

NATIONAL LIFE INSURANCE COMPANY
NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
VARITRAK VARIABLE UNIVERSAL LIFE INSURANCE POLICY

STATEMENT OF ADDITIONAL INFORMATION

OFFERED BY
NATIONAL LIFE INSURANCE COMPANY
National Life Drive
Montpelier, Vermont 05604

This Statement of Additional Information expands upon subjects discussed in the current prospectus for the VariTrak Variable Universal Life Insurance Policy (“Policy”) offered by National Life Insurance Company. You may obtain a copy of the prospectus dated May 1, 2018, as supplemented from time to time, by calling 1-800-732-8939, by writing to National Life Insurance Company, One National Life Drive, Montpelier, Vermont 05604, by accessing National Life’s website at <http://www.nationallifegroup.com>, or by accessing the SEC’s website at <http://www.sec.gov>. Definitions of terms used in the current prospectus for the Policy are incorporated in this Statement of Additional Information.

This Statement of Additional Information is not a prospectus and should be read only in conjunction with the prospectus for the Policy.

Dated May 1, 2018

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NATIONAL LIFE INSURANCE COMPANY

National Life Insurance Company (“National Life,” “we,” “our,” or “us”) is the insurance company that issues the Policy. National Life is authorized to conduct a life insurance and annuity business in all 50 states and the District of Columbia. It was originally chartered as a mutual life insurance company in 1848. It is now a stock life insurance company. All of its outstanding stock is directly owned by NLV Financial Corporation (“NLV Financial”), the parent company of National Life, and indirectly owned by National Life Holding Company, a mutual insurance holding company established under Vermont law on January 1, 1999.

National Life acts as custodian for the National Variable Life Insurance Account. Additional protection for the assets of the National Variable Life Insurance Account is provided by a blanket fidelity bond issued by St. Paul Fire & Marine Insurance Company providing coverage of \$30,000,000 in the aggregate and \$15,000,000 per occurrence (subject to a \$250,000 deductible) for all officers and employees of National Life.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

The Separate Account was established by National Life on February 1, 1985. It is a separate investment account to which we allocate assets to support the benefits payable under the Policies, other policies we currently issue, and other variable life insurance policies we may issue in the future. The Separate Account is registered with the Securities and Exchange Commission (“SEC”) as a unit investment trust under the Investment Company Act of 1940 (“1940 Act”), and qualifies as a “separate account” within the meaning of the federal securities laws. Such registration does not involve any supervision of the management or investment practices or policies of the Separate Account by the SEC.

The independent registered public accounting firm for the Separate Account is PricewaterhouseCoopers LLP. This firm annually performs an audit on the financial statements of the Separate Account, and provides a report to the Board of Directors of National Life. PricewaterhouseCoopers LLP also acts as the independent public accountants for National Life.

THE PORTFOLIOS

The portfolios invested in by the Separate Account are part of mutual funds registered with the SEC as open-end investment companies. You should know that such registration does not involve supervision of the management or investment practices of the portfolios by the SEC.

PREMIUMS

Term Policy Conversions. The Policy is no longer offered for sale. We have, in the past, offered a one time credit on conversions of eligible National Life term insurance policies to a VariTrak Policy. If the term policy being converted had been in force for at least twelve months, the amount of the credit was 12% of a target amount used to determine commission payments. If the term policy being converted had been in force for less than twelve months, the credit was prorated based on the number of months the term policy has been outstanding at the time of conversion. For GRT term policies, the credit was 18% of the target amount used to determine commission payments if the GRT term policy had been in force for at least two years but not more than five years. For GRT term policies in force for less than two years, the credit was 0.5% per month for each month in the first year, and 1.0% per month for each month in the second year. For GRT policies in force more than five years, the credit decreased from 18% by 0.5% for each month beyond five years, until it becomes zero at the end of year eight.

The amount of the credit was added to the initial premium payment, if any, and was be treated as part of the Initial Premium for the Policy. Thus, the credit was included in premium payments for purposes of calculating and deducting the Premium Tax Charge. If you surrender your Policy, we will not recapture the credit. We will not include the amount of the credit for purposes of calculating agent compensation for the sale of the Policy.

Credit to Home Office Employees. We also offered a one time credit to Home Office employees, including employees located on another campus, who purchased a VariTrak Policy, as both Owner and Insured. This one time credit was calculated differently from the credit described above; in particular, the amount of the credit was 50% of the target premium used in the calculation of commissions on the Policy. Otherwise, the credit was treated in the same manner as the credit described above.

CONTRACTUAL ARRANGEMENTS BETWEEN NATIONAL LIFE AND THE FUNDS' INVESTMENT ADVISORS OR DISTRIBUTORS

We have entered into or may enter into agreements pursuant to which the Funds' advisors or distributors or an affiliate of such persons pays us a fee, which may differ, based upon an annual percentage of the average net asset amount we invest on behalf of the Variable Account and our other separate accounts for administration and other services. Equity Services, Inc. ("ESI") has also entered into agreements pursuant to which the Funds' distributors pays ESI a fee, which may differ, based upon an annual percentage of average net asset amount we invest on behalf of the Variable Account and our other separate accounts for distribution and other services. The amount of this compensation with respect to the Contract during 2016, which is based upon the indicated percentages of assets of each Fund attributable to the Contract, is shown below:

Portfolios of the	% of Assets	Revenues Received By National Life During 2017*
The Alger Portfolios	0.10%	\$ 18,724.94
American Century Variable Portfolios, Inc.	0.25%(1)	\$ 34,443.46
Dreyfus Variable Investment Fund and Dreyfus Sustainable US Equity Portfolio	0.20%	\$ 2,003.32
Deutsche Variable Series II	0.10%(2)	\$ 10,217.25
Fidelity® Variable Insurance Products Fund	0.10%(3)	\$ 72,181.92
Franklin Templeton Variable Insurance Products Trust	0.35%(4)	\$ 15,861.55
Invesco Variable Insurance Funds	0.25%	\$ 7,652.30
JPMorgan Insurance Trust	0.20%	\$ 3,152.17
Neuberger Berman Advisers Management Trust	0.15%(5)	\$ 6,931.69
Oppenheimer Variable Account Funds	0.25%	\$ 392.41
T. Rowe Price Equity Series, Inc.	0.25%(6)	\$ 32,398.90
Van Eck VIP Trust	0.20%	\$ 6,598.04
Wells Fargo Variable Trust	0.25%	\$ 23,507.20

*Note: Revenues received by National Life during 2017 may include revenues received in 2017 for services rendered in 2016.

(1) 0.10% on the VP Inflation Protection Fund.

(2) Includes 0.25% payable under the Fund's 12b-1 Plan.

(3) 0.05% with respect to the Index 500 Portfolio.

(4) Includes 0.25% payable under the Fund's 12b-1 Plan.

(5) The Small Cap Growth Portfolio offers only an S-Series class, which has a 0.25% 12b-1 fee which is also paid to ESI.

(6) The 0.25% payment shown in the table is payable under the Fund's 12b-1 plan. In addition, the Fund's adviser will pay to National Life for administrative services an amount equal to 0.15% of the amount, if any, by which the shares held by National Life separate accounts exceed \$25 million.

These arrangements may change from time to time, and may include more Funds in the future.

DISTRIBUTION OF THE POLICIES

Equity Services, Inc. ("ESI") is responsible for distributing the Policies pursuant to a distribution agreement with us. ESI serves as principal underwriter for the Policies. ESI, a Vermont corporation and an affiliate of National Life, is located at One National Life Drive, Montpelier, Vermont 05604.

Effective January 1, 2009 VariTrak was no longer offered for sale to new owners.

We pay commissions to ESI for sales of the Policies. In addition, to promote sales of the Policies and consistent with NASD Conduct Rules and FINRA rules, each administered by FINRA, National Life, ESI and/or their affiliates may contribute amounts to various non-cash and cash incentives to be paid by ESI to its registered representatives the amounts of which may be based in whole or in part on the sales of the Policies, including: (1) contributing to educational programs; (2) sponsoring sales contests and/or promotions in which participants receive prizes such as travel, merchandise, hardware and/or software; (3) paying for occasional meals, lodging and/or entertainment; (4) making cash payments in lieu of business expense reimbursements; (5) making loans and forgiving such loans; and/or (6) health and welfare benefit programs.

Commissions paid on the Policy, as well as other incentives or payments, are not charged directly to the Policy Owners or the Separate Account. However, commissions and other sales expenses are reflected in the fees and charges that a Policy Owner pays directly or indirectly.

ESI received underwriting commissions in connection with the Policies in the following amounts during the periods indicated:

Fiscal Year	Aggregate Amount of Commissions Paid to ESI*	Aggregate Amount of Commissions Retained by ESI After Payments to its Registered Persons and Other Broker-Dealers
2015	\$ 446,873	\$ 0
2016	\$ 415,075	\$ 0
2017	\$ 333,642	\$ 0

* Includes sales compensation paid to registered persons of ESI.

ESI passes through commissions it receives and does not retain any override as distributor for the Policies.

From time to time National Life, in conjunction with ESI, may conduct special sales programs.

TERMS OF UNDERLYING PORTFOLIO PARTICIPATION AGREEMENTS

The participation agreements under which the Funds sell their shares to subaccounts of the Separate Account contain varying termination provisions. In general, each party may terminate at its option with specified advance written notice, and may also terminate in the event of specific regulatory or business developments.

Should an agreement between National Life and a Fund terminate, the subaccounts which invest in that Fund may not be able to purchase additional shares of such Fund. In that event, you will no longer be able to transfer Accumulated Values or allocate Net Premiums to subaccounts investing in Portfolios of such Fund.

Additionally, in certain circumstances, it is possible that a Fund or a Portfolio of a Fund may refuse to sell its shares to a subaccount despite the fact that the participation agreement between the Fund and us has not been terminated.

Should a Fund or Portfolio of such Fund decide not to sell its shares to us, we will not be able to honor your requests to allocate cash values or Net Premiums to subaccounts investing in shares of that Fund or Portfolio.

The Funds are available to registered separate accounts of insurance companies, other than National Life, offering variable annuity contracts and variable life insurance policies or qualified retirement plans, or to certain pension or retirement plans qualifying under Section 401 of the Internal Revenue Code. As a result, there is a possibility that a material conflict may arise as a result of such “mixed and shared” investing. That is, it is possible that a material conflict could arise between the interests of Owners with Accumulated Value allocated to the Separate Account and the owners of life insurance policies, variable annuity contracts, or of certain retirement or pension plans issued by such other companies whose values are allocated to one or more other separate accounts investing in any one of the Funds.

In the event of a material conflict, we will take any necessary steps, including removing the Separate Account from that Fund, to resolve the matter. The Board of Directors or Trustees of the Funds intend to monitor events in order to identify any material conflicts that possibly may arise and to determine what action, if any, should be taken in response to those events or conflicts. See the individual Fund prospectuses for more information.

UNDERWRITING PROCEDURES

In most cases we will perform an evaluation of a proposed Insured's health and other mortality risk factors before issuing a Policy. This process is often referred to as "underwriting". We will request that a number of questions about the proposed Insured be answered on the application for a Policy, and we may require a telephone conference, certain medical tests, and/or a medical examination. When we have evaluated all the necessary information, we will place a proposed Insured into one of the following Rate Classes:

- elite preferred nonsmoker;
- preferred nonsmoker;
- standard nonsmoker;
- preferred smoker;
- standard smoker;
- juvenile and
- substandard.

The Rate Class into which an Insured is placed will affect both the guaranteed and the current cost of insurance rates. Smoker and substandard classes reflect higher mortality risks. In an otherwise identical Policy, an Insured in an elite, preferred or standard class will have a lower Cost of Insurance Charge than an Insured in a substandard class with higher mortality risks. Nonsmoking Insureds will generally incur lower cost of insurance rates than Insureds who are classified as smokers.

We may also issue Policies on a guaranteed issue basis, where no medical underwriting is required prior to issuance of a Policy. Current cost of insurance rates for Policies issued on a guaranteed issue basis may be higher than current cost of insurance rates for healthy Insureds who undergo medical underwriting.

The guaranteed maximum cost of insurance rates will be set forth in your Policy, and will depend on:

- the Insured's Attained Age;
- the Insured's sex;
- the Insured's Rate Class; and
- the 1980 Commissioners Standard Ordinary Smoker/Nonsmoker Mortality Table.

For Policies issued in states which require "unisex" policies or in conjunction with employee benefit plans, the guaranteed maximum cost of insurance rate will use the 1980 Commissioners Standard Ordinary Mortality Tables NB and SB.

From time to time, we may also offer promotional programs under which a proposed Insured may apply for a Policy subject to minimal underwriting subject to certain restrictions (e.g., if the proposed Insured has purchased a fully underwritten life insurance policy at Preferred or Standard rates from a company on our approved list (a) within the past three years or (b) within the past five years and had a full physical exam in the last 24 months).

INCREASES IN FACE AMOUNT

You should be aware that if you increase the Face Amount of your Policy, this will generally affect the total Net Amount at Risk. This will normally increase the monthly Cost of Insurance Charges. In addition, the Insured may be in a different Rate Class as to the increase in insurance coverage. We use separate cost of insurance rates for the Initial Face Amount and any increases in Face Amount. For the Initial Face Amount we use the rate for the Insured's Rate Class on the Date of Issue. For each increase in Face Amount, we use the rate for the Insured's Rate Class at the time of the increase. If the Unadjusted Death Benefit is calculated as the Accumulated Value times the specified percentage, we use the rate for the Rate Class for the Initial Face Amount for the amount of the Unadjusted Death Benefit in excess of the total Face Amount for Option A, and in excess of the total Face Amount plus the Accumulated Value for Option B.

We calculate the Net Amount at Risk separately for the Initial Face Amount and increases in Face Amount. In determining the Net Amount at Risk for each increment of Face Amount, we first consider the Accumulated Value

part of the Initial Face Amount. If the Accumulated Value exceeds the Initial Face Amount, we consider it as part of any increases in Face Amount in the order such increases took effect.

Each increase in Face Amount will begin a new period of Surrender Charges in effect for 15 years from the date of the increase. This additional Surrender Charge is based on the Face Amount of the increase only. We describe this additional Surrender Charge in detail in the “Surrender Charge” section of the prospectus for the policy.

OTHER POLICY PROVISIONS

Indefinite Policy Duration

The Policy can remain in force indefinitely (in New York, Texas and Maryland, however, the Policy matures at Attained Age 99 at which time we will pay the Cash Surrender Value to you in one sum unless you have chosen a Payment Option, and the Policy will terminate). However, for a Policy to remain in force after the Insured reaches Attained Age 99, if the Face Amount plus any Additional Protection Benefit coverage is greater than the Accumulated Value, the Face Amount plus any Additional Protection Benefit coverage will automatically be decreased to the current Accumulated Value. Also, at Attained Age 99 Option B automatically becomes Option A. No premium payments are allowed after Attained Age 99, although loan repayments are allowed. The tax treatment of a Policy’s Accumulated Value after Age 100 is unclear, and you may wish to discuss this treatment with a tax advisor.

Operation at Age 99 with No Lapse Guarantee

The presence of no lapse guarantee rider changes the normal operation of the Policy at age 99 (as described in Other Policy Provisions — Indefinite Policy Duration, above). First, the Face Amount will not be decreased to the Accumulated Value at age 99. Second, all Monthly Deductions on the Policy will stop at age 99. All other aspects of the Policy operation at age 99 will be unchanged.

New York Policies - Reduced Paid—Up Benefit

Prior to maturity, Owners of Policies issued in New York may elect to continue the Policy in force as paid-up General Account life insurance coverage. All or a portion of the Cash Surrender Value of the Policy will be applied to paid-up life insurance coverage. We will pay in one lump sum any amount of the Cash Surrender Value which you do not apply toward paid-up life insurance coverage. You may thereafter surrender any paid-up General Account life insurance at any time for its value.

The Policy

The Policy and the application are the entire contract. Only statements made in the application can be used to void the Policy or deny a claim. The statements are considered representations and not warranties. Only one of National Life’s duly authorized officers or registrars can agree to change or waive any provisions of the Policy, and only in writing. As a result of differences in applicable state laws, certain provisions of the Policy may vary from state to state.

Change of Owner and Beneficiary

As long as the Policy is in force, you may change the Owner or Beneficiary by sending us an acceptable written request. The change will take effect as of the date the request is signed, whether or not the Insured is living when we receive the request. We will not be responsible for any payment made or action taken before we receive the written request. A change of Owner may have tax consequences.

Split Dollar Arrangements

You may enter into a Split Dollar Arrangement among the Owners or other persons under which the payment of premiums and the right to receive the benefits under the Policy (*i.e.*, Cash Surrender Value or Death Benefit) are split between the parties. There are different ways of allocating such rights.

For example, an employer and employee might agree that under a Policy on the life of the employee, the employer will pay the premiums and will have the right to receive the Cash Surrender Value. The employee may designate the

Beneficiary to receive any Death Benefit in excess of the Cash Surrender Value. If the employee dies while such an arrangement is in effect, the employer would receive from the Death Benefit the amount which the employer would have been entitled to receive upon surrender of the Policy and the employee's Beneficiary would receive the balance of the proceeds.

No transfer of Policy rights pursuant to a Split Dollar Arrangement will be binding on us unless it is in writing and received by us. We do not assess any specific charge for Split Dollar Arrangements.

The Internal Revenue Service ("IRS") has issued guidance affecting Split Dollar Arrangements. Any parties who elect to enter into a Split Dollar Arrangement should consult their own tax advisers regarding the tax consequences of such an arrangement.

Assignments

You may assign any and all rights under the Policy. We are not bound by an assignment unless it is in writing and we receive it at our Home Office. We assume no responsibility for determining whether an assignment is valid, or the extent of the assignee's interest. All assignments will be subject to any Policy loan. The interest of any Beneficiary or other person will be subordinate to any assignment. A payee who is not also the Owner may not assign or encumber Policy benefits, and to the extent permitted by applicable law, such benefits are not subject to any legal process for the payment of any claim against the payee. An assignment of the Policy may have tax consequences.

Suicide

If the Insured dies by suicide, while sane or insane, within two years from the Date of Issue of the Policy (except where state law requires a shorter period), or within two years of the effective date of a reinstatement (unless otherwise required by state law), our liability is limited to the payment to the Beneficiary of a sum equal to the premiums paid less any Policy loan and accrued interest and any Withdrawals (since the date of reinstatement, in the case of a suicide within two years of the effective date of a reinstatement), or other reduced amount provided by state law.

If the Insured commits suicide within two years (or shorter period required by state law) from the effective date of any Policy change which increases the Unadjusted Death Benefit and for which an application is required, the amount which we will pay with respect to the increase will be the Cost of Insurance Charges previously made for such increase (unless otherwise required by state law).

Arbitration

Except where otherwise required by state law, as in New York, the Policy provides that any controversy under the Policy shall be settled by arbitration in the state of residence of the Owner, in accordance with the rules of the American Arbitration Association or any similar rules to which the parties agree. Any award rendered through arbitration will be final on all parties, and the award may be enforced in court.

The purpose of the arbitration is to provide an alternative dispute resolution mechanism for investors that may be more efficient and less costly than court litigation. You should be aware, however, that arbitration is, as noted above, final and binding on all parties, and that the right to seek remedies in court is waived, including the right to jury trial. Pre-arbitration discovery is generally more limited than and different from court discovery procedures, and the arbitrator's award is not required to include factual findings or legal reasoning. Any party's right to appeal or to seek modification of rulings by the arbitrators is strictly limited.

Dividends

The Policy is participating; however, no dividends are expected to be paid on the Policy. If dividends are ever declared, they will be paid in cash, except where otherwise required by state law. At the time of the Insured's death, the Death Benefit will be increased by dividends payable, if any.

Correspondence

All correspondence to you is deemed to have been sent to you if mailed to you at your last address known to us.

Settlement Options

In lieu of a single sum payment on death or surrender, you may elect to apply the Death Benefit under any one of the fixed-benefit Settlement Options provided in the Policy. (Even if the Death Benefit under the Policy is excludible from income, payments under Settlement Options may not be excludible in full. This is because earnings on the Death Benefit after the insured's death are taxable and payments under the Settlement Options generally include such earnings. You should consult a tax advisor as to the tax treatment of payments under the Settlement Options.) The options are described below.

Payment of Interest Only. We will pay interest at a rate of 3.5% per year on the amount of the proceeds retained by us. Upon the earlier of the payee's death or the end of a chosen period, the proceeds retained will be paid to the payee or his or her estate.

Payments for a Stated Time. We will make equal monthly payments, based on an interest rate of 3.5% per annum, for the number of years you select.

Payments for Life. We will make equal monthly payments, based on an interest rate of 3.5% per annum, for a guaranteed period and thereafter during the life of a chosen person. You may elect guaranteed payment periods for 0, 10, 15, or 20 years, or for a refund period, at the end of which the total payments will equal the proceeds placed under the option.

Payments of a Stated Amount. We will make equal monthly payments until the proceeds, with interest at 3.5% per year on the unpaid balance, have been paid in full. The total payments in any year must be at least \$10 per month for each thousand dollars of proceeds placed under this option.

Life Annuity. We will make equal monthly payments in the same manner as in the above Payments for Life option except that the amount of each payment will be the monthly income provided by our then current settlement rates on the date the proceeds become payable. No additional interest will be paid.

Joint and Two Thirds Annuity. We will make equal monthly payments, based on an interest rate of 3.5% per year, while two chosen persons are both living. Upon the death of either, two-thirds of the amount of those payments will continue to be made during the life of the survivor. We may require proof of the ages of the chosen persons.

50% Survivor Annuity. We will make equal monthly payments, based on an interest rate of 3.5% per year, during the lifetime of the chosen primary person. Upon the death of the chosen primary person, 50% of the amount of those payments will continue to be made during the lifetime of the secondary chosen person. We may require proof of the ages of the chosen persons.

We may pay interest in excess of the stated amounts under the first four options listed above, but not the last three. Under the first two, and fourth options above, the payee has the right to change options or to withdraw all or part of the remaining proceeds. For additional information concerning the payment options, see the Policy.

AUTOMATED FUND TRANSFER FEATURES

Dollar Cost Averaging

You may elect Dollar Cost Averaging at issue by marking the appropriate box on the initial application, and completing the appropriate instructions. You may also begin a Dollar Cost Averaging program after issue by filling out similar information on a change request form and sending it to us at our Home Office in good order.

If you elect this feature, we will take the amount to be transferred from the Money Market Subaccount and transfer it to the subaccount or subaccounts designated to receive the funds, each month on the Monthly Policy Date. If you elect Dollar Cost Averaging on your application for the Policy, it will start with the Monthly Policy Date after the date that is 20 days after issue. If you begin a Dollar Cost Averaging program after the free look period is over, it will start on the next Monthly Policy Date. Dollar Cost Averaging will continue until the amount in the Money Market Subaccount is depleted. The minimum monthly transfer by Dollar Cost Averaging is \$100, except for the transfer which reduces the amount in the Money Market Subaccount to zero. You may discontinue Dollar Cost

Averaging at any time by sending an appropriate change request form to the Home Office in good order. You may not use the dollar cost averaging feature to transfer Accumulated Value to the General Account.

Dollar Cost Averaging allows you to move funds into the various investment types on a more gradual and systematic basis than the frequency on which you pay premiums. The dollar cost averaging method of investment is designed to reduce the risk of making purchases only when the price of subaccount units is high. The periodic investment of the same amount will result in higher numbers of subaccount units being purchased when unit prices are lower, and lower numbers of subaccount units being purchased when unit prices are higher. This technique will not, however, assure a profit or protect against a loss in declining markets. Moreover, for the dollar cost averaging technique to be effective, amounts should be available for allocation from the Money Market Subaccount through periods of low price levels as well as higher price levels.

Portfolio Rebalancing

You may elect Portfolio Rebalancing at issue by marking the appropriate box on the application, or, after issue, by completing a change request form and sending it to our Home Office.

In Policies utilizing Portfolio Rebalancing from the Date of Issue, an automatic transfer will take place which causes the percentages of the current values in each subaccount to match the current premium allocation percentages, starting with the Monthly Policy Date six months after the Date of Issue, and then on each Monthly Policy Date six months thereafter. Policies electing Portfolio Rebalancing after issue will have the first automated transfer occur as of the Monthly Policy Date on or next following the date we receive the election at our Home Office in good order, and subsequent rebalancing transfers will occur every six months from that date. You may discontinue Portfolio Rebalancing at any time by submitting an appropriate change request form to us (in good order) at our Home Office.

If you change your Policy's premium allocation percentages, Portfolio Rebalancing will automatically be discontinued unless you specifically direct otherwise.

Portfolio Rebalancing will result in periodic transfers out of subaccounts that have had relatively favorable investment performance in relation to the other subaccounts to which a Policy allocates premiums, and into subaccounts which have had relatively unfavorable investment performance in relation to the other subaccounts to which the Policy allocates premiums. Portfolio Rebalancing does not guarantee a profit or protect against a loss.

OPTIONAL BENEFITS

You may include additional benefits, which are subject to the restrictions and limitations set forth in the applicable Policy riders, in your Policy at your option. Election of any of these optional benefits involves an additional cost. These costs are set forth in the "Fee Table" section of the prospectus. Some information with respect to many of the available riders is included in the prospectus. We provide additional information about optional benefits below. **The riders are not available in all states and their terms may vary by state.**

Guaranteed Death Benefit

The guaranteed death benefit rider is summarized in the prospectus for the Policy. Additional information with respect to this rider is provided below.

If while the guaranteed death benefit rider is in force, the Accumulated Value of the Policy is not sufficient to cover the Monthly Deductions, Monthly Deductions will be made until the Accumulated Value of the Policy is exhausted, and will thereafter be deferred, and collected at such time as the Policy has positive Accumulated Value.

If you increase the Face Amount of a Policy subject to the guaranteed death benefit rider, the rider's guarantee will extend to the increased Face Amount. This will result in increased Minimum Guarantee Premiums.

If you have elected both the Waiver of Monthly Deductions rider and the guaranteed death benefit rider, and Monthly Deductions are waived because of total disability, then we will also waive the Minimum Guarantee Premiums required to keep the guaranteed death benefit rider in force during the period that Monthly Deductions are being waived.

If you wish to keep this rider in force, you must limit Withdrawals and Policy loans to the excess of premiums paid over the sum of the Minimum Monthly Premiums in effect since the Date of Issue. If you take a Policy loan or Withdrawal for an amount greater than such excess, the guaranteed death benefit rider will enter a 61-day lapse-pending notification period, and will be cancelled if you do not pay a sufficient premium.

If you purchase both the guaranteed death benefit rider and the additional protection benefit rider on your Policy, and the most current version of the additional protection benefit rider has been approved by your state, then during the first five Policy Years, the guaranteed death benefit rider will not protect the Death Benefit coverage provided by the additional protection benefit rider. In this situation, if during the first five Policy Years on any Monthly Policy Date the Accumulated Value under the Policy is not sufficient to pay the Monthly Deduction due on that date, the Death Benefit coverage provided by the additional protection benefit rider may lapse, even if you have paid the Minimum Guarantee Premium. After the first five Policy Years, as long as you have paid the Minimum Guarantee Premium, the guaranteed death benefit rider will prevent lapse of both the Death Benefit coverage provided by the base Policy and the Death Benefit coverage provided by the additional protection benefit rider.

No-Lapse Guarantee

The no-lapse guarantee rider is summarized in the prospectus. Additional information with respect to this rider is provided below.

Calculation of Cumulative General Account Premium. The Cumulative General Account Premium for the no-lapse guarantee rider is calculated as follows:

- a) the Cumulative General Account Premium on the preceding Monthly Policy Date, accumulated with interest for purposes of this calculation at an effective annual rate of 6%; plus
- b) the Net Premium Payments allocated to the General Account after the preceding Monthly Policy Date, to and including the current Monthly Policy Date, divided by 0.9675, and accumulated with interest for purposes of this calculation at an effective annual rate of 6% from the preceding Monthly Policy Date (except that no such accumulation shall apply to Net Premium Payments allocated on the current Monthly Policy Date); plus
- c) the Accumulated Value of your Policy transferred into the non-loaned portion of the General Account after the preceding Monthly Policy Date, to and including the current Monthly Policy Date, divided by 0.9675 and accumulated with interest for purposes of this calculation at an effective annual rate of 6% from the preceding Monthly Policy Date (except that no such accumulation shall apply to such transfers effected on the current Monthly Policy Date); minus
- d) the Accumulated Value of your Policy transferred or withdrawn from the non-loaned portion of the General Account after the preceding Monthly Policy Date, to and including the current Monthly Policy Date, divided by 0.9675 and accumulated with interest for purposes of this calculation at an effective annual rate of 6% from the preceding Monthly Policy Date (except that no such accumulation shall apply to such transfers or Withdrawals occurring on the current Monthly Policy Date).

The reason for dividing the amounts in (b), (c) and (d) by 0.9675, which is equal to one minus the Premium Tax Charge (i.e., $1 - .0325 = .9675$), is to put these amounts on a basis comparable to the Monthly Guarantee Premium, which is before premium taxes.

Automatic Transfer into General Account - Lapse. If on any Monthly Policy Date while the rider is in force, your Cumulative General Account Premium is less than the required cumulative monthly guarantee premium, we will transfer value from the subaccounts on a pro rata basis to the General Account to satisfy the test. If the value in the subaccounts is not enough to satisfy the test, we will transfer all of the value in the subaccounts to the General Account and we will send you a notice that the conditions of the rider have not been met. You will have 61 days from the date we mail the notice to pay a premium sufficient to keep the rider in force. The required premium will be the amount needed to satisfy the conditions of the rider on the Monthly Policy Date two months following the Monthly Policy Date that the test was failed. The rider will be cancelled if a sufficient premium is not paid during the 61-day period. If cancelled, the rider cannot be reinstated.

Monthly Deductions. While the no-lapse guarantee rider is in force, all Monthly Deductions will be deducted from the General Account. If, while the rider is in force, the Accumulated Value in the General Account is not enough to deduct the Monthly Deduction, Monthly Deductions will be made until the Accumulated Value in the General Account is exhausted. Thereafter, Monthly Deductions will be deferred, and collected at such time as the General Account has positive Accumulated Value.

Effect of Increases or Decreases. If you increase the Face Amount of a Policy with the no-lapse guarantee rider, the rider's guarantee will extend to the increase. This will result in an increase in the Monthly Guarantee Premium. If you decrease the Face Amount, the rider's guarantee will apply to the reduced amount and the Monthly Guarantee Premium will be correspondingly reduced.

Waivers of Monthly Deductions. If your Monthly Deductions are being waived under the operation of the waiver of monthly deductions rider or the accelerated care rider, then the Monthly Guarantee Premium required on each Monthly Policy Date while Monthly Deductions are being waived will be zero.

Effect of Withdrawals or Loans. If you wish to keep this rider in force, you must limit Withdrawals and loans to the amounts in the subaccounts and amounts in the General Account not needed to satisfy the conditions of the rider. If you take a Withdrawal or loan from the General Account which reduces the Cumulative General Account Premium below the cumulative monthly guarantee premium, the rider will enter the 61-day lapse pending notification period and will be cancelled if you do not pay a sufficient premium.

Effect of Transfers out of General Account. Transfers out of the General Account may also put the status of the rider in jeopardy. If you transfer an amount from the General Account which reduces the Cumulative General Account Premium below the cumulative monthly guarantee premium, under the operation of the rider, we will transfer an amount back to the General Account on the next Monthly Policy Date to cause the Cumulative General Account Premium to equal the cumulative monthly guarantee premium. There can be no assurance that an adequate amount will be available in the subaccounts for transfer to the General Account on the next Monthly Policy Date because the performance of the subaccounts is not guaranteed; if it is not, the rider will enter the 61-day lapse pending notification period and will be cancelled if you do not pay a sufficient premium. We will waive the limitation of one transfer per Policy Year from the General Account, with respect to transfers from the General Account of amounts not needed to satisfy the conditions of the rider.

Example. A 45 year old male in the preferred underwriting category purchases a VariTrak Policy with a \$250,000 Face Amount, with the no lapse guarantee rider. The Monthly Guarantee Premium, which is stated on the rider, is \$134.78. The Policyowner pays an Initial Premium equal to \$269.56 (two times the Monthly Guarantee Premium), and then plans to begin making automatic monthly premium payments of \$201.16 on the Monthly Policy Dates starting with the Monthly Policy Date which is two months after the Date of Issue. If he makes Premium Payments at the times planned and at least equal to the planned levels, allocates 67% of each such payment (\$134.78) to the General Account, and makes no loans, transfers or Withdrawals out of the General Account, he can be assured that the Policy will not lapse, regardless of the investment performance of the Separate Account, the level of interest credited to the General Account, and the amounts of the Monthly Deductions. During this time, all of the Monthly Deductions for the Policy will be taken from the General Account and not from the Separate Account. These Monthly Deductions will include a rider charge of \$12.50 per month (\$250,000 Face Amount times \$.05 per thousand per month).

Now assume that after making the planned Premium Payments for six months, the Policyowner skips a payment. Since in this case the Owner's Cumulative General Account Premium has just been matching the cumulative monthly guarantee premium while the payments were being made, the skipped payment will result in the Owner's Cumulative General Account Premium being less than the cumulative monthly guarantee premium. As a result, on the Monthly Policy Date corresponding to the skipped payment, we will seek to automatically transfer Accumulated Value from the Separate Account to the General Account in an amount sufficient to make up the shortfall in Cumulative General Account Premium that resulted from the skipped payment. In this situation the shortfall would be \$134.78. If the investment return on the six payments of \$66.38 (\$201.16 - \$134.78) into the Separate Account has been zero after netting out the Mortality and Expense Risk Charge, the fund expenses and the Premium Taxes on that portion of the Premium Payments, the Accumulated Value in the Separate Account will now be \$398.28 (6 x \$66.38). Under these facts, we will be able to effect to automatic transfer into the General Account, leaving \$263.50 (\$398.28 - \$134.78) in Accumulated Value in the Separate Account.

If there had not been sufficient Accumulated Value in the Separate Account to fully make up the shortfall, the no lapse guarantee rider will be cancelled if a sufficient premium as described above under “Automatic Transfer into General Account - Lapse of Rider” is not paid within 61 days after we notify the Owner that such a payment is necessary to prevent cancellation of the rider.

The same procedure, involving the automatic transfer of Accumulated Value from the Separate Account to the General Account, and the lapse pending process for the rider in the event the Accumulated Value in the Separate Account is not sufficient, would also be followed in the event the Policyowner makes a transfer out of the General Account, or makes a Withdrawal or takes a loan which requires some Accumulated Value to be taken out of the General Account.

In Florida and Maryland, the no-lapse guarantee rider does not include the continuing coverage provision. The continuing coverage provision provides that at the Insured’s Attained Age 99, if the rider is still in force, the Face Amount of the policy will remain as stated in the Policy’s Data Section, rather than being set equal to the Accumulated Value. The provision also prohibits additional premiums from being accepted and ceases all Monthly Deductions.

Waiver of Monthly Deductions

If you elect the waiver of monthly deductions rider, we will waive Monthly Deductions against the Policy if the Insured becomes totally disabled, before age 65 and for at least 120 consecutive days. In Pennsylvania, the 120 days of disability need not be consecutive, but must occur within a period of 240 consecutive days. If total disability occurs after age 60 and before age 65, then we will waive Monthly Deductions only until the Insured reaches Attained Age 65, or for a period of two years, if longer. The monthly cost of this rider while it is in force is based on sex-distinct rates (except for Policies issued in states which require “unisex” policies or in conjunction with employee benefit plans, where the cost of this rider will not vary by sex) multiplied by the Monthly Deduction on the Policy. We will add this cost to the Monthly Deduction on the Policy.

Accidental Death Benefit

The accidental death benefit rider provides for an increased Death Benefit in the event that the Insured dies in an accident. If you elect this rider, we will add the monthly cost of this rider, which varies based on age and sex, to the Monthly Deduction on the Policy.

Guaranteed Insurability Option

This rider permits you at certain ages or upon certain life events to increase the Face Amount of the Policy, within certain limits, without being required to submit satisfactory proof of insurability at the time of the request for the increase. Again, if you elect this rider, we will add the monthly cost of this rider, which is based on age at the time of purchase of the rider and sex, to the Monthly Deduction on the Policy.

Rider for Disability Benefit — Payment of Mission Costs

If you are buying your Policy through a registered representative who is an agent of Beneficial Life Insurance Company, you may at your option include in your Policy the rider for disability benefit — payment of mission costs. Election of this benefit involves additional cost.

This rider, which is subject to the restrictions and limitations set forth in the rider, provides a monthly benefit equal to the expenses of any dependent children (under age 30) participating in voluntary mission service, up to a maximum of \$375 per month per child, while the Insured is totally disabled. The maximum benefit duration is 24 months for each child. The maximum benefit will be adjusted for inflation at an annual rate of 3%.

Benefits will be paid when the Insured has been continuously disabled for a period of six months due to disabilities occurring prior to age 65. After six months of continuous disability, benefit payments are retroactive to the beginning of the period. Coverage ceases at age 65. For Insureds disabled prior to age 65, benefit eligibility continues until disability ends.

The monthly cost of this rider is level, and varies by the age at issue and the sex of the Insured (except for Policies issued in states which require “unisex” Policies, where the cost of this rider will not vary by sex). The cost of the rider does not vary by the number of dependent children. Depending on the age and sex of the Insured, the monthly cost of the rider will range from \$1.65 to \$4.25. The monthly cost of this rider will be added to the Monthly Deduction on the Policy.

This rider is not available in all states.

Accelerated Care

This rider is not available under Policies issued on and after September 19, 2011.

We offer an accelerated care rider under which we will make periodic partial prepayments to you of all or a portion of your Death Benefit, including any Additional Protection Benefit amounts, if the Insured becomes “chronically ill”. The Insured is deemed “chronically ill” if he or she:

- is unable to perform, without substantial assistance, at least two activities of daily living for at least 90 consecutive days due to a loss of functional capacity; or
- requires substantial supervision by another person to protect the Insured from threats to health and safety due to his or her own severe cognitive impairment.

The accelerated care rider may not cover all of the long-term expenses the Insured incurs during the period of coverage.

While your Policy is in force, we will begin to pay benefits under this rider provided:

- we receive proof satisfactory to us that the Insured is chronically ill,
- we receive a plan of care to address the Insured’s chronic illness, and
- 60 days have elapsed since the Insured began receiving “qualified long-term care services,” as defined in the rider (we refer to this 60-day period as the “elimination period”).

The 60 days need not be consecutive, but must be completed within a period of 180 days. We will not pay for expenses incurred during the elimination period. We will continue to pay benefits under this rider only if you continue to submit documentation of continuing unreimbursed expenses within 90 days after the end of each month during which the Insured receives such services. In addition, we will require, no more than once every 90 days while benefits are being paid, a certification from the Insured’s care coordinator that the Insured remains chronically ill.

The benefit date is the first day on which the Insured incurs expenses for qualifying long-term care services, as defined in the rider.

If your Policy’s Death Benefit option is Option B on the final day of the elimination period, we automatically will change the Death Benefit option to Option A on the benefit date. At that time, we also will increase the Face Amount of your Policy by an amount equal to your Policy’s Accumulated Value.

The accelerated care benefit amount we will pay in any month will not exceed the lesser of (i) the actual expenses incurred by the Insured for qualified long-term care services, as defined in the rider, minus any deductible or coinsurance amounts and any reimbursement from Medicare (except as a secondary payee) and other government programs, excluding Medicaid, and (ii) the monthly benefit limits. When you apply for the rider, you select from one of two options we use to determine the monthly benefit limits. Once you select an option, you cannot change it. The options are:

Covered Service	Percentage Limit	
	Option 1	Option 2
Nursing Home Care	1.0%	2.0%
Home Health Care	1.0%	2.0%
Adult Day Care	0.5%	1.0%

The monthly benefit limit for a particular type of care equals the Death Benefit of the Policy at the benefit date multiplied by the percentage limits based on the option selected. If an Insured should incur more than one type of care in a given month, we will pay expenses incurred for all qualified long-term care services during that month up to the greatest monthly benefit limit applicable to one type of care received. We will prorate the monthly benefit limit for each type of care for partial months of eligibility.

If the Owner exercises any right under the Policy which changes the Death Benefit of the Policy, the monthly benefit limits will be adjusted accordingly in proportion to the change in the Death Benefit.

When we make an accelerated care benefit payment, we will also calculate a monthly benefit ratio. We describe this ratio in your Policy and use the monthly benefit ratio to determine how each accelerated care benefit payment we make affects your Policy's values.

Each time we make an accelerated care benefit payment, we will:

- a) reduce your remaining benefit amount (this amount is initially the Death Benefit at the benefit date) by the amount of each accelerated care benefit payment;
- b) reduce your Policy's Face Amount (including any increase segments), Accumulated Value, and any Surrender Charges in effect on the your Policy immediately following any accelerated care benefit payment to their respective values immediately preceding that payment times the monthly benefit ratio associated with that payment;
- c) reduce your Policy's Death Benefit to reflect reductions in your Policy's Face Amount and Accumulated Value; and
- d) reduce your Minimum Monthly Premium to reflect the reduction in your Policy's Face Amount.

Each accelerated care benefit payment will be applied to pay a pro-rata portion of any debt owed to us on the Policy. When the cumulative accelerated care benefit payments reach the initial benefit amount, equal to the Death Benefit at the benefit date, payments under the rider will end.

We will offer an optional inflation protection feature with this rider. This feature will increase the amount available for acceleration without increasing the Policy's Death Benefit. As a result, accelerated care riders sold with this feature will accelerate the Death Benefit faster than those sold without it.

We will waive all Monthly Deductions for your Policy and all riders attached to your Policy while accelerated care benefits are being paid under this rider. All other charges under your Policy, including the daily mortality and expense risk charge, will continue to apply. While accelerated care benefits are being paid under this rider, we may require that the Accumulated Value of your Policy be held entirely in the General Account. In addition, the Death Benefit option may not be changed while accelerated care benefits are being paid under the rider. The Owner may once again allocate new premiums or transfer Accumulated Value to subaccounts of the Separate Account following 180 consecutive days during which qualified long-term care services are not incurred by the Insured.

Charges. We will assess a monthly charge for the accelerated care rider, which will include an amount per \$1,000 of Net Amount at Risk, and an amount per dollar of Monthly Deduction. We will add this charge to your Monthly Deduction. The rider charge varies based on the age and gender of the Insured, and the benefit options selected. Once we pay benefits under the accelerated care rider, we waive this charge until the Insured is no longer eligible to receive benefits. If you elect the accelerated care rider, you may be deemed to have received a distribution for tax purposes each time we make a deduction from your Policy's Accumulated Value to pay the rider charges. You should consult a tax adviser with respect to these charges. See "Tax Consequences Associated with Accelerated Care and Chronic Care Protection Riders" in the prospectus under "Federal Income Tax Consequences."

Tax Consequences. The accelerated care rider has been designed to meet federal tax requirements that should generally allow accelerated care benefit payments to be excluded from gross income. You should consult a tax adviser before adding this rider to your Policy or requesting benefits under this rider.

Availability. The accelerated care rider is available only at issue and is subject to full medical underwriting. This rider will not be available in qualified plans. The accelerated care rider will not be available for Policies with Face

Amounts (including any Additional Protection benefit coverage) in excess of \$1,000,000. The accelerated care rider will terminate if the base Policy terminates, or if you choose to terminate the rider.

In general, we will not issue the accelerated care rider on a Policy with substandard ratings. However, the rider can be added to a Policy with a substandard rating at our discretion if the Insured meets the standard underwriting requirements for long-term care risk.

The accelerated care rider provides for certain exclusions from coverage. Please see your rider for more details.

Chronic Care Protection

This rider is not available under Policies issued on and after September 19, 2011.

We also offer an optional chronic care protection rider, which provides benefits to pay for expenses incurred by an Insured for qualified long-term care services beyond the date on which payments under an accelerated care rider would terminate because the entire Death Benefit of the Policy including any Additional Protection Benefit amounts has been accelerated. The chronic care protection rider may not cover all of the long-term expenses the Insured incurs during the period of coverage.

While your Policy is in force, we will begin to pay benefits under this rider provided:

- a) we receive proof satisfactory to us that the Insured is chronically ill,
- b) we receive a plan of care to address the Insured’s chronic illness, and
- c) we have accelerated the entire Death Benefit of the Policy under the accelerated care rider.

We will continue to pay benefits under this rider only if you continue to submit documentation of continuing unreimbursed expenses within 90 days after the end of each month during which the Insured receives such services. In addition, we will require, no more than once every 90 days while benefits are being paid, a certification from the Insured’s care coordinator that the Insured remains chronically ill.

Because chronic care protection benefits represent an extension of benefits beginning after the benefit amount under the accelerated care rider have been exhausted, payment of chronic care protection benefits will not effect your Policy’s values.

The chronic care protection benefit amount that we will pay in any month may not exceed the lesser of the actual expenses incurred by the Insured for qualified long-term care services, minus any deductible or coinsurance amounts and any reimbursement from Medicare (except as a secondary payor) and other government programs, excluding Medicaid, and (ii) the monthly benefit limit. When you apply for this rider, you select one of the three benefit options we offer. We use these benefit options to determine monthly benefit limits and benefit periods. Once you select a benefit option, you cannot change it. We reserve the right to limit the availability of the benefit options based on the benefit option you selected for the accelerated care rider.

Covered Service	Percentage Limit		
	Option 1	Option 2	Option 3
Nursing Home Care	1.0%	2.0%	2.0%
Home Health Care	1.0%	2.0%	2.0%
Adult Day Care	0.5%	1.0%	1.0%

Option	Benefit Period
Option 1	Until the death or recovery of the Insured.
Option 2	Until the death or recovery of the Insured.
Option 3	Until an amount equal to the inflation adjusted rider Face Amount has been paid under the rider.

The monthly benefit limit for a particular type of care is equal to the chronic care protection rider Face Amount multiplied by the percentage limit for the option selected. If an Insured should incur costs for more than one type of care in a given month, we will pay benefits for all covered costs incurred during that month up to the greatest monthly benefit limit applicable to one type of care received. We will prorate the maximum monthly benefit for each type of care for partial months of eligibility.

This rider includes an optional nonforfeiture provision that provides nonforfeiture benefits for any Insured whose coverage under this rider lapses after three years. Electing optional nonforfeiture benefits may have tax consequences. You should consult a tax adviser before electing the optional non-forfeiture provision.

An optional inflation protection feature will be available with this rider. This feature will increase the maximum monthly benefit at an annual effective rate of 5% for the number of whole Policy Years that have elapsed since the effective date of the rider.

Charge. We will assess a monthly charge per \$1,000 of Face Amount for the chronic care protection rider. We will add this charge to your Monthly Deduction. The chronic care protection rider charge varies based on the age and gender of the Insured, and the benefit options selected. If you elect the chronic care protection rider, you will be deemed to have received a distribution for tax purposes each time we make a deduction from your Policy's Accumulated Value to pay the rider charges. You should consult a tax adviser with respect to these charges.

Tax Consequences. The chronic care protection rider has been designed to meet the federal tax requirements that should generally allow the payment of benefits to be excluded from gross income. In certain states, we may also offer a chronic care protection non-qualifying long-term care rider. The tax consequences associated with benefit payments from this rider are, however, unclear, and a tax advisor should be consulted. You should also consult a tax adviser before adding to your Policy.

Availability. The chronic care protection rider is available only at issue and is subject to full medical underwriting. You may only elect this rider if you have also elected the accelerated care rider. The chronic care protection rider will not be available in qualified plans. This rider will terminate if the base Policy terminates, if the accelerated care rider terminates (not including when you have received the full benefit under that rider), or if you choose to terminate the rider.

In general, we will not issue the rider on a Policy with substandard ratings. However, the rider can be added to a Policy with a substandard rating at our discretion if the Insured meets the standard underwriting requirements for long-term care risk.

The chronic care protection rider provides for certain exclusions from coverage. Please see your rider for more details.

Tax Consequences Associated with Accelerated Care and Chronic Care Protection Riders

We believe that benefits payable under the accelerated care rider and the chronic care protection rider should generally be excludable from gross income under the Internal Revenue Code ("Code"). The exclusion of these benefit payments from taxable income, however, is contingent on the rider meeting specific requirements under the Code. While guidance is limited, we believe that the accelerated care rider should satisfy these requirements.

The tax treatment of benefits payable under the chronic care protection rider are less clear if you elect the optional nonforfeiture provision. Moreover, the tax qualification consequences of continuing the Policy after a distribution is made under the accelerated care rider and the chronic care protection rider are unclear. You should consult a tax adviser about those consequences.

In certain states, however, we may also offer long term care riders that do not satisfy the requirements of the Code to be treated as qualified long-term care ("nonqualifying long-term care riders.") Because the federal tax consequences associated with benefits paid under nonqualifying long-term care riders are unclear, you should consult a tax adviser regarding the tax implications of adding nonqualifying long-term care riders to your Policy. We will advise you whether we intend for your rider to be nonqualifying.

You will be deemed to have received a distribution for tax purposes each time a deduction is made from your Policy Accumulated Value to pay charges for the chronic care protection rider, or any nonqualifying long-term care rider. The distribution will generally be taxed in the same manner as any other distribution under the Policy. The tax treatment associated with the Monthly Deduction attributable to the cost of the accelerated care rider is unclear. You should consult a tax adviser regarding the treatment of these payments.

Accelerated Benefit

This rider provides an accelerated Death Benefit prior to the death of the Insured in certain circumstances where a terminal illness or chronic illness creates a need for access to the Death Benefit. Accelerated Death Benefits paid under this rider are discounted. The following factors may be used in the determination of the accelerated Death Benefit: Cash Surrender Value of the Policy, future premiums that may be paid under the Policy, any administrative fee assessed, mortality expectations, and the accelerated benefit interest rate in effect. This rider is not available in all states and its terms may vary by state. There is no cost for this rider. It can be included in a Policy at issue, or it can be added after issue. The maximum amount payable under both Terminal and Chronic riders for any individual Insured will be set by the company, such limit will not be less than \$500,000. Although it is not guaranteed, we currently permit benefit payments up to \$1,500,000. An Insured who has a chronic illness, as defined in the rider, may not receive benefits under the rider until a period of time not to exceed five years after the rider's issue has passed. Although this is not guaranteed, we currently require that this waiting period be only two years.

This rider has been designed to meet the federal tax requirements that will generally allow accelerated benefits to be excluded from gross income. You should consult a tax advisor regarding the consequences of accelerating the Death Benefit under this rider because guidance with respect to such federal tax requirements is limited.

Overloan Protection

The overloan protection rider is summarized in the prospectus or the Policy. Additional information with respect to this rider is provided below.

Calculation of Cost. There is a one-time exercise charge for this rider. The exercise charge will be equal to the product of the exercise charge percentage shown on the overloan protection rider data page for the Attained Age of the Insured at the time of exercise multiplied by the Accumulated Value of the Policy. The exercise charge will be deducted from the General Account of the Policy.

Effect of Increases or Decreases. If you increase the Face Amount of a Policy with the overloan protection rider, the rider's protection will extend to the increase. If you decrease the Face Amount, the rider's protection will apply to the reduced amount.

Tax Consequences. The tax consequences of the overloan protection rider have not been ruled on by the IRS or the courts and it is possible that the IRS could assert that the outstanding loan balance should be treated as a taxable distribution when the overloan protection rider causes the Policy to be converted into a fixed Policy.

POLICIES ISSUED IN CONJUNCTION WITH EMPLOYEE BENEFIT PLANS

Policies may be acquired in conjunction with employee benefit plans, including the funding of qualified pension plans meeting the requirements of Section 401 of the Code.

For employee benefit plan Policies, the maximum cost of insurance rates used to determine the monthly Cost of Insurance Charge are based on the Commissioners' 1980 Standard Ordinary Mortality Tables NB and SB. Under these Tables, mortality rates are the same for male and female Insureds of a particular Attained Age and Rate Class.

Illustrations reflecting the premiums and charges for employee benefit plan Policies will be provided upon request to purchasers of such Policies.

There is no provision for misstatement of sex in the employee benefit plan Policies. (See "Misstatement of Age and Sex," in the prospectus for the Policy.) Also, the rates used to determine the amount payable under a particular Settlement Option will be the same for male and female Insureds. (See "Settlement Options," above.)

If a Policy is purchased in connection with a plan sponsored by an employer, all rights under the Policy rest with the Policy Owner, which may be the employer or other obligor under the plan. Benefits available to participants under the plan will be governed solely by the provisions of the plan. Accordingly, some of the options and elections under the Policy may not be available to participants under the provisions of the plan. In such cases, participants should contact their employers for information regarding the specifics of the plan.

SPECIAL RULES FOR EMPLOYEE BENEFIT PLANS

If a trustee under a pension or profit-sharing plan, or similar deferred compensation arrangement, owns a Policy, the Federal and state income and estate tax consequences could differ. A tax adviser should be consulted with respect to such consequences. Policies owned under these types of plans may also be subject to restrictions under the Employee Retirement Income Security Act of 1974 (“ERISA”). You should consult a qualified adviser regarding ERISA.

The amounts of life insurance that may be purchased on behalf of a participant in a pension or profit-sharing plan are limited.

The current cost of insurance for the Net amount at Risk is treated as a “current fringe benefit” and must be included annually in the plan participant’s gross income. We report this cost (generally referred to as the “P.S. 58” cost) to the participant annually.

If the plan participant dies while covered by the plan and the Policy proceeds are paid to the participant’s Beneficiary, then the excess of the Death Benefit over the Accumulated Value is not taxable. However, the Accumulated Value will generally be taxable to the extent it exceeds the participant’s cost basis in the Policy.

LEGAL DEVELOPMENTS REGARDING UNISEX ACTUARIAL TABLES

In 1983, the United States Supreme Court held in *Arizona Governing Committee v. Norris* that optional annuity benefits provided under an employee’s deferred compensation plan could not, under Title VII of the Civil Rights Act of 1964, vary between men and women on the basis of sex. In that case, the Court applied its decision only to benefits derived from contributions made on or after August 1, 1983. Subsequent decisions of lower federal courts indicate that in other factual circumstances the Title VII prohibition of sex-distinct benefits may apply at an earlier date. In addition, legislative, regulatory, or decisional authority of some states may prohibit use of sex-distinct mortality tables under certain circumstances. The Policies offered by this prospectus, other than Policies issued in states which require “unisex” policies (currently Montana) and employee benefit plan Policies (see “Policies Issued in Conjunction with Employee Benefit Plans,” above) are based upon actuarial tables which distinguish between men and women and, thus, the Policy provides different benefits to men and women of the same age. Accordingly, employers and employee organizations should consider, in consultation with legal counsel, the impact of these authorities on any employment-related insurance or benefits program before purchasing the Policy and in determining whether an employee benefit plan Policy is appropriate.

POLICY REPORTS

Once each Policy Year, we will send you a statement describing the status of the Policy, including setting forth:

- the Face Amount;
- the current Death Benefit;
- any Policy loans and accrued interest;
- the current Accumulated Value;
- the non-loaned Accumulated Value in the General Account;
- the amount held as Collateral in the General Account;
- the value in each subaccount of the Separate Account;
- premiums paid since the last report;
- charges deducted since the last report;
- any Withdrawals since the last report; and
- the current Cash Surrender Value.

In addition, we will send you a statement showing the status of the Policy following the transfer of amounts from one subaccount of a Separate Account to another, the taking out of a loan, a repayment of a loan, a Withdrawal and the payment of any premiums (excluding those paid by bank draft or otherwise under the Automatic Payment Plan).

We will send you semi-annually a report containing the financial statements of each Fund in which your Policy has Accumulated Value, as required by the 1940 Act.

RECORDS

We will maintain all records relating to the Policy at our Home Office at National Life Drive, Montpelier, Vermont 05604.

LEGAL MATTERS

Eversheds Sutherland LLP of Washington, D.C. has provided advice on legal matters relating to certain aspects of Federal securities law applicable to the issue and sale of the Policies. Matters of Vermont law pertaining to the Policies, including National Life's right to issue the Policies and its qualification to do so under applicable laws and regulations issued thereunder, have been passed upon by Lisa Muller, Senior Counsel of National Life.

EXPERTS

The statutory statements of admitted assets, liabilities, and capital and surplus of National Life as of December 31, 2017 and 2016, and the related statutory statements of income, capital and surplus, and cash flows for each of the three years in the period ended December 31, 2017; the statements of net assets and the related statements of operations and of changes in net assets of each of the subaccounts constituting the National Variable Life Insurance Account at December 31, 2017 and the results of each of their operations for the year then ended and the changes in each of their net assets for each of the two years then ended, included in this Statement of Additional Information, which is part of the registration statement, have been so included in reliance on the reports of PricewaterhouseCoopers LLP, independent registered public accounting firm, of 101 Seaport Boulevard, Suite 500, Boston, Massachusetts 02210, given on the authority of such firm as experts in accounting and auditing.

FINANCIAL STATEMENTS

The financial statements of National Life, and the Separate Account appear on the following pages. The financial statements of National Life should be distinguished from the financial statements of the Separate Account and should be considered only as bearing upon National Life's general financial strength and claims paying ability, and its ability to meet its obligations under the Policies. In addition to General Account allocations, General Account assets are used to guarantee the payment of certain benefits under the Policy. To the extent that National Life is required to pay you amounts in addition to your Accumulated Value under these benefits, such amounts will come from General Account assets. National Life's General Account assets principally consist of fixed-income securities, including corporate bonds, mortgage-backed/asset-backed securities, and mortgage loans on real estate. National Life and its affiliates enter into equity derivative contracts (futures and options) to hedge exposures embedded in their equity indexed insurance products, and may enter into other types of derivatives transactions. All of National Life's General Account assets are exposed to various investment risks. National Life's financial statements include a further discussion of risks associated with General Account investments.

National Life Insurance Company

Financial Statements - Statutory-Basis

**As of and for the Years Ended
December 31, 2017 and 2016**

National Life Insurance Company

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As of and for the Years Ended December 31, 2017 and 2016

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Notes to Statutory-Basis Financial Statements



Report of Independent Auditors

To the Board of Directors of
National Life Insurance Company:

We have audited the accompanying statutory financial statements of National Life Insurance Company (the "Company"), which comprise the statutory balance sheets as of December 31, 2017 and 2016, and the related statutory statements of operations and changes in capital and surplus, and of cash flows for each of the three years ended December 31, 2017.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices prescribed or permitted by the State of Vermont Department of Financial Regulation. 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 the 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 our 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, we consider internal control relevant to the Company'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 Company'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 opinion.

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

As described in Note A to the financial statements, the financial statements are prepared by the Company on the basis of the accounting practices prescribed or permitted by the State of Vermont Department of Financial Regulation, which is a basis of accounting other than accounting principles generally accepted in the United States of America.



The effects on the financial statements of the variances between the statutory basis of accounting described in Note A and accounting principles generally accepted in the United States of America are material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter 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 accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2017 and 2016, or the results of its operations or its cash flows for the each of the three 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 and surplus of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years then ended, in accordance with the accounting practices prescribed or permitted by the State of Vermont Department of Financial Regulation described in Note A.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the statutory-basis financial statements taken as a whole. The Schedule of Selected Statutory-Basis Financial Data, Investment Risks Interrogatories and Summary Investment Schedule (collectively, the “supplemental schedules”) of the Company as of December 31, 2017 and for the year then ended are presented to comply with the National Association of Insurance Commissioners’ Annual Statement Instructions and Accounting Practices and Procedures Manual and for purposes of additional analysis and are not a required part of the statutory-basis financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory-basis financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the statutory-basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory-basis financial statements or to the statutory-basis financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the statutory-basis financial statements taken as a whole.

PricewaterhouseCoopers LLP

April 17, 2018

National Life Insurance Company Balance Sheets – Statutory-Basis

	December 31,	
	2017	2016
	<i>(in thousands)</i>	
Admitted assets		
Cash and invested assets:		
Bonds	\$ 5,374,599	\$ 5,285,283
Preferred stocks	11,000	11,000
Common stocks	1,207,070	1,062,225
Mortgage loans	513,486	556,144
Real estate	57,832	63,822
Policy loans	527,395	526,657
Cash and short-term investments	23,853	94,534
Derivatives	69,465	51,669
Surplus notes	94,108	94,291
Other invested assets	139,347	176,410
Total cash and invested assets	8,018,155	7,922,035
Deferred and uncollected premiums	37,355	43,866
Accrued investment income	73,299	73,778
Net deferred tax asset	70,253	137,308
Receivables from affiliates	175,198	32,957
Notes receivable	—	33,623
Other admitted assets	302,303	293,316
Separate account assets	823,476	740,004
Total admitted assets	\$ 9,500,039	\$ 9,276,887

The accompanying notes are an integral part of these financial statements.

National Life Insurance Company
Balance Sheets – Statutory-Basis (continued)

	December 31,	
	2017	2016
	<i>(in thousands)</i>	
Liabilities and capital and surplus		
Liabilities:		
Policy and contract liabilities:		
Life and annuity reserves	\$ 2,559,229	\$ 2,773,058
Accident and health reserves	473,807	490,835
Liability for deposit-type contracts	188,294	186,225
Unpaid policy and contract claims	16,291	17,635
Policyholders' dividends	13,665	15,243
Other policy and contract liabilities	651	1,363
Total policy and contract liabilities	3,251,937	3,484,359
Funds held under coinsurance	2,974,943	2,812,983
Employee and agent benefits	77,826	74,879
Minimum pension benefit obligation	27,967	25,895
Interest maintenance reserve	27,205	29,497
Asset valuation reserve	66,922	75,609
Payable to affiliates	20,654	42
Derivatives	20,906	16,302
Other liabilities	201,106	98,994
Separate account liabilities	814,928	733,099
Total liabilities	7,484,394	7,351,659
Capital and surplus:		
Common stock, \$1 par value 2,500,000 shares authorized, issued and outstanding	2,500	2,500
Additional paid-in surplus	351,092	351,092
Surplus notes	189,110	190,330
Special surplus funds	9,278	7,594
Unassigned surplus	1,463,665	1,373,712
Total capital and surplus	2,015,645	1,925,228
Total liabilities and capital and surplus	\$ 9,500,039	\$ 9,276,887

The accompanying notes are an integral part of these financial statements.

National Life Insurance Company Statements of Operations – Statutory-Basis

	Year Ended December 31,		
	2017	2016	2015
	<i>(in thousands)</i>		
Premiums and other revenue:			
Premiums and annuity considerations for life and accident and health contracts	\$ (43,245)	\$ 331,101	\$ (2,918,970)
Considerations for supplementary contracts with life contingencies	155	971	1,024
Net investment income	355,595	328,318	326,613
Amortization of interest maintenance reserve	3,260	3,503	5,961
Other income	53,413	29,219	74,752
Total premiums and other revenue	<u>369,178</u>	<u>693,112</u>	<u>(2,510,620)</u>
Benefits paid or provided:			
Death benefits	73,817	70,418	91,187
Annuity benefits	35,707	46,750	37,256
Surrender benefits and other fund withdrawals	134,166	127,050	187,066
Other benefits	30,980	29,519	(61,706)
(Decrease) increase in policy reserves	(230,851)	108,727	(2,963,961)
Total benefits paid or provided	<u>43,819</u>	<u>382,464</u>	<u>(2,710,158)</u>
Insurance expenses:			
Commissions	59,234	54,324	53,103
General and administrative expenses	200,729	345,156	200,813
Insurance taxes, licenses and fees	17,523	12,833	10,827
Net transfers from separate accounts	(19,829)	(17,326)	(26,831)
Total insurance expenses	<u>257,657</u>	<u>394,987</u>	<u>237,912</u>
Gain (loss) from operations before dividends to policyholders, income taxes, and net realized capital gains (losses)	67,702	(84,339)	(38,374)
Dividends to policyholders	<u>10,233</u>	<u>11,654</u>	<u>(23,176)</u>
Gain (loss) from operations before income taxes and net realized capital gains (losses)	57,469	(95,993)	(15,198)
Federal income tax (expense) benefit	<u>(26,256)</u>	<u>58,687</u>	<u>53,512</u>
Gain (loss) from operations before net realized capital gains (losses)	31,213	(37,306)	38,314
Net realized capital (losses) gains	<u>(16,338)</u>	<u>(13,823)</u>	<u>(26,305)</u>
Net income (loss)	<u>\$ 14,875</u>	<u>\$ (51,129)</u>	<u>\$ 12,009</u>

The accompanying notes are an integral part of these financial statements.

National Life Insurance Company
Statements of Changes in Capital and Surplus – Statutory-Basis

	Common Stock	Paid-In Surplus	Unassigned Surplus	Surplus Notes and Special Surplus Funds	Total Capital and Surplus
	<i>(in thousands)</i>				
Balances at January 1, 2015	\$ 2,500	\$ 194,092	\$ 1,137,822	\$ 206,741	\$ 1,541,155
Net income	—	—	12,009	—	12,009
Change in unrealized, net of deferred tax effects	—	—	11,007	—	11,007
Change in asset valuation reserve	—	—	6,071	—	6,071
Change in minimum pension benefit obligation, net of deferred tax effects	—	—	2,948	—	2,948
Change in non-admitted assets	—	—	(26,967)	—	(26,967)
Change in deferred tax asset	—	—	(2,447)	—	(2,447)
Change in paid-in surplus	—	157,000	—	—	157,000
Change in ceding commission	—	—	87,391	—	87,391
Other adjustments to surplus, net	—	—	(512)	(9,648)	(10,160)
Balances at December 31, 2015	2,500	351,092	1,227,322	197,093	1,778,007
Beginning surplus adjustment	—	—	3,522	—	3,522
Net income	—	—	(51,129)	—	(51,129)
Change in unrealized, net of deferred tax effects	—	—	137,574	—	137,574
Change in asset valuation reserve	—	—	3,162	—	3,162
Change in minimum pension benefit obligation, net of deferred tax effects	—	—	2,404	—	2,404
Change in non-admitted assets	—	—	(20,824)	—	(20,824)
Change in deferred tax asset	—	—	86,103	—	86,103
Dividends to stockholders	—	—	(10,000)	—	(10,000)
Change in ceding commission	—	—	(3,799)	—	(3,799)
Other adjustments to surplus, net	—	—	(623)	831	208
Balances at December 31, 2016	2,500	351,092	1,373,712	197,924	1,925,228
Net income	—	—	14,875	—	14,875
Change in unrealized, net of deferred tax effects	—	—	26,957	—	26,957
Change in asset valuation reserve	—	—	8,687	—	8,687
Change in minimum pension benefit obligation, net of deferred tax effects	—	—	(1,347)	—	(1,347)
Change in non-admitted assets	—	—	36,876	—	36,876
Change in deferred tax asset	—	—	(59,667)	—	(59,667)
Dividends to stockholders	—	—	(20,000)	—	(20,000)
Change in ceding commission	—	—	84,868	—	84,868
Other adjustments to surplus, net	—	—	(1,296)	464	(832)
Balances at December 31, 2017	\$ 2,500	\$ 351,092	\$ 1,463,665	\$ 198,388	\$ 2,015,645

The accompanying notes are an integral part of these financial statements.

National Life Insurance Company

Statements of Cash Flows – Statutory-Basis

	Year Ended December 31,		
	2017	2016	2015
	<i>(in thousands)</i>		
Operating activities:			
Premiums, policy proceeds, and other considerations received, net of reinsurance paid	\$ 443,217	\$ 431,840	\$ 408,214
Net investment income received	347,959	319,095	351,458
Benefits paid	(529,756)	(564,996)	(503,158)
Net transfers from Separate Accounts	20,864	18,270	28,222
Insurance expenses paid	(132,120)	(288,042)	(224,806)
Dividends paid to policyholders	(64,166)	(73,340)	(74,362)
Federal income taxes recovered	49,546	87,905	48,990
Other income received, net of other expenses paid	523	24,811	161,622
Net cash provided (used) by operating activities	<u>136,067</u>	<u>(44,457)</u>	<u>196,180</u>
Investment activities:			
Proceeds from sales, maturities, or repayments of investments:			
Bonds	582,356	840,142	650,465
Stocks	26,253	10,082	9,304
Mortgage loans	72,730	111,278	80,619
Real estate	3,062	19,532	6,585
Other invested assets	40,344	124,031	101,897
Miscellaneous proceeds	180	500	440
Total proceeds from sales, maturities, or repayments of investments	<u>724,925</u>	<u>1,105,565</u>	<u>849,310</u>
Cost of investments acquired:			
Bonds	(665,659)	(850,589)	(792,085)
Stocks	(130,300)	(49,639)	(30,401)
Mortgage loans	(29,950)	(121,585)	(112,350)
Real estate	(1,219)	(1,794)	(1,671)
Other invested assets	(15,085)	(46,198)	(106,075)
Miscellaneous applications	(1,408)	(6,705)	(9,580)
Total cost of investments acquired	<u>(843,621)</u>	<u>(1,076,510)</u>	<u>(1,052,162)</u>
Net change in policy loans	(738)	7,218	12,864
Net cash (used) provided in investing activities	<u>(119,434)</u>	<u>36,273</u>	<u>(189,988)</u>
Financing and miscellaneous activities:			
Other cash provided (applied):			
Deposits on deposit-type contract funds and other liabilities without life contingencies	1,112	23,014	(27,308)
Surplus notes	(1,995)	—	(15,079)
Capital and paid in surplus, less treasury stock	—	18,000	109,000
Other cash (applied) provided	(86,431)	(63,720)	(38,619)
Net cash (applied) provided by financing and miscellaneous activities	<u>(87,314)</u>	<u>(22,706)</u>	<u>27,994</u>
Net (decrease) increase in cash and short-term investments	<u>(70,681)</u>	<u>(30,890)</u>	<u>34,186</u>
Cash and short-term investments:			
Beginning of year	94,534	125,424	91,238
End of year	<u>\$ 23,853</u>	<u>\$ 94,534</u>	<u>\$ 125,424</u>

The accompanying notes are an integral part of these financial statements.

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

A. Significant Accounting Policies

Description of Business

All of the outstanding shares of National Life Insurance Company (“National Life”, “NLIC”, “the Company”) are currently held by its parent, NLV Financial Corporation (“NLVF”), which is the wholly-owned subsidiary of National Life Holding Company (“NLHC”). NLHC and its subsidiaries (including the Company) are collectively known as National Life Group (“the Group”). The Company is licensed in all 50 states and the District of Columbia. The Company, its upstream parents, and its subsidiaries and affiliates offer a broad range of financial products and services, including life insurance, annuities, mutual funds, and investment advisory and administrative services. The Group’s principal insurance product lines include whole life, term life, universal life, indexed universal life, variable universal life, fixed annuities, indexed annuities and variable annuities. The Group also offers mutual funds and investment brokerage services. The organization was founded in 1848, when the Company was chartered in Vermont. The Group employs approximately 1,025 people, primarily concentrated in Montpelier, Vermont and Addison, Texas. The Company owns 100% of the stock of Life Insurance Company of the Southwest (“LSW”).

On January 1, 1999, pursuant to a mutual holding company reorganization, the Company converted from a mutual to a stock life insurance company. This reorganization was approved by policyowners of National Life, and was completed with the approval of the Commissioner of the Vermont Department of Financial Regulation (the “Commissioner”). Prior to the conversion, policyowners held policy contractual and membership rights from the Company. The contractual rights, as defined in the various insurance and annuity policies, remained with the Company after the conversion. Membership interests held by policyowners at December 31, 1998 were converted to membership interests in NLHC, a mutual insurance holding company created for this purpose.

Concurrent with the conversion to a stock life insurance company, National Life established and began operating the Closed Block. The Closed Block was established on January 1, 1999 pursuant to regulatory requirements as part of the reorganization into a mutual holding company corporate structure. The Closed Block was established for the benefit of policyholders of participating policies inforce at December 31, 1998. Included in the block are traditional dividend-paying life insurance policies, certain participating term insurance policies, dividend-paying flexible premium annuities, and other related liabilities. The Closed Block is expected to remain in effect until all policies within the Closed Block are no longer inforce. Assets assigned to the Closed Block at January 1, 1999, together with projected future premiums and investment returns, are reasonably expected to be sufficient to pay out all future Closed Block policy benefits. Such benefits include policyholder dividends paid out under the current dividend scale, adjusted to reflect future changes in the underlying experience.

In 2017, approximately 37% of total collected premiums and deposits are from residents of the states of New York, Florida and California.

On August 5, 2015, Catamount Reinsurance Company (“Catamount”) was formed as a subsidiary of the Company. Catamount is a special purpose financial insurance company domiciled and licensed in the state of Vermont. Catamount entered into a coinsurance with funds withheld agreement with the Company to reinsure its Closed Block policies; the agreement was effective July 1, 2015. During 2016, ownership of Catamount was transferred as a dividend from the Company to NLVF.

In 2016, Longhorn Reinsurance Company (“Longhorn”) was formed as a direct subsidiary of National Life. Longhorn commenced business on August 17, 2016 as a special purpose financial insurance company domiciled and licensed in the state of Vermont for the purpose of entering into reinsurance transactions with LSW. All outstanding shares of Longhorn’s common stock are owned directly by the Company. NLIC made an

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

A. Significant Accounting Policies (continued)

initial capital contribution to Longhorn of \$22 million, comprised of \$5 million shares at \$1 par value per share, and \$17 million additional paid in capital.

Basis of Presentation

The accompanying financial statements of the Company have been prepared in conformity with statutory accounting practices prescribed or permitted by the State of Vermont Department of Financial Regulation (the "Department"), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("U.S. GAAP").

The Department recognizes only statutory accounting practices prescribed or permitted by the State of Vermont for determining solvency under Vermont Insurance Law. The National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual – version effective January 1, 2001 (and as amended) ("NAIC SAP"), has been adopted as a component of prescribed or permitted practices by the Department. NAIC SAP consists of Statements of Statutory Accounting Principles ("SSAPs") and other authoritative guidance. Although the Company had no such practices in effect as of December 31, 2017, the Commissioner has the right to permit specific practices that deviate from NAIC SAP. The Company's subsidiary Longhorn does have permitted and prescribed practices, but they did not have any impact on the Company's statutory surplus as of December 31, 2017. The Company's subsidiary Catamount does have permitted and prescribed practices, but they did not have any impact on the Company's statutory surplus as of December 31, 2017.

There are significant differences between statutory accounting practices and U.S. GAAP. Under statutory accounting practices:

Investments: Investments in bonds are reported at amortized cost or fair value based on their NAIC designation. For U.S. GAAP, such fixed maturity investments would be designated at purchase as held-to-maturity, trading, or available-for-sale. Held-to-maturity fixed investments would be reported at amortized cost. The remaining fixed maturity investments would be reported at fair value with unrealized holding gains and losses reported in operations for those designated as trading, and as a separate component of shareholder's equity for those designated as available-for-sale.

Investments in preferred stock are reported at cost, including brokerage and other related fees. Under U.S. GAAP, these investments are classified as available-for-sale securities and reported at fair value; unrealized holding gains and losses are excluded from earnings and reported as a net amount in a separate component of shareholders' equity until realized.

Investments in real estate are reported net of related obligations, if any, rather than on a gross basis. Real estate owned and occupied by the Company is included in investments rather than reported as an operating asset as required under U.S. GAAP and investment income and operating expenses include rent for the Company's occupancy of those properties. Changes between depreciated cost and admitted asset investment amounts are credited or charged directly to unassigned surplus rather than to income as would be required under U.S. GAAP.

Amortization of investments in low income housing tax credits ("LIHTC") is reported as a component of net investment income in the Statements of Operations. For U.S. GAAP reporting, LIHTC amortization is reported as a component of income tax expense.

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

A. Significant Accounting Policies (continued)

Valuation allowances, if necessary, are established for mortgage loans based on the difference between the net value of the collateral, determined as the fair value of the collateral less estimated costs to obtain and sell, and the recorded investment in the mortgage loan. Under U.S. GAAP, such allowances are based on the present value of expected future cash flows discounted at the loan's effective interest rate or, if foreclosure is probable, on the fair value of the collateral. The initial valuation allowance and subsequent changes in the allowance for mortgage loans as a result of a temporary impairment are charged or credited directly to unassigned surplus, rather than being included as a component of earnings as would be required under U.S. GAAP.

Valuation Reserves: Under a formula prescribed by the NAIC, the Company defers the portion of realized gains and losses on sales of fixed income investments, principally bonds and mortgage loans, attributable to changes in the general level of interest rates, and amortizes those deferrals over the remaining period to maturity. That net deferral is reported as the interest maintenance reserve ("IMR") in the accompanying balance sheets. Realized gains and losses are reported in income, net of federal income tax and transfers to the interest maintenance reserve. Under U.S. GAAP, realized capital gains and losses would be reported in the income statement on a pretax basis in the period that the assets giving rise to the gains or losses are sold.

The asset valuation reserve ("AVR") provides a valuation allowance for invested assets. The asset valuation reserve is determined by an NAIC-prescribed formula with changes reflected directly in unassigned surplus. The AVR is not recognized under U.S. GAAP.

Policy Acquisition Costs: The costs of acquiring and renewing business are expensed when incurred. Under U.S. GAAP, acquisition costs related to traditional life insurance and certain long-duration accident and health insurance, to the extent recoverable from future policy revenues, would be deferred and amortized over the premium-paying period of the related policies using assumptions consistent with those used in computing policy benefit reserves. For universal life insurance and annuity products, to the extent recoverable from future gross profits, deferred policy acquisition costs would be amortized generally in proportion to the present value of expected gross profits from surrender charges and investment, mortality, and expense margins.

Surplus Notes: Notes issued are recorded as a component of capital and surplus, whereas under U.S. GAAP, surplus notes are recorded as debt. Under NAIC SAP, surplus note interest is not recorded as a liability or an expense until approval for payment of such interest has been granted by the Commissioner, whereas, under U.S. GAAP, the interest is accrued throughout the year.

Investment in Subsidiaries: The accounts and operations of the Company's subsidiaries are not consolidated with the operations of the Company as would be required under U.S. GAAP, but are included as Investment in Subsidiaries at the statutory carrying value.

Nonadmitted Assets: Certain assets designated as "nonadmitted", principally certain fixed asset balances, a portion of the Company's deferred tax asset balance, and other assets not specifically identified as admitted assets within the NAIC *Accounting Practices and Procedures Manual*, are excluded from the accompanying balance sheets, and are charged directly to unassigned surplus. The concept of nonadmitted assets is not recognized under U.S. GAAP.

Universal Life and Annuity Policies: Revenues for universal life and annuity policies with mortality or morbidity risk consist of the entire premium received, and benefits incurred represent the total of death benefits paid and the change in policy reserves. Premiums received for annuity policies without mortality or morbidity risk are recorded using deposit accounting, and are credited directly to an appropriate policy reserve account without

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

A. Significant Accounting Policies (continued)

recognizing premium income. Under U.S. GAAP, premiums received in excess of policy charges would not be recognized as premium revenue, and benefits would represent the excess of benefits paid over the policy account value and interest credited to the account values.

Benefit Reserves: Certain policy reserves are calculated based on statutorily required interest and mortality assumptions rather than on estimated expected experience or actual account balances as would be required under U.S. GAAP.

Reinsurance: Policy and contract liabilities ceded to reinsurers have been reported as reductions of the related reserves rather than as assets as would be required under U.S. GAAP. Commissions paid by reinsurers on business ceded are reported as income when received rather than being deferred and amortized with deferred policy acquisition costs as required under U.S. GAAP.

Deferred Income Taxes: Deferred income tax assets and liabilities are cumulative temporary differences between financial statement carrying amounts and income tax bases of assets and liabilities using enacted income tax rates and laws. Deferred income tax assets are subject to admissibility criteria which include the expected reversal of temporary timing differences, the Company's level of capital and surplus, and any deferred income tax liabilities. Unrealized gains and losses are presented net of related changes in deferred taxes. The net change in other deferred taxes is recorded in adjustments to unassigned surplus. Deferred taxes do not include amounts for state taxes.

Under U.S. GAAP, a deferred tax asset is recorded for the amount of gross deferred tax assets expected to be realized in future years, and a valuation allowance is established for deferred tax assets not realizable. Also, state income taxes are included in the computation of deferred taxes.

Policyholder Dividends: Policyholder dividends are recognized when declared rather than over the term of the related policies as required under U.S. GAAP.

Statements of Cash Flow: Cash and short-term investments in the statements of cash flow represent cash balances and investments with initial maturities of one year or less. Under U.S. GAAP, the corresponding caption of cash includes cash balances and investments with initial maturities of three months or less.

The following are supplemental disclosures for cash flow information from non-cash transactions:

	Year Ended December 31,	
	2017	2016
	<i>(in thousands)</i>	
Investing:		
Dividend to parent, NLVF (cash settled in February 2018)	(20,000)	
Dividend of subsidiary Catamount Reinsurance Company	—	(10,000)
Financing:		
Dividend of subsidiary Catamount Reinsurance Company	—	10,000

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

A. Significant Accounting Policies (continued)

A reconciliation of net income and capital and surplus of the Company as determined in accordance with statutory accounting practices to amounts determined in accordance with U.S. GAAP is as follows:

	Net Income			Capital and Surplus	
	Year Ended December 31,			Year Ended December 31,	
	2017	2016	2015	2017	2016
	<i>(in thousands)</i>				
Statutory-basis	\$ 14,875	\$ (51,129)	\$ 12,009	\$ 2,015,645	\$ 1,925,228
Add (deduct) adjustments:					
Investments	398,923	373,998	135,448	4,609,603	3,938,290
Policy acquisition costs	10,358	2,121	(8,457)	261,688	251,369
Nonadmitted assets	—	—	—	132,252	169,128
Policyholder reserves	(51,807)	(86,184)	84,624	(3,308,831)	(3,003,387)
Policyholder dividends	(52,476)	(57,393)	(93,684)	(20,826)	(18,942)
Asset valuation reserve	—	—	—	66,922	75,609
Interest maintenance reserve	(2,293)	(705)	(43,311)	27,205	29,497
Income taxes	48,915	909	(44,151)	(68,035)	(165,133)
Other comprehensive income, net	—	—	—	(237,788)	(175,772)
Other, net	(57,093)	(9,251)	85,330	(14,228)	(24,603)
Interest, surplus notes	—	—	—	(5,532)	(5,553)
GAAP-basis	<u>\$ 309,402</u>	<u>\$ 172,366</u>	<u>\$ 127,808</u>	<u>\$ 3,458,075</u>	<u>\$ 2,995,731</u>

Other significant accounting practices are as follows:

Investments

Bonds, preferred stocks, common stocks, and short-term investments are reported at values prescribed by the NAIC, as follows:

Bonds not backed by other loans are carried at amortized cost, except for those with an NAIC designation of 6. Bonds with an NAIC 6 designation are carried at the lower of amortized cost or fair value, with unrealized losses charged directly to unassigned surplus. The discount or premium on bonds not backed by other loans is amortized using the constant yield method. Bonds that are delinquent are placed on non-accrual status, and thereafter interest income is recognized only when cash payments are received.

Single class and multi-class mortgage-backed or asset-backed securities are generally valued at amortized cost. Such securities with a NAIC 6 designation are carried at the lower of amortized cost or fair value. Income recognition for such securities is determined using the constant yield method and estimated cash flows including anticipated prepayments. The retrospective adjustment method is used to value all such securities, except for interest-only securities or securities where the yield has become negative, which are valued using the prospective method.

Investments in preferred stock are reported at cost.

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

A. Significant Accounting Policies (continued)

Common stocks of non-affiliates are reported at fair value as determined by the Securities Valuation Office of the NAIC, and the related unrealized capital gains (losses) are reported in unassigned surplus. For capital stock issued from the Federal Home Loan Bank, which is only redeemable at par value, the fair value shall be presumed to be par, unless considered other-than-temporarily impaired.

Cash includes cash equivalents. Cash equivalents are short-term highly liquid investments with original maturities of three months or less, and are principally stated at amortized cost.

Short-term investments include investments with maturities of one year or less at the time of acquisition (except for cash equivalents classified as cash), and are principally stated at amortized cost.

Affiliated common stock is carried at the down-stream insurance subsidiary's statutory capital and surplus less surplus notes and/or letter of credit issued. If the carrying value is negative, it is floored at zero in accordance with SSAP 97 *Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88*.

Mortgage loans are reported at unpaid principal balances, less allowance for impairments, if any. A mortgage loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all principal and interest amounts due according to the contractual terms of the mortgage agreement. At that time, the mortgage loan is written down to the fair value of the underlying collateral, and a realized loss is recognized.

Real estate occupied by the Company and real estate held for the production of income are reported at depreciated cost net of related obligations, if any. Real estate that the Company has the intent to sell is reported at the lower of depreciated cost or fair value, less encumbrances and estimated costs to sell the property. Depreciation is calculated on a straight-line basis over the estimated useful lives of the properties.

Policy loans are reported at unpaid principal balances.

Derivative instruments used in hedging transactions that meet the criteria of a highly effective hedge are valued and reported in a manner consistent with the hedged asset or liability. The Company's futures and options contracts used to hedge obligations related to indexed products are carried at fair value, with changes in fair value and gains or losses upon expiration included in net investment income. Certain interest rate swaps that qualify as fair value hedges are carried on the same basis as the underlying hedged item. Derivative instruments that do not meet or no longer meet the criteria of a highly effective hedge, or for which the Company has chosen not to apply hedge accounting, are accounted for at fair value, with changes in fair value recorded as unrealized gains or losses.

The Company has ownership interests of more than 3% in several limited partnerships. The Company generally reports its interests in these limited partnerships using the equity method. For investments in limited partnerships where the Company has less than a 3% ownership interest, the Company generally carries these interests based on the underlying U.S. GAAP equity of the investee.

Realized capital gains and losses are determined using the specific identification basis. Changes in the carrying amounts of investments are credited or charged directly to unassigned surplus.

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

A. Significant Accounting Policies (continued)

Recognition and Presentation of Other-Than-Temporary Impairments

The evaluation of securities for impairment is a quantitative and qualitative process, which is subject to risks and uncertainties, and is intended to determine whether declines in fair value of investments should be recognized in current period earnings and whether the securities are other-than-temporarily impaired (“OTTI”). The risks and uncertainties include changes in general economic conditions, the issuer’s financial condition and/or future prospects, the effects of changes in interest rates or credit spreads, and the expected recovery period. The Company has a security monitoring process, overseen by investment and accounting professionals, that uses certain quantitative and qualitative characteristics to identify securities that could be potentially impaired. These identified securities are subjected to an enhanced analysis to determine if the impairments are other-than-temporary.

The Company’s best estimate of future cash flows involves assumptions including, but not limited to, various performance indicators, such as historical and projected default and recovery rates, credit ratings, current delinquency rates, loan-to-value ratios, and the possibility of obligor re-financing. In addition, for securitized debt securities, the Company considers factors including, but not limited to, commercial and residential property value declines that vary by property type and location and average cumulative collateral loss rates that vary by vintage year. These assumptions require the use of significant management judgment, and include the probability of issuer default and estimates regarding timing and amount of expected recoveries, which may include estimating the underlying collateral value. In addition, projections of expected future debt security cash flows may change based upon new information regarding the performance of the issuer and/or underlying collateral, such as changes in the projections of the underlying property value estimates.

Estimating the underlying future cash flows is a quantitative and qualitative process that incorporates information received from third-party sources along with certain internal assumptions and judgments regarding the future performance of the underlying collateral. Where possible, this data is benchmarked against third-party sources.

Fair Value Definition and Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the “exit price”) in an orderly transaction between market participants at the measurement date. SSAP No. 100 *Fair Value Measurements* requires consideration of three broad valuation techniques: (i) the market approach, (ii) the income approach, and (iii) the cost approach. Entities are required to determine the most appropriate valuation technique to use given what is being measured and the availability of sufficient inputs. The guidance prioritizes the inputs to fair valuation techniques and allows for the use of unobservable inputs to the extent that observable inputs are not available.

The Company has categorized its assets and liabilities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Company categorizes financial assets and liabilities recorded at fair value on the December 31, 2017 balance sheet as follows:

- **Level 1** - Unadjusted quoted prices accessible in active markets for identical assets or liabilities at the measurement date. The types of assets and liabilities utilizing Level 1 inputs include short-term investments, U.S. Treasuries, and common stocks listed in active markets and futures listed in

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

A. Significant Accounting Policies (continued)

derivative markets. Separate accounts classified within this level principally include mutual funds and common stocks.

- **Level 2** - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data (market-corroborated inputs). The types of assets and liabilities utilizing Level 2 inputs include bonds and derivatives. Separate account assets classified as Level 2 are primarily bonds.
- **Level 3** - Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect management's best estimate about the assumptions market participants would use at the measurement date in pricing the asset or liability. Consideration is given to the risk inherent in both the method of valuation and the valuation inputs. Level 3 assets include partnerships which are carried at the Company's pro-rata share of the limited partnership's net asset value ("NAV"), or its equivalent and FHLB common stock.

Valuation Techniques

Bonds - Bonds are stated at amortized cost with the exception of those bonds that have an NAIC 6 designation or that have been impaired. Bonds carried at fair value are valued using cash flow models based on appropriate observable inputs such as market quotes, yield curves, interest rates, and spreads. Those securities are generally categorized in Level 2 of the fair value hierarchy. In instances where significant inputs are unobservable, the securities are categorized as Level 3.

Common stock - Fair values of common stocks are based on unadjusted quoted market prices from pricing services as well as primary and secondary brokers/dealers. Actively traded common stocks with readily available market prices are categorized into Level 1 of the fair value hierarchy.

Short-term investments - Short-term investments consist of money market funds with observable market pricing, and are categorized into Level 1.

Partnerships - Investments in limited partnerships do not have a readily determinable fair value, and as such, the Company values them at its pro-rata share of the limited partnership's NAV, or its equivalent. Since these valuations have significant unobservable inputs, they are generally categorized as Level 3 in the fair value hierarchy.

Derivative assets and liabilities - Derivative assets and liabilities include options, swaptions, and futures. Fair value of over the counter ("OTC") derivative products is calculated using models such as the Black-Scholes option-pricing model, which uses pricing inputs as observed from actively quoted markets, and is widely accepted by the financial services industry. A substantial majority of the Company's OTC derivative products use pricing models and are categorized as Level 2 of the fair value hierarchy.

Separate account assets - Separate account assets are categorized into Level 1 where the balances represent mutual funds with observable market pricing, Level 2 where the balances represent government bonds carried at fair value, and Level 3 where the assets are partnerships which are carried as the pro-rata share of the limited partnership's NAV.

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

A. Significant Accounting Policies (continued)

Presented below is the fair value of all assets and liabilities measured at fair value:

At December 31, 2017

	Level 1	Level 2	Level 3	Total
	<i>(in thousands)</i>			
Assets				
Bonds	\$ —	\$ 682	\$ —	\$ 682
Common stock	16,055	—	9,454	25,509
Total debt and equity securities	16,055	682	9,454	26,191
Cash, cash equivalents and short-term investments	23,853	—	—	23,853
Partnerships	—	—	116,463	116,463
Derivative assets	108	69,357	—	69,465
Total cash and investments	23,961	69,357	116,463	209,781
Separate account assets	621,552	184,697	17,227	823,476
Total assets	\$ 661,568	\$ 254,736	\$ 143,144	\$ 1,059,448
Liabilities				
Derivative liabilities	\$ —	\$ 20,906	\$ —	\$ 20,906
Total liabilities	\$ —	\$ 20,906	\$ —	\$ 20,906

At December 31, 2016

	Level 1	Level 2	Level 3	Total
	<i>(in thousands)</i>			
Assets				
Bonds	\$ —	\$ 701	\$ —	\$ 701
Common stock	14,764	—	9,579	24,343
Total debt and equity securities	14,764	701	9,579	25,044
Cash, cash equivalents and short-term investments	91,834	2,699	—	94,533
Partnerships	—	—	135,021	135,021
Derivative assets	106	51,563	—	51,669
Total cash and investments	91,940	54,262	135,021	281,223
Separate account assets	649,169	75,370	15,465	740,004
Total assets	\$ 755,873	\$ 130,333	\$ 160,065	\$ 1,046,271
Liabilities				
Derivative liabilities	\$ —	\$ 16,302	\$ —	\$ 16,302
Total liabilities	\$ —	\$ 16,302	\$ —	\$ 16,302

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

A. Significant Accounting Policies (continued)

The tables below summarize the reconciliation of the beginning and ending balances and related changes for Level 3 assets and liabilities, for which significant unobservable inputs were used in determining each instrument's fair value:

At December 31, 2017	Beginning Balance	Transfers Into Level 3	Transfers Out of Level 3	Net Investment Gains/Loss in Earnings (Realized and Unrealized)	Unrealized	Purchases	Issuances	Sales	Settlement	Ending Balance
	<i>(in thousands)</i>									
Assets										
Common stock	\$ 9,579	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (125)	\$ —	\$ 9,454
Partnerships	135,021	—	—	(8,413)	857	39,251	—	(50,253)	—	116,463
Separate account assets	15,465	—	—	—	1,471	4,492	—	(4,201)	—	17,227
Totals	\$ 160,065	\$ —	\$ —	\$ (8,413)	\$ 2,328	\$ 43,743	\$ —	\$ (54,579)	\$ —	\$ 143,144

At December 31, 2016	Beginning Balance	Transfers Into Level 3	Transfers Out of Level 3	Net Investment Gains/Loss in Earnings (Realized and Unrealized)	Unrealized	Purchases	Issuances	Sales	Settlement	Ending Balance
	<i>(in thousands)</i>									
Assets										
Common stock	\$ 10,855	\$ —	\$ —	\$ —	\$ —	\$ 325	\$ —	\$ (1,601)	\$ —	\$ 9,579
Partnerships	204,653	—	—	(9,197)	(4,296)	52,842	—	(108,981)	—	135,021
Separate account assets	12,072	—	—	—	287	3,374	—	(268)	—	15,465
Totals	\$ 227,580	\$ —	\$ —	\$ (9,197)	\$ (4,009)	\$ 56,541	\$ —	\$ (110,850)	\$ —	\$ 160,065

During 2017 and 2016, there were no significant transfers between fair value levels 1 and 2.

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

A. Significant Accounting Policies (continued)

The tables below show the aggregate fair value for all of the Company's financial instruments and their corresponding level within the fair value hierarchy. Since the SSAP No. 100 hierarchy only applies to items that are carried at fair value at the reporting date, the items in the previous tables are subsets of the amounts reported in the following tables.

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Not Practicable (Carrying Value)
<i>(in thousands)</i>						
At December 31, 2017						
Bonds	\$ 5,767,222	\$ 5,374,599	\$ 248,596	\$ 5,518,625	\$ —	\$ —
Preferred stock	11,035	11,000	—	11,035	—	—
Common stock	29,444	1,207,070	19,990	—	9,454	—
Mortgage loans	521,613	513,486	—	—	521,613	—
Real estate	59,950	57,832	—	59,950	—	—
Cash, cash equivalents and short-term investments	23,853	23,853	23,853	—	—	—
Derivative asset	69,465	69,465	108	69,357	—	—
Other invested assets	254,887	233,457	—	115,538	116,463	22,887
Separate account assets	823,476	823,476	621,552	184,697	17,227	—
Derivative liability	20,906	20,906	—	20,906	—	—

Type or Class of Financial Instrument	Carrying Value	Effective Interest Rate	Maturity Date	Explanation
Other invested assets - LIHTC	\$ 22,887	N/A	N/A	A

A - It was not practicable to determine the fair value of these financial instruments as a quoted market price is not available.

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Not Practicable (Carrying Value)
<i>(in thousands)</i>						
At December 31, 2016						
Bonds	\$ 5,536,784	\$ 5,285,283	\$ 227,319	\$ 5,309,465	\$ —	\$ —
Preferred stock	11,049	11,000	—	11,049	—	—
Common stock	24,343	1,062,225	14,764	—	9,579	—
Mortgage loans	566,169	556,144	—	—	566,169	—
Real estate	64,500	63,822	—	64,500	—	—
Cash, cash equivalents and short-term investments	94,534	94,534	91,834	2,700	—	—
Derivative asset	51,669	51,669	106	51,563	—	—
Other invested assets	282,823	270,701	—	106,220	135,021	41,582
Separate account assets	740,004	740,004	649,169	75,370	15,465	—
Derivative liability	(16,302)	(16,302)	—	(16,302)	—	—

Type or Class of Financial Instrument	Carrying Value	Effective Interest Rate	Maturity Date	Explanation
Other invested assets - LIHTC	\$ 41,582	N/A	N/A	A

A - It was not practicable to determine the fair value of these financial instruments as a quoted market price is not available.

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

A. Significant Accounting Policies (continued)

Asset Valuation Reserve and Interest Maintenance Reserve

The AVR is designed to stabilize unassigned surplus from default losses on bonds, preferred stocks, mortgages, real estate, and other invested assets and from fluctuations in the value of common stocks. The AVR is calculated as prescribed by the NAIC.

The IMR defers interest rate related after-tax capital gains and losses on fixed income investments, and amortizes them into income over the remaining lives of the securities sold. IMR amortization is included in net investment income in the Statements of Operations. The Company uses the seriatim method for the amortization of IMR.

Nonadmitted Assets

In accordance with regulatory requirements, certain assets, including certain deferred tax assets, prepaid expenses, furniture and equipment, and internally developed software, are excluded from the balance sheet. The net change in these assets is included in the change in nonadmitted assets in the Statements of Changes in Capital and Surplus.

Federal Home Loan Bank Agreements

National Life is a member of the Federal Home Loan Bank (“FHLB”) of Boston which provides the Company with access to a secured asset-based borrowing capacity. It is part of the Company’s strategy to utilize this borrowing capacity for funding agreements and for backup liquidity. The Company has received advances from FHLB in connection with funding agreements, balances outstanding under funding agreements are included in the liability for deposit-type contracts. For more information, see Note I – FHLB Agreements.

Property and Equipment

Property and equipment is reported at depreciated cost. Assets are depreciated over their useful life using the straight line method of depreciation. Real property owned by the Company is primarily depreciated over 40 years with a half year convention, and renovations and semi-permanent fixtures depreciated over 20 years. Furniture and equipment is depreciated over seven years and five years, respectively. Electronic Data Processing (“EDP”) equipment is depreciated for a period not exceeding three years. Capitalized software is amortized over a period not exceeding five years.

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

A. Significant Accounting Policies (continued)

The tables below reflect the balances of major classes of depreciable assets, accumulated depreciation, and depreciation expense:

At December 31, 2017	Depreciable Asset	Accumulated Depreciation <i>(in thousands)</i>	Depreciation Expense
EDP equipment	\$ 35,653	\$ 29,670	\$ 4,104
Furniture	20,831	11,396	2,851
Software	174,848	115,401	21,246
Vehicles	240	96	41
Leasehold improvements	3,342	963	422
Property occupied by the Company	113,913	63,481	2,766
	<u>\$ 348,827</u>	<u>\$ 221,007</u>	<u>\$ 31,430</u>

At December 31, 2016	Depreciable Asset	Accumulated Depreciation <i>(in thousands)</i>	Depreciation Expenses
EDP equipment	\$ 33,026	\$ 26,453	\$ 4,036
Furniture	31,552	21,924	2,286
Software	184,338	109,193	20,496
Vehicles	394	247	44
Leasehold improvements	2,068	531	325
Property occupied by the Company	112,725	60,741	2,694
	<u>\$ 364,103</u>	<u>\$ 219,089</u>	<u>\$ 29,881</u>

Corporate Owned Life Insurance

The Company holds life insurance contracts on certain members of management and other key individuals. During 2015 the Company expanded its Corporate Owned Life Insurance ("COLI") program with existing carriers by purchasing additional COLI of \$16.0 million. The total cash surrender value of these COLI contracts was \$269.7 million and \$265.9 million at December 31, 2017 and 2016, respectively, and is included in Other Admitted Assets on the Balance Sheets. COLI income includes the net change in cash surrender value and any benefits received. COLI income was \$8.8 million, \$10.2 million, and \$9.0 million in 2017, 2016, and 2015, respectively, and is included in Other Income.

Recognition of Insurance Income and Related Expenses

Annual premiums and related reserve increases on traditional life insurance policies are recorded at each policy anniversary. Premiums and related reserve increases on annuity contracts and universal life policies are recorded when premiums are collected. Premiums from disability income policies are recognized as revenue over the period to which the premiums relate. Commissions and other policy and contract costs are expensed as incurred. First-year policy and contract costs and required additions to policy and contract reserves generally exceed first-year premiums.

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

A. Significant Accounting Policies (continued)

Benefit Reserves

Policy reserves for life, annuity and disability income contracts are developed using NAIC SAP. Actuarial factors used in determining life insurance reserves are based primarily upon the 1958, 1980, and 2001 Commissioners' Standard Ordinary ("CSO") mortality tables. Methods used to calculate life reserves consist primarily of net level premium, Commissioners' Reserve Valuation Method, and modified preliminary term, with valuation interest rates ranging from 2.0% to 6.0%.

The Company waives deduction of deferred fractional premiums upon death of the insured and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of the legally computed reserves.

Extra premiums are charged for substandard lives in addition to the gross premium for a true age. For term and traditional whole life business, reserves are determined by computing mean reserves using standard mortality, then calculating a substandard extra reserve. Where the extra premium is a flat rate, the extra reserve is equal to one-half the flat extra premium charge for the year. For policies with a percentage extra rating, the extra reserve is defined as the difference between mean reserves calculated using standard valuation mortality and mean reserves calculated using valuation mortality adjusted by the percentage rating. For fixed, indexed, and variable universal life, reserves are determined using the percentage rating and/or flat extra mortality associated with the policy. A substandard extra reserve is not separately computed. Table ratings for all life insurance policies expire after 20 years or at age 65, whichever is later.

Reserves for individual annuities are determined principally using the Commissioners' Annuity Reserve Valuation Method, based on A-1949, 1983, 2000, and 2012 annuity tables with valuation interest rates from 2.0% to 9.0%. Liabilities for losses and loss/claim adjustment expenses for accident and health contracts are estimated by using statistical claim development models. Active life disability income reserves are determined primarily using the Commissioners' Disability 1964 table with the 1958 CSO mortality table and Commissioners' Individual Disability Table A ("CIDA") morbidity tables with the 1980 CSO mortality tables, 1985 CIDA table with 1980 CSO mortality tables and 2001 CSO mortality tables. Valuation interest rates for active life reserves range from 3.0% to 6.0%. Disability income reserves are based on expected experience at 4.5% interest, and exceed statutory minimum reserves. The Company anticipates investment income as a factor in the premium deficiency calculation. Tabular components of reserves are calculated in accordance with NAIC instructions and, as appropriate, have been compared to related contract rates for reasonableness.

As of December 31, 2017 and 2016, the Company had \$2.47 billion and \$2.37 billion, respectively, of insurance inforce for which the gross premiums are less than the net premiums according to the standard valuation law adopted by the Department. At December 31, 2017 and 2016, reserves on the above inforce insurance totaled \$36.0 million and \$31.5 million, respectively, and are included in policy reserves.

Policy and Contract Claims

Unpaid claims on accident and health policies represent the estimated ultimate net cost of all reported and unreported claims incurred through December 31. The Company discounts its claim reserves for long-term disability using disability tables and discount rates approved by the Department. Reserves for unpaid claims are estimated using individual case-basis valuations and statistical analyses. Those estimates are subject to the effects of trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for unpaid claims are adequate. The estimates are

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

A. Significant Accounting Policies (continued)

continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

Reinsurance

Reinsurance premiums and benefits paid or provided are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Dividends to Policyholders

All of the Company's traditional life insurance and certain annuity policies are issued on a participating basis, while its universal life policies, most annuities, and disability income policies are issued on a non-participating basis. Term life insurance policies, while on a participating basis, currently receive no dividend. Liabilities for policyholders' dividends primarily represent amounts estimated to be paid or credited in the subsequent year. The amount of policyholder dividends to be distributed is based upon a scale which seeks to reflect the relative contribution of each group of policies to the Company's overall operating results. The dividend scale is approved annually by the Company's Board of Directors.

Separate Accounts

Separate account assets represent segregated funds held for the benefit of certain variable annuity and variable life policyholders and the Company's pension plans. Separate account liabilities represent the policyholders' share of separate account assets. The Company also participates in certain separate accounts. Policy values funded by separate accounts reflect the actual investment performance of the respective accounts, and are generally not guaranteed. Investments held in the separate accounts are primarily mutual funds, common stocks, and bonds, and are carried at fair value.

The Company had approximately \$0.7 million and \$2.3 million of reserves for minimum death benefit guarantees on variable annuities and variable universal life at December 31, 2017 and 2016, respectively.

These benefits include a provision that allows withdrawals by policyholders to adjust the death benefit guarantee on a "dollar for dollar" basis, which increases the risk profile of this benefit. Partial withdrawals from policies issued after November 1, 2003 will use the pro-rata method subject to state approval. Policyholder partial withdrawals to date have not been significant. The Company assumes no partial withdrawals in its calculation of minimum death benefit guarantee reserves, but does include partial withdrawals in asset adequacy testing.

Subsequent Events

The Company has evaluated subsequent events through April 17, 2018, the date that these financial statements were available to be issued. Based on this evaluation, no events have occurred subsequent to December 31, 2017 that require disclosure or adjustment to the financial statements at the date or for the year then ended.

Adoption of New Accounting Standards

There were no new accounting standards adopted for the year ending December 31, 2017.

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

A. Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of admitted assets, liabilities, income, and expenses, and related disclosures in the notes to financial statements. Actual results could differ from estimates.

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

B. Investments

The carrying value and the fair value of investments in bonds is summarized as follows:

At December 31, 2017	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	<i>(in thousands)</i>			
Bonds:				
U.S. government obligations	\$ 228,404	\$ 20,259	\$ 67	\$ 248,596
Government agencies, authorities and subdivisions	354,805	25,419	1,153	379,071
Corporate:				
Asset backed securities	104,590	888	110	105,368
Communications	360,301	41,052	2,668	398,685
Consumer & retail	1,020,500	77,298	2,986	1,094,812
Financial institutions	602,732	65,481	761	667,452
Industrial and chemicals	541,821	54,924	1,158	595,587
REITS	131,093	3,820	606	134,307
Transportation	108,432	11,110	26	119,516
Utilities	550,258	53,857	3,010	601,105
Total corporate	3,419,727	308,430	11,325	3,716,832
Private placements	385,265	14,929	2,115	398,079
Mortgage-backed securities	986,398	45,190	6,944	1,024,644
Total bonds	<u>\$ 5,374,599</u>	<u>\$ 414,227</u>	<u>\$ 21,604</u>	<u>\$ 5,767,222</u>

At December 31, 2016	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	<i>(in thousands)</i>			
Bonds:				
U.S. government obligations	\$ 217,183	\$ 10,149	\$ 13	\$ 227,319
Government agencies, authorities and subdivisions	313,433	8,550	4,938	317,045
Corporate:				
Asset backed securities	50,227	528	218	50,537
Communications	363,436	29,200	3,210	389,426
Consumer & retail	919,220	43,813	10,819	952,214
Financial institutions	566,723	46,561	2,703	610,581
Industrial and chemicals	515,887	37,668	5,450	548,105
REITS	139,971	2,184	1,485	140,670
Transportation	99,173	9,267	877	107,563
Utilities	581,998	42,226	8,594	615,630
Total corporate	3,236,635	211,447	33,356	3,414,726
Private placements	415,904	18,690	4,372	430,222
Mortgage-backed securities	1,102,128	58,121	12,777	1,147,472
Total bonds	<u>\$ 5,285,283</u>	<u>\$ 306,957</u>	<u>\$ 55,456</u>	<u>\$ 5,536,784</u>

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

B. Investments (continued)

A summary of the carrying value and fair value of the Company's investments in bonds at December 31, 2017, by contractual maturity, is as follows:

	Carrying Value	Fair Value
	<i>(in thousands)</i>	
Years to Maturity:		
One or less	\$ 181,342	\$ 184,665
After one through five	892,278	933,932
After five through ten	1,095,775	1,148,828
After ten	2,218,806	2,475,155
Mortgage-backed securities	986,398	1,024,642
Total	\$ 5,374,599	\$ 5,767,222

The expected maturities in the foregoing table may differ from the contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

The gross unrealized gains and losses on, and the cost and fair value of, the Company's investments in preferred and common stocks are summarized as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	<i>(in thousands)</i>			
At December 31, 2017				
Preferred stocks	\$ 11,000	\$ 64	\$ 29	\$ 11,035
Unaffiliated common stocks	28,833	744	133	29,444
Total stocks	\$ 39,833	\$ 808	\$ 162	\$ 40,479

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	<i>(in thousands)</i>			
At December 31, 2016				
Preferred stocks	\$ 11,000	\$ 95	\$ 46	\$ 11,049
Unaffiliated common stocks	24,427	149	233	24,343
Total stocks	\$ 35,427	\$ 244	\$ 279	\$ 35,392

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

B. Investments (continued)

The following table shows investment gross unrealized losses and fair value (after the effect of other-than-temporary impairments), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2017:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	<i>(in thousands)</i>					
Bonds:						
U.S. government obligations	\$ 7,787	\$ 53	\$ 674	\$ 14	\$ 8,461	\$ 67
Government agencies, authorities and subdivisions	8,627	82	22,196	1,071	30,823	1,153
Corporate:						
Asset-backed securities	13,609	110	—	—	13,609	110
Communications	5,853	286	14,988	2,382	20,841	2,668
Consumer & retail	40,868	553	45,648	2,433	86,516	2,986
Financial institutions	19,057	61	32,292	700	51,349	761
Industrial and chemicals	24,979	423	27,227	735	52,206	1,158
REITS	15,088	331	13,091	275	28,179	606
Transportation	2,435	23	3,887	3	6,322	26
Utilities	10,027	36	40,435	2,974	50,462	3,010
Total corporate	131,916	1,823	177,568	9,502	309,484	11,325
Private placements	45,457	470	38,484	1,645	83,941	2,115
Mortgage-backed securities	68,740	495	182,010	6,449	250,750	6,944
Total bonds	262,527	2,923	420,932	18,681	683,459	21,604
Preferred stocks	—	—	971	29	971	29
Common stocks	1,183	133	—	—	1,183	133
Total bonds and stocks	\$ 263,710	\$ 3,056	\$ 421,903	\$ 18,710	\$ 685,613	\$ 21,766

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

B. Investments (continued)

The following table shows investment gross unrealized losses and fair value (after the effect of other-than-temporary impairments), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2016:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	<i>(in thousands)</i>					
Bonds:						
U.S. government obligations	\$ 679	\$ 13	\$ —	\$ —	\$ 679	\$ 13
Government agencies, authorities and subdivisions	106,288	4,938	—	—	106,288	4,938
Corporate:						
Asset-backed securities	15,643	218	—	—	15,643	218
Communications	69,375	1,761	5,615	1,449	74,990	3,210
Consumer & retail	276,912	10,662	6,295	157	283,207	10,819
Financial institutions	99,448	2,590	6,886	113	106,334	2,703
Industrial and chemicals	100,316	3,053	22,771	2,397	123,087	5,450
REITS	68,013	1,485	—	—	68,013	1,485
Transportation	24,646	877	—	—	24,646	877
Utilities	72,670	1,310	55,069	7,284	127,739	8,594
Total corporate	727,023	21,956	96,636	11,400	823,659	33,356
Private placements	48,644	1,828	28,905	2,544	77,549	4,372
Mortgage-backed securities	254,229	8,425	36,611	4,352	290,840	12,777
Total bonds	1,136,863	37,160	162,152	18,296	1,299,015	55,456
Preferred stocks	954	46	—	—	954	46
Common stocks	13,328	233	—	—	13,328	233
Total bonds and stocks	\$ 1,151,145	\$ 37,439	\$ 162,152	\$ 18,296	\$ 1,313,297	\$ 55,735

The table below includes all loan-backed securities, for which the present value of the cash flows expected to be collected is less than the amortized cost basis:

CUSIP:	Book/Adjusted Carrying Value Amortized Cost Before Current Period OTTI	Projected Cash Flows	Recognized OTTI	Amortized Cost After OTTI	Fair Value at the Time of OTTI
	<i>(in thousands)</i>				
92978TBC4	\$ 6,200	\$ —	\$ (6,200)	\$ —	\$ 2,800
Total	\$ 6,200	\$ —	\$ (6,200)	\$ —	\$ 2,800

The Company recorded \$0.2 million, \$5.1 million, and \$7.2 million of other-than-temporary impairments on bonds in 2017, 2016, and 2015, respectively. There were no impairments recognized on common stock in 2017, 2016, or 2015.

National Life Insurance Company
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December 31, 2017 and December 31, 2016

B. Investments (continued)

Mortgage Loans and Real Estate

The distributions of mortgage loans and real estate at December 31 were as follows:

<u>Geographic Region</u>	2017	2016
New England	5.1 %	4.8 %
Middle Atlantic	5.5 %	8.0 %
East North Central	18.3 %	17.7 %
West North Central	11.9 %	11.3 %
South Atlantic	8.6 %	10.0 %
East South Central	3.7 %	3.7 %
West South Central	1.7 %	4.1 %
Mountain	19.3 %	14.9 %
Pacific	25.9 %	25.5 %
Total	100.0 %	100.0 %

<u>Property Type</u>	2017	2016
Apartment	28.0 %	24.1 %
Retail	27.7 %	27.0 %
Office building	17.0 %	24.6 %
Industrial	14.9 %	12.2 %
Mixed use	8.8 %	8.6 %
Other commercial	3.6 %	3.5 %
Total	100.0 %	100.0 %

The Company applies a consistent and disciplined approach to evaluating and monitoring credit risk, and monitors credit quality on an ongoing basis. Quality ratings are based on internal evaluations of each loan's specific characteristics considering a number of key inputs. The two most significant contributors to credit quality are debt service coverage and loan-to-value ratios. The debt service coverage ratio measures the amount of property cash flow available to meet annual interest and principal payments on debt. The loan-to-value ratio, commonly expressed as a percentage, compares the amount of the loan to the fair value of the underlying property collateralizing the loan.

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

B. Investments (continued)

The following tables summarize the credit quality of the Company's commercial mortgage loan portfolio based on loan-to-value ("LTV") and debt service coverage ratios:

LTV Range	Debt Service Coverage Ratios as of December 31, 2017					Total Carrying Value
	2.0x and greater	1.5x to 1.99x	1.25x to 1.499x	1.0x to 1.249x	Less than 1.0x	
	<i>(in thousands)</i>					
< 50%	\$ 126,955	\$ 61,311	\$ 16,987	\$ 13,071	\$ 1,330	\$ 219,654
50% - 60%	41,174	51,398	9,396	—	—	101,968
60% - 70%	48,250	27,041	34,016	6,332	933	116,572
70% - 80%	13,800	—	—	7,233	7,867	28,900
80% - 90%	—	—	—	15,150	—	15,150
> 90%	—	5,898	9,436	12,194	3,714	31,242
Total	\$ 230,179	\$ 145,648	\$ 69,835	\$ 53,980	\$ 13,844	\$ 513,486

LTV Range	Debt Service Coverage Ratios as of December 31, 2016					Total Carrying Value
	≥ 2.0x	1.5x to <2.0x	1.25x to <1.5x	1.0x to <1.25x	<1.0x	
	<i>(in thousands)</i>					
< 50%	\$ 149,724	\$ 52,746	\$ 18,584	\$ 5,781	\$ 1,652	\$ 228,487
50% - 60%	39,281	27,694	12,902	14,546	—	94,423
60% - 70%	54,150	56,149	39,012	7,457	5,968	162,736
70% - 80%	—	—	22,754	15,664	—	38,418
80% - 90%	—	—	12,570	5,244	2,652	20,466
> 90%	—	—	5,898	—	5,716	11,614
Total	\$ 243,155	\$ 136,589	\$ 111,720	\$ 48,692	\$ 15,988	\$ 556,144

The distribution of the book value of mortgage loans, classified by scheduled year of contractual maturity as of December 31, 2017 and 2016, is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

	2017	2016
Due in 1 year or less	3.8 %	5.8 %
Due after 1 year through 3 years	15.8 %	9.2 %
Due after 3 years through 5 years	11.2 %	17.4 %
Due after 5 years through 10 years	46.5 %	32.2 %
Due after 10 years through 15 years	16.7 %	29.4 %
Due after 15 years	6.0 %	6.0 %
Total	100.0 %	100.0 %

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

B. Investments (continued)

The fair value of mortgage loans at December 31, 2017 and 2016 was \$521.6 million and \$566.2 million, respectively. The fair value of mortgages was estimated as the average of the present value of future cash flows under different scenarios of future mortgage interest rates (including appropriate provisions for default losses) and related changes in borrower repayments.

During 2017, the Company originated mortgage loans of \$30.0 million. The minimum and maximum lending rates for mortgage loans originated during 2017 were 3.65% and 3.84%, respectively. The Company did not reduce the interest rate on any outstanding mortgage loan in 2017 or 2016. The maximum percentage of any one loan to the value of security at the time of the loan, exclusive of insured or guaranteed or purchase money loans was 64%.

An age analysis of mortgage loans aggregated by type is as follows:

	2017		2016	
	Commercial All Other	Total	Commercial All Other	Total
	<i>(in thousands)</i>			
1. Recorded Investment (All)				
(a) Current	\$ 504,049	\$ 504,049	\$ 556,144	\$ 556,144
(b) 30-59 Days Past Due	—	—	—	—
(c) 60-89 Days Past Due	—	—	—	—
(d) 90-179 Days Past Due	9,437	9,437	—	—
(e) 180+ Days Past Due	—	—	—	—
2. Accruing Interest 90-179 Days Past Due				
(a) Recorded Investment	9,437	9,437	—	—
(b) Interest Accrued	126	126	—	—
3. Interest Reduced				
(a) Recorded Investment	—	—	—	—
(b) Number of Loans	—	—	—	—
(c) Percent Reduced	— %	— %	— %	—

Taxes, assessments and any amounts advanced and not included in the mortgage loans total were \$284 thousand and \$35 thousand as of December 31, 2017 and 2016, respectively.

Investment in impaired loans with or without allowance for credit losses:

	2017		2016	
	Commercial All Other	Total	Commercial All Other	Total
	<i>(in thousands)</i>			
1. With Allowance for Credit Losses	\$ —	\$ —	\$ —	\$ —
2. No Allowance for Credit Losses	9,611	9,611	9,489	9,489

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

B. Investments (continued)

Interest income on non-performing loans is generally recognized on a cash basis.

Additional disclosures regarding impaired loans are as follows:

	2017		2016	
	Commercial All Other	Total	Commercial All Other	Total
	<i>(in thousands)</i>			
1. Average Recorded Investment	\$ 9,550	\$ 9,550	\$ 9,424	\$ 9,424
2. Interest Income Recognized	546	546	538	538
3. Recorded Investments on Nonaccrual Status	—	—	—	—
4. Amount of Interest Income Recognized Using a Cash-Basis Method of Accounting	531	531	523	523

The Company reviews loans for impairment based on several factors including, but not limited to, deteriorating market conditions, significant changes in debt coverage and loan-to-value ratios, and borrower specific credit issues. When the Company determines that, based on this current information and events, it is probable it will be unable to collect all amounts due according to the contractual terms, the Company measures an impairment based on the difference between the estimated fair market value of the underlying collateral less recovery costs and the recorded investment in the loan and records a valuation allowance for the impaired loan with a corresponding charge to unrealized gain or loss. The Company continues to accrue interest as due on these loans until such point it is deemed uncollectible. If there is a significant change in the estimated fair value of the collateral, then the valuation allowance is adjusted accordingly. If the impairment is deemed to be other than temporary in nature, a direct write-down of the loan is recognized as a realized loss. This new cost basis is not adjusted for subsequent change in the fair value of the underlying collateral. Loans that have been directly written down recognize interest income on a cash basis.

For loans classified as troubled debt restructuring, the Company may grant concessions related to the borrowers' financial difficulties. Generally, these types of concessions include: 1) a modification to the payment terms in order for the borrower not to become delinquent on payments, 2) a refinance or extension of the maturity date at below current market terms, and/or 3) a reduction of accrued interest. The Company considers the amount, timing and extent of the concession granted in determining any impairment or changes in the specific valuation allowance recorded in connection with the troubled debt restructuring. Through the portfolio monitoring process, the Company may have recorded a specific valuation allowance prior to the quarter when the loan was modified in a troubled debt restructuring. Accordingly, the carrying value (after specific valuation allowance) before and after modification through a troubled debt restructuring may not change significantly.

The Company had total recorded investments in restructured loans of \$9.6 million and \$9.5 million as of December 31, 2017 and 2016, respectively. The cumulative realized capital loss pertaining to these restructured loans was \$3.3 million as of December 31, 2017 and 2016. The Company had one non-performing loan (delinquent more than 90 days) as of December 31, 2017 and no non-performing loans as of December 31, 2016.

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

B. Investments (continued)

Low Income Housing Tax Credit Properties

The Company invested in LIHTC properties of \$22.9 million and \$27.1 million as of December 31, 2017 and 2016, respectively, which is less than 10% of total admitted assets. The Company accounts for these investments using the proportional amortized cost method. In 2017, 2016, and 2015, amortization of \$4.2 million, \$12.7 million, and \$12.1 million was included in net investment income, respectively. The Company recognized \$15.1 in tax credits and \$1.3 million of other tax benefits in 2017, and \$12.0 in tax credits and \$2.9 million of other tax benefits in 2016. The remaining holding periods on these investments vary with the longest being 11 years, and the Company anticipates full absorption of all LIHTC. The required holding period is 15 years. The LIHTC properties are not subject to any regulatory reviews. The Company did not recognize any impairments or write-downs during 2017 on the LIHTC investments. The Company has \$2.3 million in remaining commitments to be funded over the next four years.

Restricted Assets

The following table discloses the amount and nature of any assets pledged to others as collateral or otherwise restricted by the Company as of December 31, 2017:

Restricted Asset Category	Gross Restricted							Percentage		
	Current Year							Total Current Year Admitted Restricted	Gross Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
	1	2	3	4	5	6	7			
	Total General Account (G/A)	G/A Supporting S/A Restricted Assets (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)			
FHLB capital stock	\$ 9,454,100	\$ —	\$ —	\$ —	\$ 9,454,100	\$ 9,579,000	\$ (124,900)	\$ 9,454,100	0.10 %	0.10 %
On deposit with state	6,978,467	—	—	—	6,978,467	6,957,228	21,239	6,978,467	0.07	0.07
Pledged as collateral to FHLB (including assets backing fundings agreements)	273,300,348	—	—	—	273,300,348	240,070,955	33,229,393	273,300,348	2.84	2.88
Pledged as collateral not captured in other categories	1,496,620	—	—	—	1,496,620	2,999,072	(1,502,452)	1,496,620	0.02	0.02
Other restricted assets	33,560,528	—	—	—	33,560,528	26,778,000	6,782,528	33,560,528	0.35	0.35
Total restricted assets	\$ 324,790,063	\$ —	\$ —	\$ —	\$ 324,790,063	\$ 286,384,255	\$ 38,405,808	\$ 324,790,063	3.38 %	3.42 %

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

B. Investments (continued)

Below provides detail for those assets pledged as collateral not captured in other categories:

Description of Assets	Gross Restricted							Percentage		
	Current Year							8	9	10
	1	2	3	4	5	6	7			
	Total General Account (G/A)	G/A Supporting Account S/A Restricted Assets (a)	Separate Account S/A (S/A) Restricted Assets	Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)	Total Current Year Admitted Restricted	Gross Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
Pledged assets for interest rate swaps	\$ 1,496,620	\$ —	\$ —	\$ —	\$ 1,496,620	\$ 2,999,072	\$ (1,502,452)	\$ 1,496,620	0.02 %	0.02 %
Total	\$ 1,496,620	\$ —	\$ —	\$ —	\$ 1,496,620	\$ 2,999,072	\$ (1,502,452)	\$ 1,496,620	0.02 %	0.02 %

Below provides detail for assets categorized as other restricted assets:

Description of Assets	Gross Restricted							Percentage		
	Current Year							8	9	10
	1	2	3	4	5	6	7			
	Total General Account (G/A)	G/A Supporting Account S/A Restricted Assets (a)	Separate Account S/A (S/A) Restricted Assets	Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)	Total Current Year Admitted Restricted	Gross Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
Cash collateral pledged for counterparties with derivative exposure	\$ 33,560,528	\$ —	\$ —	\$ —	\$ 33,560,528	\$ 26,778,000	\$ 6,782,528	\$ 33,560,528	0.35 %	0.35 %
Total	\$ 33,560,528	\$ —	\$ —	\$ —	\$ 33,560,528	\$ 26,778,000	\$ 6,782,528	\$ 33,560,528	0.35 %	0.35 %

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

B. Investments (continued)

Net Investment Income

Major categories of the Company's net investment income are summarized as follows:

	Year Ended December 31,		
	2017	2016	2015
	<i>(in thousands)</i>		
Income			
Bonds	\$ 265,566	\$ 268,673	\$ 283,589
Preferred stocks	473	315	—
Common stocks, unaffiliated	2,260	1,204	1,491
Mortgage loans	25,111	29,792	33,818
Real estate ⁽¹⁾	12,481	13,384	14,332
Policy loans	27,159	27,602	28,670
Short-term investments and cash	302	199	14
Other invested assets	27,326	29,341	28,818
Derivative instruments	38,518	11,907	(10,331)
Other	53	487	390
Total investment income	399,249	382,904	380,791
Expenses			
Depreciation	7,155	15,590	15,208
Interest expense	19,921	19,477	21,000
Other	16,578	19,519	17,970
Total investment expenses	43,654	54,586	54,178
Net investment income	\$ 355,595	\$ 328,318	\$ 326,613

(1) Includes amounts for the occupancy of company-owned property of **\$6,477**, \$6,477, and \$5,955 in 2017, 2016, and 2015, respectively.

There was no nonadmitted accrued investment income at December 31, 2017 and 2016.

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

B. Investments (continued)

Net Realized Gains and Losses

Realized capital gains and losses are reported net of federal income taxes and amounts transferred to the IMR as follows:

	Year Ended December 31,		
	2017	2016	2015
	<i>(in thousands)</i>		
Bonds and other debt securities			
Gross gains	\$ 3,039	\$ 14,895	\$ 6,708
Gross losses	(2,132)	(9,804)	(8,238)
Common stocks, unaffiliated			
Gross gains	418	91	414
Gross losses	(60)	(700)	(450)
Partnerships			
Gross gains	217	—	20
Gross losses	(8,630)	(9,197)	(2,040)
Other			
Gross gains	146	2,347	676
Gross losses	(2,147)	(4,640)	(6,586)
Net realized capital losses	(9,149)	(7,008)	(9,496)
Amount transferred to IMR, net of tax	(1,488)	(4,305)	(3,638)
	(10,637)	(11,313)	(13,134)
Less federal income taxes on realized capital gains after effect of transfer to IMR	(5,701)	(2,510)	(13,171)
Net realized capital losses	\$ (16,338)	\$ (13,823)	\$ (26,305)

Loan-Backed Securities

Prepayment assumptions used in the calculation of the effective yield and valuation of loan-backed bonds and structured securities are based on available industry sources and information provided by lenders. The retrospective adjustment methodology is used for the valuation of securities held by the Company.

Joint Ventures, Partnerships and Limited Liability Companies

The Company has no investments in joint ventures, partnerships or limited liability companies that exceed 10% of its admitted assets.

The Company recorded \$8.1 million, \$0.6 million, and \$1.7 million of impairments on non-public limited partnerships in 2017, 2016 and 2015, respectively. These limited partnerships have underlying characteristics of preferred and common stock. Fair values utilized in determining impairments were determined by the Company based on the limited partnerships' operating results.

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

B. Investments (continued)

Repurchase Agreements

The Company periodically enters into repurchase agreements on U.S. Treasury securities to enhance the yield of its bond portfolio. These transactions are accounted for as financings as the securities received at the end of the repurchase period are identical to the securities transferred. Any repurchase liability is included in other liabilities. There were no open transactions at December 31, 2017 or 2016.

Prepayment Penalty and Acceleration Fees

For securities sold, redeemed or otherwise disposed as a result of a callable feature (including make whole call provisions), below are the number of CUSIPs sold, disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee:

	<u>At December 31, 2017</u>
	General Account
Number of CUSIPs	39
Aggregate amount of investment income (in thousands)	\$ 5,932

C. Nonadmitted Assets

The Company's nonadmitted assets at December 31 are as follows:

	<u>2017</u>	<u>2016</u>
	<i>(in thousands)</i>	
Net deferred tax asset	\$ 15,004	\$ 21,407
Furniture and equipment	11,957	11,312
Software applications	93,270	125,635
Prepaid expenses	7,642	7,810
Other	4,379	2,965
Total nonadmitted assets	<u>\$ 132,252</u>	<u>\$ 169,129</u>

D. Reinsurance

The Company currently retains up to \$2.0 million of risk on any individual person. Prior to that and beginning January 1, 2002, the Company generally retained no more than \$1.0 million of risk on any person (excluding accidental death benefits and dividend additions). Reinsurance for life products is ceded under yearly renewable term, coinsurance, and modified coinsurance agreements with various reinsurers. Total premiums from direct business were \$521.5 million, \$511.9 million, and \$485.0 million in 2017, 2016, and 2015, respectively. Of those direct premiums, individual life premiums ceded were \$547.7 million, \$162.1 million, and \$3,289.4 million for the years ended December 31, 2017, 2016, and 2015, respectively, and are included as a reduction of premium and annuity considerations. Total individual life insurance ceded was \$28.4 billion and \$22.9 billion of the \$44.8 billion and \$42.8 billion in force at December 31, 2017 and 2016, respectively. The Company has assumed a small amount of yearly renewable term reinsurance from non-affiliated insurers.

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

D. Reinsurance (continued)

At December 31, 2017 and 2016, neither the Company nor any of its representatives, officers, trustees, or directors had more than 10% ownership of or direct or indirect control over any non-affiliated reinsurers, and there were no policies reinsured outside the United States with companies owned or controlled by an affiliated entity. There were no unilaterally cancelable reinsurance agreements (for reasons other than for nonpayment of premium or other similar credits) in effect at December 31, 2017 and 2016. The Company's largest reserve credit with a non-affiliate as of December 31, 2017 and 2016 was with Hannover Re for \$393.5 million and Swiss Re for \$135.0 million, respectively.

No reinsurance agreements were in force at December 31, 2017 and 2016 which would likely result in a payment to the reinsurer in excess of the total direct premiums collected.

Effective July 1, 2015 the Company entered into a coinsurance with funds withheld agreement with Catamount domiciled under the laws of the state of Vermont. The agreement is for Catamount to reinsure National Life's Closed Block policies, which includes policies that were in force and had existing reserves established by the Company as of the effective date of the agreement. The following table illustrates the amounts the Company ceded under the reinsurance treaty:

	<u>2017</u>	<u>2016</u>
	<i>(in thousands)</i>	
Insurance in-force	\$ 4,933,608	\$ 5,245,422
Premiums	89,498	101,407
Policy Reserves	2,882,531	2,974,410

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

D. Reinsurance (continued)

Effective December 31, 2017, the Company entered into a reinsurance agreement with Hannover Re to cede reserves totaling \$392.5 million, which included in-force term and guaranteed universal life business on a coinsurance basis and additional traditional life and universal life on a yearly renewable term basis. This reinsurance transaction was reflected in the Company's financial statements as follows:

<i>Increase (Decrease)</i> (in thousands)	Impact of Reinsurance
Balance Sheet as of December 31, 2017	
Deferred and uncollected premiums	\$ (10,198)
Total assets	<u>(10,198)</u>
Life and annuity reserves	(392,504)
Current federal income taxes due	29,018
Funds held under coinsurance	256,000
Capital and surplus	97,288
Total liabilities, capital and surplus	<u>\$ (10,198)</u>
Statement of Operations for the Year Ended December 31, 2017	
Premiums	\$ (398,938)
Other income	47,776
Total revenue	<u>(351,162)</u>
(Decrease) increase in policy reserves	(392,504)
General and administrative expenses	3,764
Federal income tax expense	29,018
Net income	<u>\$ 8,560</u>
Statements of Changes in Capital and Surplus at December 31, 2017	
Change in ceding commission	<u>\$ 88,728</u>

Disability income products are significantly reinsured, primarily with Unum Provident Corporation ("UNUM"). All amounts reinsured by UNUM are on a modified coinsurance basis. The Company ceded 50% of the experience risk on open claims as of 1/1/1991 to UNUM. Interest is paid to UNUM on these reserves at a rate of 9.44%. The Company ceded 80% of the experience risk on the remaining reserves reinsured with UNUM post 1/1/1991. Interest is paid to UNUM on these reserves at a rate of 6.98%. Total disability income premiums ceded in 2017, 2016, and 2015 were \$16.6 million, \$18.8 million and \$20.3 million, respectively.

In 2017, 2016, and 2015, there were no reinsurance assumption changes to life insurance and annuity products.

The Company would be liable with respect to any ceded insurance should any reinsurer be unable to meet its assumed obligations.

The Company's reinsurance treaties meet risk transfer criteria to qualify for reinsurance accounting treatment as prescribed by the Department.

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

E. Federal Income Taxes

The components of the net deferred tax asset (“DTA”)/ (liability) at December 31 are as follows:

	2017			2016		
	Ordinary	Capital	Total	Ordinary	Capital	Total
	<i>(in thousands)</i>					
Gross deferred tax assets	\$ 123,563	\$ 5,639	\$ 129,202	\$ 224,397	\$ 12,696	\$ 237,093
Valuation allowance	—	—	—	—	—	—
Adjusted gross deferred tax assets	123,563	5,639	129,202	224,397	12,696	237,093
Nonadmitted deferred tax asset	(14,086)	(917)	(15,003)	(20,154)	(1,253)	(21,407)
Net deferred tax asset/ (liability)	109,477	4,722	114,199	204,243	11,443	215,686
Gross deferred tax liabilities	(41,133)	(2,813)	(43,946)	(71,515)	(6,863)	(78,378)
Net admitted deferred tax asset/ (liability)	\$ 68,344	\$ 1,909	\$ 70,253	\$ 132,728	\$ 4,580	\$ 137,308

	Change		
	Ordinary	Capital	Total
	<i>(in thousands)</i>		
Gross deferred tax assets	\$ (100,834)	\$ (7,057)	\$ (107,891)
Valuation allowance	—	—	—
Adjusted gross deferred tax assets	(100,834)	(7,057)	(107,891)
Nonadmitted deferred tax asset	6,068	336	6,404
Net deferred tax asset/ (liability)	(94,766)	(6,721)	(101,487)
Gross deferred tax liabilities	30,382	4,050	34,432
Net admitted deferred tax asset/ (liability)	\$ (64,384)	\$ (2,671)	\$ (67,055)

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

E. Federal Income Taxes (continued)

The admission calculation components at December 31 are as follows:

	2017			2016		
	Ordinary	Capital	Total	Ordinary	Capital	Total
	<i>(in thousands)</i>					
Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from above) after application of the threshold limitation (the lesser of 1 and 2 below)	\$ 68,344	\$ 1,909	\$ 70,253	\$ 132,728	\$ 4,580	\$ 137,308
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	68,344	1,909	70,253	132,728	4,580	137,308
2. Adjusted gross deferred tax assets allowed per limitation threshold	N/A	N/A	290,911	N/A	N/A	267,202
Adjusted gross deferred tax assets (excluding the amount of deferred tax assets) offset by gross deferred tax liabilities	41,133	2,813	43,946	71,515	6,863	78,378
Deferred tax assets admitted as the result of application of SSAP 101	\$ 109,477	\$ 4,722	\$ 114,199	\$ 204,243	\$ 11,443	\$ 215,686

	Change		
	Ordinary	Capital	Total
	<i>(in thousands)</i>		
Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from above) after application of the threshold limitation (the lesser of 1 and 2 below)	\$ (64,384)	\$ (2,671)	\$ (67,055)
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	(64,384)	(2,671)	(67,055)
2. Adjusted gross deferred tax assets allowed per limitation threshold	N/A	N/A	23,709
Adjusted gross deferred tax assets (excluding the amount of deferred tax assets) offset by gross deferred tax liabilities	(30,382)	(4,050)	(34,432)
Deferred tax assets admitted as the result of application of SSAP 101	\$ (94,766)	\$ (6,721)	\$ (101,487)

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

E. Federal Income Taxes (continued)

At December 31, 2017 and 2016, the following ratio percentages were used to determine recovery period and threshold limitation:

	2017	2016
	<i>(dollars in thousands)</i>	
Ratio percentage	15 %	15 %
Total adjusted capital exDTA	\$ 2,095,179	\$ 1,917,838

At December 31, 2017 and 2016, tax planning strategies had the following impact on deferred tax assets:

	2017		2016	
	Ordinary	Capital	Ordinary	Capital
	<i>(in thousands)</i>			
Adjusted gross DTAs	\$ 123,563	\$ 5,639	\$ 224,397	\$ 12,696
Percentage of total gross deferred tax assets	53 %	1 %	56 %	2 %
Net admitted adjusted gross DTAs	\$ 109,477	\$ 4,722	\$ 204,243	\$ 11,443
Percentage of total net admitted deferred tax assets	97 %	3 %	97 %	3 %

	Change	
	Ordinary	Capital
	<i>(in thousands)</i>	
Adjusted gross DTAs	\$ (100,834)	\$ (7,057)
Percentage of total gross deferred tax assets	(3)%	(1)%
Net admitted adjusted gross DTAs	\$ (94,766)	\$ (6,721)
Percentage of total net admitted deferred tax assets	— %	— %

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

There are no unrecognized deferred tax liabilities pursuant to SSAP No. 101, Income Taxes at December 31, 2017.

Federal current income taxes incurred consists of the following major components:

	2017	2016	Change
	<i>(in thousands)</i>		
Tax (benefit) on operations	\$ 41,394	\$ (46,670)	\$ 88,064
Tax (benefit) on realized capital gains/losses	6,222	4,017	2,205
Tax credits	(15,138)	(12,017)	(3,121)
Total current income taxes incurred	\$ 32,478	\$ (54,670)	\$ 87,148

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

E. Federal Income Taxes (continued)

The components of deferred tax assets and liabilities are as follows:

	2017	2016	Change
	<i>(in thousands)</i>		
<u>Deferred Tax Assets:</u>			
Ordinary			
Reserves	\$ 33,689	\$ 57,013	\$ (23,324)
Deferred acquisition costs	29,533	42,644	(13,111)
Policyholder dividends	2,019	3,722	(1,703)
Fixed assets	22,098	47,931	(25,833)
Employee benefits	31,294	48,305	(17,011)
Tax credit carryforward	—	16,949	(16,949)
Other	4,930	7,833	(2,903)
Subtotal	123,563	224,397	(100,834)
Nonadmitted deferred tax assets	(14,086)	(20,154)	6,068
Admitted ordinary deferred tax assets	109,477	204,243	(94,766)
Capital			
Capital invested assets	5,639	12,696	(7,057)
Nonadmitted deferred tax assets	(917)	(1,253)	336
Admitted capital deferred tax assets	4,722	11,443	(6,721)
Total admitted deferred tax assets	114,199	215,686	(101,487)
<u>Deferred Tax Liabilities:</u>			
Ordinary			
Ordinary invested assets	9,276	18,201	(8,925)
Fixed assets	12,881	26,019	(13,138)
Deferred and uncollected premiums	8,260	14,721	(6,461)
Reserves	2,866	1,155	1,711
Real estate	5,575	9,218	(3,643)
Employee benefits	1,008	—	1,008
Other	1,267	2,201	(934)
Total deferred tax liabilities	41,133	71,515	(30,382)
Capital			
Capital invested assets	2,813	6,863	(4,050)
Total deferred tax liabilities	43,946	78,378	(34,432)
Net admitted deferred tax asset (liability)	\$ 70,253	\$ 137,308	\$ (67,055)

Effective December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act ("Tax Reform") into law. Under ASC 740, the effects of changes in tax rates and laws are recognized in the period in which the new legislation is enacted. With respect to this legislation, we recorded a one-time decrease in net deferred tax assets of \$56.8 million, due to a re-measurement of deferred tax assets and liabilities resulting from the decrease in the corporate Federal income tax rate from 35% to 21%.

National Life Insurance Company
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E. Federal Income Taxes (continued)

The Company's total provision for income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate of 35% to pretax income. The significant items causing this difference are as follows:

	<u>2017</u>	<u>2016</u>
	<i>(in thousands)</i>	
Permanent Differences:		
Pretax income computed at statutory rate	\$ 16,912	\$ (36,050)
Amortization of IMR	(1,141)	(1,226)
Prior year taxes	2,626	(327)
Tax rate change	56,838	—
Dividends received deduction	(1,228)	(1,766)
COLI	(3,237)	(3,763)
Intercompany management fee	(1,176)	(812)
Tax credits	(4,242)	(14,832)
Reinsurance gain in surplus	29,704	567
Other permanent differences	199	148
Total	<u>\$ 95,255</u>	<u>\$ (58,061)</u>
Total current income taxes incurred	32,478	(54,670)
Current income tax in surplus	—	1,896
Adjusted (increase) decrease in net deferred taxes	62,777	(5,287)
Total	<u>\$ 95,255</u>	<u>\$ (58,061)</u>

The Company recognizes income tax benefits and any related reserves in accordance with SSAP No. 5R, "Liabilities, Contingencies and Impairment of Assets", as modified by paragraph 3.a. of SSAP No. 101. Currently, the Company only files income tax returns in the United States.

The Company is no longer subject to US federal, state, and local income tax examinations by tax authorities for years prior to 2010. The Company's 2010, 2011, 2012 and 2013 consolidated federal income tax returns are under examination by the IRS.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	<u>2017</u>	<u>2016</u>
	<i>(in thousands)</i>	
Balance, beginning of year	\$ —	\$ —
Additions based on tax positions related to the current year	—	—
Additions for tax positions of prior years	—	—
Settlements	—	—
Balance, end of year	<u>\$ —</u>	<u>\$ —</u>

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

E. Federal Income Taxes (continued)

As of December 31, 2017, there are no unrecognized tax benefits for the Company. It is likely there will be no significant change in the amount of unrecognized tax benefits within the next twelve months.

The Company recognizes interest and penalties related to unrecognized tax benefits in tax expense. During the year ended December 31, 2017, the Company recognized \$0.1 million as expense for interest and penalties. During years ended December 31, 2016, and 2015, the Company recognized no expense for interest and penalties. The Company had approximately \$0.4 million and \$0.3 million accrued for interest and penalties at December 31, 2017 and 2016, respectively.

As of December 31, 2017, the Company has no operating loss carryforwards and no tax credit carryforwards available.

The following are income taxes incurred in the current year and prior years that will be available for recoupment in the event of future net losses:

	<u>Ordinary</u>		<u>Capital</u>
	<i>(in thousands)</i>		
2017	\$	—	\$ —
2016		—	—
2015		—	—

The Company's federal income tax return is consolidated with the following entities: LSW, Catamount, Longhorn, NLHC, NLVF, Sentinel Asset Management, Inc. ("SAMI"), Sentinel Administrative Services, Inc., Sentinel Financial Services, Inc., and Equity Services, Inc. The method of allocation for federal income tax expense between the companies is pursuant to a written agreement. Allocation is based upon separate return calculations with current benefit for net losses and tax credits to the extent utilized in the consolidated income tax return. Intercompany tax balances are settled quarterly.

F. Information Concerning Parent, Subsidiaries and Affiliates

On March 6, 2015, National Life Distribution, LLC ("NLD") was organized as a Vermont domestic limited liability company. LSW is the sole member of the LLC and paid cash of \$100,000 on June 5, 2015 as a capital contribution. NLD is serving as a master agency for National Life Group's field force operations. The Company incurs commission expenses based on applicable product commission schedules agreed to with NLD.

During 2015, the Company made an initial capital contribution to Catamount of \$10 million, comprised of \$5 million shares at \$1 par value per share, and \$5 million additional paid in capital. Effective July 1, 2015, the Company entered into a coinsurance with funds withheld arrangement with Catamount. As a result of this transaction, the Company was paid a \$136.0 million ceding commission, a portion of which was recorded in net income and the other portion through surplus. The amount recorded in surplus represents the gain on the reinsurance transaction and will be amortized into income as earnings arise from the business reinsured. During 2016, ownership of Catamount was transferred as a dividend from the Company to NLVF.

National Life Insurance Company
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F. Information Concerning Parent, Subsidiaries and Affiliates (continued)

During 2016, Longhorn Reinsurance Company was formed as a direct subsidiary of National Life. Longhorn commenced business on August 17, 2016 as a special purpose financial insurance company domiciled and licensed in the state of Vermont for the purpose of entering into reinsurance transactions with LSW. NLIC made an initial capital contribution to Longhorn of \$22 million, comprised of \$5 million shares at \$1 par value per share, and \$17 million additional paid in capital. NLIC procured a letter of credit ("LOC") for the account of Longhorn, which will pay an ongoing procurement fee to NLIC for the LOC and agree to reimburse NLIC for any draw on the LOC. The LOC has a face amount of \$110 million as of December 31, 2017.

On June 26, 2015, a \$30 million surplus note receivable due from LSW was contributed to the Company from its parent, NLVF. The transaction was considered a capital contribution. This was reported as an increase to gross paid in and contributed surplus.

In 2017, NLIC made a \$100 million capital contribution to LSW.

In 2016, the Company sold eleven partnerships to LSW totaling \$64.3 million and five LIHTC investments totaling \$36.0 million. In 2015, the Company sold seven partnerships to LSW totaling \$45.6 million. The purchases were recorded at the lower of book or fair value at the date of the transactions.

In 2009, the Company made an \$8.6 million unsecured loan to NLVF. Prior notification was provided to the Department. The loan was originally due to be repaid January 31, 2012. An amendment was made to the agreement with a revised due date of January 31, 2017. Interest on the loan is calculated at LIBOR + 150 basis points. This loan was paid off in full in 2017.

In 2008, the Company made a \$25 million unsecured loan to NLVF. Prior notification was provided to the Department. The loan was originally due to be repaid on December 31, 2008. An amendment was made to the agreement with a revised due date of December 31, 2017. Interest on the loan is calculated at LIBOR + 150 basis points. This loan was paid off in full in 2017.

The Company owns 100% of LSW, whose carrying value exceeds 10% of the admitted assets of the Company. NLIC carries LSW at statutory equity less surplus notes issued of \$30 million in accordance with SSAP 97 *Investments in Subsidiary, Controlled and Affiliated Entities*. At December 31, 2017 the statement value of LSW's assets and liabilities were \$18,743.4 million and \$17,535.8 million, respectively. LSW's net income was \$61.2 million for the year ended December 31, 2017.

All intercompany transactions are settled on a current basis. Amounts receivable or payable at December 31 generally represent year end cost allocations, reinsurance transactions, and income taxes and are included in the accompanying Balance Sheets. There was \$153.0 million receivable from LSW as of December 31, 2017 and \$27.8 million receivable from LSW as of December 31, 2016.

In 2017, the Company amended and restated its expense sharing agreement with LSW with an effective date of January 1, 2017 under which LSW will reimburse the Company for administrative and other general expenses associated with services provided by the Company. Under all cost allocation agreements with LSW, the Company received reimbursement of \$244.7 million for the year ended December 31, 2017 and \$212.9 million for the year ended December 31, 2016.

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

F. Information Concerning Parent, Subsidiaries and Affiliates (continued)

No guarantees or undertakings on behalf of an affiliate resulting in a material contingent exposure of the Company's assets or liabilities existed at December 31, 2017 and 2016.

The Company and several of its subsidiaries and affiliates share common facilities and employees. Expenses are periodically allocated according to specified reimbursement agreements. The Company had no agreements in place at December 31, 2017 or 2016 to potentially move non-admitted assets into the parent or other affiliates.

G. Benefit Plans

The Company sponsors a frozen non-contributory qualified defined benefit plan that provided benefits to employees in the Career channel general agencies. The plan was amended effective January 1, 2004 to freeze plan benefits. No new participants were admitted to the plan after December 31, 2003, and there were no increases in benefits after December 31, 2003 for existing participants. This pension plan is separately funded. Plan assets are primarily mutual funds and bonds held in a Company separate account and funds invested in a group variable annuity contract held in the general account of National Life. None of the securities held in the Company's separate account were issued by the Company.

The Company sponsors other pension plans including a non-contributory defined benefit plan for National Life career general agents who met the eligibility requirements to enter the plan prior to January 1, 2005. These plans are non-qualified and are not separately funded.

The Company sponsors defined benefit postemployment plans that provide medical benefits to agency staff and agents. Medical coverage is contributory; with retiree contributions adjusted annually, and contain cost sharing features such as deductibles and copayments. The postemployment plans are not separately funded, and the Company, therefore, pays for plan benefits from operating cash flows. The costs of providing these benefits are recognized as they are earned.

The Company also sponsors various defined contribution and deferred compensation plans.

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

G. Benefit Plans (continued)

The following tables show the plans' combined funded status at December 31:

	Pension Benefits			Other Benefits		
	2017	2016	2015	2017	2016	2015
	<i>(in thousands)</i>					
Change in benefit obligation:						
Benefit obligation, beginning of year	\$ 81,818	\$ 87,386	\$ 94,905	\$ 1,695	\$ 1,965	\$ 2,049
Service cost	—	230	661	—	—	—
Interest cost	3,083	3,311	3,333	62	74	72
Plan participants' contributions	—	—	—	165	163	174
Actuarial losses (gains)	4,334	(1,803)	(4,147)	54	(34)	24
Benefits paid	(7,515)	(7,306)	(7,366)	(380)	(473)	(354)
Plan amendments	—	—	—	—	—	—
Benefit obligation, end of year	81,720	81,818	87,386	1,596	1,695	1,965
Change in plan assets:						
Fair value of plan assets, beginning of year	13,020	12,416	14,004	—	—	—
Actual return on plan assets	1,779	1,312	(588)	—	—	—
Employer contributions	7,103	6,598	6,366	215	310	180
Plan participants' contributions	—	—	—	165	163	174
Benefits paid	(7,515)	(7,306)	(7,366)	(380)	(473)	(354)
Fair value of plan assets, end of year	14,387	13,020	12,416	—	—	—
Funded status	\$(67,333)	\$(68,798)	\$(74,970)	\$(1,596)	\$(1,695)	\$(1,965)
Unrecognized actuarial losses	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Unrecognized prior service cost (benefit)	—	—	—	—	—	—
Unrecognized transition obligation	—	—	—	—	—	—
Net activity subsequent to measurement date	—	—	—	—	—	—
Net amount recognized	\$(67,333)	\$(68,798)	\$(74,970)	\$(1,596)	\$(1,695)	\$(1,965)

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

G. Benefit Plans (continued)

	Pension Benefits			Other Benefits		
	2017	2016	2015	2017	2016	2015
	<i>(in thousands)</i>					
Amounts recognized in the balance sheets						
Pension and other post-retirement benefit obligations liability	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Minimum pension liability	—	—	—	—	—	—
Net amount recognized	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Pension and other post-retirement benefit obligations liability	<u>\$ (67,333)</u>	<u>\$ (68,798)</u>	<u>\$ (74,970)</u>	<u>\$ (1,596)</u>	<u>\$ (1,695)</u>	<u>\$ (1,965)</u>
Amounts recognized in unassigned funds (surplus)						
Net transition asset or obligations	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Net actuarial (gain) loss	28,498	26,617	30,453	(532)	(631)	(642)
Net prior service costs (benefits)	—	—	—	—	(92)	(218)
Net amount recognized	<u>\$ 28,498</u>	<u>\$ 26,617</u>	<u>\$ 30,453</u>	<u>\$ (532)</u>	<u>\$ (723)</u>	<u>\$ (860)</u>

Amounts in unassigned funds (surplus) recognized as components of net periodic benefit cost at December 31 were as follows:

	Pension Benefits			Other Benefits		
	2017	2016	2015	2017	2016	2015
	<i>(in thousands)</i>					
Adjustments to Unassigned Funds (Surplus)						
Items not yet recognized as a component of net periodic cost - prior year	\$ 26,617	\$ 30,453	\$ 35,023	\$ (723)	\$ (860)	\$ (1,059)
Net transition asset or obligation recognized	—	—	—	—	—	—
Net prior service cost or credit recognized	—	—	—	92	126	126
Net gain or loss arising during the period	3,383	(2,266)	(2,583)	54	(34)	23
Net gain or loss recognized	<u>(1,502)</u>	<u>(1,570)</u>	<u>(1,987)</u>	<u>45</u>	<u>45</u>	<u>50</u>
Items not yet recognized as a component of net periodic cost - current year	<u>\$ 28,498</u>	<u>\$ 26,617</u>	<u>\$ 30,453</u>	<u>\$ (532)</u>	<u>\$ (723)</u>	<u>\$ (860)</u>

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

G. Benefit Plans (continued)

The components of net periodic benefit cost are as follows:

	Pension Benefits			Other Benefits		
	2017	2016	2015	2017	2016	2015
	<i>(in thousands)</i>					
Components of Net Periodic Benefit Cost						
Service cost	\$ —	\$ 230	\$ 661	\$ —	\$ —	\$ —
Interest cost	3,083	3,311	3,333	62	74	72
Expected return on plan assets	(828)	(849)	(975)	—	—	—
Amortization of unrecognized transition obligation or transition asset	—	—	—	—	—	—
Amortization of unrecognized gains and losses	1,502	1,570	1,987	(45)	(45)	(50)
Amount of prior service cost recognized	—	—	—	(92)	(126)	(126)
Net periodic benefit cost	\$ 3,757	\$ 4,262	\$ 5,006	\$ (75)	\$ (97)	\$ (104)

Over the next year, the estimated amount of amortization from unassigned funds into net periodic benefit cost related to net actuarial losses and prior service benefit is \$1.6 million and \$0.0 million, respectively.

The total accumulated benefit obligation was \$81.3 million, \$81.1 million and \$85.8 million at December 31, 2017, 2016 and 2015, respectively.

In 2017, 2016, and 2015, there was no admitted intangible pension asset.

	Pension Benefits			Other Benefits		
	2017	2016	2015	2017	2016	2015
The actuarial assumptions used in determining the benefit obligation at the measurement date:						
a. Discount rate	3.40 %	3.85 %	3.95 %	3.40 %	3.85 %	3.95 %
b. Rate of compensation increase	5.00 %	5.00 %	5.00 %	N/A %	N/A %	N/A %
Weighted-average assumptions used to determine net periodic pension cost:						
a. Discount rate	3.85 %	3.95 %	3.65 %	3.85 %	3.95 %	3.65 %
b. Rate of compensation increase	5.00 %	5.00 %	5.00 %	N/A %	N/A %	N/A %
c. Expected long-term rate of return on plan assets	6.50 %	7.00 %	7.00 %	N/A %	N/A %	N/A %

The projected health care cost trend rate ("HCCTR") was 5.0% for 2017, 2016 and 2015. The HCCTR of 5.0% is the ultimate trend rate.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. Increasing the assumed HCCTR by one percentage point in each year would increase the accumulated postretirement benefit obligation ("APBO") for the remaining plan by approximately \$1.7 million and increase the service and interest cost of net periodic postretirement benefit cost by approximately \$0.1 million. Decreasing the assumed HCCTR by one percentage point in each year would reduce the APBO by

National Life Insurance Company
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G. Benefit Plans (continued)

approximately \$1.5 million and the service and interest cost of net periodic postretirement benefit cost by about \$0.1 million.

The Company uses the straight-line method of amortization for prior service cost and unrecognized gains and losses.

In 2015, the Company changed the amortization period for one of its plans where all or almost all of the participants are inactive. For this plan, the change in amortization base was from average future service to average future life expectancy. The change in methodology resulted in a decrease of net periodic expense of \$1.7 million in 2015.

Plan assets are invested as follows:

Plan Asset Category	December 31,	
	2017	2016
Fixed Income	65 %	41 %
Equities	29 %	52 %
Group annuity contract and other	6 %	7 %
Total	100 %	100 %

The primary objective is to maximize long-term total return within the investment policy and guidelines. The Company's investment policy for the plan assets associated with the separately funded plans is to maintain a target allocation of approximately 15%-35% equities, 55%-75% fixed income and 0-10% alternative investments when measured at fair value.

The Company's expected long-term rate of return of 6.5% is based upon the combination of current asset mix of equities and fixed income and the Company's historical and projected experience on long-term projections by investment research organizations.

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G. Benefit Plans (continued)

The concentrations of credit risk associated with the plan assets are shown in the table below:

	2017	2016
	<i>(in thousands)</i>	
Equities – unaffiliated	\$ 4,172	\$ 6,818
Equity Funds		
Total equities - unaffiliated	4,172	6,818
Fixed income		
Aerospace/Defense	299	109
Banking	1,112	109
Cable	172	122
Chemicals	108	102
Retailers	972	316
Energy	89	85
Food and Beverage	425	294
Health Care	185	43
Insurance - Health	161	70
Insurance - Property and Casualty	462	255
Insurance - Life	168	96
Machine Construction	264	139
Manufacturing	191	191
Media	212	111
Metals/Mining	303	—
Pharmaceuticals	523	327
Real Estate Investment Trusts	46	84
Technology	987	208
Transportation	534	206
Utilities	639	477
Wireless	140	—
Wirelines	46	46
Bond Funds	1,248	1,895
Total fixed income	9,286	5,285
Partnerships	757	702
Cash	42	25
Group annuity	57	164
Total investments (1) (2)	\$ 14,314	\$ 12,994

(1) Includes investments totaling \$1,248 in 2017 and \$1,237 in 2016 advised by Touchstone Investments and SAMI, respectively.

(2) The difference to total plan assets of \$14,387 in 2017 and \$13,020 in 2016 shown in the changes in plan assets are accruals for income and liabilities.

The valuation techniques used for the plan assets are:

Common stock - Common stocks consist of mutual funds that are traded daily and have a net asset value. These securities are categorized as Level 1.

Corporates - Corporate bonds are valued using cash flow models based on appropriate observable inputs such as market quotes, yield curves, interest rates, and spreads. Corporate bonds are categorized as Level 2 in the

National Life Insurance Company
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G. Benefit Plans (continued)

fair value hierarchy. Level 1 consists of bond mutual funds that are traded daily and have a readily determinable net asset value.

Partnerships - Investments in limited partnerships do not have a readily determinable fair value, and, as such, the Company values them at its pro-rata share of the limited partnership's net asset value, or its equivalent. Since these valuations have significant unobservable inputs, they are generally categorized as Level 3 in the fair value hierarchy.

Group annuity - This category consists of an investment in a National Life group variable annuity contract. The contract is carried at amortized cost, which approximates fair value. These assets are categorized in Level 2 of the hierarchy.

The valuation of plan assets for 2017 are as follows:

2017 Fair Value	Level 1	Level 2	Level 3	Not Presented at Fair Value	Total
	<i>(in thousands)</i>				
Assets					
Common stock	\$ 4,172	\$ —	\$ —	\$ —	\$ 4,172
Corporates	1,248	8,113	—	—	9,361
Partnerships	—	—	757	—	757
Cash	42	—	—	—	42
Group annuity	—	57	—	—	57
Total assets	\$ 5,462	\$ 8,170	\$ 757	\$ —	\$ 14,389
Liabilities					
Total liabilities	—	—	—	(2)	(2)
Total plan assets	\$ 5,462	\$ 8,170	\$ 757	\$ (2)	\$ 14,387

The valuation of plan assets for 2016 are as follows:

2016 Fair Value	Level 1	Level 2	Level 3	Not Presented at Fair Value	Total
	<i>(in thousands)</i>				
Assets					
Common stock	\$ 6,818	\$ —	\$ —	\$ —	\$ 6,818
Corporates	1,895	3,419	—	—	5,314
Partnerships	—	—	702	—	702
Cash	25	—	—	—	25
Group annuity	—	164	—	—	164
Total assets	\$ 8,738	\$ 3,583	\$ 702	\$ —	\$ 13,023
Liabilities					
Total liabilities	—	—	—	(3)	(3)
Total plan assets	\$ 8,738	\$ 3,583	\$ 702	\$ (3)	\$ 13,020

National Life Insurance Company
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G. Benefit Plans (continued)

During 2017 and 2016, there were no significant transfers between fair value Levels 1 and 2. The table below summarizes the reconciliation of the beginning and ending balances and related changes for the year ended December 31, 2017 for Level 3 fair value measurements for which significant unobservable inputs were used in determining each instrument's fair value.

2017 Level 3 Assets	Beginning Balance	Net Investment Gain (Loss)	Purchases	Issuances	Sales	Settlements	Transfer In to Level 3	Transfer Out of Level 3	Ending Balance
	<i>(in thousands)</i>								
Limited Partnerships	\$ 702	\$ 42	\$ 197	\$ —	\$ (184)	\$ —	\$ —	\$ —	\$ 757

Projected benefit payments for defined benefit obligations for each of the five years following December 31, 2017, and in aggregate for the five years thereafter is as follows:

Year	Pension Payments	Other Benefit Payments	Total Payments
	<i>(in thousands)</i>		
2018	\$ 7,382	\$ 171	\$ 7,553
2019	7,279	166	7,445
2020	7,109	160	7,269
2021	6,875	154	7,029
2022	6,301	148	6,449
2023-2027	26,580	609	27,189

The Company's general policy is to contribute the regulatory minimum required amount into its separately funded defined benefit pension plan. However, the Company may elect to make larger contributions subject to maximum contribution limitations. The Company's expected contribution for 2018 into its separately funded defined benefit pension plan for agency employees is approximately \$0.4 million.

The Company participates in a 401(k) plan for its employees. Employees earning less than a specified amount will receive a 75% match on up to 6% of an employee's salary, subject to applicable maximum contribution guidelines. Employees earning more than a specified amount will receive a 50% match on up to 6% of an employee's salary, subject to applicable maximum contribution guidelines. Additional employee voluntary contributions may be made to the plans subject to contribution guidelines. Vesting and withdrawal privilege schedules are attached to the Company's matching contributions. Plan assets invested in the mutual funds are outside the Company and, as such, are excluded from the Company's assets and liabilities. The Company's contribution to the 401(k) plans for its employees for the years ended December 31, 2017, 2016, and 2015, was \$2.3 million, \$1.9 million and \$1.7 million, respectively.

The Company also provides a 401(k) plan for its regular full-time agents. The Company makes an annual contribution equal to 6.1% of an agent's compensation up to the Social Security taxable wage base plus 7.5% of the agent's compensation in excess of the Social Security taxable wage base. In addition, the agent may elect to defer a portion of the agent's compensation, up to the legal limit on elective deferrals, and have that amount contributed to the plan. Total annual contributions cannot exceed certain limits which vary based on

National Life Insurance Company
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December 31, 2017 and December 31, 2016

G. Benefit Plans (continued)

total agent compensation. The Company's match on the agents' 401(k) plan was \$0.9 million, \$0.8 million and \$0.8 million for the years ended December 31, 2017, 2016, and 2015, respectively.

For all of the Company's defined contribution plans, accumulated funds may be invested by the employee in a group annuity contract issued by the Company or in mutual funds (several of which are sponsored by an affiliate of the Company).

The Company participates in plans that are sponsored by its parent company, NLVF. The Company has no ongoing obligation in connection with these plans outside of contributing towards the annual cost for the Company's employees who participate in these plans. The Company expense in connection with these plans was \$27.0 million, \$29.5 million and \$22.3 million for the years ended December 31, 2017, 2016 and 2015, respectively.

H. Capital and Surplus, Shareholder Dividend Restrictions and Quasi-Reorganizations

The Company has outstanding surplus notes with a principal balance of \$189.1 million, bearing interest at 10.5% and a maturity date of September 15, 2039. These surplus notes were originally issued at \$200 million in exchange for cash. During 2015, the Company repurchased \$9.7 million of the notes. During 2017, the Company repurchased \$1.2 million of the notes. The notes were issued pursuant to Rule 144A under the Securities Act of 1933, as amended, and are administered by The Depository Trust Company. The interest on these notes is scheduled to be paid semiannually on March 15 and September 15 of each year. The Company paid \$20.0 million in 2017 and had \$5.5 million of unapproved interest that was not accrued at December 31, 2017. Total interest paid on the surplus note is \$175.1 million. The notes are unsecured and subordinated in right of payment to all present and future indebtedness, policy claims and prior claims and rank *pari passu* with any future surplus notes, and any redemption payment may be made only with prior approval of the Commissioner, whose approval will only be granted if, in the judgment of the Commissioner, the financial condition warrants the making of such payments. The notes shall not be entitled to any sinking fund.

The Company has outstanding 2.5 million common stock \$1 par shares. The shares are wholly-owned by its parent NLVF. At the time of issuance, the Company recorded \$5.0 million of additional paid-in-capital as transfers from retained earnings. At December 31, 2017 and 2016, the Company had 2.5 million shares authorized and outstanding. All shares are Class A shares. No preferred stock has been issued.

NLHC, a stock holding company, currently owns all the outstanding shares of NLVF, which in turn currently owns all the outstanding shares of the Company. NLHC currently has no other significant assets, liabilities or operations other than that related to its ownership of NLVF's outstanding stock. Similarly, NLVF currently has no significant assets or operations other than those related to investments funded by a 2002 dividend from the Company, issuance of \$200.0 million in debt financing in 2003, issuance of an additional \$75.0 million in debt financing in 2005, as the sponsor of certain employee related benefit plans, and its ownership of National Life's outstanding stock. Under the terms of the mutual holding company reorganization described in Note A, NLHC must always hold a majority of the voting shares of NLVF.

Policyowner surplus is restricted by required statutory surplus of \$5.0 million in the state of VT, other state permanent surplus (guaranty fund) requirements of \$500,000, and special surplus amounts required by the

National Life Insurance Company
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**H. Capital and Surplus, Shareholder Dividend Restrictions and Quasi-Reorganizations
(continued)**

State of New York in connection with variable annuity business. Special surplus funds were \$9.3 million and \$7.6 million as of December 31, 2017 and 2016, respectively.

In 2017, the Company declared a dividend of \$20 million to NLVF which was paid in February 2018. In 2016, the Company transferred its ownership of Catamount to NLVF as a dividend of \$10 million. No dividends were paid or received by the Company in 2015. Certain dividends declared by the Company in excess of the greater of net gain from operations or 10% of statutory surplus require pre-approval by the Commissioner. Within the limitations of the above, there are no restrictions placed on the portion of the Company's profits that may be paid as ordinary dividends to the shareholder. No stock is held for special purposes.

The Company did not receive any capital contributions during 2017 or 2016. On September 29, 2015, the Company received a \$109 million capital contribution from its parent, NLVF, which was reported as an increase to gross paid in and contributed surplus. Effective December 31, 2015, the Company received a capital contribution of \$18 million from NLVF, and simultaneously made a capital contribution to its subsidiary, LSW, for \$18 million. The contribution is reflected as a note receivable as of December 31, 2015, which is an admitted asset on the balance sheet. The cash was settled February 19, 2016, prior to the filing of the 2015 financial statements. The Company received approval from the Vermont Department of Financial Regulation to treat the note as an admitted asset.

As of December 31, 2017, the Company had securities of \$7.0 million in insurance department special deposit accounts.

I. FHLB Agreements

The Company is a member of the Federal Home Loan Bank of Boston ("FHLB"), which provides National Life with access to a secured asset-based borrowing capacity. It is part of the Company's strategy to utilize this borrowing capacity for funding agreements and for backup liquidity. The proceeds have been invested in a pool of fixed and floating rate income assets. The Company has a maximum borrowing capacity of approximately \$1.4 billion, based on its membership investment base.

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I. FHLB Agreements (continued)

Further information regarding our FHLB agreements is as follows:

FHLB Capital Stock – Aggregate Totals

At December 31, 2017	<u>General Account</u>	<u>Total</u>
	<i>(in thousands)</i>	
Membership Stock - Class A	\$ —	\$ —
Membership Stock - Class B	4,237	4,237
Activity Stock	4,358	4,358
Excess Stock	859	859
Aggregate Total	<u>\$ 9,454</u>	<u>\$ 9,454</u>
Actual or estimated borrowing capacity as determined by the insurer <i>(in billions)</i>		\$ 1.4

At December 31, 2016	<u>General Account</u>	<u>Total</u>
	<i>(in thousands)</i>	
Membership Stock - Class A	\$ —	\$ —
Membership Stock - Class B	4,711	4,711
Activity Stock	4,868	4,868
Excess Stock	—	—
Aggregate Total	<u>\$ 9,579</u>	<u>\$ 9,579</u>
Actual or estimated borrowing capacity as determined by the insurer <i>(in billions)</i>		\$ 1.5

FHLB Membership Stock (Class A and B) Eligible for Redemption

	<u>Current Period Total</u>	<u>Not Eligible for Redemption</u>	<u>Less than 6 Months</u>	<u>6 Months to Less than 1 Year</u>	<u>1 to Less than 3 Years</u>	<u>3 to 5 Years</u>
	<i>(in thousands)</i>					
Class A	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Class B	4,237	4,237	—	—	—	—

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I. FHLB Agreements (continued)

Collateral Pledged to FHLB

Total Collateral Pledged

At December 31, 2017	Fair Value	Carrying Value	Aggregate Total Borrowing
	<i>(in thousands)</i>		
General account	\$ 280,195	\$ 273,300	\$ 102,075
Total	<u>\$ 280,195</u>	<u>\$ 273,300</u>	<u>\$ 102,075</u>

At December 31, 2016	Fair Value	Carrying Value	Aggregate Total Borrowing
	<i>(in thousands)</i>		
General account	\$ 244,742	\$ 240,071	\$ 102,075
Total	<u>\$ 244,742</u>	<u>\$ 240,071</u>	<u>\$ 102,075</u>

Maximum Collateral Pledged

At December 31, 2017	Fair Value	Carrying Value	Aggregate Total Borrowing
	<i>(in thousands)</i>		
General account	\$ 287,417	\$ 277,669	\$ 102,075
Total	<u>\$ 287,417</u>	<u>\$ 277,669</u>	<u>\$ 102,075</u>

At December 31, 2016	Fair Value	Carrying Value	Aggregate Total Borrowing
	<i>(in thousands)</i>		
General account	\$ 244,742	\$ 240,071	\$ 102,075
Total	<u>\$ 244,742</u>	<u>\$ 240,071</u>	<u>\$ 102,075</u>

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I. FHLB Agreements (continued)

Borrowing from FHLB

At December 31, 2017	General Account	Separate Account	Total	Funding Agreement Reserves Established
	<i>(in thousands)</i>			
Debt	\$ —	\$ —	\$ —	\$ —
Funding agreements	102,075	—	102,075	102,075
Other	—	—	—	—
Aggregate total	<u>\$ 102,075</u>	<u>\$ —</u>	<u>\$ 102,075</u>	<u>\$ 102,075</u>

At December 31, 2016	General Account	Separate Account	Total	Funding Agreement Reserves Established
	<i>(in thousands)</i>			
Debt	\$ —	\$ —	\$ —	\$ —
Funding agreements	102,075	—	102,075	102,075
Other	—	—	—	—
Aggregate total	<u>\$ 102,075</u>	<u>\$ —</u>	<u>\$ 102,075</u>	<u>\$ 102,075</u>

Maximum Amount Borrowed During Reporting Period

At December 31, 2017	General Account	Separate Account	Total
	<i>(in thousands)</i>		
Debt	\$ —	\$ —	\$ —
Funding agreements	102,075	—	102,075
Other	—	—	—
Aggregate total	<u>\$ 102,075</u>	<u>\$ —</u>	<u>\$ 102,075</u>

The Company has no prepayment obligations under the funding arrangements with the FHLB.

J. Business Risks, Commitments and Contingencies

Business Risks

As of December 31, 2017 and 2016, the Company held \$92.8 million and \$92.4 million, respectively, of commercial mortgage-backed securities (“CMBS”). The fair value of the Company’s CMBS was \$94.4 million

National Life Insurance Company
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J. Business Risks, Commitments and Contingencies (continued)

and \$94.5 million at December 31, 2017 and December 31, 2016, respectively. The Company had other-than-temporary impairments related to CMBS investments of \$0.006 million and \$1.8 million as of December 31, 2017 and 2016, respectively. It is unclear how long it will take for a return to normal market conditions. The extent and duration of any future market or sector decline is unknown, as is the potential impact of such a decline on the Company's investment portfolio.

The Company routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other financial institutions. Many of these transactions expose the Company to credit risk in the event of default of the respective counterparties. In addition, the underlying collateral supporting the Company's structured securities, including CMBS, may deteriorate or default causing these structured securities to incur losses.

The Company may hedge various business risks using over-the-counter derivative instruments to a pre-approved number of counterparties. While the Company carefully monitors counterparty exposures and holds collateral to limit such risk, if counterparties fail or refuse to honor their obligations, the hedges of the related risk will be ineffective. Such failure could have a material adverse effect on the Company's results of operations and financial condition. At December 31, 2017, the Company's over-the-counter notional exposure to derivative counterparties totaled \$622.7 million with a combined market value of \$48.6 million owed to the Company by these derivative counterparties. To mitigate this risk, the Company requires that counterparties post collateral when exposure exceeds certain thresholds. As of December 31, 2017, the net exposure with any individual counterparty related to the Company's derivative positions did not exceed \$6.6 million. For more information on derivatives see Note O - Derivative Financial Instruments.

The Company also is subject to the risk that the issuers of, or other obligors of, securities owned by the Company may default on payments with respect to such securities. The Company's investment portfolio includes investment securities in the financial services sector and other sectors that have recently experienced defaults, and in the prevailing climate of economic uncertainty and volatility, the credit quality of many issuers has been adversely affected, which has increased the risk of default on such securities. Further defaults could have a material adverse effect on the Company's results of operations or financial condition.

In addition, potential action by governments and regulatory bodies in response to the financial crisis affecting the global banking system and financial markets, such as investment, nationalization and other intervention, could negatively impact these instruments, securities, transactions and investments. There can be no assurance that any such losses or impairments to the carrying value of these assets would not materially and adversely affect the Company's results of operations or financial condition.

U.S. long-term interest rates remain at relatively low levels by historical standards. Periods of low or declining interest rates have the potential to negatively affect the Company's profitability in the following principal ways:

- Low or declining interest rates tend to decrease the yield the Company earns on its portfolios of fixed income investments. This could in turn compress the spreads the Company earns on products, such as universal life and certain annuities, on which it is contractually obligated to pay customers a fixed minimum rate of interest. Should new money interest rates be sufficiently below guaranteed minimum rates for a long enough period, the Company may be required to pay policyholders or annuity owners at a higher rate than the rate of return it earns on the portfolio of investments supporting those products.

National Life Insurance Company
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J. Business Risks, Commitments and Contingencies (continued)

- In periods of low and declining interest rates, the Company generally must invest the proceeds from the maturity, redemption or sale of fixed income securities from its portfolio at a lower rate of interest than the rate it had been receiving on those securities. A low interest rate environment may also be likely to cause redemptions and prepayments to increase. In addition, in periods of low and declining interest rates, it may be difficult to identify and acquire suitable investments for proceeds from new product sales or proceeds from the maturity, redemption or sale of fixed income securities from the Company's portfolios, which could further decrease the yield it earns on its portfolio or cause the Company to reduce the sales of some products.

The success of the Company's investment strategy and hedging arrangements will also be affected by general economic conditions. These conditions may cause volatile interest rates and equity markets, which in turn could increase the cost of hedging. Volatility or illiquidity in the markets could significantly and negatively affect the Company's ability to appropriately execute its hedging strategies.

The Company's reserves for future policy benefits and claims may prove to be inadequate. The Company establishes and carries, as a liability, reserves based on estimates of the amount that will be needed to pay for future benefits and claims. For the Company's life insurance and annuity products, these reserves are calculated based on many assumptions and estimates, including estimated premiums that will be received over the assumed life of the policy, the timing of the event covered by the insurance policy, the lapse rate of the policies, the amount of benefits or claims to be paid and the investment returns on the assets purchased with the premiums received. The assumptions and estimates used in connection with establishing and carrying reserves are inherently uncertain. Accordingly, it cannot be determined with precision the ultimate amounts that will be paid or the timing of payment of, actual benefits and claims or whether the assets supporting the policy liabilities will grow to the level assumed prior to payment of benefits or claims.

If actual experience is different from assumptions or estimates, the reserves may prove to be inadequate in relation to the estimated future benefits and claims. As a result, the Company would incur a charge to earnings in the period in which reserves are increased.

The Company sets prices for many of its insurance and annuity products based upon expected claims and payment patterns, using assumptions for mortality, persistency (how long a contract stays in force) and interest rates. In addition to the potential effect of natural or man-made disasters, significant changes in mortality could emerge gradually over time, due to changes in the natural environment, the health habits of the insured population, effectiveness of treatment for disease or disability or other factors.

In addition, the Company could fail to accurately anticipate changes in other pricing assumptions, including changes in interest and inflation rates. Significant negative deviations in actual experience from the Company's pricing assumptions could have a material adverse effect on the profitability of its products. The Company's earnings are significantly influenced by the claims paid under its insurance contracts and will vary from period to period depending upon the amount of claims incurred. There is only limited predictability of claims experience within any given month or year. The Company's future experience may not match the respective pricing assumptions or past results. As a result, the Company's summary of operations could be materially adversely affected.

State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof,

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J. Business Risks, Commitments and Contingencies (continued)

that are made for the benefit of the consumer sometimes lead to additional expense for the insurer and, thus, could have a material adverse effect on our financial condition and results of operations.

Federal legislation and administrative policies can significantly and adversely affect insurance companies, including policies regarding financial services regulation, securities regulation, derivatives regulation, pension regulation, health care regulation, privacy, tort reform legislation and taxation. In addition, various forms of direct and indirect federal regulation of insurance have been proposed from time to time, including proposals for the establishment of an optional federal charter for insurance companies.

In April 2016, the Department of Labor (“DOL”) released a final regulation redefining who is a “Fiduciary,” as well as new class exemptions from the prohibited transaction provisions, (collectively, the “Rule”) under the Employee Retirement Income Security Act (“ERISA”). Under the revised Fiduciary definition, virtually all registered representatives providing advice to an ERISA governed plan, a plan fiduciary, plan participant or Individual Retirement Account (“IRA”) investor will be considered a Fiduciary on the regulation’s applicability date, April 10, 2017. Typical brokerage commissions for securities products would result in Prohibited Transactions for Fiduciaries, requiring the use of a new Prohibited Transaction Exemption, known as the Best Interest Contract Exemption (“BICE”). The definition of the term “Fiduciary” is currently under review by the DOL, with a potential outcome that could rescind or revise the current rule as well as change the applicability date. Additionally, on March 15, 2018, the United States Court of Appeals for the Fifth Circuit issued its opinion in the case of *Chamber of Commerce, et. al., v. United States Department of Labor*, Case No. 17-10238, that vacates the Rule, including the revised definition of “Fiduciary,” in its entirety. The DOL’s appellate rights are not yet exhausted. The Company will monitor the DOL study once it is undertaken by the DOL, and adapt to any resulting changes in the regulation.

Commitments and Contingencies

The Company is subject, in the ordinary course of business, to claims, litigation, arbitration proceedings and governmental examinations. Although the Company is not aware of any actions, proceedings or allegations that reasonably should give rise to a material adverse impact to the Company’s financial position or liquidity, the outcome of any particular matter cannot be foreseen with certainty. It is the opinion of management that the ultimate resolution of these matters will not materially impact the Company’s financial condition.

The Company anticipates additional capital investments of \$49.6 million into existing limited partnerships due to funding commitments.

The Company participates in the guaranty association of each state in which it conducts business. The amount of any assessment is based on various rates, established by members of the National Organization of Life and Health Insurance Guaranty Associations (“NOLHGA”). At December 31, 2017, the Company had accrued assessment charges of \$0.9 million with expected payment over the next ten years. The Company has also recorded a related asset of \$1.4 million for premium tax credits, which are expected to be realized through 2027.

The Company currently leases rights to the use of certain data processing hardware from NTT Data, Boston, Massachusetts. This agreement was extended through January 31, 2025. The following is a schedule of future minimum lease payments as of December 31, 2017:

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December 31, 2017 and December 31, 2016

J. Business Risks, Commitments and Contingencies (continued)

<u>Year</u>	<u>Operating Leases</u> <i>(in thousands)</i>
2018	\$ 5,500
2019	5,500
2020	5,500
2021	5,500
2022	5,500
Thereafter	11,458
Total minimum lease payments	<u>\$ 38,958</u>

The Company also has a services contract with NTT Data. In total, the Company paid \$15.4 million and \$13.4 million in 2017 and 2016, respectively.

Additionally, the Company has a multi-year contract for information systems application and infrastructure services from NTT Data. The contract expires January 1, 2020. Expense paid under the contract with NTT was \$26.9 million and \$29.6 million in 2017 and 2016, respectively. The expense paid includes a base amount and variable expenses related to project work performed during the year.

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K. Closed Block

The Closed Block was established on January 1, 1999 as part of the conversion to a mutual holding company corporate structure. The Closed Block was initially funded on January 1, 1999 with cash and securities totaling \$2.2 billion. As described in Note D - Reinsurance, the Company entered into a reinsurance transaction with Catamount to reinsure the Closed Block policies. Assets, liabilities, and results of operations of the Closed Block are presented in their normal categories on the statements of admitted assets, liabilities and surplus, and on the statements of income and capital and surplus.

At December 31, 2017 and 2016, Closed Block liabilities exceeded Closed Block assets and no additional dividend obligation was required.

Income Statement Data	For the Year Ended December 31,		
	2017	2016	2015
	<i>(in thousands)</i>		
Revenues:			
Premiums and considerations	\$ 95,816	\$ 103,404	\$ 116,130
Net investment income	128,110	139,426	147,944
Total revenues	223,926	242,830	264,074
Benefits and Expenses:			
Change in reserves	(90,127)	(142,140)	(60,190)
Policy benefits	244,665	312,436	249,074
Operating expenses	3,114	3,311	3,516
Commissions	995	1,049	1,177
Other expenses	1,281	1,192	1,710
Total benefits and expenses	159,928	175,848	195,287
Dividends to policyholders	(46,433)	(51,996)	(62,187)
Income tax benefit (expense)	2,223	(1,438)	2,246
Net realized capital gains (losses)	(831)	3,526	(482)
Net income	\$ 18,957	\$ 17,074	\$ 8,364

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

L. Annuity Reserves, Supplementary Contracts and Other Deposit Fund Liabilities

At December 31, 2017, the Company's annuity reserves and other deposit fund liabilities that are subject to discretionary withdrawal (with adjustment), subject to discretionary withdrawal (without adjustment), and not subject to discretionary withdrawal provisions are summarized as follows:

	General Account	Separate Account Nonguaranteed	Total	Percent
	<i>(dollars in thousands)</i>			
Subject to discretionary withdrawal (with adjustment):				
With market value adjustment	\$ 13,732	\$ —	\$ 13,732	0.9 %
At book value less current surrender charge of 5% or more	150,957	10,549	161,506	10.9 %
Total with adjustment or at market value	164,689	10,549	175,238	11.8 %
Subject to discretionary withdrawal (without adjustment) at book value with minimal or no charge or adjustment	627,327	168,876	796,203	53.9 %
Not subject to discretionary withdrawal	181,686	326,452	508,138	34.3 %
Total annuity reserves and deposit fund liabilities (before reinsurance)	973,702	505,877	1,479,579	100.0 %
Less reinsurance ceded	—	—	—	— %
Net annuity reserves and deposit fund liabilities	<u>\$ 973,702</u>	<u>\$ 505,877</u>	<u>\$ 1,479,579</u>	<u>100.0 %</u>

M. Premium and Annuity Considerations Deferred and Uncollected

Deferred and uncollected life insurance premiums and annuity considerations at December 31, 2017, were as follows:

	Gross	Net of Loading
	<i>(in thousands)</i>	
Ordinary new business	\$ 5,466	\$ 2,335
Ordinary renewal	38,655	34,889
Total	<u>\$ 44,121</u>	<u>\$ 37,224</u>

N. Separate Accounts

Separate and variable accounts held by the Company represent funds held in connection with certain variable annuity, variable universal life, and Company sponsored benefit plans. All separate account assets are carried at fair value. The Company participates in certain separate accounts.

As of December 31, 2017 and 2016 the Company's separate account assets included legally insulated assets of \$823.5 million and \$733.1 million, respectively. Separate account assets not legally insulated, which represent seed money, totaled \$8.5 million and \$6.9 million as of December 31, 2017 and 2016, respectively.

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

N. Separate Accounts (continued)

The seed money is invested pursuant to general account directives.

	2017		2016
	<i>(in thousands)</i>		
Separate account premiums and considerations	\$ 23,562	\$	24,265
Reserves for accounts with assets at fair value	814,933		732,028

The withdrawal characteristics of separate accounts at December 31 were as follows:

	2017		2016
	<i>(in thousands)</i>		
Subject to discretionary withdrawal without adjustment:			
At book value (which equals fair value) less surrender charge of 5% or more	\$ 23,093	\$	28,526
Subject to discretionary withdrawal without adjustment:			
At book value (which equals fair value) less surrender charge of less than 5%	465,387		419,965
Not subject to discretionary withdrawal	326,453		283,537
Total reserves	\$ 814,933	\$	732,028

A reconciliation of net transfers to (from) separate accounts during the years ended December 31, was as follows:

	2017		2016		2015
	<i>(in thousands)</i>				
Net transfers to (from) separate accounts	\$ (20,215)	\$	(17,564)	\$	(27,251)
Reconciling items	386		238		420
Total	\$ (19,829)	\$	(17,326)	\$	(26,831)

As of December 31, 2017, the general account had a maximum guarantee for separate account liabilities of \$2.1 million. Amounts paid by the general account related to separate account guarantees during the past five years are as follows:

As of December 31,	Amount
2017	\$ 239
2016	3,725
2015	72,356
2014	89
2013	127,084

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

N. Separate Accounts (continued)

To compensate the general account for the risk taken, the separate account has paid risk charges for the past five years as follows:

As of December 31,	Amount
2017	\$ 89,072
2016	48,001
2015	57,215
2014	59,021
2013	63,295

O. Derivative Financial Instruments

The Company may purchase and sell various derivative instruments, including equity options, interest rate swaps, swaptions, forwards and futures based on the Standard & Poor's ("S&P 500"), Russell 2000 and the MSCI Emerging Markets indices in order to hedge its obligation with respect to indexed products. These derivative instruments generally cost 5% or less of the indexed liabilities at the time they are purchased, are authorized under state law, and are purchased from counterparties which conform to the Company's policies and guidelines regarding derivative instruments. The standard option position involves contracts with durations of one year or less and, except for dynamic portfolio balancing (which is limited), are held to expiration. Exposure to market risk is reduced by the nature of the crediting strategy, which does not credit interest when the indices are below a certain level. If the related index decreases, options purchased expire worthless, and any future contracts will be settled at a loss.

These instruments are marked to market daily and may produce exposure in excess of internal counterparty limits established by the Company's investment policy. The Company requires the counterparties to post collateral on its behalf to correct any overage stemming from either trading activity or market movements. The Company receives cash, cash equivalents and securities as collateral for any excess exposure and records the collateral received as a liability.

Investments in these types of instruments generally involve the following types of risk: in the case of over-the-counter options, there are no guarantees that markets will exist for these investments if the Company desired to close out a position; exchanges may impose trading limits which may inhibit the Company's ability to close out positions in exchange-listed instruments; and, if the Company has an open position with a dealer that becomes insolvent, the Company may experience a loss. The Company analyzes its position in derivative instruments relative to its annuity and insurance requirements each market day.

Cash may be required, depending on market movement, when (1) buying an option or (2) closing an option or futures position. Counterparties may make a single net payment at expiration. Initial acquisition of instruments and subsequent balancing are performed solely for the purpose of hedging liabilities presented by indexed products.

The Company purchases options only from highly rated counterparties. However, in the event the counterparty failed to perform, the Company's loss would be equal to the fair value of the net options, less any collateral held from that counterparty. The Company is required, in certain instances, to post collateral in order to purchase option, futures, or swap contracts. The amount of collateral that may be required for future or swap trading is

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

O. Derivative Financial Instruments (continued)

determined by the exchange on which it is traded. The amount of collateral that is required for option trading is dependent on the counterparty. Most counterparties do not require collateral.

As part of managing interest rate risk in its funding agreement business, the Company also enters into interest rate swaps. These swaps are primarily pay-fixed for receive-floating interest rate swaps designed to mitigate the interest rate risk in the assets used to back the funding agreements.

The face or contract amount of futures, options purchased, options written, swaptions purchased, and interest rate swaps (original amount for futures, notional amounts for options and swaps) at December 31 were as follows:

	<u>2017</u>	<u>2016</u>
	<i>(in thousands)</i>	
Options purchased	\$ 634,990	\$ 524,890
Swaptions purchased	500,000	500,000
Interest rate swaps	72,350	72,350
Options written	587,740	482,620
Futures purchased	3,078	1,881

The carrying value of options and futures, and interest rate swaps at December 31 were as follows:

	<u>2017</u>	<u>2016</u>	<u>Primary Underlying Risk Exposure</u>
	<i>(in thousands)</i>		
Options purchased	\$ 68,599	\$ 49,591	Equity market
Swaptions purchased	357	1,256	Interest rates
Interest rate swaps	401	716	Interest rates
Options written	(20,906)	(16,302)	Equity market
Futures purchased	108	106	Equity market
Net carrying value	<u>\$ 48,559</u>	<u>\$ 35,367</u>	

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

P. Fair Value of Financial Instruments

The carrying values and fair values of financial instruments at December 31 were as follows:

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	<i>(in thousands)</i>			
Bonds	\$ 5,374,599	\$ 5,767,222	\$ 5,285,283	\$ 5,536,784
Preferred stocks	11,000	11,035	11,000	11,049
Mortgage loans	513,486	521,613	556,144	566,169
Policy loans	527,395	631,402	526,657	628,740
Investment product liabilities	706,119	687,022	717,565	698,146

Fair value for bonds and preferred stocks are based on published prices by the Securities Valuations Office (“SVO”) of the NAIC, if available. In the absence of SVO published prices, or when amortized cost is used by the SVO, quoted market prices by other third party organizations, if available, are used to calculate fair value. If neither SVO published prices nor quoted market prices are available, management estimates the fair value based on the quoted market prices of securities with similar characteristics or on industry recognized valuation techniques.

Mortgage loan fair values are determined using the average of discounted cash flows for the portfolio using current market rates and average durations.

For variable rate policy loans the unpaid balance approximates fair value. Fixed rate policy loan fair values are estimated based on discounted cash flows using the current variable policy loan rate (including appropriate provisions for mortality and repayments).

Investment product liabilities include flexible premium annuities, single premium deferred annuities, and supplementary contracts not involving life contingencies. Investment product fair values are estimated as the average of discounted cash flows under different scenarios of future interest rates of A-rated corporate bonds and related changes in premium persistency and surrenders.

Q. Reconciliation to Statutory Annual Statements

There are no adjustments to net income (loss) or capital and surplus as filed.

National Variable
Life Insurance Account
(A Separate Account of National Life Insurance Company)

Financial Statements

December 31, 2017

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF NET ASSETS

December 31, 2017

Total Assets and Net Assets:

		VariTrak Product		Investor Select Product		Estate Provider Product		Benefit Provider Product		
		Accumulation Units	Unit Value	Accumulation Units	Unit Value	Accumulation Units	Unit Value	Accumulation Units	Unit Value	
Investments in shares of mutual fund portfolios at market value (policyholder accumulation units and unit value):										
Alger Portfolios										
Capital Appreciation Portfolio	\$	<u>2,794,351</u>	73,717.58	30.47	1,341.99	45.05	8,481.67	35.51	14,098.36	13.26
Large Cap Growth Portfolio	\$	<u>15,794,809</u>	327,323.64	42.90	8,159.69	35.97	34,418.41	22.97	5,040.11	132.69
Small Cap Growth Portfolio	\$	<u>8,351,624</u>	268,493.42	30.02	184.62	37.05	162.96	29.49	2,363.24	118.09
Alliance Bernstein Variable Products Series										
International Growth Fund	\$	<u>185,023</u>	4,772.68	20.91	2,428.23	22.69	1,327.73	22.69	-	-
International Value Fund	\$	<u>2,717,166</u>	116,026.01	18.63	15,188.82	20.21	12,303.17	20.21	-	-
Small/Mid Cap Value Fund	\$	<u>1,774,268</u>	37,566.54	39.62	2,377.77	42.98	4,275.41	42.98	-	-
Value Fund	\$	<u>40,826</u>	1,329.97	25.79	233.00	27.98	-	-	-	-
American Century Variable Portfolios										
Income & Growth Portfolio	\$	<u>3,772,686</u>	129,372.92	26.59	-	-	7,898.30	31.34	4,566.66	18.65
Inflation Protection Portfolio	\$	<u>1,210,545</u>	60,523.06	14.99	1,906.72	14.94	10,049.82	16.94	62,773.61	1.67
International Portfolio	\$	<u>4,405,860</u>	175,227.20	21.70	7,072.98	24.67	17,473.14	24.53	-	-
Ultra Portfolio	\$	<u>176,315</u>	4,989.56	26.73	-	-	1,421.33	30.21	-	-
Value Portfolio	\$	<u>7,781,101</u>	178,546.91	38.26	2,413.70	29.83	10,932.15	40.89	15,335.53	28.07
Deutsche Investment VIT Funds										
Equity 500 Index Fund	\$	<u>917,130</u>	-	-	-	-	-	-	25,348.87	36.18
Small Cap Index Fund	\$	<u>983,595</u>	13,658.35	33.26	1,218.79	36.08	-	-	11,543.35	42.04
Deutsche Variable Series II										
CROCI US VIP Fund (1)	\$	<u>302,766.39</u>	18,622.68	16.09	-	-	169.01	18.19	-	-
Small Mid Cap Value VIP Portfolio	\$	<u>2,324,379</u>	64,937.45	29.66	3,883.31	32.53	8,105.68	33.53	-	-
Dreyfus Variable Investment Fund										
Appreciation Portfolio	\$	<u>700,639</u>	24,925.50	25.22	-	-	2,523.18	28.51	-	-
Opportunistic Small Cap Portfolio	\$	<u>173,367</u>	7,914.57	21.90	-	-	-	-	-	-
Quality Bond Portfolio	\$	<u>350,699</u>	23,118.04	15.14	-	-	40.92	17.11	-	-
Sustainable US Equity Portfolio (2)	\$	<u>255,947</u>	15,238.02	16.49	-	-	246.88	19.21	-	-

(1) During 2017 the Deutsche Large Cap Value Fund was renamed the CROCI US VIP Fund.

(2) During 2017 the Dreyfus Socially Responsible Growth Fund was renamed the Sustainable US Equity Portfolio.

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF NET ASSETS

December 31, 2017

Total Assets and Net Assets:

		VariTrak		Investor Select		Estate Provider		Benefit Provider	
		Product	Product	Product	Product	Product	Product		
Investments in shares of mutual fund portfolios at market value (policyholder accumulation units and unit value):		Accumulation Units	Unit Value	Accumulation Units	Unit Value	Accumulation Units	Unit Value	Accumulation Units	Unit Value
Fidelity Variable Insurance Products									
VIPF Equity Income Portfolio	\$ 10,470,200	118,185.05	87.37	467.72	32.22	4,592.88	28.06	-	-
VIPF Growth Portfolio	\$ 18,596,842	161,713.65	106.04	511.84	40.45	39,848.38	35.82	-	-
VIPF High Income Portfolio	\$ 4,495,372	78,810.08	53.10	1,706.19	25.36	12,796.17	20.91	-	-
VIPF Overseas Portfolio	\$ 11,757,133	220,305.07	42.23	14,092.15	23.49	20,016.59	20.93	423,002.97	4.03
VIPF II Contrafund Portfolio	\$ 14,866,920	231,336.97	56.61	5,690.26	35.72	32,471.73	48.25	-	-
VIPF II Index 500 Portfolio	\$ 50,657,480	523,695.16	77.10	44,776.81	36.09	256,551.65	33.78	-	-
VIPF III Mid Cap Portfolio	\$ 4,734,345	112,989.82	36.67	4,255.70	37.48	10,414.39	41.45	-	-
VIPF III Value Strategies Portfolio	\$ 354,458	6,165.08	40.09	1,007.30	43.49	1,460.00	43.49	-	-
VIPF V Investment Grade Bond Portfolio	\$ 5,429,926	239,443.90	19.81	3,217.57	16.55	21,629.58	23.09	48,828.40	2.75
VIPF V Money Market	\$ 7,795,410	471,223.15	13.09	15,704.04	10.08	80,461.52	14.26	241,781.00	1.32
Franklin Templeton Variable Insurance Products Trust									
Foreign Securities Fund	\$ 1,808,510	83,030.89	19.03	1,160.80	21.16	9,466.61	21.51	-	-
Global Real Estate Fund	\$ 979,067	56,425.41	17.22	-	-	380.23	19.46	-	-
Mutual Global Discovery Securities Fund	\$ 412,544	17,281.05	22.83	556.29	24.77	171.07	24.77	-	-
Mutual Shares Securities Fund	\$ 820,657	31,289.09	21.71	1,487.89	26.54	4,154.16	24.54	-	-
Small Cap Value Securities Fund	\$ 778,672	20,094.21	30.76	940.58	36.50	3,630.31	34.77	-	-
Small Mid Cap Growth Securities Fund	\$ 305,427	8,389.83	25.17	2,008.95	35.45	809.37	28.45	-	-
US Government Securities Fund	\$ 417,021	32,183.67	11.66	1,957.22	12.65	1,336.90	12.65	-	-
Invesco Variable Insurance Funds									
Global Health Care Fund	\$ 2,597,128	107,172.53	22.53	-	-	4,993.84	26.26	10,323.38	5.00
Mid Cap Growth Fund	\$ 920,971	52,557.28	17.36	-	-	128.60	18.26	354.28	18.14
Technology Fund	\$ 2,122,543	197,612.61	10.26	-	-	5,457.73	11.96	9,122.38	3.25
JP Morgan Insurance Trust									
Small Cap Core Portfolio	\$ 1,500,044	33,624.73	37.34	-	-	6,256.89	37.04	254.44	50.33
Morgan Stanley Investment Funds									
Core Plus Fixed Income Portfolio	\$ 2,876,606	-	-	-	-	-	-	1,244,721.35	2.31
Emerging Markets Equity Portfolio	\$ 428,202	-	-	-	-	-	-	125,422.23	3.41
US Real Estate Portfolio	\$ 91,879	-	-	-	-	-	-	15,618.50	5.88

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF NET ASSETS

December 31, 2017

Total Assets and Net Assets:

		VariTrak		Investor Select		Estate Provider		Benefit Provider	
		Product	Product	Product	Product	Product	Product		
Investments in shares of mutual fund portfolios at market value (policyholder accumulation units and unit value):		Accumulation Units	Unit Value	Accumulation Units	Unit Value	Accumulation Units	Unit Value	Accumulation Units	Unit Value
Neuberger Berman Advisors Management Trust									
Large Cap Value Portfolio	\$ 2,087,497	60,523.50	26.04	207.70	35.53	11,111.73	28.21	3,593.40	53.03
Mid Cap Growth Portfolio	\$ 541,494	13,141.44	33.75	2,603.72	36.08	103.95	38.15	-	-
Mid Cap Growth Class S Portfolio	\$ 611,073	37,351.76	12.22	-	-	12,422.75	12.46	-	-
Short Duration Bond Portfolio	\$ 2,568,707	198,099.24	11.07	6,858.59	13.36	22,792.91	12.51	-	-
Socially Responsive Portfolio	\$ 16,210	356.15	31.39	147.71	34.05	-	-	-	-
Oppenheimer Variable Account Funds									
Conservative Balanced/VA Fund	\$ 110,963	5,350.24	20.07	165.88	21.77	-	-	-	-
Global Strategic Income/VA Fund	\$ 452,843	21,621.26	16.86	4,493.07	18.29	340.16	18.29	-	-
Main Street Small Cap/VA Fund	\$ 74,790	1,827.75	37.79	139.30	41.00	-	-	-	-
Sentinel Variable Products Trust (3)									
Balanced Fund	\$ -	-	-	-	-	-	-	-	-
Bond Fund	\$ -	-	-	-	-	-	-	-	-
Common Stock Fund	\$ -	-	-	-	-	-	-	-	-
Small Company Fund	\$ -	-	-	-	-	-	-	-	-
Touchstone Variable Series Trust (3)									
Balanced Fund	\$ 5,157,618	128,733.19	35.95	3,567.76	25.18	11,595.18	30.58	1,812.75	46.82
Bond Fund	\$ 5,979,290	217,875.75	23.61	7,913.53	14.93	28,934.06	24.76	17.81	24.54
Common Stock Fund	\$ 33,485,955	548,803.95	53.11	11,123.39	34.61	31,752.39	39.86	71,269.02	37.68
Small Company Fund	\$ 27,379,451	241,320.59	97.90	8,910.94	38.24	30,813.86	76.74	18,696.06	56.09
T Rowe Price Equity Series									
Blue Chip Growth Portfolio	\$ 2,018,712	52,453.29	32.72	3,254.32	46.64	4,071.11	36.99	-	-
Equity Income Portfolio	\$ 4,855,109	166,312.85	23.82	6,054.18	29.72	26,482.81	26.93	-	-
Health Sciences Portfolio	\$ 2,205,668	39,338.54	52.33	767.14	60.22	1,702.68	59.15	-	-
Personal Strategy Balanced Portfolio	\$ 1,927,485	75,799.90	25.43	-	-	-	-	-	-
Van Eck VIP Trust									
Emerging Markets Fund	\$ 1,819,292	34,131.10	36.66	9,853.08	39.77	4,427.93	39.77	-	-
Global Hard Assets Fund	\$ 1,512,384	96,054.05	13.56	7,135.20	14.71	7,164.87	14.71	-	-
Unconstrained Emerging Markets Bond Fund	\$ 1,137,203	77,383.12	12.15	5,073.55	13.18	9,878.80	13.18	-	-
Wells Fargo Variable Trust									
Discovery Fund	\$ 7,459,816	169,852.55	40.57	-	-	10,091.66	49.41	1,066.10	65.28
Opportunity Fund	\$ 5,399,216	74,860.20	42.08	-	-	17,906.13	46.05	14,284.35	99.72

(3) On October 27, 2017 the Sentinel Funds transferred substantially all of its assets and substantially all of its liabilities into the Touchstone Funds.

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Alger Portfolios</u> <u>Capital</u> <u>Appreciation</u>	<u>Alger Portfolios</u> <u>Large Cap</u> <u>Growth</u>	<u>Alger Portfolios</u> <u>Small Cap</u> <u>Growth</u>	<u>Alliance Bernstein</u> <u>International</u> <u>Growth</u>	<u>Alliance Bernstein</u> <u>International</u> <u>Value</u>
Investment income:					
Dividend income	\$ 4,257	\$ -	\$ -	\$ 2,062	\$ 57,402
Expenses:					
Mortality and expense risk and administrative charges	20,811	126,069	68,454	977	19,952
Net investment income (loss)	<u>(16,554)</u>	<u>(126,069)</u>	<u>(68,454)</u>	<u>1,085</u>	<u>37,450</u>
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	165,510	1,425,577	-	-	-
Net realized gain (loss) from shares sold	220,400	1,144,014	(247,644)	6,443	70,928
Net unrealized appreciation (depreciation) on investments	336,257	1,239,404	2,228,163	46,084	465,330
Net realized and unrealized gain (loss) on investments	<u>722,167</u>	<u>3,808,995</u>	<u>1,980,519</u>	<u>52,527</u>	<u>536,258</u>
Increase (decrease) in net assets resulting from operations	<u>\$ 705,613</u>	<u>\$ 3,682,926</u>	<u>\$ 1,912,065</u>	<u>\$ 53,612</u>	<u>\$ 573,708</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Alliance Bernstein Small Mid Cap Value</u>	<u>Alliance Bernstein Value</u>	<u>American Century Variable Portfolios Income & Growth</u>	<u>American Century Variable Portfolios Inflation Protection</u>	<u>American Century Variable Portfolios International</u>
Investment income:					
Dividend income	\$ 7,557	\$ 505	\$ 81,785	\$ 33,950	\$ 38,643
Expenses:					
Mortality and expense risk and administrative charges	<u>12,947</u>	<u>268</u>	<u>28,559</u>	<u>8,539</u>	<u>34,728</u>
Net investment income (loss)	<u>(5,390)</u>	<u>237</u>	<u>53,226</u>	<u>25,411</u>	<u>3,915</u>
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	81,271	-	78,435	-	-
Net realized gain (loss) from shares sold	115,013	485	147,672	(11,526)	331,349
Net unrealized appreciation (depreciation) on investments	<u>4,974</u>	<u>3,780</u>	<u>334,408</u>	<u>23,135</u>	<u>790,740</u>
Net realized and unrealized gain (loss) on investments	<u>201,258</u>	<u>4,265</u>	<u>560,515</u>	<u>11,609</u>	<u>1,122,089</u>
Increase (decrease) in net assets resulting from operations	<u>\$ 195,868</u>	<u>\$ 4,502</u>	<u>\$ 613,741</u>	<u>\$ 37,020</u>	<u>\$ 1,126,004</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>American Century Variable Portfolios</u>	<u>American Century Variable Portfolios</u>	<u>Deutsche Investment VIT Equity 500 Index</u>	<u>Deutsche Investment VIT Small Cap Index</u>	<u>Deutsche Variable Series II CROCI US VIP (1)</u>
	<u>Ultra</u>	<u>Value</u>			
Investment income:					
Dividend income	\$ 563	\$ 122,226	\$ 14,324	\$ 10,126	\$ 3,245
Expenses:					
Mortality and expense risk and administrative charges	<u>1,081</u>	<u>59,836</u>	<u>994</u>	<u>5,169</u>	<u>2,491</u>
Net investment income (loss)	<u>(518)</u>	<u>62,390</u>	<u>13,330</u>	<u>4,957</u>	<u>754</u>
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	7,163	-	40,240	39,208	-
Net realized gain (loss) from shares sold	8,900	344,939	12,410	35,413	6,201
Net unrealized appreciation (depreciation) on investments	<u>27,795</u>	<u>160,902</u>	<u>95,559</u>	<u>43,579</u>	<u>46,565</u>
Net realized and unrealized gain (loss) on investments	<u>43,858</u>	<u>505,841</u>	<u>148,209</u>	<u>118,200</u>	<u>52,766</u>
Increase (decrease) in net assets resulting from operations	<u>\$ 43,340</u>	<u>\$ 568,231</u>	<u>\$ 161,539</u>	<u>\$ 123,157</u>	<u>\$ 53,520</u>

(1) During 2017 the Deutsche Large Cap Value VIP Fund was renamed the CROCI US VIP Fund.

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Deutsche Variable Series II Small Mid Cap Value</u>	<u>Dreyfus Variable Investment Appreciation</u>	<u>Dreyfus Variable Investment Opportunistic Small Cap</u>	<u>Dreyfus Variable Investment Quality Bond</u>	<u>Dreyfus Variable Investment Sustainable US Equity (2)</u>
Investment income:					
Dividend income	\$ 7,834	\$ 8,735	\$ -	\$ 7,273	\$ 3,271
Expenses:					
Mortality and expense risk and administrative charges	<u>17,301</u>	<u>5,312</u>	<u>1,417</u>	<u>3,014</u>	<u>2,384</u>
Net investment income (loss)	<u>(9,467)</u>	<u>3,423</u>	<u>(1,417)</u>	<u>4,259</u>	<u>887</u>
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	46,841	83,880	1,991	-	18,806
Net realized gain (loss) from shares sold	108,507	20,655	20,608	(263)	21,932
Net unrealized appreciation (depreciation) on investments	<u>52,756</u>	<u>43,327</u>	<u>13,644</u>	<u>8,149</u>	<u>(4,961)</u>
Net realized and unrealized gain (loss) on investments	<u>208,104</u>	<u>147,862</u>	<u>36,243</u>	<u>7,886</u>	<u>35,777</u>
Increase (decrease) in net assets resulting from operations	<u>\$ 198,637</u>	<u>\$ 151,285</u>	<u>\$ 34,826</u>	<u>\$ 12,145</u>	<u>\$ 36,664</u>

(2) During 2017 the Dreyfus Socially Responsible Growth Fund was renamed the Sustainable US Equity Portfolio.

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Fidelity Variable Insurance Product Funds VIPF Equity Income	Fidelity Variable Insurance Product Funds VIPF Growth	Fidelity Variable Insurance Product Funds VIPF High Income	Fidelity Variable Insurance Product Funds VIPF Overseas	Fidelity Variable Insurance Product Funds VIPF II Contrafund
Investment income:					
Dividend income	\$ 171,907	\$ 38,112	\$ 239,839	\$ 135,758	\$ 141,112
Expenses:					
Mortality and expense risk and administrative charges	88,171	149,577	38,049	78,929	115,523
Net investment income (loss)	<u>83,736</u>	<u>(111,465)</u>	<u>201,790</u>	<u>56,829</u>	<u>25,589</u>
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	207,306	1,260,609	-	8,863	748,346
Net realized gain (loss) from shares sold	197,824	1,135,906	55,628	300,388	537,327
Net unrealized appreciation (depreciation) on investments	<u>642,823</u>	<u>2,766,538</u>	<u>5,664</u>	<u>2,084,639</u>	<u>1,349,866</u>
Net realized and unrealized gain (loss) on investments	<u>1,047,953</u>	<u>5,163,053</u>	<u>61,292</u>	<u>2,393,890</u>	<u>2,635,539</u>
Increase (decrease) in net assets resulting from operations	<u>\$ 1,131,689</u>	<u>\$ 5,051,588</u>	<u>\$ 263,082</u>	<u>\$ 2,450,719</u>	<u>\$ 2,661,128</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Fidelity Variable Insurance Product Funds VIPF II Index 500	Fidelity Variable Insurance Product Funds VIPF III Mid Cap	Fidelity Variable Insurance Product Funds VIPFIII Value Strategies	Fidelity Variable Insurance Product Funds VIPF V Investment Grade	Fidelity Variable Insurance Product Funds VIPF V Money Market	Franklin Templeton Variable Insurance Products Trust Foreign Securities
Investment income:						
Dividend income	\$ 855,907	\$ 30,926	\$ 3,951	\$ 132,005	\$ 52,368	\$ 47,909
Expenses:						
Mortality and expense risk and administrative charges	374,950	35,414	1,793	47,370	67,420	15,118
Net investment income (loss)	<u>480,957</u>	<u>(4,488)</u>	<u>2,158</u>	<u>84,635</u>	<u>(15,052)</u>	<u>32,791</u>
Realized and unrealized gain (loss) on investments:						
Capital gains distributions	156,564	196,807	55,377	26,179	-	-
Net realized gain (loss) from shares sold	3,370,616	142,922	7,325	48,037	-	78,039
Net unrealized appreciation (depreciation) on investments	<u>5,256,569</u>	<u>460,435</u>	<u>(24,425)</u>	<u>38,568</u>	<u>-</u>	<u>154,054</u>
Net realized and unrealized gain (loss) on investments	<u>8,783,749</u>	<u>800,164</u>	<u>38,277</u>	<u>112,784</u>	<u>-</u>	<u>232,093</u>
Increase (decrease) in net assets resulting from operations	<u>\$ 9,264,706</u>	<u>\$ 795,676</u>	<u>\$ 40,435</u>	<u>\$ 197,419</u>	<u>\$ (15,052)</u>	<u>\$ 264,884</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Franklin Templeton Variable Insurance Products Trust <u>Global Real Estate</u>	Franklin Templeton Variable Insurance Products Trust <u>Mutual Global Discovery</u>	Franklin Templeton Variable Insurance Products Trust <u>Mutual Shares</u>	Franklin Templeton Variable Insurance Products Trust <u>Small Cap Value</u>	Franklin Templeton Variable Insurance Products Trust <u>Small Mid Cap Growth</u>
Investment income:					
Dividend income	\$ 30,698	\$ 7,812	\$ 17,928	\$ 3,682	\$ -
Expenses:					
Mortality and expense risk and administrative charges	8,804	3,446	6,223	5,499	1,937
Net investment income (loss)	<u>21,894</u>	<u>4,366</u>	<u>11,705</u>	<u>(1,817)</u>	<u>(1,937)</u>
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	-	21,926	32,512	50,363	26,623
Net realized gain (loss) from shares sold	44,766	2,763	24,718	30,938	(14,939)
Net unrealized appreciation (depreciation) on investments	<u>23,324</u>	<u>1,839</u>	<u>(9,930)</u>	<u>(8,841)</u>	<u>41,732</u>
Net realized and unrealized gain (loss) on investments	<u>68,090</u>	<u>26,528</u>	<u>47,300</u>	<u>72,460</u>	<u>53,416</u>
Increase (decrease) in net assets resulting from operations	<u>\$ 89,984</u>	<u>\$ 30,894</u>	<u>\$ 59,005</u>	<u>\$ 70,643</u>	<u>\$ 51,479</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Franklin Templeton Variable Insurance Products Trust	Invesco Variable Insurance Funds Global Health Care	Invesco Variable Insurance Funds Mid Cap Growth	Invesco Variable Insurance Funds Technology	JP Morgan Insurance Trust Small Cap Core
Investment income:					
Dividend income	\$ 11,304	\$ 9,453	\$ -	\$ -	\$ 4,716
Expenses:					
Mortality and expense risk and administrative charges	3,367	21,756	7,873	16,990	11,374
Net investment income (loss)	<u>7,937</u>	<u>(12,303)</u>	<u>(7,873)</u>	<u>(16,990)</u>	<u>(6,658)</u>
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	-	131,301	53,834	100,538	10,354
Net realized gain (loss) from shares sold	(1,714)	132,316	34,537	120,961	109,800
Net unrealized appreciation (depreciation) on investments	<u>(2,903)</u>	<u>96,369</u>	<u>91,465</u>	<u>347,674</u>	<u>85,789</u>
Net realized and unrealized gain (loss) on investments	<u>(4,617)</u>	<u>359,986</u>	<u>179,836</u>	<u>569,173</u>	<u>205,943</u>
Increase (decrease) in net assets resulting from operations	<u>\$ 3,320</u>	<u>\$ 347,683</u>	<u>\$ 171,963</u>	<u>\$ 552,183</u>	<u>\$ 199,285</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Morgan Stanley Investment Funds Core Plus Fixed Income</u>	<u>Morgan Stanley Investment Funds Emerging Markets Equity</u>	<u>Morgan Stanley Investment Funds US Real Estate</u>	<u>Neuberger Berman Advisors Management Trust Large Cap Value</u>	<u>Neuberger Berman Advisors Management Trust Mid Cap Growth</u>
Investment income:					
Dividend income	\$ 86,526	\$ 3,132	\$ 1,323	\$ 11,791	\$ -
Expenses:					
Mortality and expense risk and administrative charges	3,340	488	104	14,349	3,675
Net investment income (loss)	<u>83,186</u>	<u>2,644</u>	<u>1,219</u>	<u>(2,558)</u>	<u>(3,675)</u>
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	-	-	-	55,174	9,406
Net realized gain (loss) from shares sold	7,347	11,968	141	100,305	(19,076)
Net unrealized appreciation (depreciation) on investments	<u>74,190</u>	<u>106,151</u>	<u>1,385</u>	<u>86,757</u>	<u>114,635</u>
Net realized and unrealized gain (loss) on investments	<u>81,537</u>	<u>118,119</u>	<u>1,526</u>	<u>242,236</u>	<u>104,965</u>
Increase (decrease) in net assets resulting from operations	<u>\$ 164,723</u>	<u>\$ 120,763</u>	<u>\$ 2,745</u>	<u>\$ 239,678</u>	<u>\$ 101,290</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Neuberger Berman Advisors Management Trust Mid Cap Growth Class S	Neuberger Berman Advisors Management Trust Short Duration Bond	Neuberger Berman Advisors Management Trust Socially Responsive	Oppenheimer Variable Account Funds Conservative Balanced/VA	Oppenheimer Variable Account Funds Global Strategic Income/VA
Investment income:					
Dividend income	\$ -	\$ 36,794	\$ 78	\$ 1,824	\$ 10,416
Expenses:					
Mortality and expense risk and administrative charges	4,221	19,997	92	928	3,798
Net investment income (loss)	<u>(4,221)</u>	<u>16,797</u>	<u>(14)</u>	<u>896</u>	<u>6,618</u>
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	12,093	-	560	-	-
Net realized gain (loss) from shares sold	3,938	(19,671)	771	1,070	(10,709)
Net unrealized appreciation (depreciation) on investments	108,537	4,501	1,131	6,217	29,956
Net realized and unrealized gain (loss) on investments	<u>124,568</u>	<u>(15,170)</u>	<u>2,462</u>	<u>7,287</u>	<u>19,247</u>
Increase (decrease) in net assets resulting from operations	<u>\$ 120,347</u>	<u>\$ 1,627</u>	<u>\$ 2,448</u>	<u>\$ 8,183</u>	<u>\$ 25,865</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Oppenheimer Variable Account Funds <u>Main Street Small Cap/VA</u>	Sentinel Variable Products Trust <u>Balanced</u>	Sentinel Variable Products Trust <u>Bond</u>	Sentinel Variable Products Trust <u>Common Stock</u>	Sentinel Variable Products Trust <u>Small Company</u>	Touchstone Variable Series Trust (3) <u>Balanced</u>
Investment income:						
Dividend income	\$ 438	\$ -	\$ -	\$ 3,644	\$ 15,556	\$ -
Expenses:						
Mortality and expense risk and administrative charges	<u>577</u>	<u>32,857</u>	<u>39,096</u>	<u>209,586</u>	<u>171,014</u>	<u>7,287</u>
Net investment income (loss)	<u>(139)</u>	<u>(32,857)</u>	<u>(39,096)</u>	<u>(205,942)</u>	<u>(155,458)</u>	<u>(7,287)</u>
Realized and unrealized gain (loss) on investments:						
Capital gains distributions	3,651	-	-	196,144	690,155	-
Net realized gain (loss) from shares sold	541	736,805	(328,276)	6,394,683	2,747,128	2,059
Net unrealized appreciation (depreciation) on investments	<u>4,577</u>	<u>(222,799)</u>	<u>502,331</u>	<u>(1,373,550)</u>	<u>(212,211)</u>	<u>125,918</u>
Net realized and unrealized gain (loss) on investments	<u>8,769</u>	<u>514,006</u>	<u>174,055</u>	<u>5,217,277</u>	<u>3,225,072</u>	<u>127,977</u>
Increase (decrease) in net assets resulting from operations	<u>\$ 8,630</u>	<u>\$ 481,149</u>	<u>\$ 134,959</u>	<u>\$ 5,011,335</u>	<u>\$ 3,069,614</u>	<u>\$ 120,690</u>

(3) On October 27, 2017 the Sentinel Funds transferred substantially all of its assets and substantially all of its liabilities into the Touchstone Funds.

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Touchstone Variable Series Trust (3)	Touchstone Variable Series Trust (3)	Touchstone Variable Series Trust (3)	T Rowe Price Equity Series	T Rowe Price Equity Series	T Rowe Price Equity Series
	<u>Bond</u>	<u>Common Stock</u>	<u>Small Company</u>	<u>Blue Chip Growth</u>	<u>Equity Income</u>	<u>Health Sciences</u>
Investment income:						
Dividend income	\$ -	\$ -	\$ -	\$ -	\$ 70,206	\$ -
Expenses:						
Mortality and expense risk and administrative charges	8,279	45,893	37,401	13,845	36,027	28,598
Net investment income (loss)	<u>(8,279)</u>	<u>(45,893)</u>	<u>(37,401)</u>	<u>(13,845)</u>	<u>34,179</u>	<u>(28,598)</u>
Realized and unrealized gain (loss) on investments:						
Capital gains distributions	-	-	-	23,846	462,155	91,720
Net realized gain (loss) from shares sold	330	8,903	24,919	199,473	304,101	441,439
Net unrealized appreciation (depreciation) on investments	38,158	963,274	1,339,963	294,824	(158,299)	347,166
Net realized and unrealized gain (loss) on investments	<u>38,488</u>	<u>972,177</u>	<u>1,364,882</u>	<u>518,143</u>	<u>607,957</u>	<u>880,325</u>
Increase (decrease) in net assets resulting from operations	<u>\$ 30,209</u>	<u>\$ 926,284</u>	<u>\$ 1,327,481</u>	<u>\$ 504,298</u>	<u>\$ 642,136</u>	<u>\$ 851,727</u>

(3) On October 27, 2017 the Sentinel Funds transferred substantially all of its assets and substantially all of its liabilities into the Touchstone Funds.

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>T Rowe Price Equity Series</u>	<u>Van Eck VIP Trust</u>	<u>Van Eck VIP Trust</u>	<u>Van Eck VIP Trust</u>	<u>Wells Fargo Variable Trust</u>	<u>Wells Fargo Variable Trust</u>
	<u>Personal Strategy Balanced</u>	<u>Emerging Markets</u>	<u>Global Hard Assets</u>	<u>Unconstrained Emerging Markets</u>	<u>Discovery</u>	<u>Opportunity</u>
Investment income:						
Dividend income	\$ 15,804	\$ 7,909	\$ -	\$ 24,571	\$ -	\$ 33,319
Expenses:						
Mortality and expense risk and administrative charges	7,334	12,296	10,725	8,666	60,212	29,727
Net investment income (loss)	<u>8,470</u>	<u>(4,387)</u>	<u>(10,725)</u>	<u>15,905</u>	<u>(60,212)</u>	<u>3,592</u>
Realized and unrealized gain (loss) on investments:						
Capital gains distributions	93,643	-	-	-	374,993	400,561
Net realized gain (loss) from shares sold	(326)	78,216	(41,161)	(36,567)	436,444	134,802
Net unrealized appreciation (depreciation) on investments	8,295	650,642	39,750	138,582	992,093	360,402
Net realized and unrealized gain (loss) on investments	<u>101,612</u>	<u>728,858</u>	<u>(1,411)</u>	<u>102,015</u>	<u>1,803,530</u>	<u>895,765</u>
Increase (decrease) in net assets resulting from operations	<u>\$ 110,082</u>	<u>\$ 724,471</u>	<u>\$ (12,136)</u>	<u>\$ 117,920</u>	<u>\$ 1,743,318</u>	<u>\$ 899,357</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Alger Portfolios</u> <u>Capital</u> <u>Appreciation</u>	<u>Alger Portfolios</u> <u>Large Cap</u> <u>Growth</u>	<u>Alger Portfolios</u> <u>Small Cap</u> <u>Growth</u>	<u>Alliance Bernstein</u> <u>International</u> <u>Growth</u>	<u>Alliance Bernstein</u> <u>International</u> <u>Value</u>
Net investment income (loss)	\$ (16,554)	\$ (126,069)	\$ (68,454)	\$ 1,085	\$ 37,450
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	165,510	1,425,577	-	-	-
Net realized gain (loss) from shares sold	220,400	1,144,014	(247,644)	6,443	70,928
Net unrealized appreciation (depreciation) on investments	<u>336,257</u>	<u>1,239,404</u>	<u>2,228,163</u>	<u>46,084</u>	<u>465,330</u>
Net realized and unrealized gain (loss) on investments	<u>722,167</u>	<u>3,808,995</u>	<u>1,980,519</u>	<u>52,527</u>	<u>536,258</u>
Increase (decrease) in net assets resulting from operations	<u>705,613</u>	<u>3,682,926</u>	<u>1,912,065</u>	<u>53,612</u>	<u>573,708</u>
Accumulation unit transactions:					
Participant deposits	176,224	858,538	393,590	16,446	160,364
Transfers between investment sub-accounts and general account, net	(244,982)	(781,984)	(215,552)	(31,478)	(131,643)
Net surrenders and lapses	(151,939)	(1,288,037)	(556,680)	(8,875)	(203,915)
Contract benefits	(476)	(123,792)	(38,785)	-	(18,779)
Loan interest received	14,201	91,606	45,405	702	13,393
Transfers for policy loans	(35,730)	(141,105)	(76,129)	(2,063)	(31,234)
Contract charges	(99,778)	(736,105)	(368,694)	(9,619)	(129,306)
Other	<u>11,602</u>	<u>64,616</u>	<u>34,658</u>	<u>689</u>	<u>10,309</u>
Total net accumulation unit transactions	<u>(330,878)</u>	<u>(2,056,263)</u>	<u>(782,187)</u>	<u>(34,198)</u>	<u>(330,811)</u>
Increase (decrease) in net assets	374,735	1,626,663	1,129,878	19,414	242,897
Net assets, beginning of period	<u>\$ 2,419,616</u>	<u>\$ 14,168,146</u>	<u>\$ 7,221,746</u>	<u>\$ 165,609</u>	<u>\$ 2,474,269</u>
Net assets, end of period	<u><u>\$ 2,794,351</u></u>	<u><u>\$ 15,794,809</u></u>	<u><u>\$ 8,351,624</u></u>	<u><u>\$ 185,023</u></u>	<u><u>\$ 2,717,166</u></u>

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Alliance Bernstein Small Mid Cap Value</u>	<u>Alliance Bernstein Value</u>	<u>American Century Variable Portfolios Income & Growth</u>	<u>American Century Variable Portfolios Inflation Protection</u>	<u>American Century Variable Portfolios International</u>
Net investment income (loss)	\$ (5,390)	\$ 237	\$ 53,226	\$ 25,411	\$ 3,915
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	81,271	-	78,435	-	-
Net realized gain (loss) from shares sold	115,013	485	147,672	(11,526)	331,349
Net unrealized appreciation (depreciation) on investments	4,974	3,780	334,408	23,135	790,740
Net realized and unrealized gain (loss) on investments	<u>201,258</u>	<u>4,265</u>	<u>560,515</u>	<u>11,609</u>	<u>1,122,089</u>
Increase (decrease) in net assets resulting from operations	<u>195,868</u>	<u>4,502</u>	<u>613,741</u>	<u>37,020</u>	<u>1,126,004</u>
Accumulation unit transactions:					
Participant deposits	103,917	3,839	211,609	78,557	276,012
Transfers between investment sub-accounts and general account, net	35,102	1,162	62,691	2,921	(324,781)
Net surrenders and lapses	(150,423)	(1,441)	(197,689)	(40,468)	(271,072)
Contract benefits	(11,942)	-	(423)	(933)	(69,780)
Loan interest received	9,218	-	17,355	11,621	21,168
Transfers for policy loans	(39,200)	-	6,632	8,200	(42,238)
Contract charges	(83,379)	(2,617)	(196,900)	(67,112)	(203,913)
Other	6,955	147	16,191	5,125	16,234
Total net accumulation unit transactions	<u>(129,752)</u>	<u>1,090</u>	<u>(80,534)</u>	<u>(2,089)</u>	<u>(598,370)</u>
Increase (decrease) in net assets	66,116	5,592	533,207	34,931	527,634
Net assets, beginning of period	<u>\$ 1,708,152</u>	<u>\$ 35,234</u>	<u>\$ 3,239,479</u>	<u>\$ 1,175,614</u>	<u>\$ 3,878,226</u>
Net assets, end of period	<u>\$ 1,774,268</u>	<u>\$ 40,826</u>	<u>\$ 3,772,686</u>	<u>\$ 1,210,545</u>	<u>\$ 4,405,860</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

	American Century Variable Portfolios	American Century Variable Portfolios	Deutsche Investment VIT Equity 500 Index	Deutsche Investment VIT Small Cap Index	Deutsche Variable Series II CROCI US VIP (1)
	Ultra	Value			
Net investment income (loss)	\$ (518)	\$ 62,390	\$ 13,330	\$ 4,957	\$ 754
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	7,163	-	40,240	39,208	-
Net realized gain (loss) from shares sold	8,900	344,939	12,410	35,413	6,201
Net unrealized appreciation (depreciation) on investments	27,795	160,902	95,559	43,579	46,565
Net realized and unrealized gain (loss) on investments	43,858	505,841	148,209	118,200	52,766
Increase (decrease) in net assets resulting from operations	43,340	568,231	161,539	123,157	53,520
Accumulation unit transactions:					
Participant deposits	7,283	461,952	44,604	36,257	16,318
Transfers between investment sub-accounts and general account, net	(1,939)	172,420	(20,886)	(178,673)	(19,732)
Net surrenders and lapses	(15,323)	(512,601)	(6,324)	(13,638)	(1,518)
Contract benefits	-	(21,848)	-	-	-
Loan interest received	119	30,288	264	2,845	923
Transfers for policy loans	(129)	22,737	(282)	(7,683)	(1,422)
Contract charges	(4,124)	(322,761)	(14,061)	(20,800)	(8,449)
Other	734	34,090	(1)	3,274	1,252
Total net accumulation unit transactions	(13,379)	(135,723)	3,314	(178,418)	(12,628)
Increase (decrease) in net assets	29,961	432,508	164,853	(55,261)	40,892
Net assets, beginning of period	\$ 146,354	\$ 7,348,593	\$ 752,277	\$ 1,038,856	\$ 261,874
Net assets, end of period	\$ 176,315	\$ 7,781,101	\$ 917,130	\$ 983,595	\$ 302,766

(1) During 2017 the Deutsche Large Cap Value VIP Fund was renamed the CROCI US VIP Fund.

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Deutsche Variable Series II Small Mid Cap Value	Dreyfus Variable Investment Appreciation	Dreyfus Variable Investment Opportunistic Small Cap	Dreyfus Variable Investment Quality Bond	Dreyfus Variable Investment Sustainable US Equity (2)
Net investment income (loss)	\$ (9,467)	\$ 3,423	\$ (1,417)	\$ 4,259	\$ 887
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	46,841	83,880	1,991	-	18,806
Net realized gain (loss) from shares sold	108,507	20,655	20,608	(263)	21,932
Net unrealized appreciation (depreciation) on investments	52,756	43,327	13,644	8,149	(4,961)
Net realized and unrealized gain (loss) on investments	208,104	147,862	36,243	7,886	35,777
Increase (decrease) in net assets resulting from operations	198,637	151,285	34,826	12,145	36,664
Accumulation unit transactions:					
Participant deposits	135,244	55,157	9,871	18,516	13,202
Transfers between investment sub-accounts and general account, net	56,976	(32,612)	(7,375)	23,810	8,003
Net surrenders and lapses	(94,008)	(21,022)	(21,512)	(10,257)	(14,667)
Contract benefits	(12,603)	-	-	(939)	-
Loan interest received	10,771	1,898	163	1,126	2,392
Transfers for policy loans	(7,199)	(8,463)	(1,530)	(15,961)	(39,148)
Contract charges	(108,472)	(28,419)	(6,557)	(23,751)	(16,348)
Other	9,123	3,030	737	1,687	1,345
Total net accumulation unit transactions	(10,168)	(30,431)	(26,203)	(5,769)	(45,221)
Increase (decrease) in net assets	188,469	120,854	8,623	6,376	(8,557)
Net assets, beginning of period	\$ 2,135,910	\$ 579,785	\$ 164,744	\$ 344,323	\$ 264,504
Net assets, end of period	\$ 2,324,379	\$ 700,639	\$ 173,367	\$ 350,699	\$ 255,947

(2) During 2017 the Dreyfus Socially Responsible Growth Fund was renamed the Sustainable US Equity Portfolio.

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Fidelity Variable Insurance Product Funds VIPF Equity Income	Fidelity Variable Insurance Product Funds VIPF Growth	Fidelity Variable Insurance Product Funds VIPF High Income	Fidelity Variable Insurance Product Funds VIPF Overseas	Fidelity Variable Insurance Product Funds VIPF II Contrafund
Net investment income (loss)	\$ 83,736	\$ (111,465)	\$ 201,790	\$ 56,829	\$ 25,589
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	207,306	1,260,609	-	8,863	748,346
Net realized gain (loss) from shares sold	197,824	1,135,906	55,628	300,388	537,327
Net unrealized appreciation (depreciation) on investments	<u>642,823</u>	<u>2,766,538</u>	<u>5,664</u>	<u>2,084,639</u>	<u>1,349,866</u>
Net realized and unrealized gain (loss) on investments	<u>1,047,953</u>	<u>5,163,053</u>	<u>61,292</u>	<u>2,393,890</u>	<u>2,635,539</u>
Increase (decrease) in net assets resulting from operations	<u>1,131,689</u>	<u>5,051,588</u>	<u>263,082</u>	<u>2,450,719</u>	<u>2,661,128</u>
Accumulation unit transactions:					
Participant deposits	481,505	798,786	263,692	492,878	665,663
Transfers between investment sub-accounts and general account, net	109,115	(589,788)	88,022	1,410,842	(206,954)
Net surrenders and lapses	(560,330)	(1,117,148)	(513,234)	(632,559)	(695,580)
Contract benefits	(81,797)	(106,492)	(40,415)	(50,873)	(11,868)
Loan interest received	45,055	86,715	24,997	54,035	85,174
Transfers for policy loans	(57,170)	(181,304)	(20,778)	(89,926)	(125,766)
Contract charges	(483,118)	(793,104)	(223,421)	(448,630)	(680,608)
Other	<u>47,873</u>	<u>81,302</u>	<u>21,466</u>	<u>42,210</u>	<u>66,707</u>
Total net accumulation unit transactions	<u>(498,867)</u>	<u>(1,821,033)</u>	<u>(399,671)</u>	<u>777,977</u>	<u>(903,232)</u>
Increase (decrease) in net assets	632,822	3,230,555	(136,589)	3,228,696	1,757,896
Net assets, beginning of period	\$ 9,837,378	\$ 15,366,287	\$ 4,631,961	\$ 8,528,437	\$ 13,109,024
Net assets, end of period	<u>\$ 10,470,200</u>	<u>\$ 18,596,842</u>	<u>\$ 4,495,372</u>	<u>\$ 11,757,133</u>	<u>\$ 14,866,920</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Fidelity Variable Insurance Product Funds VIPF II Index 500	Fidelity Variable Insurance Product Funds VIPF III Mid Cap	Fidelity Variable Insurance Product Funds VIPFIII Value Strategies	Fidelity Variable Insurance Product Funds VIPF V Investment Grade	Fidelity Variable Insurance Product Funds VIPF V Money Market	Franklin Templeton Variable Insurance Products Trust Foreign Securities
Net investment income (loss)	\$ 480,957	\$ (4,488)	\$ 2,158	\$ 84,635	\$ (15,052)	\$ 32,791
Realized and unrealized gain (loss) on investments:						
Capital gains distributions	156,564	196,807	55,377	26,179	-	-
Net realized gain (loss) from shares sold	3,370,616	142,922	7,325	48,037	-	78,039
Net unrealized appreciation (depreciation) on investments	5,256,569	460,435	(24,425)	38,568	-	154,054
Net realized and unrealized gain (loss) on investments	8,783,749	800,164	38,277	112,784	-	232,093
Increase (decrease) in net assets resulting from operations	9,264,706	795,676	40,435	197,419	(15,052)	264,884
Accumulation unit transactions:						
Participant deposits	2,427,811	236,686	13,526	497,378	1,323,290	112,638
Transfers between investment sub-accounts and general account, net	(4,051)	44,853	100,711	(151,764)	(573,450)	(139,047)
Net surrenders and lapses	(2,911,284)	(257,183)	(2,775)	(509,831)	(930,216)	(85,808)
Contract benefits	(1,859,220)	(17,490)	-	(941)	(15,169)	(3,770)
Loan interest received	264,822	25,305	220	33,952	45,600	11,622
Transfers for policy loans	(633,539)	(28,569)	(627)	(29,361)	21,227	(19,505)
Contract charges	(2,142,365)	(181,758)	(10,321)	(394,713)	(1,216,054)	(71,325)
Other	142,314	19,403	1,012	27,310	34,430	8,876
Total net accumulation unit transactions	(4,715,512)	(158,753)	101,746	(527,970)	(1,310,342)	(186,319)
Increase (decrease) in net assets	4,549,194	636,923	142,181	(330,551)	(1,325,394)	78,565
Net assets, beginning of period	\$ 46,108,286	\$ 4,097,422	\$ 212,277	\$ 5,760,477	\$ 9,120,804	\$ 1,729,945
Net assets, end of period	\$ 50,657,480	\$ 4,734,345	\$ 354,458	\$ 5,429,926	\$ 7,795,410	\$ 1,808,510

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Franklin Templeton Variable Insurance Products Trust <u>Global Real Estate</u>	Franklin Templeton Variable Insurance Products Trust <u>Mutual Global Discovery</u>	Franklin Templeton Variable Insurance Products Trust <u>Mutual Shares</u>	Franklin Templeton Variable Insurance Products Trust <u>Small Cap Value</u>	Franklin Templeton Variable Insurance Products Trust <u>Small Mid Cap Growth</u>
Net investment income (loss)	\$ 21,894	\$ 4,366	\$ 11,705	\$ (1,817)	\$ (1,937)
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	-	21,926	32,512	50,363	26,623
Net realized gain (loss) from shares sold	44,766	2,763	24,718	30,938	(14,939)
Net unrealized appreciation (depreciation) on investments	23,324	1,839	(9,930)	(8,841)	41,732
Net realized and unrealized gain (loss) on investments	68,090	26,528	47,300	72,460	53,416
Increase (decrease) in net assets resulting from operations	89,984	30,894	59,005	70,643	51,479
Accumulation unit transactions:					
Participant deposits	71,329	20,169	40,395	43,782	26,409
Transfers between investment sub-accounts and general account, net	2,860	(4,633)	5,813	19,266	5,605
Net surrenders and lapses	(97,110)	(12,539)	(52,220)	(69,275)	(3,941)
Contract benefits	(2,688)	-	(491)	(2,739)	(2,780)
Loan interest received	4,844	1,944	4,165	3,027	1,232
Transfers for policy loans	(25,608)	(724)	(8,442)	(3,117)	(80)
Contract charges	(60,791)	(20,080)	(44,515)	(36,070)	(17,679)
Other	4,835	1,870	3,629	3,148	1,097
Total net accumulation unit transactions	(102,329)	(13,993)	(51,666)	(41,978)	9,863
Increase (decrease) in net assets	(12,345)	16,901	7,339	28,665	61,342
Net assets, beginning of period	\$ 991,412	\$ 395,643	\$ 813,318	\$ 750,007	\$ 244,085
Net assets, end of period	\$ 979,067	\$ 412,544	\$ 820,657	\$ 778,672	\$ 305,427

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Franklin Templeton Variable Insurance Products Trust	Invesco Variable Insurance Funds	Invesco Variable Insurance Funds	Invesco Variable Insurance Funds	JP Morgan Insurance Trust
	US Government	Global Health Care	Mid Cap Growth	Technology	Small Cap Core
Net investment income (loss)	\$ 7,937	\$ (12,303)	\$ (7,873)	\$ (16,990)	\$ (6,658)
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	-	131,301	53,834	100,538	10,354
Net realized gain (loss) from shares sold	(1,714)	132,316	34,537	120,961	109,800
Net unrealized appreciation (depreciation) on investments	(2,903)	96,369	91,465	347,674	85,789
Net realized and unrealized gain (loss) on investments	(4,617)	359,986	179,836	569,173	205,943
Increase (decrease) in net assets resulting from operations	3,320	347,683	171,963	552,183	199,285
Accumulation unit transactions:					
Participant deposits	39,708	134,158	46,694	104,432	66,836
Transfers between investment sub-accounts and general account, net	(5,098)	43,994	4,363	27,761	(70,012)
Net surrenders and lapses	(119)	(181,697)	(94,442)	(129,597)	(71,360)
Contract benefits	-	-	-	(7,553)	(21,908)
Loan interest received	1,023	12,033	5,426	9,828	5,060
Transfers for policy loans	(1,557)	(23,259)	(14,986)	(19,407)	(17,522)
Contract charges	(35,406)	(102,754)	(38,128)	(74,131)	(76,801)
Other	1,859	12,289	4,376	8,104	6,083
Total net accumulation unit transactions	410	(105,236)	(86,697)	(80,563)	(179,624)
Increase (decrease) in net assets	3,730	242,447	85,266	471,620	19,661
Net assets, beginning of period	\$ 413,291	\$ 2,354,681	\$ 835,705	\$ 1,650,923	\$ 1,480,383
Net assets, end of period	\$ 417,021	\$ 2,597,128	\$ 920,971	\$ 2,122,543	\$ 1,500,044

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Morgan Stanley Investment Funds Core Plus Fixed Income	Morgan Stanley Investment Funds Emerging Markets Equity	Morgan Stanley Investment Funds US Real Estate	Neuberger Berman Advisors Management Trust Large Cap Value	Neuberger Berman Advisors Management Trust Mid Cap Growth
Net investment income (loss)	\$ 83,186	\$ 2,644	\$ 1,219	\$ (2,558)	\$ (3,675)
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	-	-	-	55,174	9,406
Net realized gain (loss) from shares sold	7,347	11,968	141	100,305	(19,076)
Net unrealized appreciation (depreciation) on investments	74,190	106,151	1,385	86,757	114,635
Net realized and unrealized gain (loss) on investments	81,537	118,119	1,526	242,236	104,965
Increase (decrease) in net assets resulting from operations	164,723	120,763	2,745	239,678	101,290
Accumulation unit transactions:					
Participant deposits	24,963	3,421	-	103,733	29,301
Transfers between investment sub-accounts and general account, net	140,107	(25,690)	4,894	(56,221)	6,207
Net surrenders and lapses	(83,083)	(18,563)	-	(50,182)	(9,963)
Contract benefits	-	-	-	(665)	-
Loan interest received	-	283	-	6,204	2,848
Transfers for policy loans	-	4,315	-	(30,408)	14,426
Contract charges	(26,418)	(4,055)	(559)	(82,708)	(17,310)
Other	(109)	(2,203)	(4)	9,124	2,002
Total net accumulation unit transactions	55,460	(42,492)	4,331	(101,123)	27,511
Increase (decrease) in net assets	220,183	78,271	7,076	138,555	128,801
Net assets, beginning of period	\$ 2,656,423	\$ 349,931	\$ 84,803	\$ 1,948,942	\$ 412,693
Net assets, end of period	\$ 2,876,606	\$ 428,202	\$ 91,879	\$ 2,087,497	\$ 541,494

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Neuberger Berman Advisors Management Trust Mid Cap Growth Class S	Neuberger Berman Advisors Management Trust Short Duration Bond	Neuberger Berman Advisors Management Trust Socially Responsive	Oppenheimer Variable Account Funds Conservative Balanced/VA	Oppenheimer Variable Account Funds Global Strategic Income/VA
Net investment income (loss)	\$ (4,221)	\$ 16,797	\$ (14)	\$ 896	\$ 6,618
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	12,093	-	560	-	-
Net realized gain (loss) from shares sold	3,938	(19,671)	771	1,070	(10,709)
Net unrealized appreciation (depreciation) on investments	108,537	4,501	1,131	6,217	29,956
Net realized and unrealized gain (loss) on investments	124,568	(15,170)	2,462	7,287	19,247
Increase (decrease) in net assets resulting from operations	120,347	1,627	2,448	8,183	25,865
Accumulation unit transactions:					
Participant deposits	37,279	165,273	2,133	2,520	38,589
Transfers between investment sub-accounts and general account, net	(14,863)	199,039	253	1,509	20,251
Net surrenders and lapses	(23,209)	(92,653)	-	-	(111,802)
Contract benefits	(1,022)	(61,115)	-	-	-
Loan interest received	2,445	18,844	25	119	1,265
Transfers for policy loans	(6,452)	(12,638)	(1,006)	(119)	(2,431)
Contract charges	(21,315)	(124,139)	(1,715)	(3,857)	(23,953)
Other	2,534	11,077	51	512	2,103
Total net accumulation unit transactions	(24,603)	103,688	(259)	684	(75,978)
Increase (decrease) in net assets	95,744	105,315	2,189	8,867	(50,113)
Net assets, beginning of period	\$ 515,329	\$ 2,463,392	\$ 14,021	\$ 102,096	\$ 502,956
Net assets, end of period	\$ 611,073	\$ 2,568,707	\$ 16,210	\$ 110,963	\$ 452,843

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Oppenheimer Variable Account Funds	Sentinel Variable Products Trust	Sentinel Variable Products Trust	Sentinel Variable Products Trust	Sentinel Variable Products Trust	Touchstone Variable Series Trust (3)
	Main Street Small Cap/VA	Balanced	Bond	Common Stock	Small Company	Balanced
Net investment income (loss)	\$ (139)	\$ (32,857)	\$ (39,096)	\$ (205,942)	\$ (155,458)	\$ (7,287)
Realized and unrealized gain (loss) on investments:						
Capital gains distributions	3,651	-	-	196,144	690,155	-
Net realized gain (loss) from shares sold	541	736,805	(328,276)	6,394,683	2,747,128	2,059
Net unrealized appreciation (depreciation) on investments	4,577	(222,799)	502,331	(1,373,550)	(212,211)	125,918
Net realized and unrealized gain (loss) on investments	8,769	514,006	174,055	5,217,277	3,225,072	127,977
Increase (decrease) in net assets resulting from operations	8,630	481,149	134,959	5,011,335	3,069,614	120,690
Accumulation unit transactions:						
Participant deposits	4,244	197,386	366,296	1,446,139	1,089,191	39,381
Transfers between investment sub-accounts and general account, net	20	(4,829,558)	(5,663,836)	(33,732,264)	(26,913,701)	5,120,292
Net surrenders and lapses	(2,765)	(139,816)	(220,392)	(1,208,087)	(2,113,444)	(65,400)
Contract benefits	-	(30,763)	(70,869)	(235,980)	(47,146)	(18,103)
Loan interest received	1,046	9,340	26,636	113,538	97,072	9,748
Transfers for policy loans	(168)	(78,243)	(27,929)	(234,592)	(85,160)	(561)
Contract charges	(4,942)	(216,298)	(337,908)	(1,369,397)	(1,066,252)	(52,715)
Other	300	18,473	22,490	107,335	96,986	4,286
Total net accumulation unit transactions	(2,265)	(5,069,479)	(5,905,512)	(35,113,308)	(28,942,454)	5,036,928
Increase (decrease) in net assets	6,365	(4,588,330)	(5,770,553)	(30,101,973)	(25,872,840)	5,157,618
Net assets, beginning of period	\$ 68,425	\$ 4,588,330	\$ 5,770,553	\$ 30,101,973	\$ 25,872,840	\$ -
Net assets, end of period	\$ 74,790	\$ -	\$ -	\$ -	\$ -	\$ 5,157,618

(3) On October 27, 2017 the Sentinel Funds transferred substantially all of its assets and substantially all of its liabilities into the Touchstone Funds

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Touchstone Variable Series Trust (3)	Touchstone Variable Series Trust (3)	Touchstone Variable Series Trust (3)	T Rowe Price Equity Series	T Rowe Price Equity Series	T Rowe Price Equity Series
	Bond	Common Stock	Small Company	Blue Chip Growth	Equity Income	Health Sciences
Net investment income (loss)	\$ (8,279)	\$ (45,893)	\$ (37,401)	\$ (13,845)	\$ 34,179	\$ (28,598)
Realized and unrealized gain (loss) on investments:						
Capital gains distributions	-	-	-	23,846	462,155	91,720
Net realized gain (loss) from shares sold	330	8,903	24,919	199,473	304,101	441,439
Net unrealized appreciation (depreciation) on investments	38,158	963,274	1,339,963	294,824	(158,299)	347,166
Net realized and unrealized gain (loss) on investments	38,488	972,177	1,364,882	518,143	607,957	880,325
Increase (decrease) in net assets resulting from operations	30,209	926,284	1,327,481	504,298	642,136	851,727
Accumulation unit transactions:						
Participant deposits	69,022	283,092	217,463	120,019	268,210	90,671
Transfers between investment sub-accounts and general account, net	5,995,732	32,810,797	26,313,578	50,105	(70,040)	(2,018,163)
Net surrenders and lapses	(54,204)	(199,292)	(223,086)	(92,263)	(283,345)	(67,781)
Contract benefits	-	(20,655)	(11,111)	(905)	(62,892)	(17,024)
Loan interest received	11,756	35,250	29,921	7,786	23,065	7,186
Transfers for policy loans	(13,323)	(84,858)	(73,632)	18,097	(46,978)	(22,214)
Contract charges	(65,163)	(290,881)	(223,862)	(78,752)	(217,061)	(97,012)
Other	5,261	26,218	22,699	7,203	18,213	14,984
Total net accumulation unit transactions	5,949,081	32,559,671	26,051,970	31,290	(370,828)	(2,109,353)
Increase (decrease) in net assets	5,979,290	33,485,955	27,379,451	535,588	271,308	(1,257,626)
Net assets, beginning of period	\$ -	\$ -	\$ -	\$ 1,483,124	\$ 4,583,801	\$ 3,463,294
Net assets, end of period	\$ 5,979,290	\$ 33,485,955	\$ 27,379,451	\$ 2,018,712	\$ 4,855,109	\$ 2,205,668

(3) On October 27, 2017 the Sentinel Funds transferred substantially all of its assets and substantially all of its liabilities into the Touchstone Funds.

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

	T Rowe Price Equity Series Personal Strategy Balanced	Van Eck VIP Trust Emerging Markets	Van Eck VIP Trust Global Hard Assets	Van Eck VIP Trust Unconstrained Emerging Markets	Wells Fargo Variable Trust Discovery	Wells Fargo Variable Trust Opportunity
Net investment income (loss)	\$ 8,470	\$ (4,387)	\$ (10,725)	\$ 15,905	\$ (60,212)	\$ 3,592
Realized and unrealized gain (loss) on investments:						
Capital gains distributions	93,643	-	-	-	374,993	400,561
Net realized gain (loss) from shares sold	(326)	78,216	(41,161)	(36,567)	436,444	134,802
Net unrealized appreciation (depreciation) on investments	8,295	650,642	39,750	138,582	992,093	360,402
Net realized and unrealized gain (loss) on investments	101,612	728,858	(1,411)	102,015	1,803,530	895,765
Increase (decrease) in net assets resulting from operations	110,082	724,471	(12,136)	117,920	1,743,318	899,357
Accumulation unit transactions:						
Participant deposits	81,821	97,574	104,459	77,678	302,474	197,881
Transfers between investment sub-accounts and general account, net	1,481,932	(196,163)	182,473	5,938	(397,383)	(57,242)
Net surrenders and lapses	(2,033)	(261,965)	(75,522)	(37,490)	(266,536)	(116,857)
Contract benefits	-	(6,959)	(8,100)	(7,893)	(19,834)	(3,769)
Loan interest received	1,425	7,870	5,966	6,831	27,764	16,256
Transfers for policy loans	(12,397)	(22,849)	(8,453)	(3,864)	(80,094)	(41,102)
Contract charges	(41,622)	(83,774)	(88,831)	(62,640)	(322,801)	(183,623)
Other	4,081	6,191	5,693	4,702	33,058	17,999
Total net accumulation unit transactions	1,513,207	(460,075)	117,685	(16,738)	(723,352)	(170,457)
Increase (decrease) in net assets	1,623,289	264,396	105,549	101,182	1,019,966	728,900
Net assets, beginning of period	\$ 304,196	\$ 1,554,896	\$ 1,406,835	\$ 1,036,021	\$ 6,439,850	\$ 4,670,316
Net assets, end of period	<u>\$ 1,927,485</u>	<u>\$ 1,819,292</u>	<u>\$ 1,512,384</u>	<u>\$ 1,137,203</u>	<u>\$ 7,459,816</u>	<u>\$ 5,399,216</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Alger Portfolios</u> Capital Appreciation	<u>Alger Portfolios</u> Large Cap Growth	<u>Alger Portfolios</u> Small Cap Growth	<u>Alliance Bernstein</u> International Growth	<u>Alliance Bernstein</u> International Value
Net investment income (loss)	\$ (14,147)	\$ (117,823)	\$ (60,200)	\$ (885)	\$ 13,317
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	18,933	52,102	1,000,144	-	-
Net realized gain (loss) from shares sold	108,726	502,427	(247,399)	910	4,309
Net unrealized appreciation (depreciation) on investments	<u>(122,870)</u>	<u>(669,544)</u>	<u>(307,305)</u>	<u>(12,148)</u>	<u>(46,789)</u>
Net realized and unrealized gain (loss) on investments	<u>4,789</u>	<u>(115,015)</u>	<u>445,440</u>	<u>(11,238)</u>	<u>(42,480)</u>
Increase (decrease) in net assets resulting from operations	<u>(9,358)</u>	<u>(232,838)</u>	<u>385,240</u>	<u>(12,123)</u>	<u>(29,163)</u>
Accumulation unit transactions:					
Participant deposits	145,878	953,558	406,958	18,672	186,606
Transfers between investment sub-accounts and general account, net	25,176	362,332	(2,143)	12,091	153,468
Net surrenders and lapses	(133,394)	(943,826)	(491,623)	(5,936)	(141,313)
Contract benefits	-	(28,137)	(11,487)	-	(665)
Loan interest received	9,543	85,242	49,791	767	11,605
Transfers for policy loans	(88,129)	(302,253)	(71,395)	(2,539)	(25,203)
Contract charges	(102,102)	(764,039)	(391,019)	(10,411)	(134,901)
Other	<u>10,517</u>	<u>62,234</u>	<u>32,531</u>	<u>482</u>	<u>9,057</u>
Total net accumulation unit transactions	<u>(132,511)</u>	<u>(574,889)</u>	<u>(478,387)</u>	<u>13,126</u>	<u>58,654</u>
Increase (decrease) in net assets	(141,869)	(807,727)	(93,147)	1,003	29,491
Net assets, beginning of period	<u>\$ 2,561,485</u>	<u>\$ 14,975,873</u>	<u>\$ 7,314,893</u>	<u>\$ 164,606</u>	<u>\$ 2,444,778</u>
Net assets, end of period	<u><u>\$ 2,419,616</u></u>	<u><u>\$ 14,168,146</u></u>	<u><u>\$ 7,221,746</u></u>	<u><u>\$ 165,609</u></u>	<u><u>\$ 2,474,269</u></u>

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Alliance Bernstein Small Mid Cap Value</u>	<u>Alliance Bernstein Value</u>	<u>American Century Variable Portfolios Income & Growth</u>	<u>American Century Variable Portfolios Inflation Protection</u>	<u>American Century Variable Portfolios International</u>
Net investment income (loss)	\$ (3,093)	\$ 304	\$ 49,512	\$ 16,484	\$ 8,629
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	92,831	-	62,238	8,765	-
Net realized gain (loss) from shares sold	91,864	4,412	198,225	(12,819)	94,080
Net unrealized appreciation (depreciation) on investments	176,935	(413)	73,318	33,327	(354,998)
Net realized and unrealized gain (loss) on investments	<u>361,630</u>	<u>3,999</u>	<u>333,781</u>	<u>29,273</u>	<u>(260,918)</u>
Increase (decrease) in net assets resulting from operations	<u>358,537</u>	<u>4,303</u>	<u>383,293</u>	<u>45,757</u>	<u>(252,289)</u>
Accumulation unit transactions:					
Participant deposits	119,396	4,667	226,430	100,466	316,438
Transfers between investment sub-accounts and general account, net	(145,199)	(14,702)	(48,629)	(18,201)	244,588
Net surrenders and lapses	(98,081)	(30,433)	(277,300)	(114,943)	(251,261)
Contract benefits	(457)	-	(17,299)	(601)	(661)
Loan interest received	7,874	-	13,987	10,768	20,037
Transfers for policy loans	(18,964)	-	(130,108)	(11,692)	(41,279)
Contract charges	(87,889)	(3,867)	(203,733)	(73,146)	(219,936)
Other	6,509	736	15,066	4,930	15,774
Total net accumulation unit transactions	<u>(216,811)</u>	<u>(43,599)</u>	<u>(421,586)</u>	<u>(102,419)</u>	<u>83,700</u>
Increase (decrease) in net assets	141,726	(39,296)	(38,293)	(56,662)	(168,589)
Net assets, beginning of period	<u>\$ 1,566,426</u>	<u>\$ 74,530</u>	<u>\$ 3,277,772</u>	<u>\$ 1,232,276</u>	<u>\$ 4,046,815</u>
Net assets, end of period	<u>\$ 1,708,152</u>	<u>\$ 35,234</u>	<u>\$ 3,239,479</u>	<u>\$ 1,175,614</u>	<u>\$ 3,878,226</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2016

	American Century Variable Portfolios	American Century Variable Portfolios	Deutsche Investment VIT Equity 500 Index	Deutsche Investment VIT Small Cap Index	Deutsche Variable Series II Large Cap Value VIP
	Ultra	Value			
Net investment income (loss)	\$ (492)	\$ 63,872	\$ 13,385	\$ 4,716	\$ (503)
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	5,519	-	53,044	62,913	14,341
Net realized gain (loss) from shares sold	10,436	446,080	4,898	20,809	9,803
Net unrealized appreciation (depreciation) on investments	(9,472)	744,566	6,424	92,788	(39,764)
Net realized and unrealized gain (loss) on investments	6,483	1,190,646	64,366	176,510	(15,620)
Increase (decrease) in net assets resulting from operations	5,991	1,254,518	77,751	181,226	(16,123)
Accumulation unit transactions:					
Participant deposits	7,689	425,293	27,754	42,007	28,021
Transfers between investment sub-accounts and general account, net	(3,534)	(145,428)	(2,942)	68,584	(3,605)
Net surrenders and lapses	-	(587,088)	(4,639)	(11,380)	(37,749)
Contract benefits	-	(23,906)	-	-	-
Loan interest received	106	28,941	248	2,824	910
Transfers for policy loans	(114)	(85,410)	(264)	(1,266)	(1,289)
Contract charges	(4,180)	(354,550)	(13,364)	(18,815)	(9,664)
Other	644	29,277	14	9,222	1,121
Total net accumulation unit transactions	611	(712,871)	6,807	91,176	(22,255)
Increase (decrease) in net assets	6,602	541,647	84,558	272,402	(38,378)
Net assets, beginning of period	\$ 139,752	\$ 6,806,946	\$ 667,719	\$ 766,454	\$ 300,252
Net assets, end of period	\$ 146,354	\$ 7,348,593	\$ 752,277	\$ 1,038,856	\$ 261,874

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2016

	Deutsche Variable Series II Small Mid Cap Value	Dreyfus Variable Investment Appreciation	Dreyfus Variable Investment Opportunistic Small Cap	Dreyfus Variable Investment Quality Bond	Dreyfus Variable Investment Socially Responsible
Net investment income (loss)	\$ (11,304)	\$ 4,634	\$ (1,298)	\$ 3,084	\$ 907
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	208,960	80,486	11,427	-	23,003
Net realized gain (loss) from shares sold	115,414	14,780	6,127	1,989	3,791
Net unrealized appreciation (depreciation) on investments	<u>(26,276)</u>	<u>(62,012)</u>	<u>7,319</u>	<u>(2,913)</u>	<u>(5,531)</u>
Net realized and unrealized gain (loss) on investments	<u>298,098</u>	<u>33,254</u>	<u>24,873</u>	<u>(924)</u>	<u>21,263</u>
Increase (decrease) in net assets resulting from operations	<u>286,794</u>	<u>37,888</u>	<u>23,575</u>	<u>2,160</u>	<u>22,170</u>
Accumulation unit transactions:					
Participant deposits	144,657	52,312	9,595	25,985	21,129
Transfers between investment sub-accounts and general account, net	(42,358)	(16,470)	(893)	19,047	5,780
Net surrenders and lapses	(164,618)	(23,739)	(4,374)	(18,253)	-
Contract benefits	(450)	-	-	-	(251)
Loan interest received	10,623	3,178	230	756	2,165
Transfers for policy loans	(32,779)	(32)	(281)	(16,175)	(2,554)
Contract charges	(103,812)	(29,797)	(6,973)	(23,856)	(15,451)
Other	<u>7,906</u>	<u>2,114</u>	<u>547</u>	<u>1,622</u>	<u>1,196</u>
Total net accumulation unit transactions	<u>(180,831)</u>	<u>(12,434)</u>	<u>(2,149)</u>	<u>(10,874)</u>	<u>12,014</u>
Increase (decrease) in net assets	105,963	25,454	21,426	(8,714)	34,184
Net assets, beginning of period	<u>\$ 2,029,947</u>	<u>\$ 554,331</u>	<u>\$ 143,318</u>	<u>\$ 353,037</u>	<u>\$ 230,320</u>
Net assets, end of period	<u>\$ 2,135,910</u>	<u>\$ 579,785</u>	<u>\$ 164,744</u>	<u>\$ 344,323</u>	<u>\$ 264,504</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2016

	Fidelity Variable Insurance Product Funds VIPF Equity Income	Fidelity Variable Insurance Product Funds VIPF Growth	Fidelity Variable Insurance Product Funds VIPF High Income	Fidelity Variable Insurance Product Funds VIPF Overseas	Fidelity Variable Insurance Product Funds VIPF II Contrafund
Net investment income (loss)	\$ 129,093	\$ (125,273)	\$ 198,588	\$ 55,752	\$ (1,839)
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	607,912	1,499,308	-	15,047	1,019,987
Net realized gain (loss) from shares sold	187,278	596,040	33,447	91,069	447,793
Net unrealized appreciation (depreciation) on investments	<u>547,893</u>	<u>(1,996,949)</u>	<u>348,996</u>	<u>(692,810)</u>	<u>(606,701)</u>
Net realized and unrealized gain (loss) on investments	<u>1,343,083</u>	<u>98,399</u>	<u>382,443</u>	<u>(586,694)</u>	<u>861,079</u>
Increase (decrease) in net assets resulting from operations	<u>1,472,176</u>	<u>(26,874)</u>	<u>581,031</u>	<u>(530,942)</u>	<u>859,240</u>
Accumulation unit transactions:					
Participant deposits	484,315	872,623	306,606	549,108	701,454
Transfers between investment sub-accounts and general account, net	(470,812)	(76,093)	(119,878)	313,197	(124,259)
Net surrenders and lapses	(515,959)	(823,517)	(388,554)	(510,174)	(963,294)
Contract benefits	(50,028)	(1,838)	(8,132)	(19,705)	(17,202)
Loan interest received	45,415	83,358	22,909	52,876	81,353
Transfers for policy loans	(66,415)	(173,996)	(82,033)	(96,633)	(131,563)
Contract charges	(506,679)	(868,587)	(277,236)	(476,842)	(675,525)
Other	<u>39,050</u>	<u>73,639</u>	<u>22,114</u>	<u>39,102</u>	<u>57,284</u>
Total net accumulation unit transactions	<u>(1,041,113)</u>	<u>(914,411)</u>	<u>(524,204)</u>	<u>(149,071)</u>	<u>(1,071,752)</u>
Increase (decrease) in net assets	431,063	(941,285)	56,827	(680,013)	(212,512)
Net assets, beginning of period	\$ 9,406,315	\$ 16,307,572	\$ 4,575,134	\$ 9,208,450	\$ 13,321,536
Net assets, end of period	<u>\$ 9,837,378</u>	<u>\$ 15,366,287</u>	<u>\$ 4,631,961</u>	<u>\$ 8,528,437</u>	<u>\$ 13,109,024</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2016

	Fidelity Variable Insurance Product Funds VIPF II Index 500	Fidelity Variable Insurance Product Funds VIPF III Mid Cap	Fidelity Variable Insurance Product Funds VIPFIII Value Strategies	Fidelity Variable Insurance Product Funds VIPF V Investment Grade	Fidelity Variable Insurance Product Funds VIPF V Money Market	Franklin Templeton Variable Insurance Products Trust Foreign Securities
Net investment income (loss)	\$ 305,522	\$ (11,761)	\$ 810	\$ 88,417	\$ (58,564)	\$ 18,764
Realized and unrealized gain (loss) on investments:						
Capital gains distributions	45,778	231,691	-	2,796	-	29,086
Net realized gain (loss) from shares sold	1,636,442	85,988	4,885	17,129	-	26,677
Net unrealized appreciation (depreciation) on investments	2,620,856	118,737	10,972	117,421	-	24,880
Net realized and unrealized gain (loss) on investments	4,303,076	436,416	15,857	137,346	-	80,643
Increase (decrease) in net assets resulting from operations	4,608,598	424,655	16,667	225,763	(58,564)	99,407
Accumulation unit transactions:						
Participant deposits	2,444,294	259,881	16,386	499,073	1,215,308	117,573
Transfers between investment sub-accounts and general account, net	(181,207)	(26,124)	3,063	(5,550)	754,308	(14,591)
Net surrenders and lapses	(2,342,626)	(155,679)	(910)	(426,918)	(1,116,864)	(116,920)
Contract benefits	(119,254)	(531)	-	(2,386)	(27,007)	-
Loan interest received	240,673	22,788	208	32,735	48,081	10,336
Transfers for policy loans	(738,546)	(57,509)	(6,321)	(75,853)	(108,336)	(53,263)
Contract charges	(2,199,822)	(185,891)	(9,762)	(406,211)	(1,254,516)	(72,992)
Other	200,555	16,223	853	27,873	34,663	6,632
Total net accumulation unit transactions	(2,695,933)	(126,842)	3,517	(357,237)	(454,363)	(123,225)
Increase (decrease) in net assets	1,912,665	297,813	20,184	(131,474)	(512,927)	(23,818)
Net assets, beginning of period	\$ 44,195,621	\$ 3,799,609	\$ 192,093	\$ 5,891,951	\$ 9,633,731	\$ 1,753,763
Net assets, end of period	\$ 46,108,286	\$ 4,097,422	\$ 212,277	\$ 5,760,477	\$ 9,120,804	\$ 1,729,945

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2016

	Franklin Templeton Variable Insurance Products Trust <u>Global Real Estate</u>	Franklin Templeton Variable Insurance Products Trust <u>Mutual Global Discovery</u>	Franklin Templeton Variable Insurance Products Trust <u>Mutual Shares</u>	Franklin Templeton Variable Insurance Products Trust <u>Small Cap Value</u>	Franklin Templeton Variable Insurance Products Trust <u>Small Mid Cap Growth</u>
Net investment income (loss)	\$ 3,322	\$ 3,816	\$ 9,226	\$ 256	\$ (1,981)
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	-	28,358	63,941	96,977	30,157
Net realized gain (loss) from shares sold	49,168	(2,144)	34,495	21,669	(24,703)
Net unrealized appreciation (depreciation) on investments	(53,150)	9,796	826	51,182	4,991
Net realized and unrealized gain (loss) on investments	(3,982)	36,010	99,262	169,828	10,445
Increase (decrease) in net assets resulting from operations	(660)	39,826	108,488	170,084	8,464
Accumulation unit transactions:					
Participant deposits	75,804	19,992	42,179	41,619	27,445
Transfers between investment sub-accounts and general account, net	(4,646)	1,530	(40,629)	(21,621)	(8,177)
Net surrenders and lapses	(88,450)	(38,597)	(82,681)	(26,117)	(43,599)
Contract benefits	(579)	-	-	-	-
Loan interest received	5,683	2,280	3,846	3,656	607
Transfers for policy loans	(11,897)	4,548	(8,445)	11,834	(18,023)
Contract charges	(63,417)	(20,864)	(48,266)	(35,925)	(18,894)
Other	4,735	2,255	3,210	2,735	1,107
Total net accumulation unit transactions	(82,767)	(28,856)	(130,786)	(23,819)	(59,534)
Increase (decrease) in net assets	(83,427)	10,970	(22,298)	146,265	(51,070)
Net assets, beginning of period	\$ 1,074,839	\$ 384,673	\$ 835,616	\$ 603,742	\$ 295,155
Net assets, end of period	<u>\$ 991,412</u>	<u>\$ 395,643</u>	<u>\$ 813,318</u>	<u>\$ 750,007</u>	<u>\$ 244,085</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2016

	Franklin Templeton Variable Insurance Products Trust	Invesco Variable Insurance Funds	Invesco Variable Insurance Funds	Invesco Variable Insurance Funds	JP Morgan Insurance Trust
	US Government	Global Health Care	Mid Cap Growth	Technology	Small Cap Core
Net investment income (loss)	\$ 7,180	\$ (21,952)	\$ (7,641)	\$ (13,891)	\$ (3,195)
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	-	387,906	87,403	73,194	110,255
Net realized gain (loss) from shares sold	(22,718)	161,694	28,016	55,086	66,812
Net unrealized appreciation (depreciation) on investments	18,893	(871,133)	(109,629)	(142,203)	75,362
Net realized and unrealized gain (loss) on investments	(3,825)	(321,533)	5,790	(13,923)	252,429
Increase (decrease) in net assets resulting from operations	3,355	(343,485)	(1,851)	(27,814)	249,234
Accumulation unit transactions:					
Participant deposits	50,361	153,543	55,466	112,875	74,818
Transfers between investment sub-accounts and general account, net	5,362	103,785	9,158	8,098	4,678
Net surrenders and lapses	(497,802)	(266,144)	(72,369)	(73,810)	(79,087)
Contract benefits	-	(15,709)	-	-	(584)
Loan interest received	1,007	11,864	4,160	9,033	5,084
Transfers for policy loans	(1,640)	(40,925)	(30,663)	(31,074)	(16,244)
Contract charges	(40,438)	(118,034)	(42,804)	(71,673)	(79,116)
Other	2,007	10,712	4,021	6,330	6,052
Total net accumulation unit transactions	(481,143)	(160,908)	(73,031)	(40,221)	(84,399)
Increase (decrease) in net assets	(477,788)	(504,393)	(74,882)	(68,035)	164,835
Net assets, beginning of period	\$ 891,079	\$ 2,859,074	\$ 910,587	\$ 1,718,958	\$ 1,315,548
Net assets, end of period	\$ 413,291	\$ 2,354,681	\$ 835,705	\$ 1,650,923	\$ 1,480,383

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Morgan Stanley Investment Funds</u> Core Plus Fixed Income	<u>Morgan Stanley Investment Funds</u> Emerging Markets Equity	<u>Morgan Stanley Investment Funds</u> US Real Estate	<u>Neuberger Berman Advisors Management Trust</u> Large Cap Value	<u>Neuberger Berman Advisors Management Trust</u> Mid Cap Growth
Net investment income (loss)	\$ 44,717	\$ 1,660	\$ 1,310	\$ 1,194	\$ (3,582)
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	-	-	-	154,678	20,477
Net realized gain (loss) from shares sold	2,202	14,205	10,092	154,412	(9,888)
Net unrealized appreciation (depreciation) on investments	99,861	18,067	(5,589)	85,249	7,728
Net realized and unrealized gain (loss) on investments	102,063	32,272	4,503	394,339	18,317
Increase (decrease) in net assets resulting from operations	146,780	33,932	5,813	395,533	14,735
Accumulation unit transactions:					
Participant deposits	25,764	4,431	5,825	99,934	35,557
Transfers between investment sub-accounts and general account, net	(7,759)	-	(972)	(51,849)	(8,428)
Net surrenders and lapses	(74,699)	(131,218)	(113,344)	(341,105)	(38,784)
Contract benefits	-	-	-	-	(9,906)
Loan interest received	-	4,417	5,067	6,487	1,117
Transfers for policy loans	-	69,805	79,140	4,343	(41,432)
Contract charges	(25,979)	(9,524)	(7,366)	(99,047)	(18,992)
Other	(3,664)	3,974	(158)	6,603	1,875
Total net accumulation unit transactions	(86,337)	(58,115)	(31,808)	(374,634)	(78,993)
Increase (decrease) in net assets	60,443	(24,183)	(25,995)	20,899	(64,258)
Net assets, beginning of period	\$ 2,595,980	\$ 374,114	\$ 110,798	\$ 1,928,043	\$ 476,951
Net assets, end of period	\$ 2,656,423	\$ 349,931	\$ 84,803	\$ 1,948,942	\$ 412,693

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2016

	Neuberger Berman Advisors Management Trust Mid Cap Growth Class S	Neuberger Berman Advisors Management Trust Short Duration Bond	Neuberger Berman Advisors Management Trust Socially Responsive	Oppenheimer Variable Account Funds Conservative Balanced/VA	Oppenheimer Variable Account Funds Global Strategic Income/VA
Net investment income (loss)	\$ (3,904)	\$ 9,558	\$ 33	\$ 1,220	\$ 18,763
Realized and unrealized gain (loss) on investments:					
Capital gains distributions	25,847	-	488	-	-
Net realized gain (loss) from shares sold	(3,719)	(37,864)	522	2,476	(6,439)
Net unrealized appreciation (depreciation) on investments	1,500	38,752	(30)	45	13,609
Net realized and unrealized gain (loss) on investments	23,628	888	980	2,521	7,170
Increase (decrease) in net assets resulting from operations	19,724	10,446	1,013	3,741	25,933
Accumulation unit transactions:					
Participant deposits	36,600	198,363	1,702	2,004	38,448
Transfers between investment sub-accounts and general account, net	(2,166)	36,271	3,517	5,935	(4,713)
Net surrenders and lapses	(47,532)	(353,803)	-	(8,805)	(14,674)
Contract benefits	-	(411)	-	-	-
Loan interest received	3,329	17,345	-	106	1,158
Transfers for policy loans	1,202	(63,374)	(407)	(113)	(17,426)
Contract charges	(23,354)	(145,210)	(1,152)	(3,338)	(24,371)
Other	2,236	10,473	34	475	2,133
Total net accumulation unit transactions	(29,685)	(300,346)	3,694	(3,736)	(19,445)
Increase (decrease) in net assets	(9,961)	(289,900)	4,707	5	6,488
Net assets, beginning of period	\$ 525,290	\$ 2,753,292	\$ 9,314	\$ 102,091	\$ 496,468
Net assets, end of period	\$ 515,329	\$ 2,463,392	\$ 14,021	\$ 102,096	\$ 502,956

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2016

	Oppenheimer Variable Account Funds	Sentinel Variable Products Trust	Sentinel Variable Products Trust	Sentinel Variable Products Trust	Sentinel Variable Products Trust	Sentinel Variable Products Trust
	Main Street Small Cap/VA	Balanced	Bond	Common Stock	Mid Cap Growth (1)	Small Company
Net investment income (loss)	\$ (485)	\$ 26,087	\$ 71,448	\$ 245,593	\$ (16,555)	\$ (151,880)
Realized and unrealized gain (loss) on investments:						
Capital gains distributions	3,078	74,565	-	2,481,925	745,857	1,795,880
Net realized gain (loss) from shares sold	(12,274)	47,868	(65,786)	727,006	(537,247)	302,805
Net unrealized appreciation (depreciation) on investments	21,836	127,057	(1,260)	(566,086)	63,381	2,106,742
Net realized and unrealized gain (loss) on investments	12,640	249,490	(67,046)	2,642,845	271,991	4,205,427
Increase (decrease) in net assets resulting from operations	12,155	275,577	4,402	2,888,438	255,436	4,053,547
Accumulation unit transactions:						
Participant deposits	4,629	253,294	505,861	1,836,952	241,075	1,157,684
Transfers between investment sub-accounts and general account, net	11,452	172,195	52,595	(451,962)	(8,164,657)	7,508,612
Net surrenders and lapses	(30,673)	(203,955)	(502,104)	(1,600,695)	(228,311)	(1,404,519)
Contract benefits	-	(200)	(1,695)	(55,448)	(63,186)	(98,551)
Loan interest received	330	16,720	36,848	162,985	22,206	104,145
Transfers for policy loans	(6,682)	(59,513)	(44,294)	(372,078)	(31,464)	(185,368)
Contract charges	(5,185)	(260,603)	(464,484)	(1,763,953)	(232,087)	(1,104,793)
Other	1,379	20,180	27,185	128,966	11,305	87,846
Total net accumulation unit transactions	(24,750)	(61,882)	(390,088)	(2,115,233)	(8,445,119)	6,065,056
Increase (decrease) in net assets	(12,595)	213,695	(385,686)	773,205	(8,189,683)	10,118,603
Net assets, beginning of period	\$ 81,020	\$ 4,374,635	\$ 6,156,239	\$ 29,328,768	\$ 8,189,683	\$ 15,754,237
Net assets, end of period	\$ 68,425	\$ 4,588,330	\$ 5,770,553	\$ 30,101,973	\$ -	\$ 25,872,840

(1) During 2016, the Sentinel Mid Cap Growth fund was liquidated.

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2016

	T Rowe Price Equity Series Blue Chip Growth	T Rowe Price Equity Series Equity Income	T Rowe Price Equity Series Health Sciences	T Rowe Price Equity Series Personal Strategy Balanced	Van Eck VIP Trust Emerging Markets	Van Eck VIP Trust Global Hard Assets
Net investment income (loss)	\$ (11,509)	\$ 54,332	\$ (29,802)	\$ 2,349	\$ (3,952)	\$ (5,537)
Realized and unrealized gain (loss) on investments:						
Capital gains distributions	-	426,756	26,287	6,841	7,895	-
Net realized gain (loss) from shares sold	91,961	302,361	80,381	(3,110)	(8,694)	(87,017)
Net unrealized appreciation (depreciation) on investments	(85,845)	(51,601)	(434,823)	10,442	5,100	577,072
Net realized and unrealized gain (loss) on investments	6,116	677,516	(328,155)	14,173	4,301	490,055
Increase (decrease) in net assets resulting from operations	(5,393)	731,848	(357,957)	16,522	349	484,518
Accumulation unit transactions:						
Participant deposits	111,833	318,938	271,584	22,640	119,091	118,150
Transfers between investment sub-accounts and general account, net	50,152	(288,387)	31,584	(1,080)	34,473	(144,408)
Net surrenders and lapses	(68,301)	(268,566)	(106,754)	-	(74,060)	(72,867)
Contract benefits	-	(896)	-	-	(263)	(315)
Loan interest received	6,294	20,089	37,708	1,063	5,887	5,206
Transfers for policy loans	(36,897)	(59,185)	606,327	(6,357)	(28,499)	(15,652)
Contract charges	(73,710)	(239,377)	(95,959)	(37,637)	(82,812)	(87,539)
Other	6,402	17,527	15,884	1,268	5,497	5,294
Total net accumulation unit transactions	(4,227)	(499,857)	760,374	(20,103)	(20,686)	(192,131)
Increase (decrease) in net assets	(9,620)	231,991	402,417	(3,581)	(20,337)	292,387
Net assets, beginning of period	\$ 1,492,744	\$ 4,351,810	\$ 3,060,877	\$ 307,777	\$ 1,575,233	\$ 1,114,448
Net assets, end of period	\$ 1,483,124	\$ 4,583,801	\$ 3,463,294	\$ 304,196	\$ 1,554,896	\$ 1,406,835

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2016

	Van Eck VIP Trust	Wells Fargo Variable Trust	Wells Fargo Variable Trust
	Unconstrained Emerging Markets	Discovery	Opportunity
Net investment income (loss)	\$ (8,328)	\$ (54,162)	\$ 63,982
Realized and unrealized gain (loss) on investments:			
Capital gains distributions	-	482,883	449,237
Net realized gain (loss) from shares sold	(57,601)	338,476	188,309
Net unrealized appreciation (depreciation) on investments	122,815	(344,020)	(211,096)
Net realized and unrealized gain (loss) on investments	65,214	477,339	426,450
Increase (decrease) in net assets resulting from operations	56,886	423,177	490,432
Accumulation unit transactions:			
Participant deposits	88,691	333,719	207,277
Transfers between investment sub-accounts and general account, net	(13,001)	(102,121)	(50,763)
Net surrenders and lapses	(61,055)	(540,915)	(246,240)
Contract benefits	(259)	(35,452)	(4,738)
Loan interest received	6,385	24,559	14,932
Transfers for policy loans	(14,573)	(108,211)	(27,096)
Contract charges	(62,174)	(326,380)	(185,892)
Other	4,273	29,898	26,527
Total net accumulation unit transactions	(51,713)	(724,903)	(265,993)
Increase (decrease) in net assets	5,173	(301,726)	224,439
Net assets, beginning of period	\$ 1,030,848	\$ 6,741,576	\$ 4,445,877
Net assets, end of period	\$ 1,036,021	\$ 6,439,850	\$ 4,670,316

The accompanying notes are an integral part of these financial statements.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT (A Separate Account of National Life Insurance Company)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - NATURE OF OPERATIONS

National Variable Life Insurance Account (the "Variable" Account) began operations on March 11, 1996 and is registered as a unit investment trust under the Investment Company Act of 1940, as amended. The operations of the Variable Account are part of National Life Insurance Company ("National Life"). The Variable Account was established by National Life as a separate investment account to invest the net premiums received from the sale of certain variable life insurance products. Equity Services, Inc., a controlled affiliate of National Life, is the principal underwriter for the variable life insurance policies issued by National Life.

National Life maintains four products within the Variable Account. The VariTrak product was established on March 11, 1996 and is used exclusively for National Life's flexible premium variable life insurance products known collectively as VariTrak. On May 1, 1998, National Life established the Estate Provider product to be used exclusively for National Life's flexible premium variable life insurance products known collectively as Estate Provider. On February 12, 1999, National Life established the Benefit Provider product to be used exclusively for National Life's flexible premium variable universal life policies known collectively as Benefit Provider. On December 23, 2008, National Life established the Investor Select product to be used exclusively for National Life's flexible premium universal variable life policies known collectively as Investor Select. Effective January 1, 2009, National Life no longer offers new issues of VariTrak, Estate Provider, and Benefit Provider products.

The Variable Account invests the accumulated policyholder policy values in shares of mutual fund portfolios within The Alger Portfolios, Alliance Bernstein Variable Products, American Century Variable Portfolios ("ACVP"), Deutsche Investment VIT Funds, Deutsche Variable Series II, Dreyfus Variable Investment Funds ("VIF"), Dreyfus Sustainable US Equity Portfolio, Fidelity Variable Insurance Product Funds ("VIPF"), Franklin Templeton Variable Insurance Products Trust, Invesco Variable Insurance Funds ("V.I."), JP Morgan Insurance Trust, Morgan Stanley Investment Funds, Neuberger Berman Advisors Management Trust, Oppenheimer Variable Account Funds, Touchstone Variable Series Trust, T. Rowe Price Equity Series, Van Eck VIP Trust, and Wells Fargo Variable Trust. Net premiums received by the Variable Account are deposited in the portfolios as designated by the policyholder, except for initial net premiums on new policies, which are first invested in the VIPF Money Market Fund. Policyholders may also direct the allocations of their policy value to a declared interest account (within the General Account of National Life) and may transfer policy value between the portfolios within the Variable Account and the declared interest account.

There are sixty-five sub-accounts within the Variable Account as of December 31, 2017. Each sub-account, which invests exclusively in the shares of the corresponding portfolio, comprises the accumulated policyholder policy values of the underlying variable life insurance policies and variable universal life policies investing in the sub-account.

During 2017, the following changes were made: On October 27, 2017 the Sentinel Funds transferred substantially all of its assets and substantially all of its liabilities into the Touchstone Funds. The Dreyfus Socially Responsible Growth Fund was renamed Dreyfus Sustainable US Equity Portfolio and the Deutsche Large Cap Value VIP was renamed Deutsche CROCI US VIP.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT (A Separate Account of National Life Insurance Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of significant accounting policies followed in the preparation of the financial statements:

Investments

The portfolios consist of the Alger Capital Appreciation Portfolio, Alger Large Cap Growth Portfolio, Alger Small Cap Growth Portfolio, Alliance Bernstein International Growth Fund, Alliance Bernstein International Growth Fund, Alliance Bernstein International Value Fund, Alliance Bernstein Small/Mid Cap Value Fund, Alliance Bernstein Value Fund, American Century Income & Growth Portfolio, American Century Inflation Protection Portfolio, American Century International Portfolio, American Century Ultra Portfolio, American Century Value Portfolio, Deutsche CROCI US VIP Fund, Deutsche Equity 500 Index Fund, Deutsche Small Cap Index Fund, Deutsche Small Mid Cap Value VIP Portfolio, Dreyfus Appreciation Portfolio, Dreyfus Opportunistic Small Cap Portfolio, Dreyfus Quality Bond Portfolio, Dreyfus Sustainable US Equity Portfolio, Fidelity VIPF Equity Income Portfolio, Fidelity VIPF Growth Portfolio, Fidelity VIPF High Income Portfolio, Fidelity VIPF Overseas Portfolio, Fidelity VIPF II Contrafund Portfolio, Fidelity VIPF II Index 500 Portfolio, Fidelity VIPF III Mid Cap Portfolio, Fidelity VIPF III Value Strategies Portfolio, Fidelity VIPF V Investment Grade Bond Portfolio, Fidelity VIPF V Money Market, Franklin Templeton Foreign Securities Fund, Franklin Templeton Global Real Estate Fund, Franklin Templeton Mutual Global Discovery Securities Fund, Franklin Templeton Mutual Shares Securities Fund, Franklin Templeton Small Cap Value Securities Fund, Franklin Templeton Small Mid Cap Growth Securities Fund, Franklin Templeton US Government Securities Fund, Invesco Global Health Care Fund, Invesco Mid Cap Growth Fund, Invesco Technology Fund, JP Morgan Small Cap Core Portfolio, Morgan Stanley Core Plus Fixed Income Portfolio, Morgan Stanley Emerging Markets Equity Portfolio, Morgan Stanley US Real Estate Portfolio, Neuberger Berman Large Cap Value Portfolio, Neuberger Berman Mid Cap Growth Portfolio, Neuberger Berman Short Duration Bond Portfolio, Neuberger Berman Mid Cap Growth Class S Portfolio, Neuberger Berman Socially Responsive Portfolio, Oppenheimer Conservative Balanced/VA Fund, Oppenheimer Global Strategic Income/VA Fund, Oppenheimer Main Street Small Cap/VA Fund, Touchstone Balanced Fund, Touchstone Bond Fund, Touchstone Common Stock Fund, Touchstone Small Company Fund, T Rowe Price Blue Chip Growth Portfolio, T Rowe Price Equity Income Portfolio, T Rowe Price Health Sciences Portfolio, T Rowe Price Personal Strategy Balanced Portfolio, Van Eck Emerging Markets Fund, Van Eck Global Hard Assets Fund, Van Eck Unconstrained Emerging Markets Bond Fund, Wells Fargo Discovery Fund and Wells Fargo Opportunity Fund.

The assets of each portfolio are held separate from the assets of the other portfolios and each has different investment objectives and policies. Each portfolio operates separately and the gains or losses in one portfolio have no effect on the investment performance of the other portfolios.

Investment Valuation

Investments in the portfolios are valued at the closing net asset value per share as determined by each portfolio's administrator, and are classified under Level 1 of the three-tier hierarchy established in Accounting Standards Codification ("ASC") 820. Under that hierarchy, Level 1 inputs consist of quoted prices in active markets for identical investments. The change in the difference between cost and market value is reflected as unrealized appreciation (depreciation) in the Statements of Operations.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT (A Separate Account of National Life Insurance Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Transactions

Investment transactions are accounted for on the trade date (date the order to buy or sell is executed). Dividend income and capital gain distributions are recorded on the ex-dividend date. The cost of investments sold is determined using the first in, first out method (FIFO).

Policyholder Transactions

Policyholders may allocate amounts in their policy value to the Variable Account and to the guaranteed interest account of National Life's General Account. Participant deposits are reduced by applicable deductions, charges and state premium taxes. Transfers between the Variable Account and the guaranteed interest account, net, are amounts that policyholders have directed to be moved among investment options, including permitted transfers to and from the guaranteed interest account.

Surrenders, lapses and contract benefits are payments to policyholders and beneficiaries made under the terms of the policies and amounts that policyholders have requested to be withdrawn and paid to them. Withdrawal charges, if applicable, are included in transfers for policy benefits and terminations. Included in policy charges are administrative, cost of insurance, and other variable charges deducted monthly from the policies.

Loans

Policyholders may obtain loans after the first policy year as outlined in the variable life insurance policy and variable universal life insurance policy. At the time a loan is granted, accumulated value equal to the amount of the loan is designated as collateral and transferred from the Variable Account to the General Account of National Life. Interest is credited by National Life at predetermined rates on collateral held in the General Account. This interest is periodically transferred to the Variable Account.

Federal Income Taxes

The operations of the Variable Account are part of, and taxed with, the total operations of National Life. Under existing federal income tax law, investment income and capital gains attributable to the Variable Account are not taxed.

Subsequent Events

National Life has evaluated events subsequent to December 31, 2017 and through the financial statement issuance date. National Life has not evaluated subsequent events after the issuance date for presentation in these financial statements.

NOTE 3 - CHARGES AND EXPENSES

The following tables describe the fees and expenses assessed when buying, owning and surrendering a Policy within each product of the Variable Account. Such charges reimburse National Life for the insurance, other benefits provided, policy administration and its assumption of mortality and expense risks. The mortality risk assumed is that the insured under the policies may die sooner than anticipated. The expense risk assumed is that expenses incurred in issuing and administering the policies may exceed expected levels.

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
(A Separate Account of National Life Insurance Company)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 - CHARGES AND EXPENSES (continued)

Charges and Deductions – VariTrak Product			
Description of Charge	When Charge is Deducted	Amount Deducted	How Deducted
Premium Tax Charge	Upon receipt of premium payment	3.25% of each premium payment (2.0% for qualified employee benefit plans)	Deducted from Premium Payment
Surrender Charge	Upon surrender or lapse of the Policy during the first 15 Policy Years, or 15 Policy Years following an increase in Face Amount	\$0 - \$2 per \$1000 of initial or increased Face Amount	Deducted from Accumulated Value upon Surrender or Lapse
Deferred Sales Charge	Upon surrender or lapse of the Policy during the first 15 Policy Years or following an increase in Face Amount	\$1.10 to \$37.75 per \$1000 of initial or increased Face Amount	Deducted from Accumulated Value upon Surrender or Lapse
Withdrawal Fees	Upon making a withdrawal	Lesser of 2% of amount withdrawn or \$25	Deducted from Withdrawal Amount
Transfer Fees	Upon making a transfer	\$25 per transfer in excess of 5 transfers in any one Policy Year	Deducted from Transfer Amount
Loan Interest Spread	At the end of each Policy Year, or upon death, surrender, or lapse, if earlier	1.3% - 2% annually of amount held as Collateral	Unit Liquidation from Policy Value
Projection Report Charge	At the time Report is requested	\$25 maximum in New York, no maximum elsewhere	Unit Liquidation from Policy Value
Cost of Insurance	On the Date of Issue of the Policy and on each Monthly Policy Date	Varies based on age of Insured and Duration of Policy	Unit liquidation from Policy Value
Mortality and Expense Risk Fees	Deducted Daily	Annual rate of 0.90% of the average daily net assets of each subaccount of the Variable Account	Deducted from sub-accounts as a Reduction in Unit Value
Administrative Fees	On the Date of Issue of the Policy and on each Monthly Policy Date	\$7.50 per month, plus \$0.07 per \$1000 of Face Amount	Unit liquidation from Policy Value
Riders	On the Date of Issue of the Policy and on each Monthly Policy Date	Amount varies depending on the specifics of the Policy	Unit liquidation from Policy Value

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
(A Separate Account of National Life Insurance Company)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 - CHARGES AND EXPENSES (continued)

Charges and Deductions – Investor Select Product			
Description of Charge	When Charge is Deducted	Amount Deducted	How Deducted
Premium Expense Charge	Upon receipt of Premium Payment	6.00% of each premium payment	Deducted from Premium Payment
Surrender Charge	Upon surrender or lapse of the Policy during the first 10 Policy Years or following an increase in Face Amount	Varies based on the characteristics of the insureds	Deducted from Accumulated Value upon Surrender or Lapse
Cost of Insurance Charge	On the Date of Issue of the Policy and on each Monthly Policy Date until the Insured reaches Attained Age 121	Varies based on Net amount at Risk, age of the insureds and other factors	Unit Liquidation from Policy Value
Policy Value Charge	On the Date of Issue of the Policy and on each Monthly Policy Date	0.04% of Accumulated Value	Unit Liquidation from Policy Value
Policy Fee	On the Date of Issue of the Policy and on each Monthly Policy Date until the Insured reaches Attained Age 121	\$7.50 per month	Unit Liquidation from Policy Value
Expense Charge	On the Date of Issue of the Policy and on each Monthly Policy Date during the first 10 Policy Years, and for 10 years, following an increase in the Face Amount	Varies based on the face amount of the policy at issue, age of the insureds and other factors	Unit Liquidation from Policy Value
Withdrawal Charge	Upon making a Withdrawal	\$25 per withdrawal	Deducted from the Withdrawal amount
Transfer Charge	Upon making a Transfer	\$25 per transfer	Deducted from the Transfer amount
Loan Interest Spread	At the end of each Policy Year, or upon death, surrender or lapse, if earlier	0% - 2% annually of amount held as Collateral	Unit Liquidation from Policy Value
Projection Report Charge	At the time Report is requested	\$25 per report	Pro-Rata Unit Liquidation from Policy Value
Riders	On the Date of Issue of the Policy and on each Monthly Policy Date	Amount varies depending on the specifics of the Policy	Unit Liquidation from Policy Value

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
(A Separate Account of National Life Insurance Company)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 - CHARGES AND EXPENSES (continued)

Charges and Deductions – Estate Provider Product			
Description of Charge	When Charge is Deducted	Amount Deducted	How Deducted
Premium Expense Charge	Upon receipt of Premium Payment	7.40% - 10.40% depending on Policy Year	Deducted from Premium Payment
Surrender Charge	Upon surrender or lapse before the end of Policy Year 10, or the ten years after an increase in the Basic Coverage	Based on Joint Age at issue or time of increase; Level up to 5 years, declines thereafter each month by 1/60 of initial surrender charge	Deducted from Accumulated Value upon Surrender or Lapse
Cost of Insurance Charge	On the Date of Issue of the Policy and on each Monthly Policy Date	Varies based on Net amount at Risk, age of the insureds and other factors	Unit Liquidation from Policy Value
Variable Account Charge	On the Date of Issue of the Policy and on each Monthly Policy Date	0.75% - 0.90% in Policy Years 1 - 10	Unit Liquidation from Policy Value
Administrative Charge	On the Date of Issue of the Policy and on each Monthly Policy Date	\$7.50 - \$15.00 per month plus \$0.08 to \$0.09 per \$1000 of basic coverage	Unit Liquidation from Policy Value
Withdrawal Charge	Upon making a Withdrawal	The lesser of 2% of the Withdrawal amount or \$25	Deducted from the Withdrawal amount
Transfer Charge	Upon making a Transfer	\$25 per transfer in excess of 12 transfers in any one Policy Year	Deducted from the Transfer amount
Loan Interest Spread	At the end of each Policy Year, or upon death, surrender or lapse, if earlier	1.3% - 2% annually of amount held as Collateral	Unit Liquidation from Policy Value
Projection Report Charge	At the time Report is requested	\$25 maximum in New York, no maximum elsewhere	Pro-Rata Unit Liquidation from Policy Value
Riders	On the Date of Issue of the Policy and on each Monthly Policy Date	Amount varies depending on the specifics of the Policy	Unit Liquidation from Policy Value

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
(A Separate Account of National Life Insurance Company)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 - CHARGES AND EXPENSES (continued)

Charges and Deductions – Benefit Provider Product			
Description of Charge	When Charge is Deducted	Amount Deducted	How Deducted
Distribution Charge	Upon receipt of Premium Payment	5% - 15% of Premiums paid during the Policy Year up to the Target Premium, plus 0.5% - 2.5% of Premiums paid in excess of the Target Premium, depending on the Policy Year	Deducted from Premium Payment
Premium Tax Charge	Upon receipt of Premium Payment	Amount varies by State, and may range from 2% to as high as 12% in certain jurisdictions in Kentucky	Deducted from Premium Payment
Cost of Insurance	On the Date of Issue of the Policy and on each Monthly Policy Date	Varies based on age of Insured and Duration of the Policy	Unit liquidation from Policy Value
Policy Administration Charge	On the Date of Issue of the Policy and on each Monthly Policy Date	Currently \$5.50 per month; Guaranteed not to exceed \$8.00 per month	Unit liquidation from Policy Value
Underwriting Charge	On the Date of Issue of the Policy and on each Monthly Policy Date	\$1.67 per month in Policy Year 1, and \$3.75 per month in Policy Years 2 – 5	Unit liquidation from Policy Value
Mortality and Expense Risk Charge	Deducted Daily	Annual rate of 0% - 0.22% of the average daily net assets of each sub-account of the Variable Account; Guaranteed not to exceed Annual rate of 0.60%	Deducted from sub-accounts as a reduction in Unit Value
Variable Account Administration Charge	Deducted Daily	Annual Rate of 0.10% during the first 20 Policy Years, and annual rate of 0.07% thereafter	Deducted from sub-accounts as a reduction in Unit Value
Transfer Charge	Upon making a Transfer	\$25 per Transfer in excess of 12 transfers in any one Policy Year	Deducted from Transfer amount
Riders	On the Date of Issue of the Policy and on each Monthly Policy Date	Amount varies depending on the specifics of the Policy	Unit liquidation from Policy Value

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
(A Separate Account of National Life Insurance Company)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 – INVESTMENTS

The number of shares held and cost for each of the portfolios at December 31, 2017 are set forth below:

Portfolio	Shares	Cost
Alger Portfolios		
Capital Appreciation Portfolio	33,814	\$2,360,737
Large Cap Growth Portfolio	256,409	12,293,397
Small Cap Growth Portfolio	345,823	8,538,418
Alliance Bernstein Variable Products Series		
International Growth Fund	7,992	147,909
International Value Fund	166,697	2,219,648
Small/Mid Cap Value Fund	81,839	1,551,320
Value Fund	2,357	34,283
American Century Variable Portfolios		
Income & Growth Portfolio	352,258	2,726,020
Inflation Protection Portfolio	118,353	1,300,316
International Portfolio	361,729	3,080,630
Ultra Portfolio	9,117	126,993
Value Portfolio	694,121	4,798,873
Deutsche Investment VIT Funds		
Equity 500 Index Fund	41,331	759,004
Small Cap Index Fund	53,778	812,962
Deutsche Variable Series II		
CROCI US VIP Portfolio (1)	18,162	262,972
Small Mid Cap Value VIP Portfolio	130,144	1,701,846
Dreyfus Variable Investment Funds		
Appreciation Portfolio	15,671	648,104
Opportunistic Small Cap Portfolio	2,846	116,922
Quality Bond Portfolio	29,323	353,796
Sustainable US Equity Portfolio (2)	6,356	233,530
Fidelity Variable Insurance Products		
VIPF Equity Income Portfolio	438,267	8,697,664
VIPF Growth Portfolio	251,139	10,673,091
VIPF High Income Portfolio	824,839	4,496,902
VIPF Overseas Portfolio	514,085	8,988,761
VIPF II Contrafund Portfolio	391,853	10,631,537
VIPF II Index 500 Portfolio	186,804	28,684,089
VIPF III Mid Cap Portfolio	121,581	3,823,937
VIPF III Value Strategies Portfolio	24,839	332,148
VIPF V Investment Grade Bond Portfolio	424,213	5,437,694
VIPF V Money Market	7,795,410	7,795,410
Franklin Templeton Variable Insurance Products Trust		
Foreign Securities Fund	116,904	1,670,260
Global Real Estate Fund	59,266	865,310
Mutual Global Discovery Securities Fund	20,243	429,500
Mutual Shares Securities Fund	40,307	745,250
Small Cap Value Securities Fund	39,327	730,996
Small Mid Cap Growth Securities Fund	17,130	316,124
US Government Securities Fund	33,740	431,641

(1) During 2017 the Deutsche Large Cap Value Fund was renamed the CROCI US VIP Fund.

(2) During 2017 the Dreyfus Socially Responsible Growth Fund was renamed the Sustainable US Equity Fund.

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
(A Separate Account of National Life Insurance Company)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 - INVESTMENTS (continued)

The number of shares held and cost for each of the portfolios at December 31, 2017 are set forth below:

Portfolio	Shares	Cost
Invesco Variable Insurance Funds		
Global Health Care Fund	98,227	\$2,325,049
Mid Cap Growth Fund	163,874	750,882
Technology Fund	92,405	1,615,172
JP Morgan Insurance Trust		
Small Cap Core Portfolio	58,504	1,063,687
Morgan Stanley Investment Funds		
Core Plus Fixed Income Portfolio	261,986	2,733,622
Emerging Markets Equity Portfolio	24,275	330,911
US Real Estate Portfolio	4,230	72,507
Neuberger Berman Advisors Management Trust		
Large Cap Value Portfolio	124,925	1,533,572
Mid Cap Growth Portfolio	19,485	458,106
Mid Cap Growth Class S Portfolio (1)	23,713	521,830
Short Duration Bond Portfolio	245,574	2,655,929
Socially Responsive Portfolio	633	14,310
Oppenheimer Variable Account Funds		
Conservative Balance/VA Fund (2)	7,063	101,015
Global Strategic Income/VA Fund	85,928	465,701
Main Street Small Cap/VA Fund	2,942	63,748
Sentinel Variable Products Trust (3)		
Balanced Fund	-	-
Bond Fund	-	-
Common Stock Fund	-	-
Small Company Fund	-	-
Touchstone Variable Series Trust (3)		
Balanced Fund	347,314	5,031,699
Bond Fund	622,843	5,941,131
Common Stock Fund	1,786,871	32,522,681
Small Company Fund	1,740,588	26,039,488
T Rowe Price Equity Series		
Blue Chip Growth Portfolio	66,867	1,126,560
Equity Income Portfolio	166,499	3,905,780
Health Sciences Portfolio	54,153	1,965,306
Personal Strategy Balanced Portfolio	91,393	1,945,614
Van Eck VIP Trust		
Emerging Markets Fund	116,397	1,449,588
Global Hard Assets Fund	63,733	1,514,022
Unconstrained Emerging Markets Bond Fund	127,776	1,240,191
Wells Fargo Variable Trust		
Discovery Fund	235,029	5,818,207
Opportunity Fund	198,939	4,094,649

The cost also represents the aggregate cost for federal income tax purposes.

(3) On October 27, 2017, the Sentinel Funds transferred substantially all of its assets and substantially all of its liabilities into the Touchstone Funds.

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 5 - PURCHASES AND SALES OF PORTFOLIO SHARES

Purchases and proceeds from sales of shares in the portfolios for the year ended December 31, 2017 aggregated the following:

Portfolio	Purchases	Redemptions
Alger Portfolios		
Capital Appreciation Portfolio	\$514,238	\$696,160
Large Cap Growth Portfolio	2,774,784	3,531,539
Small Cap Growth Portfolio	584,167	1,434,808
Alliance Bernstein Variable Products Series		
International Growth Fund	31,983	65,096
International Value Fund	361,390	654,751
Small/Mid Cap Value Fund	405,101	458,972
Value Fund	7,126	5,798
American Century Variable Portfolios		
Income & Growth Portfolio	578,763	527,636
Inflation Protection Portfolio	249,555	226,233
International Portfolio	663,075	1,257,530
Ultra Portfolio	20,388	27,123
Value Portfolio	1,116,511	1,189,844
Deutsche Investment VIT Funds		
Equity 500 Index Fund	100,641	43,757
Small Cap Index Fund	223,117	357,371
Deutsche Variable Series II		
CROCI US VIP Portfolio (1)	27,108	38,982
Small Mid Cap Value VIP Portfolio	479,349	452,143
Dreyfus Variable Investment Funds		
Appreciation Portfolio	162,645	105,774
Opportunistic Small Cap Portfolio	21,792	47,421
Quality Bond Portfolio	62,288	63,798
Sustainable US Equity Portfolio (2)	53,846	79,373
Fidelity Variable Insurance Products		
VIPF Equity Income Portfolio	1,238,908	1,446,733
VIPF Growth Portfolio	2,411,704	3,083,594
VIPF High Income Portfolio	760,348	958,230
VIPF Overseas Portfolio	2,645,165	1,801,496
VIPF II Contrafund Portfolio	2,050,912	2,180,211
VIPF II Index 500 Portfolio	5,635,668	9,713,658
VIPF III Mid Cap Portfolio	715,095	681,529
VIPF III Value Strategies Portfolio	187,172	27,891
VIPF V Investment Grade Bond Portfolio	1,335,769	1,752,926
VIPF V Money Market	28,982,162	30,307,556
Franklin Templeton Variable Insurance Products Trust		
Foreign Securities Fund	289,618	443,145
Global Real Estate Fund	199,819	280,253
Mutual Global Discovery Securities Fund	73,977	61,679
Mutual Shares Securities Fund	121,501	128,949
Small Cap Value Securities Fund	157,464	150,897
Small Mid Cap Growth Securities Fund	101,285	66,737
US Government Securities Fund	80,385	72,039

(1) During 2017 the Deutsche Large Cap Value Fund was renamed the CROCI US VIP Fund.

(2) During 2017 the Dreyfus Socially Responsible Growth Fund was renamed the Sustainable US Equity Fund.

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
(A Separate Account of National Life Insurance Company)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 5 - PURCHASES AND SALES OF PORTFOLIO SHARES (continued)

Purchases and proceeds from sales of shares in the portfolios for the year ended December 31, 2017 aggregated the following:

Portfolio	Purchases	Redemptions
Invesco Variable Insurance Funds		
Global Health Care Fund	\$455,356	\$441,596
Mid Cap Growth Fund	135,035	175,771
Technology Fund	359,823	356,839
JP Morgan Insurance Trust		
Small Cap Core Portfolio	109,962	285,890
Morgan Stanley Investment Funds		
Core Plus Fixed Income Portfolio	299,514	160,867
Emerging Markets Equity Portfolio	22,357	62,204
US Real Estate Portfolio	6,217	667
Neuberger Berman Advisors Management Trust		
Large Cap Value Portfolio	293,541	342,048
Mid Cap Growth Portfolio	154,803	121,562
Mid Cap Growth Class S Portfolio	59,003	75,733
Short Duration Bond Portfolio	589,955	469,470
Socially Responsive Portfolio	4,274	3,987
Oppenheimer Variable Account Funds		
Conservative Balance/VA Fund	7,968	6,387
Global Strategic Income/VA Fund	90,745	160,105
Main Street Small Cap/VA Fund	13,187	11,941
Sentinel Variable Products Trust (3)		
Balanced Fund	552,041	5,654,378
Bond Fund	868,388	6,812,997
Common Stock Fund	2,318,364	37,441,470
Small Company Fund	2,476,913	30,884,669
Touchstone Variable Series Trust (3)		
Balanced Fund	5,210,619	180,977
Bond Fund	6,166,093	225,291
Common Stock Fund	33,528,015	1,014,236
Small Company Fund	26,927,421	912,853
T Rowe Price Equity Series		
Blue Chip Growth Portfolio	492,609	451,319
Equity Income Portfolio	1,115,905	990,398
Health Sciences Portfolio	246,341	2,292,572
Personal Strategy Balanced Portfolio	1,845,675	230,355
Van Eck VIP Trust		
Emerging Markets Fund	324,959	789,422
Global Hard Assets Fund	452,445	345,485
Unconstrained Emerging Markets Bond Fund	192,491	193,324
Wells Fargo Variable Trust		
Discovery Fund	882,813	1,291,384
Opportunity Fund	717,579	483,884

(3) On October 27, 2017, the Sentinel Funds transferred substantially all of its assets and substantially all of its liabilities into the Touchstone Funds.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 6 - CHANGES IN UNITS

VT = VariTrak Product
V2 = Investor Select Product
EP = Estate Provider Product
BP = Benefit Provider Product

FOR THE YEAR ENDED DECEMBER 31, 2017

Units Issued, Transferred and Redeemed:	Alger Portfolios Capital Appreciation				Alger Portfolios Large Cap Growth				Alger Portfolios Small Cap Growth			
	VT	V2	EP	BP	VT	V2	EP	BP	VT	V2	EP	BP
Beginning balance	83,439.72	1,540.54	9,362.88	15,445.68	375,451.52	8,591.69	35,752.27	6,170.27	295,911.77	255.51	161.54	2,695.27
Units issued	3,870.57	396.13	246.67	3,361.47	19,209.18	1,154.01	1,479.36	358.98	12,882.39	33.16	5.44	414.11
Units transferred	(6,186.39)	(261.07)	-	(4,373.99)	(15,557.55)	(484.12)	(1,860.09)	(1,052.70)	(6,130.14)	(12.74)	-	(489.41)
Units redeemed	(7,406.32)	(333.60)	(1,127.88)	(334.81)	(51,779.50)	(1,101.90)	(953.15)	(436.45)	(34,170.62)	(91.31)	(4.04)	(256.73)
Ending balance	73,717.58	1,341.99	8,481.67	14,098.36	327,323.64	8,159.69	34,418.41	5,040.11	268,493.42	184.62	162.96	2,363.24

Units Issued, Transferred and Redeemed:	Alliance Bernstein International Growth				Alliance Bernstein International Value				Alliance Bernstein Small/Mid Cap Value			
	VT	V2	EP	BP	VT	V2	EP	BP	VT	V2	EP	BP
Beginning balance	6,064.47	2,624.15	1,591.72	-	133,423.13	14,738.85	14,715.96	-	40,115.09	2,356.13	5,302.96	-
Units issued	556.00	257.79	8.75	-	7,626.25	912.61	540.51	-	2,439.87	278.98	177.92	-
Units transferred	(1,231.86)	(121.12)	(162.87)	-	(7,004.12)	687.23	(1,516.94)	-	913.13	55.58	18.56	-
Units redeemed	(615.93)	(332.60)	(109.87)	-	(18,019.26)	(1,149.87)	(1,436.37)	-	(5,901.55)	(312.92)	(1,224.02)	-
Ending balance	4,772.68	2,428.23	1,327.73	-	116,026.01	15,188.82	12,303.17	-	37,566.54	2,377.77	4,275.41	-

Units Issued, Transferred and Redeemed:	Alliance Bernstein Value				American Century Variable Portfolios Income & Growth				American Century Variable Portfolios Inflation Protection			
	VT	V2	EP	BP	VT	V2	EP	BP	VT	V2	EP	BP
Beginning balance	1,260.87	257.31	-	-	132,759.96	-	8,037.42	4,793.37	60,884.28	1,719.23	9,991.96	63,372.15
Units issued	95.83	55.07	-	-	8,210.29	-	1,378.75	62.30	5,240.41	138.69	17.56	-
Units transferred	43.62	2.76	-	-	2,848.04	-	52.75	(20.10)	(56.82)	141.67	69.48	-
Units redeemed	(70.35)	(82.14)	-	-	(14,445.37)	-	(1,570.63)	(268.91)	(5,544.81)	(92.88)	(29.19)	(598.54)
Ending balance	1,329.97	233.00	-	-	129,372.92	-	7,898.30	4,566.66	60,523.06	1,906.72	10,049.82	62,773.61

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 6 - CHANGES IN UNITS (continued)

VT = VariTrak Product
V2 = Investor Select Product
EP = Estate Provider Product
BP = Benefit Provider Product

FOR THE YEAR ENDED DECEMBER 31, 2017

	American Century Variable Portfolios International				American Century Variable Portfolios Ultra				American Century Variable Portfolios Value			
	VT	V2	EP	BP	VT	V2	EP	BP	VT	V2	EP	BP
Units Issued, Transferred and Redeemed:												
Beginning balance	199,847.92	7,249.64	21,754.67	-	5,486.95	-	1,507.12	-	184,804.86	1,316.08	11,288.47	12,667.61
Units issued	11,666.56	835.15	773.73	-	326.98	-	-	-	10,214.13	827.33	260.77	2,402.20
Units transferred	(13,912.46)	(288.55)	(1,546.16)	-	24.87	-	(92.99)	-	3,116.94	596.61	488.20	1,043.76
Units redeemed	(22,374.82)	(723.26)	(3,509.10)	-	(849.24)	-	7.20	-	(19,589.02)	(326.31)	(1,105.30)	(778.03)
Ending balance	175,227.20	7,072.98	17,473.14	-	4,989.56	-	1,421.33	-	178,546.91	2,413.70	10,932.15	15,335.53

	Deutsche Investment Funds Equity 500 Index				Deutsche Investment Funds Small Cap Index				Deutsche Variable Series CROCI US VIP (1)			
	VT	V2	EP	BP	VT	V2	EP	BP	VT	V2	EP	BP
Units Issued, Transferred and Redeemed:												
Beginning balance	-	-	-	25,239.99	18,540.19	1,182.09	-	12,421.10	19,560.47	-	168.26	-
Units issued	-	-	-	1,465.69	972.50	84.92	-	114.47	1,204.61	-	1.71	-
Units transferred	-	-	-	(686.30)	(5,241.10)	20.94	-	(584.98)	(1,466.22)	-	1.45	-
Units redeemed	-	-	-	(670.51)	(613.23)	(69.14)	-	(407.22)	(676.18)	-	(2.41)	-
Ending balance	-	-	-	25,348.87	13,658.35	1,218.79	-	11,543.35	18,622.68	-	169.01	-

	Deutsche Variable Series Small Mid Cap Value				Dreyfus Variable Investment Appreciation				Dreyfus Variable Investment Opportunistic Small Cap			
	VT	V2	EP	BP	VT	V2	EP	BP	VT	V2	EP	BP
Units Issued, Transferred and Redeemed:												
Beginning balance	67,797.02	2,616.73	7,099.70	-	26,071.22	-	2,621.90	-	9,293.66	-	-	-
Units issued	4,069.65	470.05	168.19	-	2,225.61	-	46.03	-	519.57	-	-	-
Units transferred	(1.39)	502.89	1,341.50	-	(1,300.41)	-	(41.04)	-	(388.17)	-	-	-
Units redeemed	(6,927.82)	293.62	(503.70)	-	(2,070.90)	-	(103.71)	-	(1,510.48)	-	-	-
Ending balance	64,937.45	3,883.31	8,105.69	-	24,925.50	-	2,523.18	-	7,914.57	-	-	-

(1) During 2017 the Deutsche Large Cap Value VIP Fund was renamed the CROCI US VIP Fund.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 6 - CHANGES IN UNITS (continued)

VT = VariTrak Product
V2 = Investor Select Product
EP = Estate Provider Product
BP = Benefit Provider Product

FOR THE YEAR ENDED DECEMBER 31, 2017

	Dreyfus Variable Investment Quality Bond				Dreyfus Variable Investment Sustainable US Equity (2)				Fidelity Variable Insurance Product Funds VIPF Equity Income			
	VT	V2	EP	BP	VT	V2	EP	BP	VT	V2	EP	BP
Units Issued, Transferred and Redeemed:												
Beginning balance	22,380.25	-	1,047.91	-	18,054.70	-	247.31	-	124,394.02	431.22	4,478.37	-
Units issued	1,222.67	-	-	-	822.31	-	-	-	5,805.47	70.40	297.92	-
Units transferred	1,572.24	-	-	-	498.46	-	-	-	1,321.43	9.75	57.76	-
Units redeemed	(2,057.12)	-	(1,007.00)	-	(4,137.45)	-	(0.43)	-	(13,335.86)	(43.65)	(241.18)	-
Ending balance	23,118.04	-	40.92	-	15,238.02	-	246.88	-	118,185.05	467.72	4,592.88	-

	Fidelity Variable Insurance Product Funds VIPF Growth				Fidelity Variable Insurance Product Funds VIPF High Income				Fidelity Variable Insurance Product Funds VIPF Overseas			
	VT	V2	EP	BP	VT	V2	EP	BP	VT	V2	EP	BP
Units Issued, Transferred and Redeemed:												
Beginning balance	178,574.60	510.26	45,721.82	-	86,194.74	1,515.37	14,204.72	-	233,658.25	13,623.91	22,522.53	90,132.78
Units issued	7,812.51	51.86	1,120.29	-	4,899.34	318.40	322.97	-	12,208.21	470.51	340.96	752.83
Units transferred	(5,707.88)	(15.57)	(1,066.88)	-	1,661.51	23.43	142.56	-	1,549.83	659.70	(259.35)	334,886.18
Units redeemed	(18,965.57)	(34.70)	(5,926.83)	-	(13,945.52)	(151.02)	(1,874.09)	-	(27,111.23)	(661.97)	(2,587.55)	(2,768.82)
Ending balance	161,713.65	511.84	39,848.38	-	78,810.08	1,706.19	12,796.17	-	220,305.07	14,092.15	20,016.59	423,002.97

	Fidelity Variable Insurance Product Funds VIPF II Contrafund				Fidelity Variable Insurance Product Funds VIPF II Index 500				Fidelity Variable Insurance Product Funds VIPF III Mid Cap			
	VT	V2	EP	BP	VT	V2	EP	BP	VT	V2	EP	BP
Units Issued, Transferred and Redeemed:												
Beginning balance	247,366.03	5,773.77	33,999.92	-	584,836.56	51,386.66	259,668.28	-	117,564.87	4,424.96	10,485.21	-
Units issued	11,727.96	391.77	982.47	-	26,421.39	8,141.02	9,912.32	-	6,567.54	399.95	237.19	-
Units transferred	(3,674.02)	(68.32)	(311.16)	-	(1,301.22)	3,035.42	(1,074.03)	-	1,227.62	(3.81)	191.20	-
Units redeemed	(24,083.01)	(406.95)	(2,199.49)	-	(86,261.57)	(17,786.29)	(11,954.91)	-	(12,370.20)	(565.40)	(499.21)	-
Ending balance	231,336.97	5,690.26	32,471.73	-	523,695.16	44,776.81	256,551.65	-	112,989.82	4,255.70	10,414.39	-

(2) During 2017 the Dreyfus Socially Responsible Growth Fund was renamed the Sustainable US Equity Portfolio.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 6 - CHANGES IN UNITS (continued)

VT = VariTrak Product
V2 = Investor Select Product
EP = Estate Provider Product
BP = Benefit Provider Product

FOR THE YEAR ENDED DECEMBER 31, 2017

	Fidelity Variable Insurance Product Funds VIPF III Value Strategies				Fidelity Variable Insurance Product Funds VIPF V Investment Grade Bond				Fidelity Variable Insurance Product Funds VIPF V Money Market			
	VT	V2	EP	BP	VT	V2	EP	BP	VT	V2	EP	BP
Units Issued, Transferred and Redeemed:												
Beginning balance	5,209.49	980.61	-	-	267,392.93	3,047.82	21,464.17	41,116.45	481,051.94	4,225.67	84,040.73	1,194,102.70
Units issued	260.00	78.51	-	-	22,230.64	187.21	1,513.55	2,291.66	62,174.40	37,190.69	7,186.44	38,946.68
Units transferred	977.19	(15.71)	-	-	(10,102.45)	191.73	643.26	9,942.74	55,151.92	(20,709.72)	2,374.77	(845,314.21)
Units redeemed	(281.60)	(36.10)	-	-	(40,077.23)	(209.20)	(1,991.41)	(4,522.46)	(127,155.11)	(5,002.61)	(13,140.42)	(145,954.18)
Ending balance	6,165.08	1,007.30	-	-	239,443.90	3,217.57	21,629.58	48,828.40	471,223.15	15,704.04	80,461.52	241,781.00
Units Issued, Transferred and Redeemed:												
Beginning balance	93,172.37	1,137.78	9,548.77	-	62,471.81	-	504.20	-	17,848.65	626.26	166.96	-
Units issued	5,940.71	88.09	145.62	-	4,228.74	-	74.03	-	819.51	81.38	9.92	-
Units transferred	(7,562.04)	4.04	(51.48)	-	128.33	-	39.29	-	(230.85)	18.48	-	-
Units redeemed	(8,520.14)	(69.11)	(176.30)	-	(10,403.48)	-	(237.29)	-	(1,156.26)	(169.83)	(5.81)	-
Ending balance	83,030.89	1,160.80	9,466.61	-	56,425.41	-	380.23	-	17,281.05	556.29	171.07	-
Units Issued, Transferred and Redeemed:												
Beginning balance	33,622.37	1,514.81	4,261.62	-	21,610.07	884.95	3,649.28	-	8,853.97	1,351.30	827.73	-
Units issued	1,864.82	32.47	19.34	-	1,355.95	132.95	32.86	-	774.32	179.10	-	-
Units transferred	273.71	9.36	(3.77)	-	639.46	9.69	35.98	-	(44.00)	212.28	(21.60)	-
Units redeemed	(4,471.81)	(68.76)	(123.02)	-	(3,511.27)	(87.01)	(87.81)	-	(1,194.48)	266.27	3.24	-
Ending balance	31,289.09	1,487.89	4,154.16	-	20,094.21	940.58	3,630.31	-	8,389.83	2,008.95	809.37	-

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 6 - CHANGES IN UNITS (continued)

VT = VariTrak Product
V2 = Investor Select Product
EP = Estate Provider Product
BP = Benefit Provider Product

FOR THE YEAR ENDED DECEMBER 31, 2017

	Franklin Templeton Variable Insurance Products Trust US Government				Invesco Variable Insurance Funds Global Health Care				Invesco Variable Insurance Funds Mid Cap Growth			
	VT	V2	EP	BP	VT	V2	EP	BP	VT	V2	EP	BP
Units Issued, Transferred and Redeemed:												
Beginning balance	32,404.40	1,821.34	1,247.37	-	111,977.45	-	4,944.37	10,437.98	57,975.60	-	142.11	319.50
Units issued	3,339.14	155.80	8.35	-	5,953.09	-	65.71	-	2,843.93	-	-	55.75
Units transferred	(705.29)	134.25	87.47	-	1,977.08	-	5.42	3.63	302.68	-	(11.20)	(17.53)
Units redeemed	(2,854.57)	(154.18)	(6.30)	-	(12,735.08)	-	(21.67)	(118.23)	(8,564.93)	-	(2.30)	(3.45)
Ending balance	32,183.67	1,957.22	1,336.90	-	107,172.53	-	4,993.84	10,323.38	52,557.28	-	128.60	354.28

	Invesco Variable Insurance Funds Technology				JP Morgan Insurance Trust Small Cap Core				Morgan Stanley Universal Institutional Funds Core Plus Fixed Income			
	VT	V2	EP	BP	VT	V2	EP	BP	VT	V2	EP	BP
Units Issued, Transferred and Redeemed:												
Beginning balance	206,207.60	-	5,544.76	9,165.25	36,089.53	-	8,998.21	255.80	-	-	-	1,219,746.12
Units issued	11,115.68	-	153.23	-	1,800.36	-	163.34	-	-	-	-	11,236.04
Units transferred	3,228.45	-	(214.81)	-	(1,670.65)	-	(380.04)	-	-	-	-	63,062.22
Units redeemed	(22,939.12)	-	(25.46)	(42.87)	(2,594.49)	-	(2,524.64)	(1.36)	-	-	-	(49,323.05)
Ending balance	197,612.61	-	5,457.73	9,122.38	33,624.73	-	6,256.89	254.44	-	-	-	1,244,721.35

	Morgan Stanley Universal Institutional Funds Emerging Markets Equity				Morgan Stanley Universal Institutional Funds US Real Estate				Neuberger Berman Advisors Management Trust Large Cap Value			
	VT	V2	EP	BP	VT	V2	EP	BP	VT	V2	EP	BP
Units Issued, Transferred and Redeemed:												
Beginning balance	-	-	-	138,269.50	-	-	-	14,846.15	63,500.13	147.87	12,537.67	3,426.95
Units issued	-	-	-	1,034.47	-	-	-	-	3,292.63	41.38	343.78	229.73
Units transferred	-	-	-	(7,767.28)	-	-	-	872.74	(1,982.17)	34.07	(221.51)	(42.42)
Units redeemed	-	-	-	(6,114.46)	-	-	-	(100.39)	(4,287.08)	(15.61)	(1,548.21)	(20.85)
Ending balance	-	-	-	125,422.23	-	-	-	15,618.50	60,523.50	207.70	11,111.73	3,593.40

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
(A Separate Account of National Life Insurance Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 6 - CHANGES IN UNITS (continued)

VT = VariTrak Product
V2 = Investor Select Product
EP = Estate Provider Product
BP = Benefit Provider Product

FOR THE YEAR ENDED DECEMBER 31, 2017

	Sentinel Variable Products Trust Common Stock				Sentinel Variable Products Trust Small Company				Touchstone Variable Series Trust Balanced Fund (3)			
	VT	V2	EP	BP	VT	V2	EP	BP	VT	V2	EP	BP
Units Issued, Transferred and Redeemed:												
Beginning balance	598,435.34	11,005.53	33,826.18	73,522.12	272,436.07	8,972.08	32,846.77	18,616.58	-	-	-	-
Units issued	25,465.54	1,297.10	918.62	1,601.36	10,433.79	772.88	964.78	460.07	4,497.35	258.58	26.87	-
Units transferred	(572,108.48)	(11,334.50)	(32,749.51)	(73,610.25)	(250,988.91)	(9,150.99)	(31,985.46)	(18,889.91)	557,187.96	9,470.73	34,257.07	71,343.99
Units redeemed	(51,792.40)	(968.12)	(1,995.29)	(1,513.22)	(31,880.95)	(593.96)	(1,826.09)	(186.74)	(12,881.36)	1,394.08	(2,531.56)	(74.96)
Ending balance	-	-	-	-	-	-	-	-	548,803.95	11,123.38	31,752.39	71,269.02

	Touchstone Variable Series Trust Bond Fund (3)				Touchstone Variable Series Trust Common Stock Fund (3)				Touchstone Variable Series Trust Small Company Fund (3)			
	VT	V2	EP	BP	VT	V2	EP	BP	VT	V2	EP	BP
Units Issued, Transferred and Redeemed:												
Beginning balance	-	-	-	-	-	-	-	-	-	-	-	-
Units issued	2,899.32	180.79	222.29	-	1,244.96	57.26	27.81	-	1,926.84	87.39	193.75	-
Units transferred	243,537.36	8,815.43	30,851.43	19,410.26	129,840.09	3,547.44	11,640.18	1,816.05	219,765.10	8,019.19	29,709.41	17.85
Units redeemed	(5,116.10)	(85.28)	(259.86)	(714.19)	(2,351.86)	(36.94)	(72.81)	(3.30)	(3,816.19)	(193.05)	(969.10)	(0.04)
Ending balance	241,320.59	8,910.93	30,813.86	18,696.06	128,733.19	3,567.76	11,595.18	1,812.75	217,875.75	7,913.53	28,934.06	17.81

	T Rowe Price Equity Series Blue Chip Growth				T Rowe Price Equity Series Equity Income				T Rowe Price Equity Series Health Sciences			
	VT	V2	EP	BP	VT	V2	EP	BP	VT	V2	EP	BP
Units Issued, Transferred and Redeemed:												
Beginning balance	53,609.80	1,978.85	4,115.92	-	179,683.12	6,207.02	29,759.82	-	80,104.14	864.05	2,149.73	-
Units issued	4,646.28	566.74	53.79	-	10,538.51	847.95	859.85	-	1,631.52	79.56	50.60	-
Units transferred	1,977.51	278.40	(69.18)	-	(2,667.27)	68.82	(585.00)	-	(39,532.73)	(8.68)	(19.58)	-
Units redeemed	(7,780.29)	430.33	(29.42)	-	(21,241.50)	(1,069.61)	(3,551.86)	-	(2,864.39)	(167.78)	(478.07)	-
Ending balance	52,453.29	3,254.32	4,071.11	-	166,312.85	6,054.18	26,482.81	-	39,338.54	767.13	1,702.69	-

(3) On October 27, 2017 the Sentinel Funds transferred substantially all of its assets and substantially all of its liabilities into the Touchstone Funds.

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 6 - CHANGES IN UNITS (continued)

VT = VariTrak Product
V2 = Investor Select Product
EP = Estate Provider Product
BP = Benefit Provider Product

FOR THE YEAR ENDED DECEMBER 31, 2017

	T Rowe Price Equity Series Personal Strategies Balanced				Van Eck VIP Trust VIP Emerging Markets				Van Eck VIP Trust VIP Hard Assets			
	VT	V2	EP	BP	VT	V2	EP	BP	VT	V2	EP	BP
Units Issued, Transferred and Redeemed:												
Beginning balance	13,920.66	-	-	-	46,987.12	9,714.05	5,631.74	-	87,979.01	6,452.66	5,761.39	-
Units issued	3,345.88				2,244.78	318.11	234.38	-	7,562.93	532.10	982.61	-
Units transferred	60,600.30				(6,010.30)	494.21	(577.50)	-	13,568.74	978.96	1,367.57	-
Units redeemed	(2,066.95)				(9,090.50)	(673.29)	(860.68)	-	(13,056.63)	(828.52)	(946.70)	-
Ending balance	75,799.91	-	-	-	34,131.10	9,853.08	4,427.93	-	96,054.05	7,135.20	7,164.87	-
Units Issued, Transferred and Redeemed:												
Beginning balance	79,136.68	5,114.89	9,514.46	-	186,921.30	11,997.80	1,082.53	-	77,207.35	-	17,928.32	15,235.61
Units issued	5,415.64	1,022.57	352.51	-	7,870.34	166.63	-	-	3,849.69	-	628.29	132.42
Units transferred	247.38	64.59	184.45	-	(10,425.76)	(133.56)	(5.50)	-	(144.78)	-	(68.21)	(541.66)
Units redeemed	(7,416.58)	(1,128.50)	(172.62)	-	(14,513.32)	(1,939.21)	(10.93)	-	(6,052.06)	-	(582.27)	(542.02)
Ending balance	77,383.12	5,073.55	9,878.80	-	169,852.55	10,091.66	1,066.10	-	74,860.20	-	17,906.13	14,284.35

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 - FINANCIAL HIGHLIGHTS

A summary of units outstanding and unit values for the Variable Account, the investment income ratios, the expense ratios, excluding expenses of the underlying funds, and total return for the years ended 2017, 2016, 2015, 2014, and 2013 are shown below. Information for the years 2017, 2016, 2015, 2014, and 2013 reflect the adoption of AICPA Statement of Position 03-5, "Financial Highlights of Separate Accounts." Certain ratios presented for the prior years reflect the presentation used in the current year.

	At December 31, 2017	For the Year Ended December 31, 2017	At December 31, 2017								For the Year Ended December 31, 2017			For the Year Ended December 31, 2017			
			Units				Units Value				Expense Ratio**			Total Return***			
	Net Assets	Investment Income Ratio*	VT	V2	EP	BP	VT	V2	EP	BP	VT	BP	EP	VT	V2	EP	BP
VT = VanTrak Product V2 = Investor Select Product EP = Estate Provider Product BP = Benefit Provider Product																	
Alger Portfolios																	
Capital Appreciation Portfolio	2,794,351	0.16%	73,717.58	1,341.99	8,481.67	14,098.36	30.47	45.05	35.51	13.26	0.90%	0.22%	0.32%	29.92%	31.08%	31.08%	30.92%
Large Cap Growth Portfolio	15,794,809	0.00%	327,323.64	8,159.69	34,418.41	5,040.11	42.90	35.97	22.97	132.69	0.90%	0.22%	0.32%	27.32%	28.46%	28.46%	28.31%
Small Cap Growth Portfolio	8,351,624	0.00%	268,493.42	184.62	162.96	2,363.24	30.02	37.05	29.49	118.09	0.90%	0.22%	0.32%	27.59%	28.73%	28.73%	28.57%
Alliance Bernstein Variable Products																	
International Growth Fund	185,023	1.12%	4,772.68	2,428.23	1,327.73	-	20.91	22.69	22.69	-	0.90%	0.22%	0.32%	33.82%	35.02%	35.02%	0.00%
International Value Fund	2,717,166	2.15%	116,026.01	15,188.82	12,303.17	-	18.63	20.21	20.21	-	0.90%	0.22%	0.32%	24.31%	25.42%	25.42%	0.00%
Small/Mid Cap Value Fund	1,774,268	0.45%	37,566.54	2,377.77	4,275.41	-	39.62	42.98	42.98	-	0.90%	0.22%	0.32%	12.14%	13.15%	13.15%	0.00%
Value Fund	40,826	1.37%	1,329.97	233.00	-	-	25.79	27.98	-	-	0.90%	0.22%	0.32%	12.56%	13.57%	0.00%	0.00%
American Century Variable Portfolios																	
Income & Growth Portfolio	3,772,686	2.34%	129,372.92	-	7,898.30	4,566.66	26.59	-	31.34	18.65	0.90%	0.22%	0.32%	19.41%	0.00%	20.49%	20.34%
Inflation Protection Portfolio	1,210,545	2.86%	60,523.06	1,906.72	10,049.82	62,773.61	14.99	14.94	16.94	1.67	0.90%	0.22%	0.32%	3.00%	3.92%	3.92%	3.55%
International Portfolio	4,405,860	0.89%	175,227.20	7,072.98	17,473.14	-	21.70	24.67	24.53	-	0.90%	0.22%	0.32%	30.04%	31.21%	31.21%	0.00%
Ultra Portfolio	176,315	0.35%	4,989.56	-	1,421.33	-	26.73	-	30.21	-	0.90%	0.22%	0.32%	31.05%	0.00%	32.22%	0.00%
Value Portfolio	7,781,101	1.64%	178,546.91	2,413.70	10,932.15	15,335.53	38.26	29.83	40.89	28.07	0.90%	0.22%	0.32%	7.78%	8.75%	8.75%	8.60%
Deutsche Investment VIT Funds																	
Equity 500 Index Fund	917,130	1.68%	-	-	-	25,348.87	-	-	-	36.18	0.90%	0.22%	0.32%	0.00%	0.00%	0.00%	21.39%
Small Cap Index Fund	983,595	1.01%	13,658.35	1,218.79	-	11,543.35	33.26	36.08	-	42.04	0.90%	0.22%	0.32%	13.31%	14.33%	0.00%	14.19%
Deutsche Variable Series II																	
CROCI US VIP Portfolio (1)	302,766	1.14%	18,622.68	-	169.01	-	16.09	-	18.19	-	0.90%	0.22%	0.32%	21.36%	0.00%	22.45%	0.00%
Small Mid Cap Value VIP Portfolio	2,324,379	0.35%	64,937.45	3,883.31	8,105.68	-	29.66	32.53	33.53	-	0.90%	0.22%	0.32%	9.15%	10.13%	10.13%	0.00%
Dreyfus Variable Investment Funds																	
Appreciation Portfolio	700,639	1.32%	24,925.50	-	2,523.18	-	25.22	-	28.51	-	0.90%	0.22%	0.32%	26.20%	0.00%	27.33%	0.00%
Opportunistic Small Cap Portfolio	173,367	0.00%	7,914.57	-	-	-	21.90	-	-	-	0.90%	0.22%	0.32%	23.57%	0.00%	0.00%	0.00%
Quality Bond Portfolio	350,699	2.10%	23,118.04	-	40.92	-	15.14	-	17.11	-	0.90%	0.22%	0.32%	3.57%	0.00%	4.50%	0.00%
Sustainable US Equity Fund (2)	255,947	1.20%	15,238.02	-	246.88	-	16.49	-	19.21	-	0.90%	0.22%	0.32%	14.31%	0.00%	15.33%	0.00%

(1) During 2017 the Deutsche Large Cap Value VIP Fund was renamed the CROCI US VIP Fund.

(2) During 2017 the Dreyfus Socially Responsible Growth Fund was renamed the Sustainable US Equity Portfolio.

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 - FINANCIAL HIGHLIGHTS (continued)

	At December 31, 2017	For the Year Ended December 31, 2017	At December 31, 2017								For the Year Ended December 31, 2017			For the Year Ended December 31, 2017			
			Units				Units Value				Expense Ratio**			Total Return***			
	Net Assets	Investment Income Ratio*	VT	V2	EP	BP	VT	V2	EP	BP	VT	BP	EP	VT	V2	EP	BP
VT = VariTrak Product V2 = Investor Select Product EP = Estate Provider Product BP = Benefit Provider Product																	
Fidelity Variable Insurance Product Funds																	
VIPF Equity Income Portfolio	10,470,200	1.71%	118,185.05	467.72	4,592.88	-	87.37	32.22	28.06	-	0.90%	0.22%	0.32%	11.89%	12.89%	12.89%	0.00%
VIPF Growth Portfolio	18,596,842	0.21%	161,713.65	511.84	39,848.38	-	106.04	40.45	35.82	-	0.90%	0.22%	0.32%	33.93%	35.13%	35.13%	0.00%
VIPF High Income Portfolio	4,495,372	5.37%	78,810.08	1,706.19	12,796.17	-	53.10	25.36	20.91	-	0.90%	0.22%	0.32%	5.98%	6.93%	6.93%	0.00%
VIPF Overseas Portfolio	11,757,133	1.33%	220,305.07	14,092.15	20,016.59	423,002.97	42.23	23.49	20.93	4.03	0.90%	0.22%	0.32%	29.13%	30.28%	30.28%	30.13%
VIPF II Contrafund Portfolio	14,866,920	0.99%	231,336.97	5,690.26	32,471.73	-	56.61	35.72	48.25	-	0.90%	0.22%	0.32%	20.79%	21.88%	21.88%	0.00%
VIPF II Index 500 Portfolio	50,657,480	1.72%	523,695.16	44,776.81	256,551.65	-	77.10	36.09	33.78	-	0.90%	0.22%	0.32%	20.63%	21.71%	21.71%	0.00%
VIPF III Mid Cap Portfolio	4,734,345	0.69%	112,989.82	4,255.70	10,414.39	-	36.67	37.48	41.45	-	0.90%	0.22%	0.32%	19.74%	20.81%	20.81%	0.00%
VIPF III Value Strategies Portfolio	354,458	1.51%	6,165.08	1,007.30	1,460.00	-	40.09	43.49	43.49	-	0.90%	0.22%	0.32%	18.30%	19.36%	100.00%	0.00%
VIPF V Investment Grade Bond Portfolio	5,429,926	2.30%	239,443.90	3,217.57	21,629.58	48,828.40	19.81	16.55	23.09	2.75	0.90%	0.22%	0.32%	3.29%	4.22%	4.22%	4.09%
VIPF V Money Market	7,795,410	0.60%	471,223.15	15,704.04	80,461.52	241,781.00	13.09	10.08	14.26	1.32	0.90%	0.22%	0.32%	-0.32%	0.58%	0.58%	0.46%
Franklin Templeton Variable Insurance Products Trust																	
Foreign Securities Fund	1,808,510	2.59%	83,030.89	1,160.80	9,466.61	-	19.03	21.16	21.51	-	0.90%	0.22%	0.32%	15.66%	16.69%	16.69%	0.00%
Global Real Estate Fund	979,067	3.12%	56,425.41	-	380.23	-	17.22	-	19.46	-	0.90%	0.22%	0.32%	9.49%	0.00%	10.47%	0.00%
Mutual Global Discovery Securities Fund	412,544	1.93%	17,281.05	556.29	171.07	-	22.83	24.77	24.77	-	0.90%	0.22%	0.32%	7.91%	8.88%	8.88%	0.00%
Mutual Shares Securities Fund	820,657	2.22%	31,289.09	1,487.89	4,154.16	-	21.71	26.54	24.54	-	0.90%	0.22%	0.32%	7.38%	8.35%	8.35%	0.00%
Small Cap Value Securities Fund	778,672	0.50%	20,094.21	940.58	3,630.31	-	30.76	36.50	34.77	-	0.90%	0.22%	0.32%	9.67%	10.65%	10.65%	0.00%
Small Mid Cap Growth Securities Fund	305,427	0.00%	8,389.83	2,008.95	809.37	-	25.17	35.45	28.45	-	0.90%	0.22%	0.32%	20.32%	21.40%	21.40%	0.00%
US Government Securities Fund	417,021	2.76%	32,183.67	1,957.22	1,336.90	-	11.66	12.65	12.65	-	0.90%	0.22%	0.32%	0.75%	1.66%	1.66%	0.00%
Invesco Variable Insurance Funds																	
Global Health Care Fund	2,597,128	0.36%	107,172.53	-	4,993.84	10,323.38	22.53	-	26.26	5.00	0.90%	0.22%	0.32%	14.80%	0.00%	15.83%	15.69%
Mid Cap Growth Fund	920,971	0.00%	52,557.28	-	128.60	354.28	17.36	-	18.26	18.14	0.90%	0.22%	0.32%	21.40%	0.00%	22.49%	22.34%
Technology Fund	2,122,543	0.00%	197,612.61	-	5,457.73	9,122.38	10.26	-	11.96	3.25	0.90%	0.22%	0.32%	33.93%	0.00%	35.13%	34.97%
JP Morgan Insurance Trust																	
Small Cap Core Portfolio	1,500,044	0.32%	33,624.73	-	6,256.89	254.44	37.34	-	37.04	50.33	0.90%	0.22%	0.32%	14.20%	0.00%	15.23%	15.09%
Morgan Stanley Investment Funds																	
Core Plus Fixed Income Portfolio	2,876,606	3.07%	-	-	-	1,244,721.35	-	-	-	2.31	0.90%	0.22%	0.32%	0.00%	0.00%	0.00%	6.12%
Emerging Markets Equity Portfolio	428,202	0.76%	-	-	-	125,422.23	-	-	-	3.41	0.90%	0.22%	0.32%	0.00%	0.00%	0.00%	34.90%
US Real Estate Portfolio	91,879	1.51%	-	-	-	15,618.50	-	-	-	5.88	0.90%	0.22%	0.32%	0.00%	0.00%	0.00%	2.99%

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 - FINANCIAL HIGHLIGHTS (continued)

	At December 31, 2017	For the Year Ended December 31, 2017	At December 31, 2017								For the Year Ended December 31, 2017			For the Year Ended December 31, 2017				
			Units				Units Value				Expense Ratio**			Total Return***				
			VT	V2	EP	BP	VT	V2	EP	BP	VT	BP	EP	VT	V2	EP	BP	
VT = VanTrak Product V2 = Investor Select Product EP = Estate Provider Product BP = Benefit Provider Product	Net Assets	Investment Income Ratio*																
Neuberger Berman Advisors																		
Management Trust																		
Large Cap Value Portfolio	2,087,497	0.58%	60,523.50	207.70	11,111.73	3,593.40	26.04	35.53	28.21	53.03	0.90%	0.22%	0.32%	12.35%	13.36%	13.36%	13.23%	
Mid Cap Growth Portfolio	541,494	0.00%	13,141.44	2,603.72	103.95	-	33.75	36.08	38.15	-	0.90%	0.22%	0.32%	24.17%	25.29%	25.29%	0.00%	
Mid Cap Growth Class S Portfolio	611,073	0.00%	37,351.76	-	12,422.75	-	12.22	-	12.46	-	0.90%	0.22%	0.32%	23.45%	0.00%	24.56%	0.00%	
Short Duration Bond Portfolio	2,568,707	1.47%	198,099.24	6,858.59	22,792.91	-	11.07	13.36	12.51	-	0.90%	0.22%	0.32%	-0.01%	0.89%	0.89%	0.00%	
Socially Responsive Portfolio	16,210	0.50%	356.15	147.71	-	-	31.39	34.05	-	-	0.90%	0.22%	0.32%	17.38%	18.43%	0.00%	0.00%	
Oppenheimer Variable Account Funds																		
Conservative Balanced/VA Fund	110,963	1.69%	5,350.24	165.88	-	-	20.07	21.77	-	-	0.90%	0.22%	0.32%	7.98%	8.95%	0.00%	0.00%	
Global Strategic Income/VA Fund	452,843	2.16%	21,621.26	4,493.07	340.16	-	16.86	18.29	18.29	-	0.90%	0.22%	0.32%	5.09%	6.04%	6.04%	0.00%	
Main Street Small Cap/VA Fund	74,790	0.61%	1,827.75	139.30	-	-	37.79	41.00	-	-	0.90%	0.22%	0.32%	12.90%	13.91%	0.00%	0.00%	
Sentinel Variable Products Trust (3)																		
Balanced Fund	-	0.00%	-	-	-	-	-	-	-	-	0.90%	0.22%	0.32%	-100.00%	-100.00%	-100.00%	-100.00%	
Bond Fund	-	0.00%	-	-	-	-	-	-	-	-	0.90%	0.22%	0.32%	-100.00%	-100.00%	-100.00%	-100.00%	
Common Stock Fund	-	0.02%	-	-	-	-	-	-	-	-	0.90%	0.22%	0.32%	-100.00%	-100.00%	-100.00%	-100.00%	
Small Company Fund	-	0.08%	-	-	-	-	-	-	-	-	0.90%	0.22%	0.32%	-100.00%	-100.00%	-100.00%	-100.00%	
Touchstone Variable Series Trust (3)																		
Balanced Fund	5,157,618	0.00%	128,733.19	3,567.76	11,595.18	1,812.75	35.95	25.18	30.58	46.82	0.90%	0.22%	0.32%	100.00%	100.00%	100.00%	100.00%	
Bond Fund	5,979,290	0.00%	217,875.75	7,913.53	28,934.06	17.81	23.61	14.93	24.76	24.54	0.90%	0.22%	0.32%	100.00%	100.00%	100.00%	100.00%	
Common Stock Fund	33,485,955	0.00%	548,803.95	11,123.39	31,752.39	71,269.02	53.11	34.61	39.86	37.68	0.90%	0.22%	0.32%	100.00%	100.00%	100.00%	100.00%	
Small Company Fund	27,379,451	0.00%	241,320.59	8,910.94	30,813.86	18,696.06	97.90	38.24	76.74	56.09	0.90%	0.22%	0.32%	100.00%	100.00%	100.00%	100.00%	
T Rowe Price Equity Series																		
Blue Chip Growth Portfolio	2,018,712	0.00%	52,453.29	3,254.32	4,071.11	-	32.72	46.64	36.99	-	0.90%	0.22%	0.32%	34.62%	35.82%	35.82%	0.00%	
Equity Income Portfolio	4,855,109	1.51%	166,312.85	6,054.18	26,482.81	-	23.82	29.72	26.93	-	0.90%	0.22%	0.32%	14.70%	15.73%	15.73%	0.00%	
Health Sciences Portfolio	2,205,668	0.00%	39,338.54	767.14	1,702.68	-	52.33	60.22	59.15	-	0.90%	0.22%	0.32%	26.17%	27.31%	27.31%	0.00%	
Personal Strategy Balanced Portfolio	1,927,485	1.43%	75,799.90	-	-	-	25.43	-	-	-	0.90%	0.22%	0.32%	16.37%	0.00%	0.00%	0.00%	
Van Eck VIP Trust																		
Emerging Markets Fund	1,819,292	0.44%	34,131.10	9,853.08	4,427.93	-	36.66	39.77	39.77	-	0.90%	0.22%	0.32%	49.69%	51.03%	51.03%	0.00%	
Global Hard Assets Fund	1,512,384	0.00%	96,054.05	7,135.20	7,164.87	-	13.56	14.71	14.71	-	0.90%	0.22%	0.32%	-2.57%	-1.70%	-1.70%	0.00%	
Unconstrained Emerging Markets Bond Fund	1,137,203	2.19%	77,383.12	5,073.55	9,878.80	-	12.15	13.18	13.18	-	0.90%	0.22%	0.32%	11.25%	12.24%	12.24%	0.00%	
Wells Fargo Variable Trust																		
Discovery Fund	7,459,816	0.00%	169,852.55	-	10,091.66	1,066.10	40.57	-	49.41	65.28	0.90%	0.22%	0.32%	27.98%	0.00%	29.13%	28.97%	
Opportunity Fund	5,399,216	0.66%	74,860.20	-	17,906.13	14,284.35	42.08	-	46.05	99.72	0.90%	0.22%	0.32%	19.37%	0.00%	20.44%	20.29%	

(3) On October 27, 2017 the Sentinel Funds transferred substantially all of its assets and substantially all of its liabilities into the Touchstone Funds.

* These amounts represent dividends, excluding distributions of capital gains, received by the sub-account from the underlying mutual fund, net of management fees assessed by the fund manager, divided by the average net assets for the period indicated. These ratios exclude those expenses, such as mortality and expense charges, that are assessed against contract owner accounts either through reductions in unit values or the redemption of units. The recognition of investment income by the sub-account is affected by the timing of the declaration of dividends by the underlying fund in which the sub-account invests.

** These amounts represent the annualized contract expenses of the separate account, consisting primarily of mortality and expense charges and separate account administrative charges, for each period indicated. The ratios include only those expenses that result in a direct reduction to unit values. Charges made directly to contract owner accounts through the redemption of units and expenses of the underlying fund have been excluded.

*** These amounts represent the total return for the periods indicated, including changes in the value of the underlying fund, and expenses assessed through the reduction of unit value. These ratios do not include any expenses assessed through the redemption of units.

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
(A Separate Account of National Life Insurance Company)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 - FINANCIAL HIGHLIGHTS

A summary of units outstanding and unit values for the Variable Account, the investment income ratios, the expense ratios, excluding expenses of the underlying funds, and total return for the years ended 2016, 2015, 2014, 2013, and 2012 are shown below. Information for the years 2016, 2015, 2014, 2013, and 2012 reflect the adoption of AICPA Statement of Position 03-5, "Financial Highlights of Separate Accounts." Certain ratios presented for the prior years reflect the presentation used in the current year.

	At December 31, 2016	For the Year Ended December 31, 2016	At December 31, 2016								For the Year Ended December 31, 2016			For the Year Ended December 31, 2016			
			Units				Units Value				Expense Ratio**			Total Return***			
	Net Assets	Investment Income Ratio*	VT	V2	EP	BP	VT	V2	EP	BP	VT	BP	EP	VT	V2	EP	BP
VT = VariTrak Product V2 = Investor Select Product EP = Estate Provider Product BP = Benefit Provider Product																	
Alger Portfolios																	
Capital Appreciation Portfolio	2,419,616	0.19%	83,439.72	1,540.54	9,362.88	15,445.68	23.45	34.37	27.09	10.12	0.90%	0.22%	0.32%	-0.38%	0.50%	0.51%	0.34%
Large Cap Growth Portfolio	14,168,146	0.00%	375,451.52	8,591.69	35,752.27	6,170.27	33.69	28.00	17.88	103.41	0.90%	0.22%	0.32%	-1.71%	-0.81%	-0.85%	-0.95%
Small Cap Growth Portfolio	7,221,746	0.00%	295,911.77	255.51	161.54	2,695.27	23.53	28.78	22.91	91.85	0.90%	0.22%	0.32%	5.28%	6.24%	6.26%	6.17%
Alliance Bernstein Variable Products																	
International Growth Fund	165,609	0.00%	6,064.47	2,624.15	1,591.72	-	15.63	16.80	16.80	-	0.90%	0.22%	0.32%	-7.69%	-6.86%	-6.86%	0.00%
International Value Fund	2,474,269	1.32%	133,423.13	14,738.85	14,715.96	-	14.99	16.11	16.11	-	0.90%	0.22%	0.32%	-1.40%	-0.53%	-0.53%	0.00%
Small/Mid Cap Value Fund	1,708,152	0.60%	40,115.09	2,356.13	5,302.96	-	35.33	37.99	37.99	-	0.90%	0.22%	0.32%	23.96%	25.08%	25.08%	0.00%
Value Fund	35,234	1.40%	1,260.87	257.31	-	-	22.92	24.64	-	-	0.90%	0.22%	0.32%	10.54%	11.54%	0.00%	0.00%
American Century Variable Portfolios																	
Income & Growth Portfolio	3,239,479	2.37%	132,759.96	-	8,037.42	4,793.37	22.27	-	26.01	15.50	0.90%	0.22%	0.32%	12.46%	0.00%	13.48%	13.32%
Inflation Protection Portfolio	1,175,614	2.12%	60,884.28	1,719.23	9,991.96	63,372.15	14.55	14.38	16.30	1.61	0.90%	0.22%	0.32%	3.79%	4.71%	4.69%	3.96%
International Portfolio	3,878,226	1.03%	199,847.92	7,249.64	21,754.67	-	16.69	18.80	18.70	-	0.90%	0.22%	0.32%	-6.35%	-5.48%	-5.48%	0.00%
Ultra Portfolio	146,354	0.33%	5,486.95	-	1,507.12	-	20.40	-	22.85	-	0.90%	0.22%	0.32%	3.54%	0.00%	4.43%	0.00%
Value Portfolio	7,348,593	1.71%	184,804.86	1,316.08	11,288.47	12,667.61	35.50	27.43	37.60	25.84	0.90%	0.22%	0.32%	19.41%	20.48%	20.48%	20.38%
Deutsche Investment VIT Funds																	
Equity 500 Index Fund	752,277	1.99%	-	-	-	25,239.99	-	-	-	29.80	0.90%	0.22%	0.32%	0.00%	0.00%	0.00%	11.46%
Small Cap Index Fund	1,038,856	0.97%	18,540.19	1,182.09	-	12,421.10	29.35	31.56	-	36.82	0.90%	0.22%	0.32%	19.96%	21.02%	0.00%	20.87%
Deutsche Variable Series II																	
Large Cap Value VIP Portfolio	261,874	0.72%	19,560.47	-	168.26	-	13.26	-	14.86	-	0.90%	0.22%	0.32%	-5.49%	0.00%	-4.65%	0.00%
Small Mid Cap Value VIP Portfolio	2,135,910	0.23%	67,797.02	2,616.73	7,099.70	-	27.18	29.54	30.45	-	0.90%	0.22%	0.32%	15.45%	16.48%	16.47%	0.00%
Dreyfus Variable Investment Funds																	
Appreciation Portfolio	579,785	1.63%	26,071.22	-	2,621.90	-	19.99	-	22.39	-	0.90%	0.22%	0.32%	6.94%	0.00%	7.91%	0.00%
Opportunistic Small Cap Portfolio	164,744	0.00%	9,293.66	-	-	-	17.73	-	-	-	0.90%	0.22%	0.32%	16.01%	0.00%	0.00%	0.00%
Quality Bond Portfolio	344,323	1.75%	22,380.25	-	1,047.91	-	14.62	-	16.38	-	0.90%	0.22%	0.32%	0.61%	0.00%	1.53%	0.00%
Socially Responsible Growth Fund	264,504	1.23%	18,054.70	-	247.32	-	14.42	-	16.66	-	0.90%	0.22%	0.32%	9.42%	0.00%	10.40%	0.00%

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
(A Separate Account of National Life Insurance Company)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 - FINANCIAL HIGHLIGHTS (continued)

	At December 31, 2016	For the Year Ended December 31, 2016	At December 31, 2016								For the Year Ended December 31, 2016			For the Year Ended December 31, 2016			
			Units				Units Value				Expense Ratio**			Total Return***			
			VT	V2	EP	BP	VT	V2	EP	BP	VT	BP	EP	VT	V2	EP	BP
VT = VariTrak Product V2 = Investor Select Product EP = Estate Provider Product BP = Benefit Provider Product	Net Assets	Investment Income Ratio*															
Fidelity Variable Insurance Product Funds																	
VIPF Equity Income Portfolio	9,837,378	2.24%	124,394.02	431.22	4,478.37	-	78.09	28.54	24.85	-	0.90%	0.22%	0.32%	16.97%	18.03%	18.00%	0.00%
VIPF Growth Portfolio	15,366,287	0.04%	178,574.60	510.26	45,721.82	-	79.18	29.93	26.51	-	0.90%	0.22%	0.32%	-0.09%	0.81%	0.80%	0.00%
VIPF High Income Portfolio	4,631,961	5.19%	86,194.74	1,515.37	14,204.72	-	50.10	23.71	19.56	-	0.90%	0.22%	0.32%	13.58%	14.62%	14.58%	0.00%
VIPF Overseas Portfolio	8,528,437	1.46%	233,658.25	13,623.91	22,522.53	90,132.78	32.71	18.03	16.06	3.09	0.90%	0.22%	0.32%	-5.91%	-5.06%	-5.08%	-5.09%
VIPF II Contrafund Portfolio	13,109,024	0.80%	247,366.03	5,773.77	33,999.92	-	46.87	29.31	39.59	-	0.90%	0.22%	0.32%	7.05%	8.02%	8.00%	0.00%
VIPF II Index 500 Portfolio	46,108,286	1.44%	584,836.56	51,386.66	259,668.28	-	63.91	29.65	27.75	-	0.90%	0.22%	0.32%	10.86%	11.84%	11.86%	0.00%
VIPF III Mid Cap Portfolio	4,097,422	0.50%	117,564.87	4,424.96	10,485.21	-	30.62	31.03	34.31	-	0.90%	0.22%	0.32%	11.24%	12.25%	12.23%	0.00%
VIPF III Value Strategies Portfolio	212,277	1.15%	5,209.49	980.61	-	-	33.89	36.44	-	-	0.90%	0.22%	0.32%	8.65%	9.62%	0.00%	0.00%
VIPF V Investment Grade Bond Portfolio	5,760,477	2.33%	267,392.93	3,047.82	21,464.17	41,116.45	19.18	15.88	22.15	2.64	0.90%	0.22%	0.32%	3.83%	4.77%	4.73%	4.47%
VIPF V Money Market	9,120,804	0.11%	481,051.94	4,225.67	84,040.73	1,194,102.70	13.14	10.03	14.18	1.31	0.90%	0.22%	0.32%	-0.78%	0.15%	0.09%	0.19%
Franklin Templeton Variable Insurance Products Trust																	
Foreign Securities Fund	1,729,945	1.94%	93,172.37	1,137.78	9,548.77	-	16.46	18.14	18.44	-	0.90%	0.22%	0.32%	6.24%	7.18%	7.19%	0.00%
Global Real Estate Fund	991,412	1.19%	62,471.81	-	504.20	-	15.73	-	17.62	-	0.90%	0.22%	0.32%	-0.33%	0.00%	0.57%	0.00%
Mutual Global Discovery Securities Fund	395,643	1.86%	17,848.65	626.26	166.96	-	21.16	22.75	22.75	-	0.90%	0.22%	0.32%	11.40%	12.44%	12.44%	0.00%
Mutual Shares Securities Fund	813,318	1.97%	33,622.37	1,514.81	4,261.62	-	20.22	24.50	22.65	-	0.90%	0.22%	0.32%	14.99%	16.05%	16.08%	0.00%
Small Cap Value Securities Fund	750,007	0.78%	21,610.07	884.95	3,649.28	-	28.05	32.98	31.42	-	0.90%	0.22%	0.32%	29.02%	30.17%	30.17%	0.00%
Small Mid Cap Growth Securities Fund	244,085	0.00%	8,853.97	1,351.30	827.73	-	20.92	29.20	23.44	-	0.90%	0.22%	0.32%	3.26%	4.19%	4.16%	0.00%
US Government Securities Fund	413,291	2.65%	32,404.40	1,821.34	1,247.37	-	11.58	12.45	12.45	-	0.90%	0.22%	0.32%	-0.04%	0.86%	0.86%	0.00%
Invesco Variable Insurance Funds																	
Global Health Care Fund	2,354,681	0.00%	111,977.45	-	4,944.37	10,437.98	19.62	-	22.67	4.32	0.90%	0.22%	0.32%	-12.23%	0.00%	-11.45%	-11.64%
Mid Cap Growth Fund	835,705	0.00%	57,975.60	-	142.11	319.50	14.30	-	14.91	14.83	0.90%	0.22%	0.32%	-0.16%	0.00%	0.74%	0.58%
Technology Fund	1,650,923	0.00%	206,207.60	-	5,544.76	9,165.25	7.66	-	8.85	2.41	0.90%	0.22%	0.32%	-1.65%	0.00%	-0.78%	-0.99%
JP Morgan Insurance Trust																	
Small Cap Core Portfolio	1,480,383	0.51%	36,089.53	-	8,998.21	255.80	32.69	-	32.15	43.73	0.90%	0.22%	0.32%	19.15%	0.00%	20.23%	20.08%
Morgan Stanley Investment Funds																	
Core Plus Fixed Income Portfolio	2,656,423	1.83%	-	-	-	1,219,746.12	-	-	-	2.18	0.90%	0.22%	0.32%	0.00%	0.00%	0.00%	6.24%
Emerging Markets Equity Portfolio	349,931	0.52%	-	-	-	138,269.50	-	-	-	2.53	0.90%	0.22%	0.32%	0.00%	0.00%	0.00%	6.78%
US Real Estate Portfolio	84,803	1.35%	-	-	-	14,846.15	-	-	-	5.71	0.90%	0.22%	0.32%	0.00%	0.00%	0.00%	6.77%

NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
(A Separate Account of National Life Insurance Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 - FINANCIAL HIGHLIGHTS (continued)

	At December 31, 2016	For the Year Ended December 31, 2016	At December 31, 2016				For the Year Ended December 31, 2016			For the Year Ended December 31, 2016							
			Units		Units Value		Expense Ratio**			Total Return***							
	Net Assets	Investment Income Ratio*	VT	V2	EP	BP	VT	V2	EP	BP	VT	BP	EP	VT	V2	EP	BP
VT = VariTrak Product V2 = Investor Select Product EP = Estate Provider Product BP = Benefit Provider Product																	
Neuberger Berman Advisors Management Trust																	
Large Cap Value Portfolio	1,948,942	0.77%	63,500.13	147.87	12,537.67	3,426.95	23.18	31.34	24.89	46.84	0.90%	0.22%	0.32%	26.24%	27.34%	27.36%	27.21%
Mid Cap Growth Portfolio	412,693	0.00%	13,592.05	1,393.96	101.15	-	27.18	28.80	30.45	-	0.90%	0.22%	0.32%	3.47%	4.39%	4.40%	0.00%
Mid Cap Growth Class S Portfolio	515,329	0.00%	39,358.29	-	12,583.58	-	9.90	-	10.00	-	0.90%	0.22%	0.32%	3.19%	0.00%	4.16%	0.00%
Short Duration Bond Portfolio	2,463,392	1.21%	187,232.66	7,015.51	24,087.29	-	11.07	13.24	12.40	-	0.90%	0.22%	0.32%	0.32%	1.18%	1.20%	0.00%
Socially Responsive Portfolio	14,021	0.81%	355.01	157.44	-	-	26.74	28.75	-	-	0.90%	0.22%	0.32%	8.89%	9.87%	0.00%	0.00%
Oppenheimer Variable Account Funds																	
Conservative Balanced/VA Fund	102,096	2.08%	5,367.04	118.33	-	-	18.58	19.98	-	-	0.90%	0.22%	0.32%	4.04%	4.93%	0.00%	0.00%
Global Strategic Income/VA Fund	502,956	4.53%	26,760.24	3,944.64	330.78	-	16.04	17.25	17.25	-	0.90%	0.22%	0.32%	5.32%	6.26%	6.26%	0.00%
Main Street Small Cap/VA Fund	68,425	0.26%	1,885.53	147.37	-	-	33.48	35.99	-	-	0.90%	0.22%	0.32%	16.60%	17.66%	0.00%	0.00%
Sentinel Variable Products Trust																	
Balanced Fund	4,588,330	1.39%	128,109.53	2,154.19	14,621.28	1,806.26	31.81	22.08	26.81	41.10	0.90%	0.22%	0.32%	6.48%	7.43%	7.41%	7.28%
Bond Fund	5,770,553	2.02%	215,438.38	8,031.08	29,466.92	21.92	22.98	14.40	23.88	23.70	0.90%	0.22%	0.32%	-0.09%	0.78%	0.82%	0.50%
Common Stock Fund	30,101,973	1.63%	598,435.34	11,005.53	33,826.18	73,522.12	44.11	28.49	32.81	31.05	0.90%	0.22%	0.32%	10.27%	11.24%	11.24%	11.14%
Mid Cap Growth Fund (1)	-	0.61%	-	-	-	-	-	-	-	-	0.90%	0.22%	0.32%	-100.00%	-100.00%	-100.00%	-100.00%
Small Company Fund	25,872,840	0.07%	272,436.07	8,972.08	32,846.77	18,616.58	82.92	32.10	64.43	47.15	0.90%	0.22%	0.32%	19.16%	20.23%	20.22%	20.09%
T Rowe Price Equity Series																	
Blue Chip Growth Portfolio	1,483,124	0.00%	53,609.80	1,978.85	4,115.92	-	24.31	34.33	27.23	-	0.90%	0.22%	0.32%	-0.38%	0.54%	0.52%	0.00%
Equity Income Portfolio	4,583,801	2.00%	179,683.12	6,207.02	29,759.82	-	20.77	25.68	23.27	-	0.90%	0.22%	0.32%	17.81%	18.84%	18.83%	0.00%
Health Sciences Portfolio	3,463,294	0.00%	80,104.14	864.05	2,149.73	-	41.48	47.30	46.47	-	0.90%	0.22%	0.32%	-11.50%	-10.72%	-10.71%	0.00%
Personal Strategy Balanced Portfolio	304,196	1.66%	13,920.66	-	-	-	21.85	-	-	-	0.90%	0.22%	0.32%	5.52%	0.00%	0.00%	0.00%
Van Eck VIP Trust																	
Emerging Markets Fund	1,554,896	0.45%	46,987.12	9,714.05	5,631.74	-	24.49	26.33	26.33	-	0.90%	0.22%	0.32%	-0.80%	0.09%	0.09%	0.00%
Global Hard Assets Fund	1,406,835	0.39%	87,979.01	6,452.65	5,761.39	-	13.91	14.96	14.96	-	0.90%	0.22%	0.32%	42.41%	43.72%	43.72%	0.00%
Unconstrained Emerging Markets Bond Fund	1,036,021	0.00%	79,136.68	5,114.89	9,514.46	-	10.92	11.74	11.74	-	0.90%	0.22%	0.32%	5.52%	6.46%	6.46%	0.00%
Wells Fargo Variable Trust																	
Discovery Fund	6,439,850	0.00%	186,921.30	-	11,997.80	1,082.53	31.70	-	38.26	50.62	0.90%	0.22%	0.32%	6.67%	0.00%	7.66%	7.76%
Opportunity Fund	4,670,316	2.00%	77,207.35	-	17,928.32	15,235.61	35.25	-	38.24	82.90	0.90%	0.22%	0.32%	11.24%	0.00%	12.23%	12.10%

(1) During 2016, the Sentinel Mid Cap Growth Fund was liquidated.

* These amounts represent dividends, excluding distributions of capital gains, received by the sub-account from the underlying mutual fund, net of management fees assessed by the fund manager, divided by the average net assets for the period indicated. These ratios exclude those expenses, such as mortality and expense charges, that are assessed against contract owner accounts either through reductions in unit values or the redemption of units. The recognition of investment income by the sub-account is affected by the timing of the declaration of dividends by the underlying fund in which the sub-account invests.

** These amounts represent the annualized contract expenses of the separate account, consisting primarily of mortality and expense charges and separate account administrative charges, for each period indicated. The ratios include only those expenses that result in a direct reduction to unit values. Charges made directly to contract owner accounts through the redemption of units and expenses of the underlying fund have been excluded.

*** These amounts represent the total return for the periods indicated, including changes in the value of the underlying fund, and expenses assessed through the reduction of unit values. These ratios do not include any expenses assessed through the redemption of units.

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
(A Separate Account of National Life Insurance Company)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 - FINANCIAL HIGHLIGHTS

A summary of units outstanding and unit values for the Variable Account, the investment income ratios, the expense ratios, excluding expenses of the underlying funds, and total return for the year ended 2015. Information for the year 2015 reflects the adoption of AICPA Statement of Position 03-5, "Financial Highlights of Separate Accounts." Certain ratios presented for the prior years reflect the presentation used in the current year.

	At December 31, 2015	For the Year Ended December 31, 2015	At December 31, 2015								For the Year Ended December 31, 2015			For the Year Ended December 31, 2015			
			Units				Units Value				Expense Ratio**			Total Return***			
	Net Assets	Investment Income Ratio*	VT	V2	EP	BP	VT	V2	EP	BP	VT	BP	EP	VT	V2	EP	BP
VT = VariTrak Product V2 = Investor Select Product EP = Estate Provider Product BP = Benefit Provider Product																	
Alger Portfolios																	
Capital Appreciation Portfolio	2,561,485	0.08%	89,092.07	1,442.66	9,574.72	15,529.88	23.54	34.20	26.95	10.09	0.90%	0.22%	0.32%	5.24%	6.20%	6.19%	6.06%
Large Cap Growth Portfolio	14,975,873	0.00%	392,393.09	6,188.37	33,942.71	7,066.39	34.28	28.23	18.03	104.40	0.90%	0.22%	0.32%	0.80%	1.71%	1.73%	1.77%
Small Cap Growth Portfolio	7,314,893	0.00%	314,074.47	247.85	170.99	3,298.77	22.35	27.09	21.56	86.51	0.90%	0.22%	0.32%	-4.17%	-3.32%	-3.30%	-3.12%
Alliance Bernstein Variable Products																	
International Growth Fund	164,606	0.23%	5,325.58	2,722.33	1,403.03	-	16.93	18.04	18.04	-	0.90%	0.22%	0.32%	-2.75%	-1.89%	-1.89%	0.00%
International Value Fund	2,444,778	2.50%	133,262.13	12,174.62	13,725.04	-	15.20	16.20	16.20	-	0.90%	0.22%	0.32%	1.66%	2.57%	2.57%	0.00%
Small/Mid Cap Value Fund	1,566,426	0.80%	46,699.71	2,305.98	5,453.14	-	28.50	30.37	30.37	-	0.90%	0.22%	0.32%	-6.32%	-5.49%	-5.49%	0.00%
Value Fund	74,530	2.47%	3,244.62	329.34	-	-	20.73	22.09	-	-	0.90%	0.22%	0.32%	-7.79%	-6.96%	0.00%	0.00%
American Century Variable Portfolios																	
Income & Growth Portfolio	3,277,772	2.16%	148,713.75	-	10,035.95	7,573.06	19.80	-	22.92	13.68	0.90%	0.22%	0.32%	-6.48%	0.00%	-5.60%	-5.75%
Inflation Protection Portfolio	1,232,276	2.30%	68,744.77	1,697.82	9,980.75	58,013.30	14.02	13.73	15.57	1.55	0.90%	0.22%	0.32%	-3.16%	-2.27%	-2.27%	-2.80%
International Portfolio	4,046,815	0.39%	196,575.39	6,230.76	21,237.19	-	17.82	19.89	19.78	-	0.90%	0.22%	0.32%	-0.12%	0.78%	0.78%	0.00%
Ultra Portfolio	139,752	0.41%	5,375.28	-	1,546.60	-	19.70	-	21.88	-	0.90%	0.22%	0.32%	5.32%	0.00%	6.25%	0.00%
Value Portfolio	6,806,946	2.18%	202,609.23	1,041.49	11,877.31	18,109.81	29.73	22.77	31.21	21.47	0.90%	0.22%	0.32%	-4.74%	-3.88%	-3.88%	-3.95%
Deutsche Investment VIT Funds																	
Equity 500 Index Fund	667,719	1.88%	-	-	-	24,974.95	-	-	-	26.74	0.90%	0.22%	0.32%	0.00%	0.00%	0.00%	1.00%
Small Cap Index Fund	766,454	1.06%	14,407.12	1,108.28	-	12,639.71	24.47	26.08	26.08	30.46	0.90%	0.22%	0.32%	-5.44%	-4.58%	-4.58%	-4.70%
Deutsche Variable Series II																	
Large Cap Value VIP Portfolio	300,252	1.12%	21,234.93	-	152.44	-	14.03	-	15.58	-	0.90%	0.22%	0.32%	-8.01%	0.00%	-7.18%	0.00%
Small Mid Cap Value VIP Portfolio	2,029,947	0.00%	75,048.67	2,954.60	7,197.20	-	23.54	25.36	26.14	-	0.90%	0.22%	0.32%	-3.07%	-2.23%	-2.21%	0.00%
Dreyfus Variable Investment Funds																	
Appreciation Portfolio	554,331	1.75%	26,435.20	-	2,904.60	-	18.69	-	20.75	-	0.90%	0.22%	0.32%	-3.31%	0.00%	-2.49%	0.00%
Opportunistic Small Cap Portfolio	143,318	0.00%	9,380.69	-	-	-	15.28	-	16.96	-	0.90%	0.22%	0.32%	-3.12%	0.00%	0.00%	0.00%
Quality Bond Portfolio	353,037	2.07%	23,132.21	-	1,050.57	-	14.53	-	16.13	-	0.90%	0.22%	0.32%	-2.55%	0.00%	-1.64%	0.00%
Socially Responsible Growth Fund	230,320	1.14%	17,185.84	-	247.86	-	13.18	-	15.09	-	0.90%	0.22%	0.32%	-4.05%	0.00%	-3.18%	-100.00%

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
(A Separate Account of National Life Insurance Company)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 - FINANCIAL HIGHLIGHTS (continued)

	At December 31, 2015	For the Year Ended December 31, 2015	At December 31, 2015								For the Year Ended December 31, 2015			For the Year Ended December 31, 2015			
			Units				Units Value				Expense Ratio**			Total Return***			
			VT	V2	EP	BP	VT	V2	EP	BP	VT	BP	EP	VT	V2	EP	BP
VT = VariTrak Product V2 = Investor Select Product EP = Estate Provider Product BP = Benefit Provider Product	Net Assets	Investment Income Ratio*															
Fidelity Variable Insurance Product Funds																	
VIPF Equity Income Portfolio	9,406,315	3.20%	138,272.96	508.52	7,721.16	-	66.76	24.18	21.06	-	0.90%	0.22%	0.32%	-4.82%	-3.96%	-3.98%	0.00%
VIPF Growth Portfolio	16,307,572	0.26%	190,135.50	439.41	46,595.25	-	79.25	29.69	26.30	-	0.90%	0.22%	0.32%	6.22%	7.16%	7.17%	0.00%
VIPF High Income Portfolio	4,575,134	6.56%	96,377.55	1,565.15	17,106.80	-	44.11	20.69	17.07	-	0.90%	0.22%	0.32%	-4.49%	-3.63%	-3.64%	0.00%
VIPF Overseas Portfolio	9,208,450	1.35%	238,426.06	11,698.39	22,025.25	99,876.00	34.76	18.99	16.92	3.26	0.90%	0.22%	0.32%	2.69%	3.60%	3.60%	3.55%
VIPF II Contrafund Portfolio	13,321,536	1.05%	271,382.21	5,252.98	35,368.15	-	43.78	27.13	36.66	-	0.90%	0.22%	0.32%	-0.22%	0.69%	0.68%	0.00%
VIPF II Index 500 Portfolio	44,195,621	2.03%	626,342.88	48,683.64	273,934.54	-	57.65	26.51	24.81	-	0.90%	0.22%	0.32%	0.44%	1.32%	1.34%	0.00%
VIPF III Mid Cap Portfolio	3,799,609	0.50%	122,534.33	3,795.08	10,503.25	-	27.53	27.64	30.57	-	0.90%	0.22%	0.32%	-2.26%	-1.38%	-1.39%	0.00%
VIPF III Value Strategies Portfolio	192,093	1.19%	5,405.99	705.99	-	-	31.19	33.24	-	-	0.90%	0.22%	0.32%	-3.85%	-2.98%	0.00%	0.00%
VIPF V Investment Grade Bond Portfolio	5,891,951	2.54%	281,870.93	3,163.22	24,165.59	49,707.99	18.47	15.16	21.15	2.53	0.90%	0.22%	0.32%	-1.47%	-0.63%	-0.62%	-0.53%
VIPF V Money Market	9,633,731	0.01%	523,591.49	2,349.37	85,559.64	1,116,267.16	13.24	10.01	14.17	1.31	0.90%	0.22%	0.32%	-0.89%	0.05%	-0.01%	0.20%
Franklin Templeton Variable Insurance Products Trust																	
Foreign Securities Fund	1,753,763	3.30%	101,546.28	1,134.12	9,379.55	-	15.49	16.92	17.20	-	0.90%	0.22%	0.32%	-7.34%	-6.51%	-6.51%	0.00%
Global Real Estate Fund	1,074,839	3.23%	67,287.08	-	730.62	-	15.78	-	17.52	-	0.90%	0.22%	0.32%	-0.36%	0.00%	0.54%	0.00%
Mutual Global Discovery Securities Fund	384,673	3.09%	19,535.68	521.13	160.36	-	18.99	20.23	20.23	-	0.90%	0.22%	0.32%	-4.26%	-3.39%	-3.39%	0.00%
Mutual Shares Securities Fund	835,616	3.22%	40,833.90	1,521.48	4,398.73	-	17.58	21.11	19.51	-	0.90%	0.22%	0.32%	-5.76%	-4.92%	-4.95%	0.00%
Small Cap Value Securities Fund	603,742	0.64%	23,094.53	477.34	3,711.84	-	21.74	25.34	24.14	-	0.90%	0.22%	0.32%	-8.20%	-7.40%	-7.38%	0.00%
Small Mid Cap Growth Securities Fund	295,155	0.00%	12,191.42	1,062.76	814.52	-	20.26	28.03	22.50	-	0.90%	0.22%	0.32%	-3.51%	-2.66%	-2.65%	0.00%
US Government Securities Fund	891,079	2.58%	73,681.48	1,919.38	1,174.80	-	11.58	12.34	12.34	-	0.90%	0.22%	0.32%	-0.21%	0.69%	0.69%	0.00%
Invesco Variable Insurance Funds																	
Global Health Care Fund	2,859,074	0.00%	120,256.44	-	4,773.49	9,703.67	22.36	-	25.60	4.89	0.90%	0.22%	0.32%	2.26%	0.00%	3.15%	3.08%
Mid Cap Growth Fund	910,587	0.00%	62,688.96	-	580.27	304.31	14.32	-	14.80	14.74	0.90%	0.22%	0.32%	0.33%	0.00%	1.21%	1.20%
Technology Fund	1,718,958	0.00%	211,920.49	-	5,364.02	8,429.92	7.79	-	8.92	2.43	0.90%	0.22%	0.32%	5.83%	0.00%	6.80%	6.46%
JP Morgan Insurance Trust																	
Small Cap Core Portfolio	1,315,548	0.14%	38,585.02	-	9,249.30	257.42	27.44	-	26.74	36.42	0.90%	0.22%	0.32%	0.00%	0.00%	0.00%	0.00%
Morgan Stanley Investment Funds																	
Core Plus Fixed Income Portfolio	2,595,980	3.34%	-	-	-	1,263,320.51	-	-	-	2.05	0.90%	0.22%	0.32%	0.00%	0.00%	0.00%	-0.73%
Emerging Markets Equity Portfolio	374,114	0.82%	-	-	-	157,638.72	-	-	-	2.37	0.90%	0.22%	0.32%	0.00%	0.00%	0.00%	-10.78%
US Real Estate Portfolio	110,798	1.37%	-	-	-	20,693.29	-	-	-	5.35	0.90%	0.22%	0.32%	0.00%	0.00%	0.00%	1.99%

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
(A Separate Account of National Life Insurance Company)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 - FINANCIAL HIGHLIGHTS (continued)

	At December 31, 2015	For the Year Ended December 31, 2015	At December 31, 2015								For the Year Ended December 31, 2015			For the Year Ended December 31, 2015			
			Units				Units Value				Expense Ratio**			Total Return***			
			VT	V2	EP	BP	VT	V2	EP	BP	VT	BP	EP	VT	V2	EP	BP
VT = VariTrak Product V2 = Investor Select Product EP = Estate Provider Product BP = Benefit Provider Product	Net Assets	Investment Income Ratio*															
Neuberger Berman Advisors Management Trust																	
Large Cap Value Portfolio	1,928,043	0.80%	82,948.40	180.81	13,823.08	3,543.36	18.36	24.61	19.54	36.82	0.90%	0.22%	0.32%	-12.61%	-11.81%	-11.79%	-11.73%
Mid Cap Growth Portfolio	476,951	0.00%	16,153.79	1,802.47	96.83	-	26.27	27.59	29.17	-	0.90%	0.22%	0.32%	0.35%	1.28%	1.29%	0.00%
Mid Cap Growth Class S Portfolio (1)	525,290	0.00%	42,424.50	-	12,353.60	-	9.59	-	9.60	-	0.90%	0.22%	0.32%	0.00%	0.00%	0.00%	0.00%
Short Duration Bond Portfolio	2,753,292	1.46%	215,302.55	6,792.88	23,632.73	-	11.03	13.09	12.25	-	0.90%	0.22%	0.32%	-0.71%	0.19%	0.22%	0.00%
Small Cap Growth Portfolio (1)	-	0.00%	-	-	-	-	-	-	-	-	0.90%	0.22%	0.32%	-15.34%	0.00%	-15.16%	0.00%
Socially Responsive Portfolio	9,314	0.58%	217.15	152.12	-	-	24.56	26.17	26.17	-	0.90%	0.22%	0.32%	-1.36%	-0.45%	0.00%	0.00%
Oppenheimer Variable Account Funds																	
Conservative Balanced/VA Fund (2)	102,091	1.14%	5,627.17	82.60	-	-	17.86	19.04	-	-	0.90%	0.22%	0.32%	-0.32%	0.55%	0.00%	0.00%
Global Strategic Income/VA Fund	496,468	5.57%	28,319.41	3,696.20	319.42	-	15.23	16.23	16.23	-	0.90%	0.22%	0.32%	-3.36%	-2.47%	-2.47%	0.00%
Main Street Small Cap/VA Fund	81,020	0.70%	2,783.01	37.04	-	-	28.71	30.59	-	-	0.90%	0.22%	0.32%	-6.92%	-6.08%	0.00%	0.00%
Sentinel Variable Products Trust																	
Balanced Fund	4,374,635	1.80%	127,227.25	3,371.27	16,021.30	2,733.42	29.87	20.55	24.96	38.31	0.90%	0.22%	0.32%	-0.85%	0.01%	0.02%	0.09%
Bond Fund	6,156,239	3.13%	230,306.55	7,835.41	31,523.44	26.06	23.00	14.29	23.69	23.58	0.90%	0.22%	0.32%	-2.17%	-1.28%	-1.29%	-1.21%
Common Stock Fund	29,328,768	2.75%	650,203.95	8,350.60	34,903.34	74,331.06	40.00	25.61	29.49	27.94	0.90%	0.22%	0.32%	-0.69%	0.18%	0.19%	0.09%
Mid Cap Growth Fund	8,189,683	0.21%	210,971.91	313.23	22,357.93	26,176.63	33.08	26.26	24.70	24.81	0.90%	0.22%	0.32%	-2.12%	-1.22%	-1.23%	-1.36%
Small Company Fund	15,754,237	0.00%	202,775.52	6,934.63	25,433.52	2,410.95	69.59	26.70	53.59	39.26	0.90%	0.22%	0.32%	-2.22%	-1.33%	-1.33%	-1.45%
T Rowe Price Equity Series																	
Blue Chip Growth Portfolio	1,492,744	0.00%	53,823.55	2,006.10	4,105.77	-	24.40	34.15	27.09	-	0.90%	0.22%	0.32%	9.79%	10.81%	10.78%	0.00%
Equity Income Portfolio	4,351,810	1.63%	204,296.99	6,201.53	31,447.11	-	17.63	21.61	19.58	-	0.90%	0.22%	0.32%	-7.93%	-7.10%	-7.09%	0.00%
Health Sciences Portfolio	3,060,877	0.00%	62,087.06	850.65	2,028.35	-	46.87	52.98	52.04	-	0.90%	0.22%	0.32%	11.47%	12.48%	12.47%	0.00%
Personal Strategy Balanced Portfolio	307,777	1.76%	14,859.84	-	-	-	20.71	-	-	-	0.90%	0.22%	0.32%	-0.95%	0.00%	0.00%	0.00%
Van Eck VIP Trust																	
Emerging Markets Fund	1,575,233	0.50%	47,928.82	9,421.48	5,480.94	-	24.69	26.31	26.31	-	0.90%	0.22%	0.32%	-14.76%	-14.00%	-14.00%	0.00%
Global Hard Assets Fund	1,114,448	0.03%	100,608.51	6,165.12	6,477.97	-	9.77	10.41	10.41	-	0.90%	0.22%	0.32%	-34.04%	-33.44%	-33.44%	0.00%
Unconstrained Emerging Markets Bond Fund	1,030,848	6.34%	84,359.00	4,945.81	9,318.07	-	10.35	11.03	11.03	-	0.90%	0.22%	0.32%	-13.86%	-13.05%	-13.05%	0.00%
Wells Fargo Variable Trust																	
Discovery Fund	6,741,576	0.00%	207,952.37	-	13,362.39	1,852.52	29.72	-	35.54	46.97	0.90%	0.22%	0.32%	-2.34%	0.00%	-1.46%	-1.58%
Opportunity Fund	4,445,877	0.13%	83,969.30	-	18,408.07	15,649.50	31.69	-	34.07	73.95	0.90%	0.22%	0.32%	-3.96%	0.00%	-3.07%	-3.20%

(1) On November 6, 2015, the Neuberger Berman Advisors Management Trust Small Cap Growth Portfolio was merged into the Neuberger Berman Advisors Management Trust Mid Cap Growth Class S Portfolio. Total return has been calculated as of November 5, 2015.

(2) During 2015, the Oppenheimer Capital Income/VA Fund was renamed the Conservative Balanced/VA Fund.

* These amounts represent dividends, excluding distributions of capital gains, received by the sub-account from the underlying mutual fund, net of management fees assessed by the fund manager, divided by the average net assets for the period indicated. These ratios exclude those expenses, such as mortality and expense charges, that are assessed against contract owner accounts either through reductions in unit values or the redemption of units. The recognition of investment income by the sub-account is affected by the timing of the declaration of dividends by the underlying fund in which the sub-account invests.

** These amounts represent the annualized contract expenses of the separate account, consisting primarily of mortality and expense charges and separate account administrative charges, for each period indicated. The ratios include only those expenses that result in a direct reduction to unit values. Charges made directly to contract owner accounts through the redemption of units and expenses of the underlying fund have been excluded.

*** These amounts represent the total return for the periods indicated, including changes in the value of the underlying fund, and expenses assessed through the reduction of unit values. These ratios do not include any expenses assessed through the redemption of units.

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 - FINANCIAL HIGHLIGHTS

A summary of units outstanding and unit values for the Variable Account, the investment income ratios, the expense ratios, excluding expenses of the underlying funds, and total return for the year ended 2014. Information for the year 2014 reflects the adoption of AICPA Statement of Position 03-5, "Financial Highlights of Separate Accounts." Certain ratios presented for the prior years reflect the presentation used in the current year.

	At December 31, 2014	For the Year Ended December 31, 2014	At December 31, 2014								For the Year Ended December 31, 2014			For the Year Ended December 31, 2014			
			Units				Units Value				Expense Ratio**			Total Return***			
			VT	V2	EP	BP	VT	V2	EP	BP	VT	BP	EP	VT	V2	EP	BP
VT = VariTrak Product V2 = Investor Select Product EP = Estate Provider Product BP = Benefit Provider Product	Net Assets	Investment Income Ratio*															
Alger American Fund																	
Large Cap Growth Portfolio	16,401,806	0.15%	427,145.47	6,462.76	38,908.90	9,821.89	34.01	27.76	17.72	102.59	0.90%	0.22%	0.32%	10.00%	10.99%	10.99%	10.80%
Capital Appreciation Portfolio	2,560,745	0.09%	93,921.96	1,003.40	11,997.69	12,927.27	22.37	32.20	25.38	9.51	0.90%	0.22%	0.32%	12.74%	13.75%	13.75%	13.62%
Small Cap Growth Portfolio	8,341,446	0.00%	342,721.71	265.97	309.65	3,735.61	23.32	28.02	22.30	89.29	0.90%	0.22%	0.32%	-0.46%	0.44%	0.44%	0.23%
Alliance Bernstein Variable Products																	
Value Fund	63,546	1.87%	2,498.89	310.88	-	-	22.48	23.74	-	-	0.90%	0.22%	0.32%	10.11%	11.10%	-	-
Small/Mid Cap Growth Fund	1,861,014	0.70%	51,410.56	2,357.08	6,886.21	-	30.42	32.13	32.13	-	0.90%	0.22%	0.32%	8.22%	9.20%	9.20%	-
International Value Fund	2,491,462	3.66%	143,247.15	7,119.28	15,067.41	-	14.95	15.79	15.79	-	0.90%	0.22%	0.32%	-7.05%	-6.21%	-6.21%	-
International Growth Fund	258,197	0.00%	4,860.66	8,127.87	1,312.67	-	17.41	18.39	18.39	-	0.90%	0.22%	0.32%	-2.08%	-1.19%	-1.19%	-
American Century Variable Portfolios																	
Income & Growth Portfolio	3,442,051	2.02%	145,859.68	-	10,012.32	7,700.86	21.17	-	24.28	14.51	0.90%	0.22%	0.32%	11.50%	-	12.50%	12.37%
Inflation Protection Portfolio	1,277,791	1.48%	69,065.45	1,652.26	10,151.32	58,561.38	14.48	14.05	15.93	1.59	0.90%	0.22%	0.32%	2.65%	3.58%	3.58%	3.18%
International Portfolio	4,166,941	1.67%	205,976.68	6,157.98	18,842.58	-	17.84	19.74	19.63	-	0.90%	0.22%	0.32%	-6.35%	-5.51%	-5.51%	-
Ultra Portfolio	107,620	0.37%	3,923.12	-	1,662.48	-	18.71	-	20.59	-	0.90%	0.22%	0.32%	9.01%	-	9.99%	-
Value Portfolio	7,210,378	1.53%	204,384.13	927.77	15,057.85	14,336.31	31.21	23.69	32.47	22.35	0.90%	0.22%	0.32%	12.07%	13.08%	13.08%	12.91%
Dreyfus Variable Investment Funds																	
Appreciation Portfolio	607,665	1.83%	28,307.87	-	2,835.94	-	19.33	-	21.28	-	0.90%	0.22%	0.32%	7.13%	-	8.09%	-
Opportunistic Small Cap Portfolio	160,799	0.00%	10,193.52	-	-	-	15.77	-	-	-	0.90%	0.22%	0.32%	0.69%	-	(1.00)	-
Quality Bond Portfolio	395,106	2.12%	23,975.85	-	2,300.30	-	14.91	-	16.40	-	0.90%	0.22%	0.32%	3.86%	-	4.79%	-
Socially Responsible Growth Fund	289,134	1.05%	19,716.02	-	248.42	2,734.09	13.74	-	15.59	5.24	0.90%	0.22%	0.32%	12.44%	-	13.45%	13.31%
DWS Variable Series II																	
Small Mid Cap Value Portfolio (1)	2,200,080	0.45%	80,361.94	1,976.85	7,355.32	-	24.29	25.94	26.73	-	0.90%	0.22%	0.32%	4.16%	5.09%	5.09%	-
Large Cap Value Portfolio	315,903	1.41%	20,534.38	-	168.52	-	15.25	-	16.78	-	0.90%	0.22%	0.32%	9.37%	-	10.36%	-
DWS VIT Funds																	
Equity 500 Index Fund	1,603,256	1.79%	-	-	-	60,576.78	-	-	-	26.47	0.90%	0.22%	0.32%	-	-	-	13.25%
Small Cap Index Fund	1,156,354	0.94%	13,625.30	977.09	12,619.37	13,518.73	25.88	27.33	27.33	31.96	0.90%	0.22%	0.32%	3.81%	4.74%	4.74%	4.61%

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
(A Separate Account of National Life Insurance Company)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 - FINANCIAL HIGHLIGHTS (continued)

	At December 31, 2014	For the Year Ended December 31, 2014	At December 31, 2014								For the Year Ended December 31, 2014		For the Year Ended December 31, 2014			
			Units				Units Value				Expense Ratio**		Total Return***			
	Net Assets	Investment Income Ratio*	VT	V2	EP	BP	VT	V2	EP	BP	VT	BP	VT	V2	EP	BP
VT = VariTrak Product V2 = Investor Select Product EP = Estate Provider Product BP = Benefit Provider Product																
Fidelity Variable Insurance Product Funds																
Contrafund Portfolio	14,234,179	0.93%	289,279.85	5,006.52	38,565.85	-	43.88	26.95	36.41	-	0.90%	0.22%	10.95%	11.94%	11.94%	-
Equity Income Portfolio	10,358,069	2.77%	144,980.62	400.11	8,139.75	-	70.14	25.18	21.93	-	0.90%	0.22%	7.75%	8.72%	8.72%	-
Growth Portfolio	16,219,653	0.18%	200,260.57	431.86	51,566.38	-	74.61	27.71	24.54	-	0.90%	0.22%	10.31%	11.30%	11.30%	-
High Income Portfolio	4,987,897	5.78%	100,603.01	1,432.66	17,592.93	-	46.18	21.47	17.71	-	0.90%	0.22%	0.25%	1.16%	1.16%	-
Index 500 Portfolio	46,197,506	1.60%	663,278.61	31,847.53	297,759.39	-	57.40	26.16	24.48	-	0.90%	0.22%	12.56%	13.57%	13.57%	-
Investment Grade Bond Portfolio	6,457,474	2.20%	297,182.41	3,133.85	33,290.33	50,552.53	18.75	15.26	21.28	2.54	0.90%	0.22%	4.88%	5.83%	5.83%	5.70%
Mid Cap Portfolio	4,334,543	0.26%	137,958.05	3,835.24	10,986.80	-	28.17	28.03	31.00	-	0.90%	0.22%	5.34%	6.29%	6.29%	-
Money Market	11,535,100	0.01%	595,121.10	62,548.54	92,184.40	1,258,865.05	13.36	10.01	14.17	1.31	0.90%	0.22%	-0.88%	0.01%	0.01%	0.00%
Overseas Portfolio	9,403,948	1.38%	250,739.57	6,967.05	22,407.30	134,622.04	33.85	18.33	16.33	3.15	0.90%	0.22%	-8.90%	-8.08%	-8.08%	-8.22%
Value Strategies Portfolio	198,796	1.03%	5,491.52	602.33	-	-	32.44	34.26	-	-	0.90%	0.22%	5.84%	6.80%	-	-
Franklin Templeton Variable Insurance Products Trust (1)																
Templeton Foreign VIP Fund	1,831,874	1.89%	98,148.85	1,056.73	9,346.97	-	16.72	18.10	18.40	-	0.90%	0.22%	-11.92%	-11.13%	-11.13%	-
Mutual Shares VIP Fund	866,340	1.97%	39,789.50	1,505.01	4,417.56	-	18.65	22.20	20.53	-	0.90%	0.22%	6.17%	7.12%	7.12%	-
Global Real Estate VIP Fund	1,177,829	0.46%	73,336.76	-	948.97	-	15.84	-	17.43	-	0.90%	0.22%	13.98%	-	15.01%	-
Mutual Global Discovery VIP Fund	394,146	2.32%	19,204.29	450.34	187.20	-	19.83	20.94	20.94	-	0.90%	0.22%	5.03%	5.98%	5.98%	-
Small Mid Cap Growth VIP Fund	291,686	0.00%	12,562.49	328.71	794.45	-	21.00	28.80	23.11	-	0.90%	0.22%	6.51%	7.47%	7.47%	-
Small Cap Value VIP Fund	686,404	0.63%	24,240.09	416.02	3,872.08	-	23.68	27.36	26.06	-	0.90%	0.22%	-0.33%	0.57%	0.57%	-
US Government Securities VIP Fund	870,100	2.74%	71,814.56	1,900.86	1,138.38	-	11.60	12.25	12.25	-	0.90%	0.22%	2.71%	3.64%	3.64%	-
Invesco Variable Insurance Funds																
Global Health Care Fund	2,936,216	0.00%	126,116.42	-	5,240.58	10,033.61	21.87	-	24.82	4.74	0.90%	0.22%	18.60%	-	19.67%	19.51%
Mid Cap Growth Fund	1,017,320	0.00%	68,961.32	-	600.88	1,662.88	14.27	-	14.62	14.56	0.90%	0.22%	7.07%	-	8.04%	7.78%
Technology Fund	1,684,813	0.00%	220,328.15	-	5,320.56	8,471.77	7.36	-	8.35	2.28	0.90%	0.22%	10.06%	-	11.05%	10.93%
JP Morgan Series Trust II																
Small Cap Core Portfolio	-	0.14%	-	-	-	-	-	-	-	-	0.90%	0.22%	0.00%	-	0.00%	0.00%
Morgan Stanley Universal Institutional Funds																
Core Plus Fixed Income Portfolio	2,707,826	2.91%	-	-	-	1,307,595.17	-	-	-	2.07	0.90%	0.22%	-	-	-	7.72%
Emerging Markets Equity Portfolio	420,531	0.38%	-	-	-	158,124.45	-	-	-	2.66	0.90%	0.22%	-	-	-	-4.61%
US Real Estate Portfolio	116,906	1.40%	-	-	-	22,287.54	-	-	-	5.25	0.90%	0.22%	-	-	-	29.56%

(1) During 2014, Franklin Templeton made the following changes to fund names: the Global Real Estate Securities Fund was renamed the Global Real Estate VIP Fund; the Small Cap Value Securities Fund was renamed the Small Cap Value VIP Fund; the Small Mid Cap Growth Securities Fund was renamed the Small Mid Cap Growth VIP Fund; the US Government Fund was renamed the US Government Securities VIP Fund; the Mutual Global Discovery Securities Fund was renamed the Mutual Global Discovery VIP Fund; the Mutual Shares Securities Fund was renamed the Mutual Shares VIP Fund; the Templeton Foreign Securities Fund was renamed the Templeton Foreign VIP Fund.

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
(A Separate Account of National Life Insurance Company)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 - FINANCIAL HIGHLIGHTS (continued)

	At December 31, 2014	For the Year Ended December 31, 2014	At December 31, 2014								For the Year Ended December 31, 2014			For the Year Ended December 31, 2014			
			Units				Units Value				Expense Ratio**			Total Return***			
	Net Assets	Investment Income Ratio*	VT	V2	EP	BP	VT	V2	EP	BP	VT	BP	EP	VT	V2	EP	BP
VT = VariTrak Product V2 = Investor Select Product EP = Estate Provider Product BP = Benefit Provider Product																	
Neuberger Berman Advisors Management Trust																	
Small Cap Growth Portfolio	588,613	0.00%	29,126.48	-	7,436.94	-	15.78	-	17.36	-	0.90%	0.22%	0.32%	2.55%	-	3.47%	-
Short Duration Bond Portfolio	3,040,213	1.73%	238,298.44	7,178.99	24,460.46	-	11.11	13.06	12.22	-	0.90%	0.22%	0.32%	-0.29%	0.61%	0.61%	-
Mid Cap Growth Portfolio	470,578	0.00%	17,505.67	361.16	87.67	-	26.18	27.24	28.80	-	0.90%	0.22%	0.32%	6.62%	7.58%	7.58%	-
Large Cap Value Portfolio	2,488,676	0.72%	93,615.85	168.26	16,761.48	3,502.91	21.01	27.90	22.15	41.71	0.90%	0.22%	0.32%	8.87%	9.85%	9.85%	9.67%
Socially Responsive Portfolio	7,876	0.38%	176.98	131.93	-	-	24.90	26.29	-	-	0.90%	0.22%	0.32%	9.40%	10.38%	(1.00)	-
Oppenheimer Variable Account Funds																	
Capital Income/VA Fund	29,049	1.82%	1,569.55	48.55	-	-	17.92	18.93	-	-	0.90%	0.22%	0.32%	7.05%	8.02%	-	-
Main Street Small Cap/VA Fund	101,662	0.60%	3,270.95	23.85	-	-	30.84	32.57	-	-	0.90%	0.22%	0.32%	10.66%	11.65%	-	-
Global Strategic Income/VA Fund	516,259	3.89%	29,000.50	3,353.14	205.27	-	15.76	16.64	16.64	-	0.90%	0.22%	0.32%	1.58%	2.49%	2.49%	-
Sentinel Variable Products Trust																	
Balanced Fund	4,713,457	1.61%	134,252.55	2,018.82	20,871.78	2,759.07	30.13	20.55	24.95	38.27	0.90%	0.22%	0.32%	6.85%	7.81%	7.81%	7.64%
Bond Fund	6,911,744	2.98%	248,728.09	8,093.20	39,438.21	29.73	23.51	14.47	24.00	23.87	0.90%	0.22%	0.32%	3.09%	4.01%	4.01%	3.88%
Common Stock Fund	31,681,032	1.65%	700,445.91	8,535.09	38,534.11	75,648.83	40.28	25.56	29.43	27.92	0.90%	0.22%	0.32%	9.36%	10.34%	10.34%	10.21%
Mid Cap Growth Fund	8,942,087	0.40%	225,190.56	179.75	27,386.86	25,520.55	33.80	26.59	25.01	25.15	0.90%	0.22%	0.32%	3.70%	4.63%	4.63%	4.50%
Small Company Fund	17,530,153	0.49%	221,832.96	6,903.76	26,712.68	2,632.82	71.17	27.06	54.31	39.84	0.90%	0.22%	0.32%	5.73%	6.68%	6.68%	6.55%
T Rowe Price Equity Series																	
Blue Chip Growth Portfolio	1,504,095	0.00%	62,407.97	450.20	4,245.13	-	22.22	30.82	24.45	-	0.90%	0.22%	0.32%	7.87%	8.84%	8.84%	-
Equity Income Portfolio	4,916,919	1.50%	214,194.29	5,895.87	32,155.02	-	19.15	23.26	21.07	-	0.90%	0.22%	0.32%	6.15%	7.10%	7.10%	-
Health Sciences Portfolio	2,559,442	0.00%	56,948.74	772.01	2,772.60	-	42.05	47.10	46.27	-	0.90%	0.22%	0.32%	30.05%	31.22%	31.22%	-
Personal Strategy Balanced Portfolio	299,927	1.61%	14,344.74	-	-	-	20.91	-	-	-	0.90%	0.22%	0.32%	4.26%	-	-	-
Van Eck VIP Trust																	
VIP Emerging Markets Fund	1,673,510	0.49%	45,921.01	3,556.75	7,676.70	-	28.96	30.59	30.59	-	0.90%	0.22%	0.32%	-1.30%	-0.41%	-0.41%	-
VIP Unconstrained Emerging Markets Bond Fund	1,123,264	5.18%	80,740.32	4,211.75	7,818.93	-	12.02	12.69	12.69	-	0.90%	0.22%	0.32%	1.27%	2.18%	2.18%	-
VIP Global Hard Assets Fund	1,250,901	0.09%	75,674.41	4,082.07	4,237.16	-	14.81	15.64	15.64	-	0.90%	0.22%	0.32%	-19.83%	-19.10%	-19.10%	-
Wells Fargo Variable Trust																	
Discovery Fund	7,655,912	0.00%	230,218.77	-	15,575.60	1,859.48	30.43	-	36.07	47.72	0.90%	0.22%	0.32%	-0.54%	-	0.36%	0.17%
Opportunity Fund	4,837,219	0.06%	86,353.72	-	20,377.83	16,642.02	33.00	-	35.15	76.40	0.90%	0.22%	0.32%	9.44%	-	10.42%	10.29%

* These amounts represent dividends, excluding distributions of capital gains, received by the sub-account from the underlying mutual fund, net of management fees assessed by the fund manager, divided by the average net assets. These ratios exclude those expenses, such as mortality and expense charges, that are assessed against contract owner accounts either through reductions in unit values or the redemption of units. The recognition of investment income by the sub-account is affected by the timing of the declaration of dividends by the underlying fund in which the sub-account invests.

** These amounts represent the annualized contract expenses of the separate account, consisting primarily of mortality and expense charges and separate account administrative charges, for each period indicated. The ratios include only those expenses that result in a direct reduction to unit values. Charges made directly to contract owner accounts through the redemption of units and expenses of the underlying fund have been excluded.

*** These amounts represent the total return for the periods indicated, including changes in the value of the underlying fund, and expenses assessed through the reduction of unit values. These ratios do not include any expenses assessed through the redemption of units.

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
(A Separate Account of National Life Insurance Company)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 - FINANCIAL HIGHLIGHTS

A summary of units outstanding and unit values for the Variable Account, the investment income ratios, the expense ratios, excluding expenses of the underlying funds, and total return for the year ended 2013. Information for the year 2013 reflects the adoption of AICPA Statement of Position 03-5, "Financial Highlights of Separate Accounts." Certain ratios presented for the prior years reflect the presentation used in the current year.

	At December 31, 2013	For the Year Ended December 31, 2013	At December 31, 2013								For the Year Ended December 31, 2013			For the Year Ended December 31, 2013				
			Units				Units Value				Expense Ratio**			Total Return***				
	Net Assets	Investment Income Ratio*	VT	V2	EP	BP	VT	V2	EP	BP	VT	BP	EP	VT	V2	EP	BP	
VT = VariTrak Product																		
V2 = Investor Select Product																		
EP = Estate Provider Product																		
BP = Benefit Provider Product																		
Alger American Fund																		
Large Cap Growth Portfolio	16,763,394	0.79%	484,693.05	5,942.94	41,021.82	10,534.17	30.92	25.01	15.97	92.59	0.90%	0.22%	0.32%	33.88%	35.08%	35.08%	34.83%	
Capital Appreciation Portfolio	2,445,082	0.36%	102,611.41	932.51	11,762.26	14,367.02	19.84	28.31	22.31	8.37	0.90%	0.22%	0.32%	33.98%	35.19%	35.19%	35.03%	
Small Cap Growth Portfolio	8,880,215	0.00%	363,711.89	194.99	320.46	3,877.57	23.43	27.90	22.21	89.09	0.90%	0.22%	0.32%	33.06%	34.26%	34.26%	34.06%	
Alliance Bernstein Variable Products																		
Value Fund	58,263	1.04%	2,532.87	307.02	-	-	20.41	21.37	-	-	0.90%	0.22%	0.32%	35.63%	36.85%	-	-	
Small/Mid Cap Growth Fund	1,890,211	0.59%	57,921.65	1,869.43	7,035.21	-	28.11	29.42	29.42	-	0.90%	0.22%	0.32%	36.83%	38.06%	38.06%	-	
International Value Fund	2,678,707	6.13%	147,497.15	4,551.09	13,676.23	-	16.08	16.83	16.83	-	0.90%	0.22%	0.32%	21.91%	23.00%	23.00%	-	
International Growth Fund	263,442	0.99%	5,222.36	7,930.10	1,237.69	-	17.78	18.61	18.61	-	0.90%	0.22%	0.32%	12.59%	13.60%	13.60%	-	
American Century Variable Portfolios																		
Income & Growth Portfolio	3,465,118	2.19%	160,670.59	-	14,476.08	7,956.25	18.98	-	21.59	12.91	0.90%	0.22%	0.32%	34.61%	-	35.82%	35.66%	
Inflation Protection Portfolio	1,325,964	1.84%	74,300.48	1,480.97	10,343.69	64,293.01	14.10	13.57	15.38	1.54	0.90%	0.22%	0.32%	-9.03%	-8.21%	-8.21%	-8.59%	
International Portfolio	4,485,357	1.72%	210,812.56	4,966.36	17,559.48	-	19.05	20.90	20.78	-	0.90%	0.22%	0.32%	21.32%	22.41%	22.41%	-	
Ultra Portfolio	110,432	0.52%	4,427.01	-	1,841.09	-	17.16	-	18.72	-	0.90%	0.22%	0.32%	35.85%	-	37.07%	-	
Value Portfolio	6,961,988	1.63%	220,238.30	871.48	15,508.06	18,436.15	27.85	20.95	28.72	19.80	0.90%	0.22%	0.32%	30.55%	31.73%	31.73%	31.61%	
Vista Portfolio	880,621	0.00%	46,117.17	19.89	3,061.68	-	17.80	21.05	19.41	-	0.90%	0.22%	0.32%	29.01%	30.17%	30.17%	-	
Dreyfus Variable Investment Funds																		
Appreciation Portfolio	727,125	1.93%	37,031.95	-	2,985.12	-	18.05	-	19.68	-	0.90%	0.22%	0.32%	20.02%	-	21.10%	-	
Opportunistic Small Cap Portfolio	138,653	0.00%	8,850.13	-	-	-	15.67	-	17.09	-	0.90%	0.22%	0.32%	47.22%	-	-	-	
Quality Bond Portfolio	403,131	2.86%	25,737.32	-	2,156.67	-	14.35	-	15.65	-	0.90%	0.22%	0.32%	-2.42%	-	-1.54%	-	
Socially Responsible Growth Fund	288,197	1.30%	21,298.44	-	249.08	5,292.89	12.22	-	13.74	4.63	0.90%	0.22%	0.32%	33.15%	-	34.34%	34.18%	
DWS Variable Series II																		
Small Mid Cap Value Portfolio (1)	2,201,889	0.79%	84,287.04	1,777.97	7,554.87	-	23.32	24.68	25.44	-	0.90%	0.22%	0.32%	33.50%	34.70%	34.70%	-	
Large Cap Value Portfolio	328,459	1.50%	23,381.84	-	165.59	-	13.94	-	15.20	-	0.90%	0.22%	0.32%	29.38%	-	30.54%	-	
DWS VIT Funds																		
Equity 500 Index Fund	1,373,790	1.73%	-	-	-	58,785.45	-	-	-	23.37	0.90%	0.22%	0.32%	-	-	-	31.77%	
Small Cap Index Fund	1,033,316	1.54%	10,918.35	228.53	13,046.49	13,573.06	24.93	26.10	26.10	30.55	0.90%	0.22%	0.32%	37.40%	38.64%	38.64%	38.47%	

(1) During 2013 the Dreman Small Mid Cap Value Portfolio was renamed the Small Mid Cap Value Portfolio.

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 - FINANCIAL HIGHLIGHTS (continued)

	At December 31, 2013	For the Year Ended December 31, 2013	At December 31, 2013								For the Year Ended December 31, 2013		For the Year Ended December 31, 2013			
			Units				Units Value				Expense Ratio**		Total Return***			
	Net Assets	Investment Income Ratio*	VT	V2	EP	BP	VT	V2	EP	BP	VT	BP	VT	V2	EP	BP
VT = VariTrak Product V2 = Investor Select Product EP = Estate Provider Product BP = Benefit Provider Product																
Fidelity Variable Insurance Product Funds																
Contrafund Portfolio	14,192,774	1.05%	322,219.12	4,832.88	40,917.32	-	39.56	24.08	32.53	-	0.90%	0.22%	30.12%	31.29%	31.29%	-
Equity Income Portfolio	10,390,693	2.49%	156,513.99	406.62	9,533.09	-	65.10	23.16	20.17	-	0.90%	0.22%	27.01%	28.15%	28.15%	-
Growth Portfolio	16,316,194	0.28%	222,461.80	402.20	57,060.59	-	67.64	24.89	22.05	-	0.90%	0.22%	35.12%	36.34%	36.34%	-
High Income Portfolio	5,198,798	5.86%	105,268.36	1,288.32	18,433.36	-	46.06	21.23	17.51	-	0.90%	0.22%	5.00%	5.95%	5.95%	-
Index 500 Portfolio	44,114,359	1.88%	721,083.48	28,622.25	309,891.37	-	51.00	23.03	21.56	-	0.90%	0.22%	31.06%	32.24%	32.24%	-
Investment Grade Bond Portfolio	6,152,160	2.39%	293,810.41	3,245.02	34,441.97	66,456.84	17.88	14.42	20.10	2.41	0.90%	0.22%	-2.65%	-1.78%	-1.78%	-1.90%
Mid Cap Portfolio	4,249,428	0.50%	142,865.62	3,424.26	11,601.86	-	26.74	26.37	29.17	-	0.90%	0.22%	35.02%	36.23%	36.23%	-
Money Market	7,223,178	0.01%	390,726.84	1,748.99	75,687.31	660,736.83	13.48	10.01	14.17	1.31	0.90%	0.22%	-0.88%	0.01%	0.01%	-0.07%
Overseas Portfolio	10,574,815	1.36%	255,326.98	6,198.20	26,606.17	143,687.75	37.15	19.94	17.76	3.43	0.90%	0.22%	29.27%	30.44%	30.44%	30.27%
Value Strategies Portfolio	196,337	0.92%	5,866.70	514.72	-	-	30.65	32.08	-	-	0.90%	0.22%	29.33%	30.49%	-	-
Franklin Templeton Variable Insurance Products Trust																
Foreign Securities Fund	2,051,367	2.33%	96,066.45	1,072.15	9,957.22	-	18.98	20.36	20.70	-	0.90%	0.22%	21.87%	22.97%	22.97%	-
Mutual Shares Securities Fund	971,136	2.07%	48,580.96	1,519.45	4,490.03	-	17.57	20.73	19.16	-	0.90%	0.22%	27.12%	28.26%	28.26%	-
Global Real Estate Fund	1,110,526	4.61%	77,761.13	-	1,996.45	-	13.89	-	15.15	-	0.90%	0.22%	1.41%	-	2.32%	-
Mutual Global Discovery Securities Fund	381,069	2.49%	19,589.93	389.85	178.55	-	18.88	19.76	19.76	-	0.90%	0.22%	26.81%	27.95%	27.95%	-
Small Mid Cap Growth Fund	302,754	0.00%	14,080.67	277.49	821.19	-	19.72	26.80	21.51	-	0.90%	0.22%	36.92%	38.15%	38.15%	-
Small Cap Value Securities Fund	706,637	1.31%	24,422.06	405.83	4,448.90	-	23.76	27.20	25.91	-	0.90%	0.22%	35.02%	36.24%	36.24%	-
US Government Fund	794,072	2.84%	67,146.67	1,619.44	1,418.45	-	11.29	11.82	11.82	-	0.90%	0.22%	-2.87%	-1.99%	-1.99%	-
Invesco Variable Insurance Funds																
Global Health Care Fund	2,723,024	0.67%	139,782.64	-	5,305.47	8,828.82	18.44	-	20.74	3.96	0.90%	0.22%	39.29%	-	40.54%	40.34%
Mid Cap Growth Fund	1,018,920	0.40%	73,958.20	-	635.61	1,806.90	13.33	-	13.53	13.51	0.90%	0.22%	35.79%	-	37.01%	36.85%
Technology Fund	1,604,456	0.00%	231,480.58	-	5,256.66	8,512.18	6.69	-	7.52	2.05	0.90%	0.22%	24.03%	-	25.14%	24.99%
JP Morgan Series Trust II																
International Equity Portfolio	4,471,386	1.91%	173,951.09	-	21,825.96	73,730.70	15.67	-	16.78	18.71	0.90%	0.22%	14.42%	-	15.45%	15.31%
Small Cap Core Portfolio	1,449,935	0.54%	41,943.95	-	12,109.03	260.23	26.91	-	25.76	35.17	0.90%	0.22%	41.03%	-	42.29%	42.12%
Morgan Stanley Universal Institutional Funds																
Core Plus Fixed Income Portfolio	2,519,703	3.60%	-	-	-	1,310,743.60	-	-	-	1.92	0.90%	0.22%	-	-	-	-0.44%
Emerging Markets Equity Portfolio	462,484	1.24%	-	-	-	165,884.28	-	-	-	2.79	0.90%	0.22%	-	-	-	-1.08%
US Real Estate Portfolio	92,636	1.10%	-	-	-	22,880.86	-	-	-	4.05	0.90%	0.22%	-	-	-	1.92%

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 - FINANCIAL HIGHLIGHTS (continued)

	At December 31, 2013	For the Year Ended December 31, 2013	At December 31, 2013								For the Year Ended December 31, 2013			For the Year Ended December 31, 2013			
			Units				Units Value				Expense Ratio**			Total Return***			
	Net Assets	Investment Income Ratio*	VT	V2	EP	BP	VT	V2	EP	BP	VT	BP	EP	VT	V2	EP	BP
VT = VariTrak Product V2 = Investor Select Product EP = Estate Provider Product BP = Benefit Provider Product																	
Neuberger Berman Advisors Management Trust																	
Small Cap Growth Portfolio	597,179	0.00%	30,468.59	-	7,655.55	-	15.38	-	16.78	-	0.90%	0.22%	0.32%	44.53%	-	45.83%	-
Short Duration Bond Portfolio	3,080,822	2.14%	245,512.15	4,888.80	23,202.89	-	11.14	12.98	12.15	-	0.90%	0.22%	0.32%	-0.28%	0.62%	0.62%	-
Mid Cap Growth Portfolio	442,038	0.00%	17,524.43	378.58	83.46	-	24.55	25.32	26.77	-	0.90%	0.22%	0.32%	31.43%	32.61%	32.61%	-
Large Cap Value Portfolio	2,402,138	1.12%	98,429.71	139.00	18,205.57	3,478.71	19.29	25.40	20.17	38.04	0.90%	0.22%	0.32%	29.97%	31.14%	31.14%	30.90%
Socially Responsive Portfolio	5,302	0.69%	112.46	115.17	-	-	22.76	23.82	23.82	-	0.90%	0.22%	0.32%	36.38%	37.60%	-	-
Oppenheimer Variable Account Funds																	
Capital Income/VA Fund (2)	25,589	2.22%	1,501.04	26.18	-	-	16.74	17.52	-	-	0.90%	0.22%	0.32%	11.83%	12.83%	-	-
Main Street Small Cap/VA Fund (3)	92,123	0.48%	3,285.09	19.24	-	-	27.87	29.17	-	-	0.90%	0.22%	0.32%	39.37%	40.62%	-	-
Global Strategic Income/VA Fund	455,674	4.53%	26,679.53	2,376.86	193.89	-	15.51	16.24	16.24	-	0.90%	0.22%	0.32%	-1.26%	-0.37%	-0.37%	-
Sentinel Variable Products Trust																	
Balanced Fund	4,654,697	1.57%	142,400.74	1,707.28	21,965.58	2,752.78	28.20	19.06	23.14	35.56	0.90%	0.22%	0.32%	17.82%	18.88%	18.88%	18.69%
Bond Fund	7,111,306	3.05%	265,945.23	5,973.24	40,295.78	1,454.74	22.81	13.91	23.07	22.98	0.90%	0.22%	0.32%	-1.22%	-0.33%	-0.33%	-0.39%
Common Stock Fund	31,496,904	1.52%	766,452.28	7,742.34	41,843.57	77,694.80	36.84	23.16	26.67	25.34	0.90%	0.22%	0.32%	30.55%	31.73%	31.73%	31.58%
Mid Cap Growth Fund	9,239,628	0.09%	244,919.07	156.35	28,430.38	23,845.17	32.59	25.41	23.90	24.06	0.90%	0.22%	0.32%	31.14%	32.32%	32.32%	32.18%
Small Company Fund	17,991,500	0.13%	242,352.55	5,862.61	27,829.61	3,004.33	67.31	25.37	50.91	37.39	0.90%	0.22%	0.32%	33.52%	34.72%	34.72%	34.56%
T Rowe Price Equity Series																	
Blue Chip Growth Portfolio	1,510,791	0.00%	67,952.08	393.65	4,460.16	-	20.59	28.32	22.46	-	0.90%	0.22%	0.32%	39.60%	40.85%	40.85%	-
Equity Income Portfolio	5,031,705	1.30%	237,259.09	4,998.44	32,651.37	-	18.04	21.72	19.68	-	0.90%	0.22%	0.32%	28.25%	29.41%	29.41%	-
Health Sciences Portfolio	1,687,558	0.00%	48,114.74	755.62	2,968.99	-	32.33	35.90	35.26	-	0.90%	0.22%	0.32%	49.17%	50.51%	50.51%	-
Personal Strategies Balanced Portfolio	220,173	1.47%	10,979.02	-	-	-	20.05	-	-	-	0.90%	0.22%	0.32%	16.88%	-	-	-
Van Eck VIP Trust																	
VIP Emerging Markets Fund	1,632,864	1.48%	47,021.72	2,870.95	5,369.28	-	29.34	30.71	30.71	-	0.90%	0.22%	0.32%	11.02%	12.02%	12.02%	-
VIP Unconstrained Emerging Markets Bond Fund	1,186,699	2.10%	88,218.79	3,552.85	7,683.75	-	11.87	12.42	12.42	-	0.90%	0.22%	0.32%	-9.98%	-9.17%	-9.17%	-
VIP Global Hard Assets Fund	1,493,378	0.64%	73,645.82	2,616.19	4,259.21	-	18.47	19.34	19.34	-	0.90%	0.22%	0.32%	9.55%	10.53%	10.53%	-
Wells Fargo Variable Trust																	
Discovery Fund	8,396,555	0.01%	247,730.15	-	20,097.11	1,995.18	30.59	-	35.94	47.64	0.90%	0.22%	0.32%	42.52%	-	43.80%	43.94%
Opportunity Fund	4,794,459	0.20%	91,019.76	-	23,845.08	18,636.95	30.15	-	31.84	69.27	0.90%	0.22%	0.32%	29.51%	-	30.68%	30.52%

(2) During 2013 the Oppenheimer Balanced Fund was renamed the Oppenheimer Capital Income/VA Fund.

(3) During 2013 the Oppenheimer Main Street Small & Mid Cap Fund was renamed the Oppenheimer Main Street Small Cap/VA Fund.

(4) During 2013 the Van Eck Global Bond Fund was renamed the Van Eck Unconstrained Emerging Markets Bond Fund.

* These amounts represent dividends, excluding distributions of capital gains, received by the sub-account from the underlying mutual fund, net of management fees assessed by the fund manager, divided by the average net assets. These ratios exclude those expenses, such as mortality and expense charges, that are assessed against contract owner accounts either through reductions in unit values or the redemption of units. The recognition of investment income by the sub-account is affected by the timing of the declaration of dividends by the underlying fund in which the sub-account invests.

** These amounts represent the annualized contract expenses of the separate account, consisting primarily of mortality and expense charges and separate account administrative charges, for each period indicated. The ratios include only those expenses that result in a direct reduction to unit values. Charges made directly to contract owner accounts through the redemption of units and expenses of the underlying fund have been excluded.

*** These amounts represent the total return for the periods indicated, including changes in the value of the underlying fund, and expenses assessed through the reduction of unit values. These ratios do not include any expenses assessed through the redemption of units.

**NATIONAL VARIABLE LIFE INSURANCE ACCOUNT
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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 8 - FUND SUBSTITUTIONS

On October 27, 2017, the Sentinel Funds transferred substantially all of its assets and substantially all of its liabilities into the Touchstone Funds.

During 2016, the Sentinel Mid Cap Growth Fund was liquidated.

There were no fund substitutions in the years 2013, 2014 or 2016. In 2015, the Neuberger Berman Mid Cap Growth Class S Portfolio was merged into the Neuberger Berman Small Cap Growth Portfolio, after obtaining shareholder approval.

NOTE 9 - DISTRIBUTION OF NET INCOME

The Variable Account does not expect to declare dividends to policyholders from accumulated net income. The accumulated net income will be distributed to policyholders as withdrawals (in the form of death benefits, surrenders or policy loans) in excess of the policyholders' net contributions to the Variable Account.

NOTE 10 - DIVERSIFICATION REQUIREMENTS

Under the provisions of Section 817(h) of the Internal Revenue Code ("IRC"), a variable universal life insurance contract, other than a contract issued in connection with certain types of employee benefit plans, will not be treated as a variable universal life insurance contract for federal income tax purposes for any period for which the investments of the segregated asset account on which the contract is based are not adequately diversified. The IRC provides that the adequately diversified requirement may be met if the underlying investments satisfy either a statutory safe harbor test or diversification requirements set forth in regulations issued by the Secretary of the Treasury.

National Life believes that the Variable Account satisfies the current requirements of the regulations, and it intends that the Variable Account will continue to meet such requirements.