REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
INSURANCE COMMISSION
Insurance Commission Building
Manila

PROPOSAL FOR THE CORPORATE REHABILITATION OF NATIONAL LIFE INSURANCE COMPANY OF THE PHILIPPINES IN CONNECTION WITH THE CONSERVATORSHIP STATUS OF THE COMPANY UNDER SECTION 248 OF THE INSURANCE CODE (NOW SECTION 255 OF REPUBLIC ACT NO. 10607)

CRL Ref. No. 2013-002

x---x

SUPPLEMENTAL DIRECTIVE

21 July 2014

This Supplemental Directive is issued pursuant to Section 437 in relation to Section 255 of Republic Act No. 10607, otherwise known as the Amended Insurance Code. Ancillary orders and guidelines are hereto provided in order to facilitate the rehabilitation of National Life Insurance Company of the Philippines (NLIC) pursuant to the provisions of the Directive dated 08 November 2013 (Directive for brevity).

In the implementation of the said Directive and in the exercise of the mandate of the Interim Governance Board (IGB), important issues surfaced which need to be clarified. Among these issues are the interest payment on Premium Deposit Fund (PDF), the treatment of insurance policies, whether with PDF or otherwise, and the authority of the Insurance Commission to exercise such powers as may be necessary to implement the proposed debt-to-equity conversion of liabilities under the existing agreement of NLIC. Hence, this Supplemental Directive is issued pursuant to the last paragraph of the Insurance Commission's Directive dated 08 November 2013, which states that "the Commission shall continue to release instructions from time to time in order to clarify or resolve other major issues submitted for consideration".

EXTENSION OF REHABILITATION

The Directive provides that the company will be given up to six months, or until 15 May 2014, to implement the components of the Modified Rehabilitation Plan and achieve the goal of rehabilitating the company. Pursuant to the same Directive, the IGB of NLIC was constituted. The IGB conducted regular meetings in order to perform its mandate of monitoring the operational and financial performance of the company and ensuring the implementation of the Modified Rehabilitation Plan.

The IGB and NLIC engaged the services **R.G. Manabat & Co**., formerly **Manabat Sanagustin & Co. (KPMG for brevity), the Philippine member firm of KPMG International, to be its financial advisor. KPMG is tasked to** assist the IGB of NLIC in relation to its rehabilitation plan set out in the Directive specifically in the pre-sale preparation, sale process and, sale execution and financial closing.

On 07 May 2014, the IGB requested for a 90-day extension to comply with the Directive. The IGB has achieved significant progress in the implementation of the Modified Rehabilitation Plan. However, additional time is necessary to give potential investors more time to conduct the necessary due diligence and for IGB and IC to study the proposals in the best interest of the policyholders.

Finding compelling and justifiable reasons, the Insurance Commission granted an additional 90-day extension, or until 15 August 2014, for the IGB and the conservator to comply with the requirements of the IC Directive on the rehabilitation of NLIC.

INTEREST ON PREMIUM DEPOSIT FUND

The NLIC previously issued insurance policies with PDF rider. Under the terms of the said policy, the company accepts PDF from policyholders, which will be used for payment of unpaid premiums as they become due. The company pays a certain amount of interest to the PDF.

Pursuant to its letter dated 08 June 2011 to the company, the Insurance Commission approved the reduction of PDF interest rate from four percent (4%) to two percent (2%) effective 15 June 2011.

By virtue of the issuance of the Directive, the IC approved the conversion of the PDF, among other unsecured liabilities, into common shares of the company. While its actual conversion is deferred, the same is already accounted for and its amount is considered in the intended rehabilitation of the company. Based on the foregoing, beginning the effectivity of the Directive on 15 November 2013, all PDFs will no longer accrue any interest. This is also due to the financial incapacity of the company to pay the said the Insurance Commission's prerogative under the Amended Insurance Code in order to facilitate the rehabilitation of the company.

TREATMENT OF INSURANCE POLICIES

While the company is undergoing conservatorship and the rehabilitation plan is currently implemented, the insurance policies issued by NLIC continue to be governed by the provisions of the Amended Insurance Code. Nevertheless, in order to effectively implement the Directive and in recognition of the unique circumstances of the current rehabilitation of the company, the following rules are hereby instituted:

I. Insurance Policies with PDF.

A. NLIC is authorized to apply the policyholder's PDF as premium payment to their respective insurance policies up to 31 December 2013. The PDF is valued at one hundred percent (100%) of its amount as stated in the books of NLIC.

B. For premium payment that becomes due beginning 01 January 2014, the policyholder has the following options:

1. Pay the premium in cash as it becomes due; or
2. Obtain a policy loan against the cash surrender value of their insurance policy; or
3. Elect to have a non-interest bearing loan of up to fifty percent (50%) of the realizable value of their PDF. The estimated and tentative amount of the realizable value as of April 2014 is twenty percent (20%) of its book value. Proper adjustments will be made after the value of the converted shares is finally determined at the time of the sale of the same to the strategic investor. In case the realizable value is not sufficient to cover the premium due, the policyholder can opt to avail options 1 and 2.

II. Insurance Policies without PDF.

The provisions of the insurance policy and that of the Amended Insurance Code and other related laws and issuances will govern the premium payment of the policyholders.

ACCEPTABLE PROPOSAL FOR THE CONTINUING OPERATIONS OF NLIC

The entry of a Strategic Investor in the rehabilitation of NLIC has been recognized as an important facet of the Modified Rehabilitation Plan. Pursuant to the Clarificatory Directive, the strategic investor is given the option to obtain control over the corporation through ownership of the

However, the viability and reasonableness of the business proposal of the strategic investor will be considered in choosing the best strategic investor for the company. The proposed business plan on the operations of the company and its projected capitalization and financial performance will be evaluated. Hence, the strategic investor must specify its technical strategy on how it will continue with the business of the company.

Corollarily, the proposal of the strategic investor must be towards the continuation of the insurance business of the company as a going concern. It must be shown that the intention of the strategic investor is for the restoration of the company. The plan must be geared towards a condition of successful and economically feasible operation and a state of solvency. This may include proposal for merger or consolidation with an existing insurance company as long as the combination will not result to unfairness to the policyholders.

SALE OF CONVERTED SHARES TO THE STRATEGIC INVESTOR

Pursuant to the Directive, the IC ordered that the NLIC's (a) premium deposit fund, (b) loans from related parties, (c) agency retirement fund, (d) advances from shareholders and related parties and (e) deposit for future subscription account will be converted into common shares of the company. However, the legal process of converting debt to equity with the Securities and Exchange Commission (SEC) will be undergone only after the IC determines and confirms the existence of a legitimate strategic investor.

The above provision was further explained through a Clarificatory Directive dated 21 February 2014. It was emphasized that the debt-to-equity conversion is to encourage qualified strategic investors to invest with NLIC and help facilitate its rehabilitation. Accordingly, the Clarificatory Directive provided for the rules that shall govern the acquisition of shares of stock by the strategic investor:

a. The strategic investor is compelled to buy and own fifty-one percent (51%) of the total common shares of stock, which is the sum of the converted shares plus the existing common shares. Consequently, the stockholders are required to sell 51% of the total common shares of stock.
b. The strategic investor is given the option to buy and own up to two-thirds (2/3) of the total common shares of stock. If he exercises such option, the stockholders are required to sell up to 2/3 of their common shares of stock.
c. If the strategic investor decides to buy and own shares of stock in excess of 2/3 of the total common shares of stock, he can do so upon agreement with the concerned stockholders.

The Directive ordered the debt-to-equity conversion and the subsequent sale of the converted shares to the duly chosen and qualified strategic investor as part of the Modified Rehabilitation Plan. Such directive was instituted pursuant to the powers of the Insurance Commission under Section 255 of Republic Act No. 10607 or the Amended Insurance Code. As elucidated in the Directive, such reasonable requirement is necessary in order to facilitate the effective rehabilitation of the company.

By reason of the Directive by the Insurance Commission, the conversion and subsequent sale can be implemented even in the absence of the unanimous consent of affected creditors pursuant to the aforecited provision of law.

As previously determined by the Insurance Commission, the Modified Rehabilitation Plan under the Directive is reasonable and will make the rehabilitation feasible. As a result of the conversion, the original owners or shareholders of the company will lose their controlling interest over the company and effectively make the PDF holders and other unsecured creditors majority shareholders of NLIC. Moreover, the Modified Rehabilitation Plan will likely provide the said unsecured creditors with compensation that is greater than the amount they will receive if the company is under liquidation.

Accordingly, upon the selection of the strategic investor by the Insurance Commission, the application for the debt-to-equity conversion shall be filed with the Securities and Exchange Commission (SEC) for its approval. Pursuant to its authority under the Amended Insurance Code, particularly Section 255 thereof, the Insurance Commission, through its duly appointed conservator, will execute and sign all the necessary documents, including the relevant deeds of assignment, to complete the process of conversion. The Insurance Commission so holds that its act of signing the aforementioned documents relevant to the debt-to-equity conversion pursuant to its authority under the Amended Insurance Code is a valid and effective substitute to the consent of each of the affected policyholders and creditors to the conversion and renders such specific consent unnecessary. Upon conversion, the stock certificates to be issued pursuant thereto will be issued in the name of the conservator in trust for the respective beneficiaries and will be temporarily placed in the custody of the Insurance Commission and will only be distributed to the corresponding shareholders after the entire process of the sale of the relevant shares to the strategic investor has been completed.

Once the debt-to-equity conversion is implemented and finalized, the resulting shares will be sold to the strategic investor as determined and approved by the Insurance Commission. Pursuant to the same authority discussed above, the Insurance Commission, through its duly appointed conservator of NLIC, shall execute and sign the necessary document, such as the Share Purchase Agreement and deed of assignment, in order to consummate and make effective the sale of the corresponding converted strategic investor will be held in trust by the Insurance Commission for the benefit of the shareholders.

For practicality purposes, the unsecured debts, including the PDF, to be converted into equity shares shall be the balance stated in the company's Financial Statements as of 30 April 2014. However, the actual number and value of shares assigned to each shareholder will be determined as of the day of the actual conversion of shares and the corresponding adjustments will be made with due regard to the intent of the Directive and supplementary issuances.

The Insurance Commission shall continue to release instructions from time to time in order to clarify or resolve other major issues submitted for consideration. Accordingly, all stakeholders are enjoined to regularly visit the said websites for major announcements.

SO ORDERED.

Manila, Philippines, 21 July 2014.

DOROTHY M. CALIMAG
Deputy Insurance Commissioner
Management Support Services Group
Officer-in-Charge

Copy furnished:

Hon. Cesar V. Purisima
Secretary
Department of Finance
DOF Bldg., BSP Complex,
Roxas Blvd., 1004 Metro Manila

National Life Insurance Company of the Philippines, Inc.
Thru Mr. Benjamin L. de Leon, President
NLIC Building, 6762 Ayala Avenue,
Makati City

Mr. Ermilando D. Napa,
Conservator
NLIC
NLIC Building, 6762 Ayala Avenue,
Makati City

Policyholders Group
Thru Mrs. Katherine Yupangco
No. 13 Fonda St., Filinvest II,
Batasan Hills, Quezon City

Migriño Law Office
Atty. Joseph R. Migriño,
Counsel of the policyholders group,
Unit 706 City&Land Mega Plaza,
ADB Avenue cor. Garnet Road, Ortigas Center, Pasig City

Office of the Solicitor General
134 Amorsolo St., Legaspi Village,
Makati City

Members of the Interim Governance Board
Thru IG Board Secretariat
NLIC Building, 6762 Ayala Avenue,
Makati City