterparties, representing the net fair values of derivatives by counterparty, less collateral held.

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Note 6 - Investment Income

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

	Years Ended December 31,	
	2017	2016
Debt securities	\$ 2,023,551	\$ 2,123,784
Derivative instruments	246,220	294,366
Limited partnership interests	205,759	193,071
Mortgage loans on commercial real estate	308,923	293,611
Policy loans	400,764	403,379
Other investment income	607,728	693,893
Total investment income	3,792,945	4,002,104
Less investment expenses	61,690	61,805
Less interest expenses	38,439	37,305
Net investment income	\$ 3,692,816	\$ 3,902,994

During 2017, the Company sold, redeemed, or otherwise disposed of 66 securities due to the exercise of a callable feature, generating investment income of \$48.7 million as a result of the associated prepayment penalty and/or acceleration fee.

Note 7 - Reinsurance

The Company assumes and cedes reinsurance from and to other insurance companies in order to limit losses from large exposures. However, if the reinsurer is unable to meet its obligations, the originating issuer of the coverage retains the liability. The Company reinsures certain of its risks to other reinsurers under a yearly renewable term, coinsurance or modified coinsurance basis. The Company regularly monitors the financial strength rating of its reinsurers.

As discussed in Note 2, the Company assumes 90% of the risk associated with the variable annuities from its subsidiary, Jackson New York, on a coinsurance/modified coinsurance basis. Premiums assumed from Jackson New York were \$1,212.0 million and \$1,240.5 million in 2017 and 2016, respectively. At December 31, 2017 and 2016, the liability for the reserves assumed from Jackson New York totaled \$1,088.0 million and \$1,137.4 million, respectively.

In 2016, as discussed in Note 2, the Company executed a reserve financing transaction with Squire Re II. At December 31, 2017 and 2016, the Company ceded \$602.8 million and \$623.3 million, respectively, of level premium term reserves under a funds withheld 100% coinsurance treaty. The Company holds certain assets, primarily fixed maturities, as collateral. This collateral is reported as funds held under coinsurance on the statements of admitted assets, liabilities, capital and surplus. The income and realized gains on these assets are reported in income and with a corresponding offset reported in interest on funds withheld treaties, with no impact on net income.

The Company has also acquired certain lines of business that are wholly ceded to non-affiliates. These include direct and assumed accident and health business, direct and assumed life insurance business, and certain institutional annuities.

The Company has three retro treaties with Swiss Re. Pursuant to these retro treaties, the Company ceded to Swiss Re on a 100% coinsurance basis, subject to pre-existing reinsurance with other parties, certain blocks of business. These blocks of business include disability income and accident and health business, a mix of life and annuity insurance business, and corporate owned life insurance business.

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Pursuant to the retro treaties, the Company holds certain assets, primarily policy loans and fixed maturities, as collateral. This collateral is reported as funds held under reinsurance treaties with unauthorized reinsurers on the statements of admitted assets, liabilities, capital and surplus. The income and realized gains on these assets are reported in income with a corresponding offset reported in interest on funds withheld treaties, with no impact on net income.

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

	Years Ended December 31,	
	2017	2016
Direct premiums and annuity considerations	\$ 18,136,061	\$ 18,340,241
Reinsurance assumed	1,372,943	1,410,689
Reinsurance ceded	<u>(504,458)</u>	<u>(1,119,558)</u>
Total premiums and annuity considerations	<u>\$ 19,004,546</u>	<u>\$ 18,631,372</u>
Direct benefits to policyholders and beneficiaries	\$ 18,263,884	\$ 14,711,627
Reinsurance assumed	546,842	461,321
Reinsurance ceded	<u>(862,366)</u>	<u>(854,840)</u>
Total benefits to policyholders and beneficiaries	<u>\$ 17,948,360</u>	<u>\$ 14,318,108</u>

Policy reserves and liabilities are stated net of reinsurance ceded to other companies. At December 31, 2017 and 2016, reserves ceded were \$7.7 billion and \$7.8 billion, respectively, which included reserves ceded to Brooke Life of \$32.8 million and \$32.2 million, respectively, and also included reserves ceded to Squire Re II of \$602.8 million and \$623.3 million, respectively.

Note 8 - Federal Income Taxes

Enactment of the Tax Cuts and Jobs Act on December 22, 2017 had two significant impacts on year-end 2017 deferred tax balances. First, the new tax law changed the corporate tax rate from 35% to 21%. Under statutory accounting principles, this enactment required the Company to revalue its gross deferred tax assets and liabilities to the new rate, which reduced net gross deferred tax assets by \$797.4 million. Second, the new tax law eliminated the ability to carry back ordinary tax losses to the previous three years. This had a direct impact on the Company's ability to admit deferred taxes under SSAP101 ¶ 11(a) and reduced net admitted deferred tax assets by \$803.5 million. Because the Company's net admitted deferred tax assets are currently limited to carry back plus 15% of surplus, the total impact on net admitted deferred tax assets was a reduction of \$803.5 million.

The Company is subject to federal income taxation as a life insurance company and files a consolidated federal income tax return with Brooke Life, Jackson New York and Squire Re II. The Company has entered into written tax sharing agreements that are generally based on separate return calculations. Intercompany balances are settled on a quarterly basis.

In 2017 and 2016, a tax expense of \$0.8 million and \$0.2 million, respectively, were recognized by the Company in accordance with the tax sharing agreement with Brooke Life.

The Company is generally no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for years prior to 2012.

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Net Deferred Tax Asset

The components of the net DTA at December 31 are as follows (in thousands):

	December 31, 2017			December 31, 2016			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Total gross DTA	\$ 1,595,809	\$ 7,525	\$ 1,603,334	\$ 2,730,480	\$ 36,661	\$ 2,767,141	\$ (1,134,671)	\$ (29,136)	\$ (1,163,807)
Statutory valuation allowance	-	-	-	-	-	-	-	-	-
Adjusted gross DTA	1,595,809	7,525	1,603,334	2,730,480	36,661	2,767,141	(1,134,671)	(29,136)	(1,163,807)
DTA nonadmitted	678,706	-	678,706	419,596	-	419,596	259,110	-	259,110
Subtotal net admitted DTA	917,103	7,525	924,628	2,310,884	36,661	2,347,545	(1,393,781)	(29,136)	(1,422,917)
Deferred tax liabilities	(364,047)	(54,978)	(419,025)	(652,295)	(80,385)	(732,680)	288,248	25,407	313,655
Net admitted DTA	\$ 553,056	\$ (47,453)	\$ 505,603	\$ 1,658,589	\$ (43,724)	\$ 1,614,865	\$ (1,105,533)	\$ (3,729)	\$ (1,109,262)

Admission calculation components for SSAP No. 101 are as follows (in thousands):

	December 31, 2017			December 31, 2016			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
(a) Federal income taxes									
Paid in prior years recoverable through loss carrybacks	\$ -	\$ -	\$ -	\$ 1,435,942	\$ 705	\$ 1,436,647	\$ (1,435,942)	\$ (705)	\$ (1,436,647)
(b) Adjusted gross DTA									
Expected to be realized after application of the threshold limitation (Lesser of (b)1 or (b)2 below)	505,603	-	505,603	178,175	43	178,218	327,428	(43)	327,385
1. Adjusted gross DTA Expected to be realized following the balance sheet date			968,252			178,218			790,034
2. Adjusted gross DTA Allowed per limitation threshold			505,603			495,653			9,950
(c) Adjusted gross DTA (Excluding the amount of DTA from (a) and (b) above) offset by gross DTL	411,500	7,525	419,025	696,767	35,913	732,680	(285,267)	(28,388)	(313,655)
(d) DTA admitted as the result of application of SSAP No. 101	\$ 917,103	\$ 7,525	\$ 924,628	\$ 2,310,884	\$ 36,661	\$ 2,347,545	\$ (1,393,781)	\$ (29,136)	\$ (1,422,917)

	2017	2016
Ratio Percentage Used to Determine Recovery Period and Threshold Limitation Amount	708.0%	709.5%

Amount of Adjusted Capital and Surplus Used to Determine Recovery Period and Threshold Limitation Amount (in thousands)	\$ 3,370,689	\$ 3,879,229
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Jackson National Life Insurance Company
Notes to Statutory Financial Statements
December 31, 2017 and 2016

The impact of tax planning strategies was as follows (in thousands):

	December 31, 2017		December 31, 2016		Change	
	Ordinary	Capital	Ordinary	Capital	Ordinary	Capital
Determination of Adjusted						
Gross DT A and Net Admitted DTA, by						
Tax Character as a Percentage						
1. Adjusted gross DTAs	\$ 1,595,809	\$ 7,525	\$ 2,730,480	\$ 36,661	\$ (1,134,671)	\$ (29,136)
2. Percentage of adjusted gross DTAs by						
Tax character attributable to the impact						
of tax planning strategies	0%	0%	0%	0%	0%	0%
3. Net admitted adjusted gross DTAs	\$ 917,103	\$ 7,525	\$ 2,310,884	\$ 36,661	\$ (1,393,781)	\$ (29,136)
4. Percentage of net admitted adjusted						
gross DTAs by tax character admitted						
because of the impact of tax planning						
strategies	0%	0%	0%	0%	0%	0%

The Company's tax planning strategies do not include the use of reinsurance.

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The main components of the deferred tax assets and liabilities are as follows (in thousands):

	2017	2016	Change
Deferred tax assets resulting from book/tax differences in:			
Ordinary:			
Deferred acquisition costs	\$ 213,767	\$ 384,600	\$ (170,833)
Insurance reserves	194,826	536,331	(341,505)
Investments	1,031,836	1,560,085	(528,249)
Deferred compensation	75,304	133,002	(57,698)
Deferred and uncollected premium	2,583	4,693	(2,110)
Net operating loss carryforward	46,204	74,381	(28,177)
Other	31,289	37,388	(6,099)
Total ordinary gross & adjusted gross deferred tax assets	1,595,809	2,730,480	(1,134,671)
Deferred tax assets nonadmitted	(678,706)	(419,596)	(259,110)
Admitted ordinary gross deferred tax assets per NAIC SAP	917,103	2,310,884	(1,393,781)
Capital:			
Investments	7,032	35,938	(28,906)
Unrealized capital losses	493	723	(230)
Total capital gross & adjusted gross deferred tax assets	7,525	36,661	(29,136)
Deferred tax assets nonadmitted	-	-	-
Admitted capital gross deferred tax assets per NAIC SAP	7,525	36,661	(29,136)
Total admitted deferred tax assets	\$ 924,628	\$ 2,347,545	\$ (1,422,917)
Deferred tax liabilities resulting from book/tax differences in:			
Ordinary:			
Investments	\$ 271,164	\$ 527,343	\$ (256,179)
Fixed assets	3,505	8,537	(5,032)
Insurance reserves	73,939	88,886	(14,947)
Due and deferred premium	15,333	27,473	(12,140)
Other	106	56	50
Total ordinary deferred tax liabilities	364,047	652,295	(288,248)
Total capital deferred tax liabilities	54,978	80,385	(25,407)
Total deferred tax liabilities	419,025	732,680	(313,655)
Total net admitted deferred tax asset	\$ 505,603	\$ 1,614,865	\$ (1,109,262)

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The change in the net deferred income taxes is comprised of the following (this analysis is exclusive of the non-admitted DTAs as the Change in Non-admitted Assets is reported separately from the Change in Net Deferred Income Taxes in the Statutory Statements of Capital and Surplus) (in thousands):

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Total deferred tax assets	\$ 1,603,334	\$ 2,767,141	\$ (1,163,807)
Total deferred tax liabilities	(419,025)	(732,680)	313,655
Net deferred tax assets/liabilities	<u>1,184,309</u>	<u>2,034,461</u>	<u>(850,152)</u>
Statutory valuation allowance adjustment	-	-	-
Net DTA after statutory valuation allowance adjustment	<u>1,184,309</u>	<u>2,034,461</u>	<u>(850,152)</u>
Tax effect of unrealized gains (losses)	118,400	21,618	96,782
Change in net deferred income tax	<u>\$ 1,302,709</u>	<u>\$ 2,056,079</u>	<u>\$ (753,370)</u>

There are no temporary differences for which deferred tax liabilities have not been recognized. Accordingly, there are no events that would cause unrecognized temporary differences to become taxable. There are no unrecognized deferred tax liabilities in foreign subsidiaries and foreign corporate joint ventures that are permanent in duration.

Taxes Incurred

Current income taxes incurred consist of the following major components (in thousands):

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Federal taxes from operations	\$ 1,052,920	\$ 1,932,643	\$ (879,723)
Federal tax benefit on capital losses	(1,280,152)	(1,256,706)	(23,446)
Utilization of operating loss carry forwards	-	(4,198)	4,198
Other	<u>(1,033)</u>	<u>56,915</u>	<u>(57,948)</u>
Total federal current taxes incurred	<u>\$ (228,265)</u>	<u>\$ 728,654</u>	<u>\$ (956,919)</u>

Federal taxes incurred are reflected in the accompanying statements as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Federal taxes incurred	\$ 1,048,078	\$ 1,960,492
Capital gains tax transferred to AVR	(1,289,812)	(1,309,685)
Taxes transferred to IMR	13,530	78,126
Taxes on liability gains released from the IMR	<u>(61)</u>	<u>(279)</u>
Total federal current taxes incurred	<u>\$ (228,265)</u>	<u>\$ 728,654</u>

Jackson National Life Insurance Company
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A reconciliation of the more significant book to tax differences and the related tax effects (at a 35% statutory rate) is as follows (in thousands):

	Years Ended December 31,			
	2017		2016	
	<u>Amount</u>	<u>Tax Effect</u>	<u>Amount</u>	<u>Tax Effect</u>
Income before taxes	\$ (84,277)	\$ (29,497)	\$ 233,864	\$ 81,852
Brooke Life expense	417	146	3,089	1,081
Dividends received deduction	(1,407,095)	(492,483)	(1,498,174)	(524,361)
Interest maintenance reserve	(78,794)	(27,578)	(168,694)	(59,043)
Limited liability companies impact	593,493	207,723	527,178	184,512
Amortization of value of business acquired and goodwill	49,128	17,195	49,128	17,195
Tax credits	(25,814)	(9,035)	(81,005)	(28,352)
Gain on reinsurance of inforce	(42,547)	(14,891)	365,294	127,853
Impact of tax law rate change	2,490,286	871,600	-	-
Other	5,502	1,926	9,258	3,240
Taxable income and current tax on operations	<u>\$ 1,500,299</u>	<u>\$ 525,105</u>	<u>\$ (560,062)</u>	<u>\$ (196,022)</u>
Federal and foreign taxes incurred		\$ 1,048,078		\$ 1,960,492
Tax on capital losses		(1,276,343)		(1,231,838)
Change in net deferred taxes		753,370		(924,676)
Total statutory taxes		<u>\$ 525,105</u>		<u>\$ (196,022)</u>

At December 31, 2017, the Company had a federal income tax ordinary loss carryforward of \$220.0 million, which begins to expire in 2026, and an alternative minimum tax credit carryover of \$17.8 million, attributable to the Company's acquisition of REALIC.

Losses from operations may be carried back three taxable years to recoup prior income taxes incurred. The Company has no deposits under Internal Revenue Code Section 6603.

The Company does not believe that it is reasonably possible that the liability related to any federal or foreign tax loss contingencies will significantly increase within the next 12 months.

Note 9 - Capital, Surplus and Dividend Restrictions

Under Michigan insurance law, while Jackson must provide notification to the Michigan commissioner of insurance prior to payment of any dividend, ordinary dividends on capital stock may only be distributed out of earned surplus, excluding any unrealized capital gains and the effect of permitted practices (referred to as adjusted earned surplus). At December 31, 2017, the Company had no adjusted earned surplus available for dividends. Ordinary dividends in any twelve month period are also limited to the greater of 10% of statutory surplus as of the preceding year-end, excluding any increase arising from the application of permitted practices, or the statutory net income, excluding any net realized investment gains, for the twelve month period ended on the preceding December 31. The commissioner may approve payment of dividends in excess of these amounts, which would be deemed an extraordinary dividend. The maximum dividend that can be paid to Brooke Life in 2018, subject to the availability of earned surplus, without prior approval of the commissioner is approximately \$366.7 million.

The Company received no capital contributions during 2017 or 2016.

During 2017 and 2016, the Company made dividend payments to Brooke Life of \$600.0 million, of which \$229.9 million was extraordinary, and \$550.0 million, of which \$450.0 million was extraordinary, respectively.

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The NAIC has developed certain RBC requirements for life insurance companies. Under those requirements, compliance is determined by a ratio of a company's total adjusted capital ("TAC"), calculated in a manner prescribed by the NAIC, to its authorized control level RBC ("ACL RBC"), calculated in a manner prescribed by the NAIC. Companies below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. The minimum level of TAC before corrective action commences is twice ACL RBC ("company action level RBC"). At December 31, 2017 and 2016, the Company's TAC was more than 400% of the company action level RBC.

Note 10 - Debt

Surplus Notes

On March 15, 1997, the Company issued 8.15% surplus notes in the principal amount of \$250.0 million due March 15, 2027. These surplus notes were issued pursuant to Rule 144A under the Securities Act of 1933, and are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims and may not be redeemed at the option of the Company or any holder prior to maturity.

Under Michigan insurance law, the surplus notes are not part of the legal liabilities of the Company and are considered capital and surplus for statutory reporting purposes. 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. Payments of interest on surplus notes are considered to be dividends for purposes of calculating whether a dividend is ordinary or extraordinary.

Interest is payable semi-annually on March 15 and September 15 of each year. Interest paid on surplus notes was \$20.4 million in both 2017 and 2016.

Federal Home Loan Bank Loans

The Company received loans of \$50.0 million from the FHLBI under its community investment program in both 2015 and 2014, which amortize on a straight line basis over the loan term. The weighted average interest rate on these loans was 0.94% in 2017 and 0.45% in 2016. The outstanding balance on these loans was \$87.4 million and \$92.5 million at December 31, 2017 and 2016, respectively. During 2017 and 2016, interest expense for these loans totaled \$805 thousand and \$405 thousand, respectively. At December 31, 2017, the loans were collateralized by mortgage-related securities and commercial mortgage loans with a carrying value of \$134.2 million.

Federal Home Loan Bank Advances

The Company entered into a short-term advance program with the FHLBI in which interest rates were either fixed or variable based on the FHLBI cost of funds or market rates. Advances averaged \$351.0 million during 2017, with a weighted average interest rate of 0.98%. At December 31, 2017, advances of \$600.1 million were outstanding and were recorded in other liabilities. At December 31, 2016, advances of \$500.1 million were outstanding and were recorded in other liabilities. The Company paid interest of \$3.4 million and \$594 thousand on such advances in 2017 and 2016, respectively. The largest outstanding balance at any month end during 2017 was \$750 million. At December 31, 2017, advances were collateralized by mortgage related securities and commercial mortgage loans with a carrying value of \$920.8 million.

Jackson National Life Insurance Company
Notes to Statutory Financial Statements
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Repurchase Agreements

The Company routinely enters into bilateral repurchase agreements whereby the Company agrees to sell and repurchase securities as a means of managing liquidity needs. These agreements are accounted for as financing transactions, with the assets and associated liabilities included in the balance sheet. Short-term borrowings under such agreements averaged \$474.3 million and \$278.4 million during 2017 and 2016, respectively, with weighted average interest rates of 0.90% in 2017 and 0.43% in 2016. At December 31, 2017, there were no outstanding repurchase agreements. At December 31, 2016, the outstanding repurchase agreement balance was \$411.9 million with two counterparties, collateralized with U.S. Treasury notes with a fair value of \$426.2 million, and maturing within 2 weeks. In the event of a decline in the fair value of the pledged collateral under these agreements, the Company may be required to transfer cash or additional securities as pledged collateral. Interest paid totaled \$4.3 million and \$1.1 million in 2017 and 2016, respectively. The highest level of short-term borrowings at any month end was \$804.9 million in 2017 and \$857.7 million in 2016.

Note 11 - Life and Annuity Reserves

The Company waives deductions of deferred fractional premiums upon death of the insured and returns premiums paid and due beyond the date of death. A reserve is held where a surrender value is promised in excess of the minimum required basic reserves.

At December 31, 2017 and 2016, 83% and 82%, respectively, of annuity reserves and deposit liabilities were subject to surrender charges of at least 5% or at market value in the event of discretionary withdrawal by policyholders.

For policies issued on substandard lives, either the gross premiums are calculated on a rated age basis, or an extra premium is charged in addition to the standard premium at the true issue age. Mean reserves are calculated as the regular mean reserve for the plan at the rated age, the regular mean reserve for the plan at the true issue age plus one-half of the extra premium charged, or a substandard reserve based on the appropriate multiple of the standard.

The Company had insurance in force, for which the gross premiums are less than the net premiums of approximately \$16.2 billion and \$19.8 billion, at December 31, 2017 and 2016, respectively, according to the valuation standard set by the state of Michigan.

The Company's incurred but not reported claim provision is based on the Company's historical experience. The provision was \$93.2 million and \$91.7 million at December 31, 2017 and 2016, respectively.

The Company issues variable annuity and life 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 and life). The Company also issues variable annuity 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")), at annuitization (guaranteed minimum income benefit ("GMIB")), upon depletion of funds (guaranteed minimum withdrawal benefits ("GMWB")) or at the end of a specified period (guaranteed minimum accumulated benefit ("GMAB")).

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The Company provided variable annuity contracts with guarantees, for which the net amount at risk is defined as the amount of guaranteed benefit in excess of current account value, as follows (dollars in millions and before reinsurance assumed or ceded):

December 31, 2017	Minimum Return	Separate Account Value	Net Amount at Risk	General Account Reserve	Weighted Average Attained Age
Return of net deposits plus a minimum return					
GMDB	0-6%	\$ 127,657.3	\$ 2,194.8		66.1
GMWB - premium only	0%	2,667.7	25.6		
GMWB - for life	0-5% *	297.7	17.6		
GMAB - premium only	0%	51.3	-		
Total				\$ -	
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		10,402.6	105.1		66.7
GMWB - highest anniversary only		3,097.7	64.6		
GMWB - for life		861.6	61.1		
Total				-	
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	7,703.2	576.2		69.0
GMIB	0-6%	1,913.8	564.2		
GMWB - for life	0-8% *	117,700.6	5,578.6		
Total				-	

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

Jackson National Life Insurance Company
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December 31, 2016	Minimum Return	Separate Account Value	Net Amount at Risk	General Account Reserve	Weighted Average Attained Age
Return of net deposits plus a minimum return					
GMDB	0-6%	\$ 108,628.5	\$ 2,978.0		65.7 years
GMWB - premium only	0%	2,531.0	45.4		
GMWB - for life	0-5% *	296.1	26.7		
GMAB - premium only	0%	53.9	0.1		
Total				\$ 319.4	
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		9,258.2	375.4		66.1 years
GMWB - highest anniversary only		2,864.6	146.6		
GMWB - for life		879.6	98.3		
Total				8.1	
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	6,560.2	864.1		68.7 years
GMIB	0-6%	1,875.3	703.2		
GMWB - for life	0-8% *	98,598.9	10,760.3		
Total				5.3	

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

Amounts shown as GMWB above include a 'not-for-life' component up to the point at which the guaranteed withdrawal benefit is exhausted, after which benefits paid are considered to be 'for-life' benefits. For this table, the net amount at risk of the 'not-for-life' component is the undiscounted excess of the guaranteed withdrawal benefit over the account value, and the 'for-life' component is the estimated value of additional life contingent benefits paid after the guaranteed withdrawal benefit is exhausted.

The average period until expected annuitization for the GMIB is 0.4 years and 0.5 years, respectively as of December 31, 2017 and 2016. GMIB benefits are reinsured, subject to aggregate annual claim limits. Deductibles also apply on reinsurance of GMIB business issued since March 1, 2005. Reinsurance credits of nil and \$10.2 million were taken in 2017 and 2016, respectively. Due to the inability to economically reinsure or hedge new issues of the GMIB, the Company discontinued offering the benefit in 2009.

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

Fund type:	December 31,	
	2017	2016
Equity	\$ 102,170	\$ 84,886
Bond	17,687	17,429
Balanced	25,177	20,166
Money market	873	1,177
Total	<u>\$ 145,907</u>	<u>\$ 123,658</u>

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Reserves for variable annuities and associated guarantees are calculated using Actuarial Guideline 43. Required direct reserves and net amounts at risk associated with guaranteed benefits were nil and \$9.2 billion, respectively, at December 31, 2017 and \$332.9 million and \$16.0 billion, respectively, at December 31, 2016.

Analysis of annuity reserves and deposit liabilities by withdrawal characteristics is as follows (in thousands):

	December 31, 2017			
	General Account	Guaranteed Separate Account	Nonguaranteed Separate Account	Total
Subject to discretionary withdrawal:				
With market value adjustment	\$ 3,528,881	\$ 6,320	\$ -	\$ 3,535,201
At book value without market value adjustment and with current surrender charge of 5% or more	8,955,432	-	-	8,955,432
At fair value	-	-	159,260,578	159,260,578
At book value without market value adjustment and with current surrender charge less than 5%	23,210,715	-	-	23,210,715
Total subject to discretionary withdrawal	35,695,028	6,320	159,260,578	194,961,926
Not subject to discretionary withdrawal	11,038,614	-	85,606	11,124,220
Total gross	46,733,642	6,320	159,346,184	206,086,146
Reinsurance ceded	300,621	-	-	300,621
Total, net of reinsurance	<u>\$ 46,433,021</u>	<u>\$ 6,320</u>	<u>\$ 159,346,184</u>	<u>\$ 205,785,525</u>

	December 31, 2016			
	General Account	Guaranteed Separate Account	Nonguaranteed Separate Account	Total
Subject to discretionary withdrawal:				
With market value adjustment	\$3,931,041	\$6,956	\$ -	\$ 3,937,997
At book value without market value adjustment and with current surrender charge of 5% or more	10,542,806	-	-	10,542,806
At fair value	-	-	133,495,767	133,495,767
At book value without market value adjustment and with current surrender charge less than 5%	22,972,153	-	-	22,972,153
Total subject to discretionary withdrawal	37,446,000	6,956	133,495,767	170,948,723
Not subject to discretionary withdrawal	9,175,186	-	58,192	9,233,378
Total gross	46,621,186	6,956	133,553,959	180,182,101
Reinsurance ceded	308,075	-	-	308,075
Total, net of reinsurance	<u>\$ 46,313,111</u>	<u>\$ 6,956</u>	<u>\$ 133,553,959</u>	<u>\$ 179,874,026</u>

Universal Life Insurance Secondary Guarantees

The Company previously issued universal life contracts with secondary guarantees, also called “no-lapse” guarantees. No-lapse guarantees are offered in the form of minimum premium guarantees or no-lapse account values. Reserves are calculated according to the Standard Valuation Law, Universal Life Insurance Model Regulation, Valuation of Life Insurance Policies Model Regulation, and Actuarial Guideline 38. Reserve balances were \$930.8 million and \$909.2 million at December 31, 2017 and 2016, respectively.

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Reserves for variable universal life contracts are calculated according to the Standard Valuation Law, Universal Life Insurance Model Regulation, Variable Life Insurance Model Regulation and Actuarial Guideline 37. Reserve balances were \$111.0 million and \$100.4 million at December 31, 2017 and 2016, respectively.

At both December 31, 2017 and 2016, approximately 88% of the Company's fixed interest rate annuity account values correspond to crediting rates that are at the minimum guaranteed interest rates. The following tables show the distribution of the fixed interest rate annuities' account values within the presented ranges of minimum guaranteed interest rates at December 31 (in millions):

Minimum Guaranteed Interest Rate	2017			
	Account Value			
	Fixed	Fixed Index	Variable	Total
1.0%	\$ 3,133.2	\$ 1,892.9	\$ 3,867.2	\$ 8,893.3
>1.0% - 2.0%	957.4	6,969.5	1,604.6	9,531.5
>2.0% - 3.0%	7,750.2	3,076.8	1,321.4	12,148.4
>3.0% - 4.0%	1,720.8	-	-	1,720.8
>4.0% - 5.0%	2,359.5	-	-	2,359.5
>5.0% - 5.5%	297.8	-	-	297.8
Total	<u>\$ 16,218.9</u>	<u>\$ 11,939.2</u>	<u>\$ 6,793.2</u>	<u>\$ 34,951.3</u>

Minimum Guaranteed Interest Rate	2016			
	Account Value			
	Fixed	Fixed Index	Variable	Total
1.0%	\$ 2,890.4	\$ 1,912.8	\$ 4,353.2	\$ 9,156.4
>1.0% - 2.0%	1,055.6	7,011.2	2,227.2	10,294.0
>2.0% - 3.0%	8,297.6	3,279.5	1,165.6	12,742.7
>3.0% - 4.0%	1,799.7	-	-	1,799.7
>4.0% - 5.0%	2,414.6	-	-	2,414.6
>5.0% - 5.5%	304.7	-	-	304.7
Total	<u>\$ 16,762.6</u>	<u>\$ 12,203.5</u>	<u>\$ 7,746.0</u>	<u>\$ 36,712.1</u>

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Note 12 – Separate Accounts

Reserves of the non-guaranteed separate accounts are subject to discretionary withdrawal at fair value. Reserves for minimum guaranteed death benefits on variable life and annuity contracts, as well as minimum guaranteed living benefits on variable annuity contracts, are held in the general account. All assets of the separate accounts are carried at fair value. Premiums, considerations or deposits totaled \$13.7 billion and \$12.8 billion for 2017 and 2016, respectively. Reserves in the separate accounts totaled \$159.4 billion and \$133.6 billion at December 31, 2017 and 2016, respectively.

A reconciliation of net transfers to separate accounts for the years ended December 31, 2017 and 2016 is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Transfers as reported in the Summary of Operations of the Separate Accounts Statement:		
Transfers to separate accounts	\$ 16,361,212	\$ 14,401,966
Transfers from separate accounts	<u>10,207,029</u>	<u>7,610,059</u>
Net transfers to separate accounts	6,154,183	6,791,907
Reconciling adjustments:		
Benefit (guaranteed minimum income/withdrawal) and other fees	(1,289,298)	(1,656,189)
Other	<u>416,530</u>	<u>229,394</u>
Transfers as reported in the accompanying Statements of Operations	<u>\$ 5,281,415</u>	<u>\$ 5,365,112</u>

The difference between the CARVM reserve and the fair value of assets is recognized as an expense allowance in the general account. The total CARVM allowance reduced the general account liability by \$5.8 billion at both December 31, 2017 and 2016.

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Note 13 - Employee Retirement 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, completed at least 1,000 hours of service in a 12-month period and passed their 12-month employment anniversary. In addition, the employee must be employed on the applicable January 1 or July 1 entry date. The Company's annual contributions, as declared by the board of directors, are based on a percentage of eligible compensation paid to participating employees during the year. In addition, the Company matches a participant's elective contribution, up to 6 percent of eligible compensation, to the plan during the year. The Company's expense related to this plan was \$27.9 million and \$24.3 million in 2017 and 2016, respectively.

The Company maintains non-qualified voluntary deferred compensation plans for certain agents and employees of Jackson and certain affiliates. At December 31, 2017 and 2016, the liability for such plans totaled \$329.6 million and \$591.9 million, respectively. The Company's expense related to these plans, including a match of elective deferrals for the agents' deferred compensation plan and the change in value of participant elected deferrals, was \$41.5 million and \$37.4 million in 2017 and 2016, respectively.

Note 14 – 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 \$44.4 million and \$45.7 million to PPM for investment advisory services in 2017 and 2016, respectively.

The Company has entered into shared services and administrative agreements with certain affiliates. Under the agreements, Jackson allocated \$70.8 million and \$56.8 million of certain management and administrative services expenses to affiliates in 2017 and 2016, respectively.

The Company previously contracted with PGDS to provide certain information technology services. The cost of the services, totaling \$134.3 million in 2016, was based on the cost to PGDS.

The Company provides a \$100.0 million revolving credit facility to Brooke (Holdco1) Inc., an upstream holding company. The loan matures in 2021, accrues interest at LIBOR plus 2% and has a commitment fee of 0.10% per annum. There was no outstanding balance at both December 31, 2017 and 2016. The highest outstanding loan balance during both 2017 and 2016 was nil. Interest and commitment fees totaled \$65 thousand and \$40 thousand during 2017 and 2016, respectively.

The Company provides a \$40.0 million revolving credit facility to PPMA. The loan is unsecured, matures in 2018, 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, 2017 or 2016. The highest outstanding loan balance during both 2017 and 2016 was nil. Interest and commitment fees totaled \$107 thousand and \$100 thousand during 2017 and 2016, respectively.

The Company provides a \$50.0 million revolving credit facility to PGDS. The loan is unsecured, matures in 2018, accrues interest at LIBOR plus 2% per annum, and has a commitment fee of 0.10% per annum. The balance outstanding at December 31, 2017 and December 31, 2016 was \$20.4 million and \$50.0 million, respectively. The highest outstanding loan balance during 2017 and 2016 was \$42.0 million and \$50.0 million, respectively. Interest and commitment fees totaled \$1.0 million and \$1.2 million during 2017 and 2016, respectively.

The Company provided a \$350.0 million revolving credit facility to Curian Clearing, LLC, which terminated April 30, 2016. The loan was unsecured, accrued interest at LIBOR plus 2% per annum, and had a commitment fee of 0.10% per annum. The highest outstanding loan balance during 2016 was nil. Interest and commitment fees totaled \$123 thousand during 2016.

Jackson National Life Insurance Company
Notes to Statutory Financial Statements
December 31, 2017 and 2016

The Company provided a \$6.0 million revolving credit facility to National Planning Holdings, Inc, which terminated August 31, 2017. The loan was unsecured, accrued interest at LIBOR plus 2% per annum, and had a commitment fee of 0.10% per annum. There was no balance outstanding at December 31, 2017 or 2016. The highest outstanding loan balance during both 2017 and 2016 was nil. Interest and commitment fees totaled \$4 thousand and \$6 thousand during 2017 and 2016, respectively.

The Company provides a \$20.0 million revolving credit facility to Jackson Holdings, LLC, an upstream holding company. The loan is unsecured, matures in 2019, accrues interest at LIBOR plus 2% per annum and has a commitment fee of 0.25% per annum. The balance outstanding at December 31, 2017 and December 31, 2016 was \$1.5 million and \$0.1 million, respectively. The highest outstanding loan balance during both 2017 and 2016 was \$1.5 million and \$0.1 million, respectively. Interest and commitment fees totaled \$71 thousand and \$52 thousand during both 2017 and 2016, respectively.

In 2016, the Company received dividends of \$3.7 million, from Hermitage.

In 2016, the Company received dividends of \$50.0 million, from Curian Clearing, LLC. In 2017, the Company received a return of capital of \$10.0 million from Curian Clearing, LLC.

In 2017 and 2016, the Company received membership distributions of \$607.0 million and \$548.5 million, respectively, from Jackson National Asset Management, LLC.

In 2016, the Company made a capital contribution of \$19.3 million to Squire Re II.

In 2017, the Company recorded a return of capital of \$19.3 million and a dividend receivable of \$663 thousand from Squire Re II, to be settled in 2018. In 2016, the Company recorded a dividend receivable of \$57.9 million from Squire Re II, which was settled in 2017.

Note 15 – Commitments and Contingent Liabilities

The Company and its subsidiaries are involved in litigation arising in the ordinary course of business. It is the opinion of management that the ultimate disposition of such litigation will not have a material adverse affect on the Company's financial condition. Jackson has been named in civil litigation proceedings, which appear to be substantially similar to other class action litigation brought against many life insurers, including allegations of misconduct in the sale of insurance products. The Company accrues for legal contingencies once the contingency is deemed to be probable and reasonably estimable. At December 31, 2017 and 2016, Jackson recorded accruals totaling \$11.3 million and \$1.9 million, respectively.

The Company has provided an unlimited guarantee for the policyholder obligations of its wholly owned life insurance subsidiary, Jackson New York. The maximum potential amount of future payments cannot be estimated as Jackson New York continues to write new business. This guarantee is not expected to result in future required payments by the Company and is not considered to result in a material contingent exposure of the Company's assets to liability because the Company and Jackson New York share the same management and Jackson New York is subject to regulatory supervision of the state of New York. Accordingly, the Company has not accrued any liability for this guarantee (exception allowed under SSAP No. 5R, paragraph 17f).

During 2017 and 2016, the Company recognized impairment writedowns of \$1.0 million and \$10.9 million, respectively, on Curian Capital. During 2017, the Company recognized impairment writedowns of \$0.7 million on Curian Clearing, LLC and \$2.0 million on its wholly owned subsidiary, Hermitage, LLC.

At December 31, 2017, the Company had unfunded commitments related to its investments in limited partnerships and limited liability companies totaling \$561.4 million, including \$65.3 million to limited partnerships and limited liability companies on which the Company has recognized an impairment charge. Unfunded commitments related to fixed-rate commercial mortgage loan and other fixed maturities totaled \$290.0 million at December 31, 2017.

Jackson National Life Insurance Company
Notes to Statutory Financial Statements
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At December 31, 2017, the Company had pledged mortgage related securities and commercial mortgage loans with a fair value of \$4.1 billion in connection with funding agreements issued to and borrowed money from the FHLBI. Securities for which all or a portion of Jackson's holdings have been pledged continue to be reported as invested assets.

In connection with the reinsurance treaty with Jackson New York described in Note 7, Jackson placed high quality securities with a carrying value and fair value of \$845.1 million and \$1,163.0 million, respectively, at December 31, 2017, in a trust for the benefit of Jackson New York. Securities in the trust had a carrying value and fair value at December 31, 2016 of \$812.4 million and \$1,065.2 million, respectively. The trust is required in order for Jackson New York to record a credit for the reserves ceded to Jackson. The securities are reported as invested assets.

In connection with other life business ceded to non-affiliates, Jackson placed high quality securities in a trust for the benefit of the assuming company. These securities had a carrying value and fair value of \$321.6 million and \$343.0 million, respectively, at December 31, 2017. These securities had a carrying value and fair value at December 31, 2016 of \$344.3 million and \$342.3 million, respectively. The securities are reported as invested assets.

The Company leases office space and equipment under several operating leases that expire at various dates through 2051. Certain leases include escalating lease rates and, as a result, at December 31, 2017, Jackson recorded a liability of \$6.1 million for future lease payments. Lease expense was \$32.7 million and \$31.3 million in 2017 and 2016, respectively.

At December 31, 2017, future minimum payments under noncancellable operating leases were as follows (in thousands):

2018	\$ 17,139
2019	16,380
2020	12,688
2021	9,462
2022	5,777
Thereafter	<u>17,470</u>
Total	<u>\$ 78,916</u>

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

Note 16 – Share-Based Payments

Certain employees participate in various share award plans relating to Prudential shares and/or American Depositary Receipts (“ADRs”) that are tradable on the New York Stock Exchange and are described below. The Company is not directly liable for obligations under the plans, but does incur related compensation costs.

The Prudential Long-Term Incentive Plan (“PLTIP”), in which the Company may grant share awards to eligible employees in the form of a contingent right to receive Prudential ADRs, or a conditional allocation of Prudential ADRs, subject to the prior approval of the Jackson Remuneration Committee. These share awards vest based on the achievement of planned International Financial Reporting Standards (“IFRS”) pretax operating income for the U.S. business, have vesting periods of three years and are at nil cost to the employee. Share awards vest between 0% (less than 90% of plan) and 100% (more than 110% of plan) of the grant amounts dependent on IFRS pretax operating income attained over the performance period. Award holders do not have any right to dividends or voting rights attached to the ADRs granted during the performance period. Upon vesting, a number of ADRs equivalent to the value of dividends that otherwise would have been received over the performance period are added to vested awards. Participants have the option to select a cash settlement alternative under the plan. The Company's expense related to this plan was \$66.3 million and \$28.3 million during the years ended December 31, 2017 and 2016, respectively.

Jackson National Life Insurance Company
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December 31, 2017 and 2016

At December 31, 2017, there were 3,691,079 non-vested Prudential ADR grants related to the PLTIP, with a weighted average grant date price of \$42.41.

At certain times, the Company may grant one-off type retention awards to certain key senior executives within Jackson. These awards are subject to the prior approval of the Jackson Remuneration Committee and are nil cost awards with a contingent right to receive Prudential ADRs. The awards are contingent upon continued employment of the recipient through the award vesting date. There are no performance measurements with these awards. The Company's expense related to this plan was \$4.5 million and \$2.5 million in 2017 and 2016, respectively.

At December 31, 2017 and 2016, there were 117,814 and 235,620 non-vested Prudential ADR grants related to the one-off retention award plan, with a weighted average grant date price of \$46.68, respectively.

The Company either acquires shares/ADRs or reimburses Prudential for the costs of any shares/ADRs that were distributed to participants in the above one-off retention plan, or may be distributed in the future. The shares/ADRs acquired are held at cost in a trust account for future distributions. At December 31, 2017 and 2016, the Company had \$18.9 million and \$22.7 million of shares/ADRs held at cost in the trust, respectively.

The Company recognizes share-based compensation expense associated with the above plans based on the grant-date award fair value ratably over the requisite service period of each individual grant, which generally equals the vesting period. The Company recognizes additional compensation expense based on the change in fair value of the award at the end of each reporting period. The Company estimates forfeitures when calculating share-based compensation expense. At December 31, 2017 and 2016, the Company had a liability of \$108.8 million and \$80.5 million, respectively, for future payments under the above plans.

Note 17 – Loan Backed Securities' Other-Than-Temporary Impairments

The following table details loan-backed and structured securities with a recognized other-than-temporary impairment recorded in 2017 where the Company has the intent and ability to hold the securities for sufficient time to recover the amortized cost:

1	2	3	4	5	6	7
CUSIP	Book/Adj Carrying Value Amortized cost before current period OTTI	Projected Cash Flows	Recognized other-than- temporary impairment	Amortized cost after other-than temporary impairment	Fair Value	Financial Statement Reporting Period
378961AF3	669,972	668,942	1,030	668,942	479,908	Q1-2017
466247UW1	5,074,764	4,727,570	347,194	4,727,570	5,067,901	Q1-2017
07387BBG7	2,963	-	2,963	-	56,226	Q2-2017
12498NAC7	2,171,036	2,037,516	133,520	2,037,516	2,157,986	Q2-2017
31359VMM2	364,013	346,690	17,323	346,690	340,497	Q2-2017
337355AA9	493,909	489,264	4,646	489,264	475,816	Q2-2017
759950ES3	52,678	51,010	1,668	51,010	47,812	Q2-2017
31359VMNO	107,687	-	107,687	-	13,469	Q3-2017
31359VMM2	336,615	315,997	20,618	315,997	334,234	Q3-2017
337355AA9	472,371	427,570	44,801	427,570	429,000	Q3-2017
05948KE88	6,024,922	6,015,039	9,883	6,015,039	5,730,242	Q4-2017
337355AA9	419,587	380,658	38,928	380,658	417,955	Q4-2017
87804AAD4	5,145,320	5,000,230	145,091	5,000,230	4,996,191	Q4-2017
Total			875,352			

Additional Information
Jackson National Life Insurance Company
Supplemental Schedule of Selected Financial Data
December 31, 2017

Investment income earned

U.S. government bonds	\$ 172,431,234
Other bonds (unaffiliated)	1,845,428,804
Bonds exempt from U.S. tax	-
Bonds of affiliates	-
Preferred stocks (unaffiliated)	-
Preferred stocks of affiliates	-
Common stocks (unaffiliated)	5,889,828
Common stocks of affiliates	663,127
Mortgage loans	312,567,341
Real estate	29,958,187
Contract loans	400,764,252
Cash, cash equivalents and short-term investments	5,690,970
Derivative instruments	243,135,157
Other invested assets	814,012,346
Aggregate write-ins for investment income	974,639
Total investment income	<u>\$ 3,831,515,885</u>
Real estate owned - book value less encumbrances	<u>\$ 228,772,159</u>
Mortgage loans by type - book value	
Farm mortgages	\$ -
Residential mortgages	-
Commercial mortgages	8,441,517,338
Total mortgage loans	<u>\$ 8,441,517,338</u>
Mortgage loans by standing - book value	
Good standing	\$ 8,442,283,209
Good standing with restructured loans	<u>\$ -</u>
Interest overdue more than 90 days, not in foreclosure	<u>\$ -</u>
Foreclosure in process	<u>\$ -</u>
Other long term assets - statement value	<u>\$ 1,205,130,871</u>
Contract loans	<u>\$ 4,468,857,765</u>
Bonds & stocks of parents, subsidiaries and affiliates - book value	
Bonds	<u>\$ -</u>
Preferred stocks	<u>\$ -</u>
Common stocks	<u>\$ 563,209,246</u>

Continued

Additional Information
Jackson National Life Insurance Company
Supplemental Schedule of Selected Financial Data
December 31, 2017

Bonds and short-term investments by class and maturity:

Bonds by maturity - statement value	
Due within one year or less	\$ 1,845,266,216
Over 1 year through 5 years	13,657,178,283
Over 5 years through 10 years	18,372,552,482
Over 10 years through 20 years	2,730,575,572
Over 20 years	7,236,929,851
Total by maturity	<u>\$ 43,842,502,404</u>

Bonds by class - statement value

Class 1	\$ 24,097,426,859
Class 2	18,343,944,537
Class 3	1,034,202,571
Class 4	348,760,334
Class 5	18,067,710
Class 6	100,393
Total by class	<u>\$ 43,842,502,404</u>

Total bonds publicly traded	<u>\$ 31,727,606,851</u>
Total bonds privately placed	<u>\$ 12,114,895,553</u>

Preferred stocks - statement value	\$ -
Common stocks - market value	<u>\$ 694,347,962</u>
Short-term investments - book value	<u>\$ -</u>
Options, caps and floors owned - statement value	<u>\$ 1,739,890,645</u>
Options, caps and floors written & in force - statement value	<u>\$ -</u>
Collar, swap and forward agreements open - statement value	<u>\$ 14,737,846</u>
Futures contracts open - current value	<u>\$ -</u>
Cash on deposit	<u>\$ (106,265,701)</u>
Cash equivalents	<u>\$ 1,096,689,277</u>

Life insurance in force	
Industrial	<u>\$ 301,375,000</u>
Ordinary	<u>\$ 73,342,885,000</u>
Credit life	<u>\$ -</u>
Group life	<u>\$ 847,431,000</u>

Amount of accidental death benefits in force under ordinary policies	<u>\$ 2,837,384,000</u>
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Continued

Additional Information
Jackson National Life Insurance Company
Supplemental Schedule of Selected Financial Data
December 31, 2017

Life insurance policies with disability provisions in force	
Industrial	\$ 151,000
Ordinary	\$ 9,315,294,000
Credit life	\$ -
Group life	\$ 282,809,000
Supplementary contracts in force:	
Ordinary - not involving life contingencies-	
Amount on deposit	\$ 370,517,562
Income payable	\$ 11,423,708
Ordinary - involving life contingencies-	
Amount on deposit	\$ 14,123,067
Income payable	\$ 7,649,151
Group - not involving life contingencies-	
Amount on deposit	\$ 27,336
Income payable	\$ -
Group - involving life contingencies-	
Income payable	\$ 116,686
Income payable	\$ 204,784
Annuities:	
Ordinary-	
Immediate - amount of income payable	\$ 267,750,171
Deferred - fully paid account balance	\$ 13,755,624,371
Deferred - not fully paid - account balance	\$ 18,493,343,276
Group-	
Amount of income payable	\$ 16,586,813
Fully paid account balance	\$ 1,344,316,155
Not fully paid - account balance	\$ 2,157,916,247
Accident and health insurance - premiums in force:	
Ordinary	\$ -
Group	\$ -
Credit	\$ -
Deposit funds and dividend accumulations:	
Deposit funds - account balance	\$ 31,687,526
Dividend accumulations - account balance	\$ 50,305,343

See accompanying independent auditors' report.

JACKSON NATIONAL LIFE INSURANCE COMPANY

Supplemental Investment Risks Interrogatories

December 31, 2017

1) Total admitted assets (excluding Separate Accounts): \$ 63,882,252,928

2) 10 largest exposures to a single issuer/borrower/investment (excluding US Government):

Issuer	Category	Amount	Percentage
Jackson National Life Insurance Co of New York	Affiliated domestic securities	\$ 557,059,478	0.9%
JPMorgan Chase & Co	Unaffiliated domestic securities	\$ 298,395,903	0.5%
Bank of America Corp	Unaffiliated domestic securities	\$ 293,272,706	0.5%
Wells Fargo & Company	Unaffiliated domestic securities	\$ 262,638,187	0.4%
BP Capital Markets Plc	Unaffiliated foreign securities	\$ 249,820,727	0.4%
Duke Energy Corp	Unaffiliated domestic securities	\$ 240,692,845	0.4%
Exelon Corp	Unaffiliated domestic securities	\$ 229,842,227	0.4%
Daimler Finance North America LLC	Unaffiliated domestic securities	\$ 222,599,600	0.3%
Citigroup Inc	Unaffiliated domestic securities	\$ 212,973,622	0.3%
AT&T Inc	Unaffiliated domestic securities	\$ 209,169,460	0.3%

3) Amounts and percentages of total admitted assets held in bonds and preferred stocks by NAIC rating.

Bonds		Amount	Percentage	Preferred stock		Amount	Percentage
NAIC-1	\$	24,097,426,859	37.7%	P/RP-1	\$	—	0.0%
NAIC-2	\$	18,343,944,537	28.7%	P/RP-2	\$	—	0.0%
NAIC-3	\$	1,034,202,571	1.6%	P/RP-3	\$	—	0.0%
NAIC-4	\$	348,760,334	0.5%	P/RP-4	\$	—	0.0%
NAIC-5	\$	18,067,710	0.0%	P/RP-5	\$	—	0.0%
NAIC-6	\$	100,393	0.0%	P/RP-6	\$	—	0.0%

4) Assets held in foreign investments:

	Amount	Percentage
Total admitted assets held in foreign investments	\$ 5,507,725,639	8.6%

5) Aggregate foreign investment exposure categorized by NAIC sovereign rating:

	Amount	Percentage
Countries rated NAIC-1	\$ 5,222,985,179	8.2%
Countries rated NAIC-2	\$ 160,407,377	0.3%
Countries rated NAIC-3 or below	\$ 124,333,083	0.2%

6) Two largest foreign investment exposures in a single country, categorized by the country's NAIC sovereign rating:

	Amount	Percentage
Countries rated NAIC-1:		
United Kingdom	\$ 1,746,546,013	2.7%
Australia	\$ 968,956,922	1.5%
Countries rated NAIC-2:		
Spain	\$ 92,507,582	0.1%
Panama	\$ 35,200,280	0.1%
Countries rated NAIC-3 or below:		
Guernsey	\$ 102,479,935	0.2%
Marshall Islands	\$ 10,000,000	0.0%

7) There is no unhedged foreign currency exposure.

8) There is no unhedged foreign currency exposure.

9) There is no unhedged foreign currency exposure.

10) Ten largest non-sovereign (i.e., non-governmental) foreign issues:

Issuer	NAIC Rating	Amount	Percentage
BP Capital Markets Plc	1	\$ 249,820,727	0.4%
CSL Limited	1	\$ 132,640,000	0.2%
HSBC Holdings Plc	1	\$ 111,789,821	0.2%
Credit Suisse Group AG	2	\$ 101,905,900	0.2%
Deutsche Telekom AG	2	\$ 99,868,295	0.2%
Allergan Plc	2	\$ 98,767,330	0.2%
Royal Dutch Shell Plc	1	\$ 91,315,301	0.1%
UBS Group AG	1	\$ 87,946,003	0.1%
Lyondellbasell Industries NV	2	\$ 86,969,238	0.1%
GE Capital International	1	\$ 85,283,092	0.1%

JACKSON NATIONAL LIFE INSURANCE COMPANY

Supplemental Investment Risks Interrogatories

December 31, 2017

- 11) There were no assets held in Canadian investments that exceeded 2.5% of the Company's total admitted assets.
- 12) There were no assets held in investments with contractual sales restrictions that exceeded 2.5% of the Company's total admitted assets.
- 13) Amounts and percentages of admitted assets held in the ten largest equity interests:

<u>Issuer</u>	<u>Amount</u>	<u>Percentage</u>
Jackson National Life Insurance Co of New York	\$ 557,059,478	0.9%
FHLBI Class B-1	\$ 125,392,100	0.2%
PPM America Private Equity Fund V, L.P.	\$ 101,536,196	0.2%
PPM America Private Equity Fund VI, L.P.	\$ 87,202,776	0.1%
PPM America Private Equity Fund III, L.P.	\$ 73,060,595	0.1%
Cortec Group Fund V, L.P.	\$ 60,414,243	0.1%
JNAM, LLC	\$ 40,593,273	0.1%
Green Equity Investors VI, L.P.	\$ 35,291,387	0.1%
Veritas Capital Fund IV, L.P.	\$ 26,704,249	0.0%
Apollo Investment Fund VIII, L.P.	\$ 23,928,123	0.0%

- 14) There were no assets held in nonaffiliated, privately placed equities, exceeding 2.5% of the Company's total admitted assets.
- 15) There were no assets held in general partnership interests that exceeded 2.5% of the Company's total admitted assets.
- 16) Amounts and percentages of total admitted assets held in the ten largest mortgage loans:

<u>Type</u>	<u>Amount</u>	<u>Percentage</u>
Commercial	\$ 200,000,000	0.3%
Commercial	\$ 152,600,000	0.2%
Commercial	\$ 113,700,000	0.2%
Commercial	\$ 111,500,000	0.2%
Commercial	\$ 110,000,000	0.2%
Commercial	\$ 110,000,000	0.2%
Commercial	\$ 102,000,000	0.2%
Commercial	\$ 100,000,000	0.2%
Commercial	\$ 99,764,200	0.2%
Commercial	\$ 95,000,000	0.1%

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

16.12 Construction loans	\$ —	0.0%
16.13 Mortgage loans over 90 days past due	\$ —	0.0%
16.14 Mortgage loans in the process of foreclosure	\$ —	0.0%
16.15 Mortgage loans foreclosed	\$ —	0.0%
16.16 Restructured mortgage loans	\$ —	0.0%

- 17) Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

<u>Loan to Value</u>	<u>Commercial</u>	
	<u>Amount</u>	<u>Percentage</u>
above 95%	\$ 3,100,000	0.0%
91 to 95%	\$ —	0.0%
81 to 90%	\$ 24,357,902	0.0%
71 to 80%	\$ 786,228,468	1.2%
below 70%	\$ 7,627,830,968	11.9%

- 18) There were no assets held in real estate that exceeded 2.5% of the Company's total admitted assets.

JACKSON NATIONAL LIFE INSURANCE COMPANY

Supplemental Investment Risks Interrogatories

December 31, 2017

19) There were no assets held in mezzanine real estate loans that exceeded 2.5% of the Company's total admitted assets.

20) Amounts and percentages of total admitted assets subject to the following types of agreements:

Agreement type	At year end		At end of each quarter		
	Amount	Percentage	1st Qtr	2nd Qtr	3rd Qtr
Securities lending	\$ 62,102,025	0.1%	\$ 158,644,644	\$ 148,976,170	\$ 114,696,795
Repurchase	—	0.0%	593,762,087	—	823,058,639
Reverse repurchase	—	—	—	—	—
Dollar repurchase	—	—	—	—	—
Dollar reverse repurchase	—	—	—	—	—

21) Amounts and percentages of total admitted assets for warrants not attached to other financial instruments, options, caps and floors:

Type	Owned		Written	
	Amount	Percentage	Amount	Percentage
Hedging	\$ 1,739,890,645	2.7%	\$ 0	0.0%

22) Amounts and percentages of total admitted assets of potential exposure for collars, swaps and forwards:

Type	At year end		At end of each quarter		
	Amount	Percentage	1st Qtr	2nd Qtr	3rd Qtr
Hedging	\$ 169,097,021	0.3%	\$ 194,361,720	\$ 185,302,217	\$ 178,775,231

23) Amounts and percentages of total admitted assets of potential exposure for futures contracts:

Type	At year end		At end of each quarter		
	Amount	Percentage	1st Qtr	2nd Qtr	3rd Qtr
Hedging	\$ 1,004,008,600	1.6%	\$ 1,132,066,600	\$ 953,718,000	\$ 1,001,308,700

**JACKSON NATIONAL LIFE
INSURANCE COMPANY**

Summary Investment Schedule

December 31, 2017

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total Amount	Percentage
Bonds:						
U.S. Treasury securities	\$ 5,113,652,788	8.253%	\$ 5,113,652,788	\$ —	\$ 5,113,652,788	8.261%
U.S. government agency obligations	604,888,419	0.976%	604,888,419	—	604,888,419	0.977%
Foreign government	24,950,895	0.040%	24,950,895	—	24,950,895	0.040%
States, territories and possessions general obligations	0	—%	0	—	0	—%
Revenue and assessment obligations	41,076,212	0.066%	41,076,212	—	41,076,212	0.066%
Mortgage-backed securities:						
Pass-through securities:						
GNMA	68,562,715	0.111%	68,562,715	—	68,562,715	0.111%
FNMA and FHLMC	207,718,752	0.335%	207,718,752	—	207,718,752	0.336%
CMO's and REMIC's:						
GNMA, FNMA, FHLMC or VA	138,232,150	0.223%	138,232,150	—	138,232,150	0.223%
Non-U.S. Government	0	—%	0	—	0	—%
All other	3,565,222,389	5.754%	3,565,222,389	—	3,565,222,389	5.759%
Other debt and other fixed income securities:						
Unaffiliated domestic securities	27,429,676,529	44.270%	27,429,676,529	—	27,429,676,529	44.310%
Unaffiliated foreign securities	6,648,521,555	10.730%	6,648,521,555	—	6,648,521,555	10.740%
Affiliated securities	0	—%	0	—	0	—%
Equity interests:						
Investments in mutual funds	7,759,403	0.013%	7,759,403	—	7,759,403	0.013%
Preferred stocks:						
Affiliated	0	—%	0	—	0	—%
Unaffiliated	0	—%	0	—	0	—%
Publicly traded equity securities:						
Unaffiliated	4,026,074	0.006%	4,026,074	—	4,026,074	0.007%
Other equity securities:						
Affiliated	563,209,246	0.909%	557,059,478	—	557,059,478	0.900%
Unaffiliated	125,503,007	0.203%	125,503,007	—	125,503,007	0.203%
Mortgage loans:						
Multifamily residential properties	2,863,786,595	4.622%	2,863,786,595	—	2,863,786,595	4.626%
Commercial loans	5,577,730,743	9.002%	5,577,730,743	—	5,577,730,743	9.010%
Real estate investments:						
Property occupied by the Company	220,901,732	0.357%	220,901,732	—	220,901,732	0.357%
Property held for the production of income (including \$0 of property acquired in satisfaction of debt)	7,172,124	0.012%	7,172,124	—	7,172,124	0.012%
Property held for sale (including \$0 property acquired in satisfaction of debt)	698,303	0.001%	698,303	—	698,303	0.001%
Contract loans	4,470,292,377	7.215%	4,468,857,765	—	4,468,857,765	7.219%
Derivatives	2,172,177,805	3.506%	2,172,177,805	—	2,172,177,805	3.509%
Receivables for securities	213,610,914	0.345%	213,610,914	—	213,610,914	0.345%
Securities Lending	64,246,292	0.104%	64,246,292	XXX	XXX	XXX
Cash, cash equivalents and short-term investments	990,423,576	1.598%	990,423,576	64,246,292	1,054,669,868	1.704%
Other invested assets	835,544,325	1.349%	787,581,557	—	787,581,557	1.271%
Total invested assets	\$ 61,959,584,920	100.00%	\$ 61,904,037,772	\$ 64,246,292	\$ 61,904,037,772	100.000%

See accompanying independent auditors' report.

Annex 2

Jackson National Life Insurance Company

NAIC Number 65056 NAIC Group Number 0918

Management's Discussion and Analysis of Financial Condition and Results of Operations December 31, 2017

The following discussion provides an assessment by management of the results of operations and financial condition and liquidity of Jackson. Information presented in this discussion supplements the financial statements, exhibits, and schedules in the 2017 Annual Statement.

2016 Reinsurance Transactions

As further described in Note 10 to the Annual Statement, Jackson executed two reinsurance transactions in 2016.

Effective December 30, 2016, Jackson executed a reserve financing transaction whereby \$623.3 million of level premium term reserves were ceded to a captive subsidiary. Jackson received a ceding commission of \$319.2 million, equal to the excess of statutory basis reserves over the reserves calculated in accordance with Actuarial Guideline 48. The effect of the transaction was that the risk on the \$319.2 million of statutory basis redundant term life reserves was transferred to a third party reinsurer.

Effective December 31, 2016, Jackson amended its variable annuity reinsurance agreement with its subsidiary, Jackson National Life Insurance Company of New York ("Jackson NY"). Prior to the amendment, the agreement ceded to Jackson 90% of the guaranteed minimum withdrawal benefits liability associated with variable annuity contracts issued by Jackson NY. The purpose of the amendment was to transfer to Jackson 90% of the total variable annuity contract risk associated with variable annuities issued by Jackson NY. This transfer allows for better alignment with risk mitigation strategies employed at the parent company level. Because of the differences in variable annuity reserve modeling between Jackson and Jackson NY, the transaction resulted in a \$46.2 million after tax benefit to Jackson.

As both of these reinsurance agreements were comprised of contracts in force at the date of the transaction, the net, after tax, impact of the transactions of \$365.3 million was excluded from net income and recorded directly to surplus.

2017 Tax Reform

Enactment of the Tax Cuts and Jobs Act on December 22, 2017 had two significant impacts on year-end 2017 deferred tax balances. First, the new tax law changed the corporate tax rate from 35% to 21%. Under statutory accounting principles, this enactment required the Company to revalue its gross deferred tax assets and liabilities to the new rate, which reduced net gross deferred tax assets by \$797.4 million. Second, the new tax law eliminated the ability to carry back ordinary tax losses to the previous three years. This had a direct impact on the Company's ability to admit deferred taxes under SSAP101 ¶ 11(a) and reduced net admitted deferred tax assets by \$803.5 million. Because the Company's net admitted deferred tax assets are currently limited to carry back plus 15% of surplus, the total impact on net admitted deferred tax assets was a reduction of \$803.5 million.

Results of Operations

Net Income

Pretax operating income totaled \$3,844.7 million for the year ended December 31, 2017, as compared to \$4,052.8 million for the year ended December 31, 2016. The decrease in pretax operating income was primarily due to a decrease in commissions and expense allowances on reinsurance ceded (\$325.0 million), a decrease in investment income (\$210.2 million), and a smaller decrease in voluntary reserves (\$200.0 million), offset somewhat by an increase in fee income (\$437.7 million) and a larger decrease in variable annuity guaranteed benefit reserves (\$242.8 million).

Net income totaled \$168.4 million for the year ended December 31, 2017, as compared to a net loss of \$563.8 million for the year ended December 31, 2016. This increase was primarily due to a \$912.4 million decrease in federal income taxes, primarily due to the timing of the deductibility of the hedge amounts and the increase in dividends received deduction.

Sales and Revenues

Premiums and annuity considerations totaled \$19.00 billion for the year ended December 31, 2017, as compared to \$18.63 billion in 2016. In 2017, variable annuity premiums were \$16.12 billion, compared to \$15.85 billion in 2016. Sales continue to be impacted by the market disruption caused by the publication of the Department of Labor Rules.

In 2017, net investment income, which represents gross income earned on invested assets reduced by investment expenses, decreased to \$3.69 billion from \$3.90 billion in 2016. Gross investment income earned on invested assets totaled \$3.83 billion in 2017, compared to \$4.02 billion in 2016. The yield earned on average invested assets, adjusted for various leverage transactions, decreased to 6.18% on average adjusted invested assets of \$59.76 billion in 2017, compared to 6.57% on average adjusted invested assets of \$59.40 billion in 2016.

In 2017, fee income from separate accounts increased to \$3.71 billion from \$3.28 billion in 2016, primarily due to a \$19.63 billion higher average separate account balance in 2017, a result of positive variable annuity flows and positive market returns.

Other income increased to \$643.9 million in 2017 from \$346.7 million in 2016. Other income in both 2017 and 2016, was comprised primarily of marketing fees, which increased due to higher average separate account balances, and general account policy fees.

Reserves, Benefits and Expenses

Annuity benefits and annuity and life surrenders, which include systematic withdrawals and death benefits on annuities, as well as annuity surrender benefits and partial withdrawals, increased to \$16.60 billion in 2017 from \$13.00 billion in 2016. The increase is primarily due to an increase in variable annuity surrenders and systematic withdrawals as the business matures and a much larger base of in-force contracts. As a percentage of mean account value, variable annuity withdrawal rates increased from 5.19% in 2016 to 5.79% in 2017. Fixed annuity surrender rates also increased as withdrawals were 7.32% and 6.22% of the mean account value in 2017 and 2016, respectively. As a percentage of mean life reserves, life withdrawal rates increased from 2.55% in 2016 to 2.61% in 2017. Jackson regularly monitors liquidity and believes that the investment portfolio and other sources of funds provide sufficient liquidity for anticipated general account withdrawals.

In 2017, aggregate reserves for life and annuity contracts decreased \$2,802.1 million, compared to decrease of \$42.3 million in 2016. The significant decrease in reserves in 2017 was due primarily to the increased surrenders and the decrease in guaranteed benefit reserves resulting from favorable separate account returns. The average interest rate credited on interest sensitive liabilities (excluding institutional product and fixed-index annuity liabilities) was 3.41% in 2017, as compared to 3.47% in 2016, primarily due to lower crediting rates being established upon inforce policy anniversary dates, as well as lower crediting rates on new business in 2017.

At December 31, 2017 and 2016, the Company recorded nil and \$400.0 million, respectively, of additional voluntary variable annuity reserves in excess of those required under minimum statutory standards as defined in Actuarial Guideline XLIII. The voluntary reserve decreased \$400.0 million in 2017, compared to a \$600.0 million decrease in 2016.

Interest credited on institutional investment products totaled \$193.5 million in 2017, as compared to \$132.0 million in 2016, due to an increase in the average balance of \$1,577.5 million and higher crediting rates.

Commissions increased to \$1.83 billion in 2017, compared to \$1.60 billion in 2016, due primarily to an increase in asset based commissions accompanying higher policy account values, which were offset by higher fees. Average commission rates on direct business decreased to 5.50% of total premiums in 2017, from 5.62% in 2016, as more agents elected asset based commissions.

In 2017, general insurance expenses increased to \$706.3 million from \$606.2 million in 2016. The increase in expenses was due primarily to an increase in compensation related costs, largely due to headcount increases to manage the growing inforce book.

Net transfers to separate accounts decreased to \$5.28 billion in 2017 from \$5.37 billion in 2016, primarily due to the higher surrenders and systematic withdrawals.

Federal income tax expense on operations totaled \$1,048.1 million in 2017, compared to \$1,960.5 million in 2016, resulting in effective tax rates of 27.3% and 48.4% in 2017 and 2016, respectively. The effective tax rate differs from the expected 35% rate, primarily due to the timing of the deductibility of the hedge amounts, dividends received deduction and the change in non-deductible voluntary variable annuity guaranteed benefits reserves.

Realized Gains and Losses

Realized gains and losses were as follows (in millions):

	<u>2017</u>	<u>2016</u>
Net realized gains (losses):		
Sales of bonds	\$ (29.2)	\$ 458.7
Sales of stocks	9.7	9.7
Derivative instruments	(3,884.2)	(4,169.2)
Other assets	(0.4)	0.8
Impairment writedowns	<u>(50.1)</u>	<u>(118.9)</u>
Total	(3,954.2)	(3,818.9)
Less: Transferred to IMR	<u>(36.2)</u>	<u>146.9</u>
Transferred to AVR	(3,918.0)	(3,965.8)
Tax benefit	<u>1,289.8</u>	<u>1,309.7</u>
Per Income Statement	<u>\$ (2,628.2)</u>	<u>\$ (2,656.1)</u>

Jackson's hedging program is structured to manage the economic impact of movements in interest rates and equity levels, rather than the accounting results. However, additional considerations will be given where variable annuity statutory requirements diverge significantly as compared to the economic basis. Accordingly, while the program remains effective on an economic basis, results may differ from the accounting perspective in any discrete period. From an economic point of view, current losses on derivative instruments, driven primarily by increasing equity markets, are offset by the benefit of higher future fees and lower future benefits on increased separate account balances. However, given the nature of the regulatory accounting requirements, these future impacts are not fully reflected in the current year accounting results.

Net realized capital gains and losses transferred to the interest maintenance reserve ("IMR") are amortized into income over the approximate remaining lives of the investments sold. Losses of \$36.2 million and gains of \$146.9 million were transferred to the IMR in 2017 and 2016, respectively. At December 31, 2017 and 2016, the IMR balance was \$171.9 million and \$300.6 million, respectively.

Financial Condition and Liquidity

Capital and surplus was \$3.88 billion at December 31, 2017, compared to \$4.92 billion at December 31, 2016. The decrease in capital and surplus was comprised primarily of a decrease in net admitted deferred tax asset (\$1,109.3 million), due primarily to the elimination of \$803.5 million of loss carrybacks resulting from the new tax law, and a dividend payment (\$600.0 million), partially offset by an increase in unrealized gains (\$476.3 million) and net income (\$168.4 million).

Admitted assets totaled \$228.79 billion at December 31, 2017, as compared to \$204.78 billion at December 31, 2016. This increase is primarily attributable to a \$25.75 billion increase in separate account assets supporting variable annuity liabilities. The increase in separate account assets was primarily due to positive variable annuity net flows and positive market performance.

The Company received approval from the Department of Insurance and Financial Services regarding the use of a permitted practice. Since being initially granted, the permitted practice has been extended annually by the commissioner with a current expiration date of October 1, 2018. The permitted practice allows Jackson to carry interest rate swaps at book value, as if statutory hedge accounting were in place, instead of at fair value as would have been otherwise required. As a condition of granting the permitted practice, Jackson must demonstrate the effectiveness of its interest rate swap program pursuant to the Michigan Insurance Code. The capital impact of this permitted practice, reflected as special surplus funds, was to decrease statutory surplus by \$480.2 million at December 31, 2017 and \$413.0 million at December 31, 2016, with no effect on net income. Jackson's adjusted capital and surplus was well in excess of regulatory requirements both with and without the permitted practice.

General account cash and invested assets totaled \$61.90 billion at December 31, 2017, as compared to \$61.77 billion at December 31, 2016.

Jackson's investment portfolio is broadly diversified among sectors and issuers. Below investment grade bonds totaled 2.3% of cash and invested assets at both December 31, 2017 and December 31, 2016. Jackson's direct exposure to the subprime mortgage market is \$137.6 million at December 31, 2017. Most of this exposure is in fixed rate, residential mortgage-backed securities that hold first liens on the underlying collateral. Jackson had gross unrealized gains of \$2,550.7 million and gross unrealized losses of \$105.3 million on its debt securities at December 31, 2017. Of the total carrying value of bonds in an unrealized loss position at December 31, 2017, 94% were investment grade. Unrealized losses on bonds that were below investment grade comprised 13% of the aggregate gross unrealized loss on debt securities. For Statutory reporting, Jackson's debt securities are primarily reported at amortized cost, so the unrealized gains and losses are generally not reflected in income or capital and surplus. At December 31, 2017, Jackson held \$5.15 billion of U.S. Treasuries, down from \$6.26 billion at December 31, 2016.

Mortgage loans with balances totaling \$8.44 billion at December 31, 2017, consisted of 492 commercial first mortgage loans with an average loan balance of approximately \$17.2 million, collateralized by properties located in 40 states and the District of Columbia. Approximately 34% of this portfolio was multi-family residential, 28% was distribution/warehouse, 19% was retail, 11% was office and 8% was hotel. At December 31, 2017, approximately 15% of this portfolio was secured by properties located in California, 12% by properties located in Texas, 7% by properties located in Florida, and no more than 6% of this portfolio was secured by properties in any other single state. At the time of their origination or purchase, Jackson's mortgage loans had loan-to-value ratios of 80% or less. At year-end 2017 and 2016, loans delinquent by more than 90 days, foreclosed loans and restructured loans were not significant in relation to the total mortgage loan portfolio.

Other invested assets, which totaled \$1.21 billion at December 31, 2017, were comprised of investment vehicles that primarily have holdings in unaffiliated private equities of \$787.2 million, investment in affiliates of \$363.9 million, other unaffiliated investments of \$32.1 million and affiliated notes of \$22.0 million. Other invested assets are generally accounted for using the equity method of accounting.

Investments in common and preferred stocks are minimal, representing less than 2% of cash and invested assets at December 31, 2017. Jackson's investments in common stocks are primarily investments in subsidiaries.

At December 31, 2017, derivatives were primarily comprised of \$55.25 billion notional amount of options, \$17.00 billion aggregate notional amount of swaps and \$2.00 billion in aggregate notional amount of put swaptions. Interest rate swaps with a book/adjusted carrying value of nil and fair value of \$417.5 million were reported at book/adjusted carrying value per the aforementioned permitted practice. Overall, the net fair value of Jackson's derivatives at December 31, 2017, was \$2,172.5 million, as compared to \$951.3 million at December 31, 2016. Included in surplus at December 31, 2017 and 2016, were unrealized gains on derivatives of \$349.3 million and losses of \$165.8 million, respectively. These unrealized gains and losses exclude unrealized gains on interest rate swaps due to the permitted practice.

Jackson is a member of the Federal Home Loan Bank of Indianapolis ("FHLBI"), primarily for the purpose of participating in its mortgage-collateralized loan advance program with short-term and long-term funding facilities. Advances are in the form of short-term or long-term notes or funding agreements issued to the FHLBI and are collateralized by commercial mortgage-related securities and commercial mortgage loans.

Jackson maintains short-term funding facilities with the FHLBI. Interest rates on advances were either fixed or variable and based on the FHLBI cost of funds or market rates. At December 31, 2017 and 2016, advances of \$600.1 and \$500.1 million were outstanding, respectively. There was \$3.4 million and \$594 thousand of interest paid on such borrowings in 2017 and 2016, respectively.

The Company received loans of \$50.0 million from the FHLBI under its community investment program in both 2015 and 2014, which amortize on a straight line basis over the loan term. The weighted average interest rate on these loans was 0.94% in 2017 and 0.45% in 2016. The outstanding balance on these loans was \$87.4 million and \$92.5 million at December 31, 2017 and 2016, respectively. During 2017 and 2016, interest expense for these loans totaled \$805 thousand and \$405 thousand, respectively.

Additional sources of liquidity include premium deposits, investment income and cash provided from maturing or sold investments. With 72% of Jackson's cash and invested assets being comprised of bonds and cash and cash equivalents, Jackson's investment portfolio is highly liquid. Considering the composition of Jackson's investment and liability portfolio coupled with significant new annual sales and credit availability through funding agreements issued to, and short-term borrowings from, the FHLBI, Jackson is well positioned to meet its current and future cash needs.

Jackson carefully monitors cash and short-term investments to maintain adequate balances for timely payment of claims, policy benefits, expenses and taxes. In addition, regulatory authorities establish minimum liquidity and capital standards.