

14. NLIC, on its behalf and on behalf of the Accounts, proposes to substitute shares of the SVPT Bond Fund for shares of the MSF Bond Portfolio, and shares of the SVPT Balanced Fund for shares of the MSF Balanced Portfolio. NLIC believes that by making the proposed substitutions in each of the Accounts, they can better serve the interests of owners of the Contracts.

15. During 2000, NLIC and the Accounts applied for and received an order approving a number of substitutions of SVPT Funds for MSF Portfolios. At the time of that application, Sentinel Advisors Company ("SAC") served as the investment manager and adviser to a number of the MSF Portfolios, including the Bond and Balanced Portfolios. SAC is a general partnership which at that time was owned and controlled by affiliates of NLIC, Provident Mutual Life Insurance Company ("PMLIC"), and The Penn Mutual Life Insurance Company ("Penn Mutual"). NLIC's affiliate controls the managing general partner and is entitled to a majority of the profits earned by SAC. NLIC, PMLIC, and Penn Mutual are not affiliated persons of each other. Effective June 30, 2002, NLCM (affiliated with NLIC) purchased all the stock of PMLIC's affiliates which owned PMLIC's interests in SAC, and as a result, NLIC's affiliates are now entitled to more than 90% of the profits of SAC. SAC's officers and investment personnel are all employees of NLCM, and they are the same officers and investment personnel who provide investment management services to the SVPT Funds. SAC, like NLCM, is located at NLIC's premises, in Montpelier, Vermont.

16. With the substitutions applied for in the previous order, PMLIC and NLIC intended to end their joint use of MSF as an investment vehicle for both companies' variable life insurance and variable annuity contracts (including the Contracts). NLIC originally intended to substitute independently managed funds for the MSF Bond and Balanced (then Managed) Portfolios, at the time of the substitutions effected in late 2000. However, the available independently managed funds did not meet the conditions that the SEC would impose on the substitutions and SVPT did not have the Bond or Balanced Funds to receive the Accounts' assets in the MSF Bond and Balanced Portfolios. NLIC chose to proceed with the substitutions that the SEC would approve at the time and the Accounts have continued to invest in the MSF Bond and Balanced Portfolios.

17. After the initial substitutions, SAC stepped down as investment adviser to

all of the MSF Portfolios of which it had been the investment adviser. Market Street Investment Management Company ("MSIM") became the investment manager to the MSF Portfolios, and selected subadvisers to manage the assets on a day-to-day basis, including Western Asset Management Company for the Bond Portfolio and Fred Alger Management, Inc., for the Balanced Portfolio. New investment advisory contracts were approved by the shareholders, and management fees and overall expense ratios rose significantly.

18. In addition, effective September 30, 2002, PMLIC was acquired by Nationwide Financial Services, Inc. ("Nationwide"), in a sponsored demutualization transaction. PMLIC's name changed to Nationwide Life Insurance Company of America ("NLICA") as part of this transaction. Also, effective October 1, 2002, Gartmore, an affiliate of Nationwide Financial, replaced MSIM as the MSF investment adviser. NLICA, under Nationwide's control, has proposed another reorganization of MSF, under which the MSF Bond and Bond Portfolios would be acquired by series of the GVIT Trust, another series investment company offering shares to variable insurance product separate accounts, for which Gartmore also serves as investment adviser. Specifically, the MSF Bond Portfolio would be acquired by the J.P. Morgan GVIT Bond Fund, a series of the GVIT Trust, and the MSF Bond Portfolio would be acquired by the Gartmore GVIT Government Bond Fund. As a result of this proposed reorganization, the subadviser to the MSF Bond Portfolio would be J.P. Morgan Investment Management, Inc. and Gartmore would directly manage the MSF Bond Portfolio.

19. NLIC continues to desire to end the joint use of the remaining MSF Portfolios by separate accounts of both companies. NLIC continues to believe that the manner of accomplishing this separation which would involve the least confusion and disruption to owners of the Contracts would be for it to substitute shares of new SVPT Funds for those of the MSF Bond and Balanced Portfolios held by the Accounts. This would avoid the possibility that MSF may propose future changes which NLIC and NLICA could not support. Such a disagreement could create unnecessary expense and confusion for owners of both the Contracts and NLICA contracts, and could result in one or more material irreconcilable conflicts between the interests of Contract owners and owners of other NLICA contracts. NLIC had no role in the selection of the

current subadvisers to the MSF Bond and Bond Portfolios, no role in the planning for the reorganization now proposed by NLICA, and does not anticipate that it would have any role in future decisions to continue to engage or to replace such subadvisers.

20. The majority of the assets in the MSF Bond and Balanced Portfolios belong to owners of variable annuity and variable life insurance contracts issued by NLICA and its affiliates and only relatively small portions of each consist of assets beneficially owned by owners of the Contracts.

Portfolios	Approximate percent represented by NLIC contracts	Approximate percent represented by contracts issued by NLICA or its affiliates
MSF Bond	24.5	75.5
MSF Bond	16.1	83.9

21. NLIC believes that many of the owners of the Contracts who invested in the MSF Bond and Balanced Portfolios did so at the time these Portfolios were managed by SAC, and that most would prefer to invest in funds or portfolios selected by NLIC and over which NLIC has some influence.

22. Projected expense levels for the SVPT Bond and Balanced Funds are the same as those currently experienced by the MSF Bond and Balanced Portfolios because each will be capped by NLIC for two years at levels equal to the percentage expense levels experienced by its corresponding MSF Portfolio for the 2002 fiscal year. Likewise, the management fee rates (including breakpoints) of the SVPT Bond and Balanced Funds are the same as that of their corresponding MSF Portfolios. In addition, for those Contract owners who were Contract owners on the date of the proposed substitutions, NLIC will not increase Account or other asset-based expenses under the Contracts for a period of 24 months following the date of the proposed substitutions.

23. NLIC notes that the equity portion of the SVPT Bond Fund would be managed in a different style from that currently employed by the MSF Bond Portfolio, utilizing a more value-oriented style similar to that employed by Sentinel Bond Fund, as contrasted with the more growth-oriented style employed by Fred Alger Management. It expects that the fixed-income portion of the SVPT Bond Fund would be comparable to the fixed-income portion of the MSF Bond Portfolio, as currently managed. However, if the Portfolio is acquired by