REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
INSURANCE COMMISSION
Insurance Commission Building
United Nations Avenue, Ermita, Manila

PROPOSAL FOR THE CORPORATE REHABILITATION OF NATIONAL LIFE INSURANCE COMPANY OF THE PHILIPPINES, INC. 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. 2016-004

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SECOND SUPPLEMENTAL DIRECTIVE

29 April 2016

This *Second 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, and in the interest of facilitating the rehabilitation of National Life Insurance Company of the Philippines, Inc. ("NLIC") in accordance with the provisions of this Commission's *Directive* dated 8 November 2013.

During the course of the implementation of the *Modified Rehabilitation Plan* approved by this Commission, the NLIC's Interim Governance Board ("IGB") conducted a bidding for the qualification and selection of a Strategic Investor. The parties agreed that the Strategic Investor shall purchase and acquire one hundred percent (100%) of the existing NLIC's outstanding capital stock ("NLIC Shares"), as well as said company's debts, particularly the following: (a) premium deposit fund; (b) agency retirement fund; (c) advances from shareholders and related parties; and (d) deposit for future subscription account ("NLIC Debt"). The Bid Price offered by the Strategic Investor, which was later accepted, for this purchase and acquisition is **One Billion Fifty Three Million Nine Hundred One Thousand and Eight Pesos (PHP 1,053,901,008.00)**, subject only to certain post-closing adjustments as may be mutually agreed and found to be necessary and reasonable by the parties, and confirmed by this Commission. This is in accordance with the guidelines set forth in the *Directive* dated 08 November 2013 and the subsequent *Clarificatory Directive* dated 21 February 2014 and *Supplemental Directive* dated 21 July 2014.

It should be noted that as part of the purchase and acquisition of NLIC's shares and debts and the successful rehabilitation of said company, this Commission authorizes the redemption of certain policies as will be discussed in Part III.C. of this *Second Supplemental Directive.*

This *Second Supplemental Directive* resolves certain issues concerning the acquisition of said shares and debts by the Strategic Investor.

I. EXTENSION OF REHABILITATION

The NLIC's Interim Governance Board ("IGB") was created pursuant to this Commission's *Directive* dated 8 November 2013.[1] The IGB is mandated to *"monitor the operational and financial performance of the company and ensure the implementation of the Modified Rehabilitation Plan"*[2].

The IGB has achieved significant progress in the implementation of the *Modified Rehabilitation Plan*. However, this Commission recognizes that additional time is needed for the full implementation of said *Plan*, particularly as regards sale execution, sale process, and financial closing.

This Commission thus finds compelling and justifiable reasons to extend the rehabilitation period for one hundred eighty (180) days from the issuance of this *Second Supplemental Directive,* or until the *Modified Rehabilitation Plan* has been implemented to the satisfaction of this Commission. For this purpose, the rehabilitation period is deemed to have been satisfactorily complied with upon the consummation of the *Sale and Purchase Agreement* and this Commission's issuance of a *Certificate of Authority* in favor of the Rehabilitated NLIC.

II. STRATEGIC INVESTMENT

The *Directive* dated 8 November 2013 authorized the conversion of up to one hundred percent (100%) of NLIC's debt into equity.[3] In the same *Directive,* this Commission likewise sustained that the *"legal process of converting debt-to-equity with the SEC will be finalized only after the Commission determines and confirms the existence of a legitimate strategic investor"*[4] and consequently "[s]*et in motion the negotiation with a strategic investor in accordance with the terms of* [said] *Directive"*[5].

This Commission's *Clarificatory Directive* dated 21 February 2014 set forth the following rules governing the acquisition of shares of stock by the Strategic Investor, *viz:*

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[1] *Directive* d. 8 November 2013; pp. 17-18.
[2] *Supplemental Directive* d. 21 July 2014; p. 2.
[3] *Supra*, note 1; p. 16.
[4] *Ibid.*; p. 19.
[5] *Ibid.*; p. 20.

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 fifty one percent (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 said Investor opts to exercise the option, the stockholders are required to sell up to two-thirds (2/3) of the total common shares of stock; and

c. If the Strategic Investor decides to buy and own shares of stock in excess of two-thirds (2/3) of the total common shares of stock, the latter can do so upon agreement with the concerned stockholders.[6]

The *Supplemental Directive* dated 21 July 2014 discussed that *"the conversion and subsequent sale can be implemented even in the absence of the unanimous consent of affected creditors pursuant to* [Section 255 of Republic Act No. 10607, otherwise known as the Amended Insurance Code].[7]" It was explained that the act of this Commission, through its duly appointed Conservator, 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.*[8]" Accordingly, the Conservator was authorized to *"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 shares to the strategic investor.*[9]" Moreover, this Commission directed that the *"corresponding payment made by the strategic investor will be held in trust by the Insurance Commission for the benefit of the shareholders.*[10]"

III. THE *SALE AND PURCHASE AGREEMENT*

To reiterate, during the course of the implementation of the *Modified Rehabilitation Plan* approved by this Commission, the IGB conducted a bidding for the qualification and selection of a Strategic Investor. It determined to be necessary, and accordingly agreed, with this Commission's approval, that the Strategic Investor shall purchase and acquire the NLIC Shares, as well as the NLIC Debt. For the Strategic Investor to be able to purchase and acquire the NLIC Shares and NLIC Debt, a *Sale and Purchase Agreement* shall be entered into by the parties.

[6] *Clarificatory Directive* d. 21 February 2014; pp. 2-3.
[7] *Supra*, note 2; pp. 5-6.
[8] *Ibid.*
[9] *Ibid.*
[10] *Ibid.*

The *Sale and Purchase Agreement* must contain the following provisos that this Commission deems to be mutually beneficial to all concerned parties, as a minimum:

III.A. Purchase Price

The existing NLIC shareholders and holders of the NLIC Debt, through the Conservator ("Seller"), and upon the favorable recommendation of the IGB and with conformity of this Commission, shall sell, assign, transfer and convey unto the Buyer, all the NLIC Shares and the NLIC Debt, free and clear of any encumbrance, for and in consideration of the Bid Price of **One Billion Fifty Three Million Nine Hundred One Thousand and Eight Pesos (PHP 1,053,901,008.00)**, considering the line items under the audited financial statements as of 31 December 2013.

III.B. Incorporation of a Rehabilitated NLIC

As part of NLIC's rehabilitation, a new company shall be incorporated by the Buyer. The new company which shall be designated as the "Rehabilitated NLIC": (1) may be owned by the existing NLIC or by the Buyer directly; (2) shall after its incorporation, organization, and/or designation, be considered as the rehabilitated company; and (3) shall have a minimum paid up capital of Two Hundred Fifty Million Pesos (Php 250,000,000.00) and an authorized capital stock of at least Five Hundred Fifty Million Pesos (Php 550,000,000.00).

The Rehabilitated NLIC shall be considered as an existing life insurance company for the purposes of complying with the statutory and regulatory minimum capitalization requirements, despite having only Two Hundred Fifty Million Pesos (Php 250,000,000.00) as capital, provided that the Rehabilitated NLIC shall comply with the increase in capitalization / net worth as provided for in Section 194 of the Amended Insurance Code.

The Buyer may, by written notice to the Sellers, require the latter to cause the transfer of the long-standing insurance business of the existing NLIC to the Rehabilitated NLIC. Said transfer shall require the approval of this Commission.

Additionally, this Commission hereby authorizes the transfer of certain NLIC life insurance policies and other insurance-related assets and liabilities from the existing NLIC to the Rehabilitated NLIC.

Moreover, the Sellers shall cause the existing NLIC to fully assist the Buyer in securing regulatory approval from the Securities and Exchange Commission (SEC) to allow the Rehabilitated NLIC to use the corporate name *"National Life Insurance Company of the Philippines"*, which is hereby endorsed by this Commission.

III.C. Redemption of Policies

To reiterate, this Commission hereby authorizes the redemption of certain NLIC life insurance policies, as discussed hereunder.

NLIC life insurance policies where any portion of the premiums paid was derived from the company's premium deposit fund ("PDF Policies") as of 31 December 2014 shall be redeemed by the Buyer within an agreed redemption period, computed at sixty percent (60%) of its respective cash surrender values, less the amount of policy loan/s, if any.

NLIC's **Term Plus** policies, while considered as PDF Policies, shall be honored by the Rehabilitated NLIC considering that said policies have no redemption value. These policies may be converted only to other policies that are offered by the Rehabilitated NLIC at the time of conversion, provided, that the Rehabilitated NLIC has obtained a *Certificate of Authority* to conduct insurance business and sell approved insurance products. The Buyer shall ensure that the Rehabilitated NLIC, once operational, shall maintain and/or offer at least one (1) permanent policy/product for the purposes of conversion of **Term Plus** policies at the time the Rehabilitated NLIC obtains its *Certificate of Authority* from this Commission.

As regards Non-PDF Policies (i.e., those NLIC life insurance policies fully paid for in cash) as of 31 December 2014, the respective policyholders shall have the option either:

1. To have said Non-PDF policies redeemed within an agreed redemption period, computed at sixty percent (60%) of its respective cash surrender values, less the amount of policy loan/s, if any; or

2. To hold on to said Non-PDF policies until after a holding period of three (3) years, after which said policyholders shall receive one hundred percent (100%) of the current cash surrender value of such policies, less the amount of policy loan/s, if any.

Cash surrender values shall be based on 31 December 2014 values as per the 2014 audited financial statements. However, considering that the Buyer conducted due diligence based on 2013 values, any asset or liability existing as of 31 December 2013 that was not reflected in the 31 December 2013 values shall accordingly be adjusted from the Bid Price upon closing.

The redeemable policies shall be considered redeemed upon this Commission's receipt from the Buyer, by itself and/or through the existing NLIC and/or the Rehabilitated NLIC, of an amount corresponding to the aggregate redemption values of said policies ("Redemption Amount"), pursuant to this *Second Supplemental Directive.* The transfer shall be made by way of wire transfer or a domestic letter of credit issued by an acceptable bank.

Following receipt from the Buyer of the Redemption Amount by this Commission, the Conservator shall cause the implementation and completion of the redemption of the said policies of NLIC. Policyholders entitled to their respective redemption values shall be required to surrender their policies and execute a *Release, Waiver, and Quitclaim,* respectively, simultaneously with their receipt of said redemption values.

The obligation of the NLIC pertaining to the redeemed policies shall now be treated by NLIC as an obligation to the Buyer ("Debt") subject to relevant terms and conditions that may be agreed upon between the Buyer and the NLIC. The Buyer may assign this Debt to the Rehabilitated NLIC and may qualify as an admissible asset, subject to the compliance requirements of this Commission.

IV. CONCLUSION

Following the final consummation of the *Sale and Purchase Agreement* pursuant to this *Second Supplemental Directive*, this Commission shall conduct an examination of the affairs and financial status of the Rehabilitated NLIC to determine its compliance with the statutory and regulatory net worth requirements. This is for the reason that the Rehabilitated NLIC is subject to this Commission's regulatory jurisdiction.

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 visit this Commission's website (www.insurance.gov.ph) and the NLIC's website for announcements.

SO ORDERED.

Manila, Philippines; 29 April 2016.

EMMANUEL F. DOOC
Insurance Commissioner

Copy furnished:

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