RULES ON CASH INFUSION TO COVER UP MARGIN OF SOLVENCY DEFICIENCY, CAPITAL IMPAIRMENT; EQUITY CONVERSION: PREFERRED SHARES

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Pursuant to Section 194 of the Insurance Code, which reads:

> "... Whenever the aforementioned margin be found to be less than that herein required to be maintained, the Commissioner shall forthwith direct the company to make good any such deficiency by cash, to be contributed by all stockholders of record in proportion to their respective interests and paid to the treasurer of the company, within fifteen days from receipt of the order; Provided, That company in the interim shall not be permitted to take any new risk of any kind or character unless and until it makes good such deficiency; Provided, Further, That a stockholder who, aside from paying the contribution due him, pays the contribution due from another stockholder by reason of the failure or refusal of the latter to do so, shall have a lien on the certificates of stock of the insurance company concerned appearing in its books in the name of the defaulting stockholder ..."

capital infusion shall be made in cash after an examination into the financial condition or verification of the Annual Statement of an insurance company or Audited Financial Report of an insurance broker or reinsurance broker finds that margin of solvency is deficient or that capital is impaired.

Such cash infusion shall be converted to equity in the form of preferred shares[1] not later than ninety (90) days from the date of the cash infusion.

For strict compliance.

Adopted: 02 Sept. 2005

(SGD.) BENJAMIN S. SANTOS
Commissioner

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[1] Preferred shares of stock issued by any corporation may be given preference in the distribution of the assets of the corporation in case of liquidation and in the distribution of dividends, or such other preference as may be stated in the articles of incorporation...; Provided, That preferred shares of stock may be issued only with a stated par value. The Board of Directors, where authorized in the articles of incorporation, may fix the terms and conditions of preferred shares of stock or any series thereof: Provided, That such terms and conditions shall be effective upon filing of certification thereof with the Securities and Exchange Commission (Sec. 6, Corporation Code); See also Commissioner of Internal Revenue v. Court of Appeals (301 SCRA 152)

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