

bonds similar to those in the SVPT Bond Fund, with at least 25% of its total assets in bonds. When determining this percentage, convertible bonds and/or preferred stocks will be considered common stocks, unless these securities are held primarily for income. NLCM will divide the Fund's investments among stocks and bonds based on whether it believes stocks or bonds offer a better value at the time.

15. The Contracts are flexible premium variable life insurance Contracts and individual flexible premium deferred variable annuity Contracts. The Contracts provide for the accumulation of values on a variable basis, fixed basis, or both, during the accumulation period, and provide settlement or annuity payment options on a fixed basis. Under each of the Contracts, NLIC reserves the right to substitute shares of one Fund or Portfolio for shares of another, including a fund or portfolio of a different investment company. The prospectuses for the Contracts disclose this right.

16. Under all of the variable life insurance Contracts, a Contract owner may make unlimited transfers of accumulated value in a contract year between and among the subaccounts of the Life Account and NLIC's general account. Currently there is no charge for transfers; however, NLIC reserves the right to assess a \$25 charge for each transfer in excess of twelve in any Contract year. Under the variable annuity Contracts, a Contract owner may make unlimited transfers of Contract value between and among the subaccounts of the Annuity Account and NLIC's general account. Currently there is no charge for transfers; however, NLIC reserves the right to assess a \$25 charge for each transfer in excess of twelve in any Contract year.

17. NLIC, on its behalf and on behalf of the Accounts, proposes to substitute shares of the SVPT Bond Fund for shares of the GVIT Government Bond Fund, and shares of the SVPT Balanced Fund for shares of the J.P. Morgan GVIT Balanced Fund. NLIC believes that by making the proposed substitutions in each of the Accounts, they can better serve the interests of owners of the Contracts.

18. 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.

19. 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 continued to invest in the MSF Bond and Balanced Portfolios.

20. 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.

21. 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, then proposed another reorganization of MSF, under which the MSF Balanced 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 Balanced Portfolio would be acquired by the J.P. Morgan GVIT Balanced Fund, and the MSF Bond Portfolio would be acquired by the GVIT Government Bond Fund. As a result of this proposed reorganization, J.P. Morgan Investment Management, Inc. would be the subadviser of MSF Balanced Portfolio's assets and Gartmore would directly manage the assets of the MSF Bond Portfolio.

22. At a meeting held on February 21, 2003, shareholders of MSF Balanced Portfolio and MSF Bond Portfolio approved the proposed reorganization. The proposed reorganization took place on April 28, 2003. As of April 28, 2003: (1) J.P. Morgan GVIT Balanced Fund succeeded to the assets of MSF Balanced Portfolio, (2) holders of shares of MSF Balanced Portfolio (including the Accounts) had such shares exchanged for shares of J.P. Morgan GVIT Balanced Fund, (3) GVIT Government Bond Fund succeeded to the assets of MSF Bond Portfolio, and (4) holders of shares of MSF Bond Portfolio (including the Accounts) had such shares exchanged for shares of GVIT Government Bond Fund.

23. NLIC continues to desire to end the joint use of the successors to the 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 successors to the MSF Bond and Balanced Portfolios held by the Accounts. This would avoid the possibility that GVIT may propose future changes that NLIC 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 NLICA contracts. NLIC had no role in the selection of the most recent subadvisers to the MSF Balanced and Bond Portfolios, no role in planning the