

**The Hospitals
Contribution Fund
of Australia Ltd**

ACN 000 026 746

(HCF)

BOARD CHARTER

(In accordance with the PHIAC
Governance Standard)

Board approval date: 25 March 2010
Board Review dates: 26 August 2010

1. Organisation

This Charter governs the role, responsibilities and operations of the board of directors of the Hospitals Contribution Fund of Australia Limited (**HCF Board**). The Board shall review and reassess its charter annually.

Where capitalised terms are used in this Charter, they will have the meanings given to them in the constitution of HCF (**Constitution**), unless the contrary intention appears.

1.1 Membership

The number of Directors and the composition of the Board is determined in accordance with Rules 22 to 37 of the Constitution. These Rules deal with the appointment by the Board of up to 6 Appointed Directors, the election by Voting Contributors (or appointment by the Board) of up to 4 Elected Directors and the appointment of the Chief Executive Officer as a Managing Director.

Rule 22 states that the number of Directors must not exceed 11. There is no reference in the Constitution to the minimum number of Directors. In compliance with the PHIAC Governance standard, the Board will have a minimum of five Directors.¹

With the exception of the Continuing Directors (who are listed in Schedule 3 to the Constitution) and the Managing Director, each Director must satisfy and continue to satisfy, in the opinion of the Directors, the Director Eligibility Criteria (Rules 25.1 to 25.3 of the Constitution).² The Director Eligibility Criteria are set out in Schedule 4 to the Constitution and include the disqualification of a director being an employee (other than the Chief Executive Officer) of the company or its controlled entities³.

1.2 Independence

Rule 25.4 of the Constitution contemplates that a majority of the Directors must be Independent Directors.⁴ An Independent Director is a Director who, in the opinion of the Directors, is independent in accordance with the criteria set out in Schedule 5 to the Constitution. To be independent, a Director must be independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise by the Director of unfettered and independent judgment.⁵ Therefore, a majority of the Board must be non-executive directors.⁶

A Director shall not cease to be independent only because that Director is a director of a subsidiary of HCF.⁷

¹PHIAC Governance Standard – paragraph 1(1)

²PHIAC Governance Standard – paragraph 1(5)

³HCF Constitution - Schedule 4 subparagraph 4(a)

⁴PHIAC Governance Standard – paragraphs 1 (2),(3) & (4). Therefore, if the board consists of 5-7 directors, it must have at least 3 independent directors and if the board consists of 7 directors it must have at least 4 independent directors.

⁵HCF Constitution – Schedule 5 paragraph (2)

⁶PHIAC Governance Standard - paragraph 1(2)

⁷ PHIAC Governance Standard - paragraph 1(7) - Independent Directors on the Board of HCF or its subsidiaries can also sit as independent directors on the Board of the life company.

1.3 **Criteria for Independence**⁸

- 1) A Director will be regarded as independent when the Director:
 - (a) has not within the last three years been employed in an executive capacity by the Company or any controlled entity of the Company, or been a Director after ceasing to hold that employment;
 - (b) has not within the last three years been associated with, or a principal of, a material professional advisor or material consultant to the Company or any controlled entity of the Company or an employee materially associated with the service provided;
 - (c) is not a material supplier or customer of the Company or any controlled entity of the Company or an officer of or otherwise directly or indirectly associated with a material supplier or customer and has no material contractual relationship with the Company or any controlled entity of the Company other than as a Director;
 - (d) has not served as a Director for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company (and, to the extent required by the Private Health Insurance Act 2007, the interests of the Contributors); and
 - (e) is otherwise free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company (and, to the extent required by the Private Health Insurance Act 2007, the interests of the Contributors).
- 2) The Directors may determine that a Director is independent notwithstanding the existence of a relationship (including any of these specific relationships), where the Directors determine that the relationship could not materially interfere with, or could not reasonably be perceived to materially interfere with, the exercise by the Director of unfettered and independent judgment.
- 3) A relationship is material where the value of goods or services provided to or by the Company over the past three years accounts, in aggregate, for more than 5% of the gross revenue or expenses of either the Company or the other party over that three year period.
- 4) A lack of independence does not disqualify a Director. However, where the Directors determine that a Director is not independent, the Directors must decide the extent to which the lack of independence should be addressed by an alternative mechanism, such as:
 - (a) disclosure of the facts and circumstances giving rise to the lack of independence in the annual report of the Company;

⁸ HCF Constitution – Schedule 5 paragraphs (3) to (6)

- (b) excluding the Director from being present at any meeting at which a matter that is compromised by the lack of independence is being considered or decided; and
- (c) approving participation by the Director at any meeting at which a matter that is compromised by the lack of independence is being considered or decided, subject to any appropriate conditions.

Any or all of these alternative mechanisms may be appropriate in any given circumstances. The Directors will determine what is appropriate.

1.4 Residency of Directors

The majority of directors must ordinarily reside in Australia.⁹

1.5 Chairperson

The Chair must be an independent director¹⁰ and must not have been the Chief Executive Officer (or equivalent) of HCF at any time during the previous three years¹¹. However, if the position of Chief Executive Officer (or equivalent) is unexpectedly vacated, the chairperson may serve in the role for up to 90 days.¹²

1.6 Nomination & Appointment

Rule 50 of the Constitution contemplates the establishment of a Nominations Committee for the purpose of identifying candidates for election as Elected Directors and candidates for appointment as Appointed Directors. The Nominations Committee must be comprised of a majority of Independent Directors and chaired by an Independent Director, who may be the Chair. The Nomination Committee is presently comprised of all Independent Directors and chaired by the Chair. The Directors have established a separate charter for the Nominations Committee.

1.7 Board Skills

The Board has decided the company's interests are well served by having directors and committee members with specific skills, expertise and experience the company requires who provide services to the company on normal commercial terms and conditions provided full disclosure is made to stakeholders in the Annual Report. In particular, the Directors shall have the skills, knowledge and experience for HCF's Group businesses, including the private health insurance business, to:

- a) understand collectively the risks to the HCF Group;
- b) understand the Group's legal and prudential obligations;
- c) oversee effectively the management of the HCF Group; and
- d) contribute effectively to the Board's deliberations and processes.¹³

1.8 Purpose

The Board is responsible for the overall governance of the HCF group including ensuring the continuity of the businesses and the long term viability of the organisation.

⁹ PHIAC Governance Standard - paragraph 3(1)

¹⁰ PHIAC Governance Standard - paragraph 2(1)

¹¹ PHIAC Governance Standard - paragraph 2(2)

¹² PHIAC Governance Standard - paragraph 2(4)

¹³ PHIAC Governance Standard – paragraph 1(5) & 5(d)

The Board's objectives & responsibilities include:

- Appointing and removing the chief executive officer
- Ratifying the appointment of the chief financial officer and company secretary
- Setting the strategic direction and performance objectives consistent with corporate strategy
- Reviewing and ratifying systems of risk management, regulatory compliance, internal control and codes of conduct
- Allocating appropriate human and financial resources
- Approving acquisitions and divestitures
- Approving capital expenditure and monitoring the progress of capital projects
- Appointing and removing the external and internal auditors
- Monitoring the quality of health care received by contributors
- Monitoring senior management's performance against agreed criteria, including for relevant senior management, the effectiveness of risk controls
- Ensuring the company's assets are safeguarded
- Ensuring the integrity of financial statements
- Establishing and maintaining performance objectives and remuneration systems appropriate for a not for profit enterprise and for profit subsidiaries
- Ensuring that there is regular and appropriate sharing of information and ideas between the Board and the board of subsidiary companies, particularly with respect to the key performance indicators of the Group.¹⁴

Directors are encouraged to exercise independent thinking and judgment in the discharge of their responsibilities.¹⁵

1.9 Meetings & Board decisions

The Board shall meet at least ten times each year at approximately monthly intervals. Meetings shall be conducted in accordance with the Constitution with a quorum of 5 Directors entitled to vote.¹⁶ The purpose of these meetings is to:

1. Monitor performance in achieving the strategic objectives of the Group
2. Approve operational goals for management including the annual operating plan and budget
3. Approve the annual internal and external audit plans and monitor their progress
4. Monitor financial results, investigate deviations from plans and approve corrective action programs
5. Confirm the effectiveness of risk management and compliance procedures and practices
6. Review recommendations of independent outside consultants including actuaries, accountants, auditors, lawyers, investment managers, remuneration specialists and other subject matter experts
7. Review and approve the annual financial report
8. Approve remuneration of senior managers. Recommend directors' fees to Members for approval at the Annual General Meeting.

Meetings and decisions of the Board shall be formally structured in accordance with the Constitution, held in appropriate facilities with Agendas, supporting papers and Minutes of prior meetings distributed sufficiently in advance.¹⁷

The independent directors shall meet in private session at least annually to assess management's effectiveness.

¹⁴ PHIAC Governance Standard - paragraph 5(d)

¹⁵ PHIAC Governance Standard - paragraph 5(c)

¹⁶ PHIAC Governance Standard - paragraph 5(b)

¹⁷ PHIAC Governance Standard - paragraph 5(b)

2. Duties and responsibilities

2.1 Understanding the business

The Directors shall ensure they understand the industries in which the Group companies operate together with the companies' structure, operations, controls, regulatory obligations, current technology, types of transactions and political/economic environment in order to adequately assess the significant risks faced by the Group in achieving its primary goal of ensuring business continuity and long term viability.¹⁸

2.2 Ethical standards

Directors shall act in the best interests of the company. They shall observe the Code of Conduct adopted by members of Australian Health Insurance Association and HCF's Code of Conduct which sets out the ethical behavior and professional conduct expected from all HCF colleagues and business partners including dealings with:

- Customers and consumers
- Suppliers
- Advisors and regulators
- Competitors
- The community
- Employees

2.3 Time commitment

Directors shall ensure they devote sufficient time to properly perform their duties to HCF.

2.4 Induction training

Newly appointed / elected directors shall undertake the informal induction training provided by the company including the extensive reading of relevant material, presentations by managers and visits to worksites if required.

2.5 Conflict of interest

In accordance with HCF's constitution, the Corporations Act and current best practice, directors shall disclose to the Board details of transactions which may create a conflict of interest. Directors shall not participate in discussion or voting on matters put to the Board in which they may have a personal interest. Directors shall follow the Board's procedures to assist them in disclosing potential conflicts of interest.

2.6 Independent professional advice

Each director of the parent company and its subsidiaries shall have the right to seek independent professional advice at HCF's expense. Directors shall obtain the prior approval of the Chairman, which shall not be unreasonably withheld.

2.7 Board Committees

The Board shall establish committees to assist it in discharging its responsibilities. The committees

¹⁸ PHIAC Governance Standard - paragraph 5(d)

shall have written charters approved by the Board. The Committees' charters shall set out their roles and responsibilities. The role of a Committee is to operate within the terms of its charter and to make recommendations to the Board for decision.¹⁹

Parent company committees established are the Audit, Risk & Compliance Committee, Nominations Committee and Remuneration Committee.

2.8 Roles & Responsibilities of Management

The Board shall approve a Corporate Governance Statement that includes the roles and responsibilities of management. The Board has specifically reserved some matters for its decision and delegates authority for all other matters that are necessary for the day-to-day management of the Group's business to management through the Managing Director.²⁰

2.9 Delegation

The Board may delegate its authority to a person or Committee.²¹ Such delegation must be in writing.²² The Board must:

- a) ensure there are procedures for it to monitor the exercise of delegations; and
- b) not abrogate its responsibilities through the use of delegations.²³

2.10 Communications with stakeholders

The Board shall review and discuss press releases as well as financial information and statutory returns required by regulators. The Board shall delegate the Chairman or Managing Director as spokesperson on issues and events as it sees fit.

2.11 Board Performance

The Board shall perform an evaluation of its performance annually to determine whether it is functioning effectively by reference to current best practice, its objectives and regulatory obligations.²⁴ This evaluation must provide for an assessment of individual directors, Board committees and the Board collectively.²⁵

In assessing the performance of an individual director, the Board shall amongst other things consider:

- a) whether a director demonstrates the required expertise for the role;
- b) attendance and participation at board meetings; and
- c) their contribution to Board deliberations and the overall direction of the HCF Group.²⁶

2.12 Board Renewal²⁷

As soon as practicable after the adoption of this Charter, the Board shall conduct a review and assessment of the composition of the Board, with a view to making such changes to its composition as considered appropriate and necessary to ensure its continued compliance with this policy²⁸, any regulatory requirements, independence, expertise, independent thinking,²⁹ openness to new ideas,³⁰ and responsiveness to change.

¹⁹ PHIAC Governance Standard - paragraph 5(a) – Refer to Committee charters for details of their roles and responsibilities as approved by the Board.

²⁰ PHIAC Governance Standard - paragraph 5(a)

²¹ PHIAC Governance Standard - paragraph 6(1) and HCF Constitution paragraph 48.1

²² PHIAC Governance Standard - paragraph 6(2)

²³ PHIAC Governance Standard - paragraph 6(3)

²⁴ PHIAC Governance Standard – paragraph 8

²⁵ PHIAC Governance Standard - paragraph 8(2)

²⁶ PHIAC Governance Standard - paragraph 8 (examples)

²⁷ PHIAC Governance Standard – paragraph 9

²⁸ PHIAC Governance Standard - paragraph 9(b)

²⁹ PHIAC Governance Standard - paragraph 9(a)

³⁰ PHIAC Governance Standard - paragraph 9(a)