

CIRCULAR TO SCHEME POLICYHOLDERS

Dear Sir/Madam

RE: CATHOLIC CHURCH INSURANCE LIMITED (ABN 76 000 005 210) (Company)

We refer to the proposed scheme of arrangement between the Company and its Scheme Creditors under Part 5.1 of the *Corporations Act 2001* (Cth) (**Scheme**).

You have received this document because the Company considers that you are or may be a Scheme Creditor of the Company and you may be eligible to vote at the Scheme Meeting to approve the Scheme.

The Company is required to prepare an explanatory statement which contains detailed information regarding the Scheme (**Explanatory Statement**). Details for accessing a copy of the Explanatory Statement are set out below.

The purpose of this circular is to provide Scheme Creditors with a summary of certain information about the Scheme. This circular should not be relied upon as a substitute for reading the Explanatory Statement and the Scheme itself (which is attached to the Explanatory Statement).

What should you do before the Scheme Meeting?

Scheme Creditors are encouraged to take the following steps in advance of the Scheme Meeting:

- 1 Read the Explanatory Statement and take professional advice.
- 2 Register as a Scheme Creditor for voting purposes in the Creditor Portal (by 16 October 2023). If you do not register as a Scheme Creditor you will not be eligible to vote. Persons who believe they may be a Scheme Creditor and have not received an email from Data Kit must contact the Company at scheme@ccinsurance.org.au to request to be included as a Scheme Creditor by 9 October 2023.
- 3 Review the Claims Estimate that the Company has prepared in respect of your Scheme Claims as at 30 September 2023 (available from 18 October 2023).
- 4 Complete your Proof of Debt for voting purposes (by 25 October 2023).
- 5 Confirm if you will attend the Scheme Meeting personally (which is only allowed for natural persons) or appoint a proxy to vote on your behalf at the Scheme Meeting (by 25 October 2023).
- 6 Attend and vote at the Scheme Meeting on 31 October 2023.

Further information in respect of the action required to be taken by you is set out in the Explanatory Statement. The important dates for the Scheme are summarised in the Appendix to this document.

Scheme Creditors should read and carefully consider the information in the Explanatory Statement before making a decision on whether or not to vote in favour of the Scheme. Scheme Creditors should consult their own professional advisers as to the legal, tax, financial or other matters relevant to the action they should take in connection with the Scheme. Scheme Creditors should not construe the contents of this document as legal, tax, financial or other professional advice.

Instructions for obtaining a copy of the Explanatory Statement

The Explanatory Statement can be accessed at <https://www.ccinsurance.org.au/scheme-of-arrangement> and through the Creditor Portal. If you require a printed copy, please contact scheme@ccinsurance.org.au.

Notice of Scheme Meeting

The Scheme Meeting will be held virtually at https://event.webcasts.com/starthere.jsp?ei=1632017&tp_key=32ba2a8291 on 31 October 2023 at 12.00pm Melbourne time. Due to the disparate location of the Company's Scheme Creditors the meeting will be held virtually. No physical meeting will be held.

Notice of the Scheme Meeting was provided by way of advertisement in the Australian newspaper and is included in the Explanatory Statement.

Background and overview of the proposed Scheme

On 29 May 2023, the Company's Board voluntarily resolved to place the Company into 'run-off' given further material decline in its capital position and it was unable to secure sufficient capital contributions from shareholders to enable it to continue operations in line with regulatory requirements. The Company is no longer able to satisfy the minimum prudential capital requirements for a general insurer. The Company's Board considered it to be unsustainable for the Company to continue trading in run-off in these circumstances without taking additional measures to protect against further potential adverse events.

The primary driver for the decline in the capital position of the Company stemmed from the impact of continued increases in the estimate of its professional standards liabilities. The claims situation will continue to develop and is subject to a high degree of complexity and uncertainty over many years.

If the proposed Scheme is not approved, the Company will continue its run-off, but will remain vulnerable to claims deterioration and other factors which may endanger its solvency in the future. In this case, if at some point in the future, the Directors conclude that the Company would be insolvent or would be likely to become insolvent, the most likely result would be the Company being placed into an insolvency process (voluntary administration or liquidation). APRA may also exercise its enforcement powers.

The Company is therefore proposing the Scheme as a precaution to ensure an orderly run-off and to provide certainty into the future. The Scheme is designed to ensure that, regardless of the financial position of the Company, its current and future claimants in respect of Insurance Contracts are treated fairly and that claims are settled as quickly and fully as possible.

The Scheme is a proposed compromise to take effect between the company and certain of its creditors (in this case, all Scheme Creditors) which becomes legally binding on the Company and all Scheme Creditors after it becomes Effective.

Who is affected by the Scheme?

All policyholders and other persons who have, or may in the future have, a claim against the Company under or in connection with an Insurance Contract will be affected by the Scheme. This excludes all Workers' Compensation policies. The Scheme will not impact any previous settlements you have entered into with the Company, unless the settlement has not yet been paid or you expressly agree otherwise.

The Scheme does not apply to creditors who do not have Scheme Claims (e.g. trade creditors, employees or Workers' Compensation policyholders), or persons claiming against a person insured under an Insurance Contract (except where they have a direct statutory right against the Company, for example, where the party insured by the Company has died, been deregistered, or cannot be found). The Scheme is not made with the Company's shareholders. Refer to section 6 of the Explanatory Statement for further information.

What is the effect of the Scheme?

In order for the Scheme to proceed, it must be approved by Scheme Creditors at the Scheme Meeting representing at least: (i) a majority in number of (more than 50%), and (ii) 75% of the value owing to, the Scheme Creditors who are present and voting at the Scheme Meeting (attending themselves or by proxy). The Scheme also requires the approval of the Court to proceed. If the Scheme is approved by Scheme Creditors and the Court, it will bind all Scheme Creditors, whether or not they voted for the Scheme.

The Scheme, if approved, will operate through two periods:

- first, the **Initial Scheme Period**, starting on the date that the Scheme becomes Effective and ending on the date that a 'Trigger Event' occurs; and
- second, the **Reserving Period**, starting on the Trigger Date and ending on the date that the Scheme terminates.

During the Initial Scheme Period, the Company will operate on the same basis as it does now. That means that Scheme Creditors can make claims under or in connection with a relevant Insurance Contract in the same way as they do now. The Company will assess if the Scheme Creditor's claim is valid as usual and, if valid, the amount payable by the Company in respect of it (such amount being an

Established Scheme Liability). The Company will then pay the Established Scheme Liability in full in the ordinary course of business in accordance with the relevant Insurance Contract.

If at any point the Directors conclude that a Trigger Event has occurred, then the Reserving Period will commence. A Trigger Event occurs if the Directors have concluded that in their opinion, disregarding the effect of the Scheme on the Company: (a) the Company would be insolvent or would be likely to become insolvent at some future time; and/or (b) the value of the Company's assets would, or would be likely to become, less than its liabilities taking into account its contingent and prospective liabilities. For the purposes of this definition, "liabilities" means the Company's liabilities as recorded in its statement of financial position but excludes Risk Margin and any Shareholder Funding.

During the Reserving Period, Scheme Creditors will continue to be entitled to make an insurance claim under their Insurance Contract in the same way as they do now. However, where the Company determines that a Scheme Creditor has an Established Scheme Liability, the Company will not pay it in full at that time. Instead, the Company will pay a percentage (called the **Payment Percentage**) of that Established Scheme Liability. If it is determined at one or more later dates that it has sufficient funds to do so, the Company may pay further percentages of that Established Scheme Liability after it has made the initial payment. The relevant percentages will be determined as described in section 13.8 of the Explanatory Statement.

If a Trigger Event occurs, there would be a short period of delay (up to 90 days) to allow the Scheme Advisers to set appropriate Payment Percentages. Once Payment Percentages are set, amounts will be paid within 60 days of the relevant Established Scheme Liabilities being determined.

It is important to note that there can be no guarantee that the amount of Scheme Assets retained will be sufficient for further payments to continue to be made at the Payment Percentage. A loss of expected Scheme Assets, or an increase in Scheme Claims beyond what is expected, may result in a need to decrease the Payment Percentage for future payments. No adjustment is made to amounts previously paid if this occurs. However, any such risk should be reduced by the prudent setting of the Payment Percentages by the Scheme Advisers.

It is also important to note that the Scheme does not impact on the rights of persons with claims against a party insured by the Company to pursue their own claims against that party, including during the Reserving Period. The party insured by the Company will remain liable to claimants in respect of any such claims. In the circumstances where the Payment Percentage payable by the Company does not cover the full amount payable by a party insured by the Company to the claimant, this payment gap is the responsibility of that party to satisfy the claim in full. However, a person who is a Scheme Creditor in relation to an Insurance Contract by statute (for example, where the party insured by the Company has died, been deregistered or is being wound up, or cannot be found) is subject to the Payment Percentage and its rights against the Company are affected in the same way as other Scheme Creditors.

Parties insured by the Company should take advice and arrange their finances and manage their cashflow in manner that ensures they are in a position to satisfy all claims against them in full, even during the Reserving Period under the Scheme where the Payment Percentage payable by the Company may cover less than full value of the claim against that party.

Finalisation mechanism

During the Reserving Period, Scheme Creditors may resolve to bring the Scheme to an end early. This would activate a finalisation mechanism under which all remaining claims of Scheme Creditors (including contingent or prospective claims not yet due and payable) would be valued and paid out of the remaining Scheme Assets. Scheme Creditors with remaining (or prospective) claims would receive a lump sum, and would have no further rights to make claims under their policies on an ongoing basis.

The finalisation mechanism may be of use in circumstances where material progress has been made in clearing claims and the costs associated with continuing the Scheme are not justified in light of the volume of claims being received at that time. The mechanism is designed to align with what would occur if the Company was placed in a winding up.

The approval of the Company and the Scheme Advisers is required before the finalisation mechanism is activated.

If a Trigger Event does occur, the Company does not currently expect that the finalisation mechanism would be activated until material progress had been made on clearing current claims and claims on policies that would run-off within 2-3 years. This may take up to 10 years after the Effective Date.

Further details about how the Scheme will work are set out in the Explanatory Statement.

Directors' recommendation

The Directors believe that the Scheme is the best way to ensure an orderly and equitable run-off of the Company's business which improves the prospects of claims being paid in full. In any event, the Scheme provides for the fair and efficient handling and payment of claims whilst the Company remains solvent or should, at some point in the future, the Company be unable to meet its liabilities in full. The Directors also consider that the Scheme is in the best interests of the Scheme Creditors as compared with a winding up of the Company and that the Scheme will deal with all Scheme Creditors fairly in relation to their existing rights, irrespective of whether their claims have already been notified to the Company or whether they will be brought in the future.

For the reasons set out above, the Directors recommend that all Scheme Creditors who are entitled to vote, vote in favour of the Scheme. However, you are not obliged to follow the recommendation of the Directors and there are certain factors that may lead you to consider voting against the Scheme. You should read the Explanatory Statement for further information regarding the Scheme.

In making this recommendation, the Directors have considered the advantages and the potential disadvantages of the Scheme. Reasons to vote against the Scheme include:

- during the Reserving Period Scheme Creditors would not be able to enforce payment of Scheme Claims in excess of the amount reflected by the Payment Percentage,
- during the Reserving Period creditors with claims that are not Scheme Claims would be paid in full,
- the costs of the Scheme; and
- Scheme Creditors may prefer having the Company administered by an independent insolvency practitioner.

Some potential advantages and disadvantages of the Scheme are set out in more detail in Sections 8 and 9 of the Explanatory Statement.

Queries

If you have any questions in relation to the Scheme, or if you are unable to access the Creditor Portal, please email the Company at scheme@ccinsurance.org.au.

General

Capitalised terms not defined in this circular have the meaning given in the Explanatory Statement. The important notices on pages 3 to 6 of the Explanatory Statement apply to this document.

APPENDIX 1

IMPORTANT DATES

Event	Scheduled Date
The Company emails a website link to download the Explanatory Statement to Scheme Creditors that it has identified	28 September 2023
The administrators of the Creditor Portal established for the Scheme Meeting (Data Kit) emails individualised login details for the Creditor Portal to Scheme Creditors the Company has identified	28 September 2023
Deadline for persons that have not received an email from Data Kit who claim to be Scheme Creditors to contact the Company at scheme@ccinsurance.org.au to request to be included as a Scheme Creditor	5.00pm on 9 October 2023
Deadline for Scheme Creditors to register on the Creditor Portal by completing Module 1: Creditor Registration in the Creditor Portal	5.00pm on 16 October 2023
Data Kit emails Scheme Creditors who have completed Module 1 in the Creditor Portal to advise their respective Claims Estimate is available in the Creditor Portal	5.00pm on 18 October 2023
Deadline for completing Module 2: Proof of Debt and Module 3: Confirmation of Attendance or Appointment of Proxy in the Creditor Portal for voting purposes at the Scheme Meeting	5.00pm on 25 October 2023
Scheme Creditors who have completed Modules 1 to 3 of the Creditor Portal will be sent an email by Data Kit advising they can login to the Creditor Portal to access the value they have been admitted to vote for at the Scheme Meeting	5.00pm on 30 October 2023
Scheme Meeting Due to the disparate location of the Company's Scheme Creditors the meeting will be held virtually. No physical meeting will be held	12.00pm on 31 October 2023
Second Court Date	9.30am on 2 November 2023
Effective Date – the date on which the Scheme becomes Effective	The Business Day after the day on which the Court makes the Court Orders Currently expected to be 3 November 2023

The times and dates set out in the above table are indicative only and may be subject to change. All times referred to in this circular are references to times in Melbourne, Victoria, Australia, unless stated otherwise.

The actual times and dates will depend on many factors outside the control of the Company, including the Court approval process and the satisfaction of the conditions precedent to the Scheme. The Company reserves the right to vary the times and dates set out above, subject to the Act and the approval of any variations by the Court and/or ASIC where required.