

## 1. Corporate Governance Framework

The Board of Directors of The Hospitals Contribution Fund of Australia Limited (HCF) has overall responsibility for the corporate governance of the HCF Group. The Board also guides and monitors the business affairs of the HCF Group.

### 1.1 Profile of HCF

HCF is registered under the *Corporations Act 2001* as a public company limited by guarantee. It is also registered under the *Private Health Insurance Act 2007* as a private health insurer. HCF has no share capital and as such, no shareholders. The corporate Members of the Company are known as 'Constituents'.

It is operated on a not-for-profit basis as HCF's Constitution prohibits any distribution of surplus or assets to the Members of the Company\*.

HCF is governed by a Board of Directors. In addition to the circumstances in which any Director may be removed or may retire by rotation, HCF's Constitution and the *Corporations Act 2001* empowers the Members of the Company to remove any Director by ordinary resolution at a general meeting.

HCF's Constitution also mandates that every five years an independent expert must review HCF's corporate governance structure to determine whether it is operating efficiently and as intended and reflects then current best practice, and whether any refinements or changes to it should be submitted to the Members of the Company for approval. In accordance with this requirement, HCF appointed an independent consultant to review the governance structure. Changes arising from that review will be presented to Members of the Company (Constituents) at the Annual General Meeting in November 2011. This will include seeking approval to make changes to the Company's Constitution.

A reference to or statement about HCF relates to all companies within the HCF Group. The operating companies within the HCF Group are The Hospitals Contribution Fund of Australia Limited, HCF Life Insurance Company Pty Limited and Manchester Unity Australia Limited and its subsidiary Treytell Pty Limited.

\* A reference to a "Member of the Company" is to the meaning as defined in the *Corporations Act 2001*. It does not mean a member of the health fund, a policyholder or a contributor.

Contributors/policyholders are not corporate Members and have no rights or entitlements under the HCF Constitution, beyond the right, for those contributors/policyholders who are Voting Contributors to participate in the election of Elected Directors in accordance with the HCF Constitution, Contributors/policyholders are customers of HCF, with rights and obligations under the rules of the health benefits fund.

### 1.2 Policy, framework and approach to corporate governance

HCF's policy on corporate governance is to promote a culture, including appropriate values and behaviours, that underpins its everyday activities, that ensures transparency and accountability and that protects stakeholder interests.

This policy includes a commitment to best practice governance standards, which the Board sees as fundamental to the sustainability of HCF's businesses and performance.

In pursuing this commitment, the Board continues to:

- monitor Australian developments in best practice corporate governance;
- contribute to debates on what represents best corporate governance for the health insurance, life insurance, and retirement and aged care industries; and
- review and improve its governance practices.

HCF has taken into account the "Corporate Governance Principles and Recommendations" as amended in June 2010 ("Best Practice Recommendations") by the ASX Corporate Governance Council [ASXCGC], Australian Standard AS8000 – Good Governance Principles, Private Health Insurance Administration Council's (PHIAC's) Governance Standard and Private Health Insurance Code of Conduct developed under the auspices of the Australian Health Insurance Association and so far as HCF's subsidiary HCF Life Insurance Company Pty Limited is concerned, the Australian Prudential Regulation Authority's (APRA's) Prudential Standards.

HCF has also posted copies of this Corporate Governance Statement on its website [www.hcf.com.au](http://www.hcf.com.au) under the corporate governance section.

### 1.3 Compliance with the ASXCGC's Best Practice Recommendations

The ASX listing rules require listed entities to include a statement in their annual report disclosing the extent to which they have followed the ASXCGC Principles and Recommendations during the reporting period, identifying any recommendations that have not been followed and providing reasons for that variance.

Although HCF is not a listed entity and thus not required to comply with ASX listing rules, the Board considers it appropriate to adopt the relevant ASXCGC recommendations in the company's governance policies and practices. Where relevant, ASXCGC rule references are noted.

## 2. Date of this statement

This Corporate Governance Statement reflects HCF's corporate governance policies and practices as at 29 September 2011.

## 3. The Board of Directors

### 3.1 Membership and expertise of the Board

The Board has a broad range of relevant financial and other skills, experience and expertise to meet its objectives. The composition of the Board, together with details of each Director's background, is set out in the Directors' Report contained in the Annual Report. The Board considers that the current non-executive Directors bring the right mix of skills, knowledge, expertise, independence and experience necessary to govern the HCF Group. The Managing Director is the only executive director. All Directors have experience of the social and environmental context in which the businesses operate. The Board's approach to selection, performance evaluation and tenure of Directors is described below in this Corporate Governance Statement.

#### ASXCGC's Best Practice Recommendation 2.6

### 3.2 Board role and responsibility

The roles and responsibilities of the Board are formalised in the Board Charter. The Board Charter also defines the matters that are reserved for the Board, and those that the Board has delegated to Committees or to management. In summary, the Board is accountable to the Members of the Company (Constituents) for HCF's performance and its responsibilities which include:

- strategy – providing strategic direction and approving corporate strategic initiatives;
- financial performance – approving HCF's operating plan and budget, monitoring management and financial performance;
- financial reporting – considering and approving HCF's annual financial statements;
- audit – selecting and recommending to Members of the Company (Constituents) the appointment of the External Auditor. Determining the duration, remuneration and terms of appointment of the External Auditor and evaluating their performance and ongoing independence. Maintaining a direct and ongoing dialogue with the External Auditor;
- actuary – selecting the Appointed Actuary. Determining the duration, remuneration and terms of appointment of the Appointed Actuary and evaluating their performance and ongoing independence. Maintaining a direct and ongoing dialogue with the Appointed Actuary;
- risk management – approving HCF's risk management strategy and monitoring its effectiveness;
- corporate responsibility – considering the social, ethical and environmental impact of HCF's activities, setting standards and monitoring compliance with those standards;

- relationship with regulators – maintaining dialogues with the Private Health Insurance Administration Council [PHIAC], the Commonwealth Department of Health and Ageing [DoHA], the Australian Securities and Investments Commission [ASIC], the Australian Prudential Regulation Authority [APRA], the Private Health Insurance Ombudsman [PHIO] and other regulators;
- board performance and composition – evaluating the performance of non-executive Directors, and determining the size and composition of the HCF Board as well as approving the selection of appropriate persons for appointment and election as Directors;
- leadership selection – evaluating the performance of and selecting the Managing Director;
- succession planning – planning for Board and Executive succession; and
- remuneration – setting Managing Director remuneration, and recommending non-executive Director remuneration within guidelines furnished by the independent external remuneration consultants, for approval by the Members of the Company.

The Board has delegated a number of these responsibilities to its Committees. The responsibilities of these Committees are detailed in section 4 of this Corporate Governance Statement.

The Board has delegated to management responsibility for:

- strategy – developing and recommending corporate strategies and strategic initiatives, and implementing agreed strategies and initiatives;
- financial performance – developing HCF's annual operating plan and budget for approval and managing day-to-day operations within the approved budget;
- risk management – maintaining an effective risk management framework;
- continuous disclosure – keeping the Board fully informed about material developments;
- corporate responsibility – managing day-to-day operations in accordance with standards for social, ethical and environmental practices, which have been set by the Board; and
- senior management selection – making recommendations for the appointment of senior management, determining terms of appointment, evaluating performance, and developing and maintaining succession plans for senior management roles.

HCF's Board Charter is available in the corporate governance section of its website at [www.hcf.com.au](http://www.hcf.com.au).

#### ASXCGC's Best Practice Recommendation 1.1

### 3.3 Board size and composition

As at the date of this Corporate Governance Statement there are nine non-executive Directors and one executive Director on the Board. The Constitution provides for a maximum of eleven Directors. On the recommendation of the Nominations Committee the Board appoints up to six non-executive Directors and selects candidates for election by Voting Contributors to fill four independent non-executive director positions. The Board appoints the Chief Executive Officer as the Managing Director.

The Nominations Committee assesses the Board composition and size from time to time and may make recommendations to the Board for changes to the Board composition and size. The Nominations Committee also assesses the skills required to discharge the Board's duties, having regard to HCF's business mix, financial position and strategic direction, including specific qualities or skills that the Nominations Committee believes are necessary for one or more of the Directors to possess.

It is envisaged that another Elected Director will be appointed in October 2011 to fill a casual vacancy under rule 32.1 of the Constitution.

### 3.4 The selection and role of the Chairman of the Board

The Directors elect one of the independent non-executive Directors to be Chairman. The Chairman's role includes:

- providing effective leadership on formulating the Boards' strategy;
- ensuring the Board meets at regular intervals throughout the year, and that minutes of meetings accurately record decisions taken and, where appropriate, the views of individual Directors;
- guiding the agenda and conduct of all Board meetings;
- representing the views of the Board to the public;
- ensuring that, when all Board members take office, they undertake appropriate induction covering the terms of their appointment, their duties and responsibilities; and
- reviewing the performance of non-executive Directors.

The Chairman of the Board, John Dunlop, is an independent non-executive Director. He has been a Director since 1997 and Chairman of HCF since March 2009. The Chairman of the Board is also the Chairman of the Nominations Committee and the Remuneration Committee.

### ASXCGC's Best Practice Recommendation 2.2, 2.3

### 3.5 Director independence

HCF's Constitution requires that a majority of the Directors must be independent and specifies the criteria to be used to determine whether a Director is independent. The criteria are:

1. The Directors must affirmatively determine whether or not a Director is independent, initially at the time of appointment or election and thereafter on a periodic basis. Each Director must provide the Directors with all information required by the Directors to make their determination. Each Director must also, whenever requested to do so, affirm to the Directors whether or not the Director is independent.
2. 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.
3. 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).
4. 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.

5. 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.
6. 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;
  - (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.

[ASXCGC's Best Practice Recommendation 2.1, 2.6](#)

### 3.6 Avoidance of conflicts of interest by a Director

The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (actual or potential) between their duty to HCF and their own interests. The Board has adopted a procedure to ensure that conflicts and potential conflicts of interest of Directors are disclosed to the Board. Any Directors with a material personal interest in a matter being considered by the Board must declare their interest and, unless the Board resolves otherwise, they may not participate in boardroom discussions or vote on matters on which they face a conflict. In addition, Directors are required to disclose any actual or potential conflict of interest on appointment as a Director and are required to keep these disclosures up to date.

Directors may not make any representations or agreements on behalf of HCF unless such an authority is explicitly delegated by the Board, through a resolution to the director either individually, or as a member of a Board committee.

### 3.7 Meetings of the Board and its conduct

The Board has up to eleven scheduled meetings each year and meets whenever necessary between scheduled meetings to deal with specific matters needing attention. The Board meets annually to discuss HCF's strategic plan and to set the overall strategic direction of the organisation. The Chairman and the Managing Director establish meeting agendas, for assessing HCF's coverage of financial, strategic and major risk areas, throughout the year. The Directors have the opportunity to review meeting materials sufficiently in advance. Directors

are always encouraged to participate with a robust exchange of views and to bring their independent judgements to bear on the issues and decisions at hand. In addition to their formal meetings, the Board is encouraged to attend periodic development seminars to enhance Directors' knowledge of governance matters and related key issues facing HCF and the private health insurance industry. Senior managers attend Board meetings as requested, which includes attending quarterly to present a review of operations for their business units. Senior managers are personally questioned by Directors on their responsibilities, performance, problem areas and action programs for improvement. Senior managers are also available to be contacted by Directors between meetings.

The Board and Committees meets without executive management at least once a year or as required.

Meetings attended by Directors for the past financial year are reported in the Directors' Report contained in the Annual Report.

Minutes are kept and reviewed by the respective Board and Committee Chairmen and then approved by the respective Board and Committee Members at the following meeting. Minute books are retained.

### 3.8 Succession planning

The Board (through the Nominations Committee) plans succession of its own members and is responsible for developing and implementing succession planning for non-executive Directors, taking into account the challenges and opportunities facing HCF and the skills and expertise which are needed by the Board in the future. The Board is responsible for Managing Director succession planning.

### 3.9 Review of Board, Board Committee and Director performance

The Board undertakes ongoing self-assessment and reviews the performance of the Board, Board Committees and individual Directors annually. This is to ensure that the Board and Board Committees are working effectively. The performance review process is conducted internally and may include written surveys of Directors based on best practice questionnaires designed by external bodies. These reviews are wide-ranging and include, amongst other things, each Director's contribution to Board discussions, best features and recommendations for improvement. The collated results are reviewed by the Board and Board Committees.

A performance review for the Board, its Committees and Directors is conducted annually in accordance with this process.

The review of Directors conducted in 2010 included engagement of an external consultant interviewing each Director individually and discussing the results with the Chairman, who in turn reviewed the performance of the Board, Board Committees and the Director's performance with each Director.

[ASXCGC's Best Practice Recommendation 2.5, 2.6](#)

### 3.10 Nomination and appointment of new HCF Directors

HCF may have a maximum of 11 Directors: Up to six Directors may be appointed by the incumbent Directors and up to four Directors may be elected by Voting Contributors. The Chief Executive Officer, who is appointed by the Directors, is automatically appointed as the Managing Director.

Voting Contributors are invited to nominate candidates for election as Elected Directors. External consultants may also be used to access a wide base of potential candidates.

Potential candidates for appointment or election as Directors are first selected by the Nominations Committee and then submitted to the Board for approval. The Nominations Committee reviews potential candidates by reference to the Director Eligibility criteria specified in the Constitution, having regard to the potential candidate's experience and other qualities.

Those selected by the Nominations Committee are further assessed by the Board against the Director Eligibility Criteria specified in the Constitution, including background, experience, professional skills, personal qualities, whether their skills and experience will complement the existing Board and their availability to commit themselves to the Board's activities.

Depending on vacancies, potential candidates are selected as an appointed director or for nomination as an Elected Director. The Elected Director nominee then commences the election process. Voting Contributors are provided with relevant information on the candidates for election.

New Directors receive a Letter of Appointment, which sets out their duties, their terms and conditions of appointment, and the expectations of the role and remuneration.

If the Board appoints a new Director during the year to fill a casual vacancy in the position of a Director elected by Voting Contributors, that person must stand for election by Voting Contributors at the next election. The Nominations Committee reviews appointment criteria from time to time and makes recommendations concerning the re-election of any Director by Voting Contributors or appointment of any Director by the Board. As part of the process of considering whether to support the re-election of a Director, the Nominations Committee conducts a peer review of that Director during the year in which that Director will become eligible for re-election.

### 3.11 Term in office and retirement and re-election of Directors

HCF's Constitution states that at each annual general meeting one-third of its Directors, excluding the Managing Director, must retire. In addition, the maximum time that each Director can serve in any single term is three years. Retiring Directors are eligible for consideration by the Nominations Committee for re-appointment by the Board or for re-election by Voting Contributors. The Nominations Committee evaluates the contribution of retiring Directors through a peer review process. The Constitution does not and the Board has not, specified the maximum number of terms of office that any Director may serve.

### 3.12 Director education

When appointed to the Board, all new Directors undergo an informal induction program appropriate to their experience to familiarise them with matters relating to HCF's business, strategy and any current issues before the Board. The induction program includes meetings with the Chairman, the Managing Director, each Chairman of the respective Board Committees, each General Manager and the Company Secretary. The Board ensures Directors continue their education by participating in appropriate programs and attending relevant worksite visits. This allows existing Directors time in each business area to gain a greater understanding of key issues. HCF's Company Secretary provides Directors with ongoing guidance on matters such as corporate governance, HCF's Constitution and the law.

### 3.13 Board access to information and advice

All Directors have unrestricted access to company records and information and receive regular detailed financial and operational reports from executive management to enable them to carry out their duties. Each Director enters into a Deed of Access, Indemnity and Insurance with HCF to ensure seven year access to documents after retirement as a Director. The Chairman and other non-executive Directors regularly consult with the Managing Director, the Chief Financial Officer, the Company Secretary, and other General Managers and may consult with, and request additional information from, any HCF employee including the Chief Internal Auditor, the Group Risk Manager and the Group Compliance Manager.

The Board, and each Director individually, has the right to seek independent professional advice, at HCF's expense, to help them carry out their responsibilities. While the Chairman's prior approval is needed, it may not be unreasonably withheld and, in the Chairman's absence, approval of the Board may be sought.

[ASXCGC's Best Practice Recommendation 2.6](#)

### 3.14 Company Secretary

The Group Company Secretary (and General Manager Risk & Compliance) is Ian McDonald, FCA. Mr McDonald joined HCF in 1991 as Chief Internal Auditor and was appointed to his present role in September 2006 with responsibility for the management and delivery of company secretarial, legal, compliance and risk management services to the HCF Group. Prior to his current appointment he was HCF's General Manager Finance (Chief Financial Officer) from October 1995 and was a partner at Touche Ross & Co / KPMG from 1979 to 1991 providing assurance, financial and taxation consulting services to large and medium sized public and private companies. Responsibilities for the Secretarial function include providing advice to Directors and officers on corporate governance and regulatory matters, developing and implementing HCF's governance framework and giving practical effect to the Board's decisions. All Directors have access to advice from the Company Secretary.

## 4. Board Committees

### 4.1 Board Committees and membership

There are currently three Board Committees of HCF whose powers and procedures are governed by HCF's Constitution and the relevant Committee's Charter, as approved by the Board. The Board Committees and their membership at 29 September 2011 are set out in the table following.

### 4.2 Committee Charters

The roles and responsibilities of each Committee are set out in the respective Committee Charters, which are reviewed annually. Copies of the Committee Charters are available in the corporate governance section at HCF's website [www.hcf.com.au](http://www.hcf.com.au).

### ASXCGC's Best Practice Recommendation 4.3

### 4.3 Committee procedures

#### a) Operation of the Committees and reporting to the Board

The Board's Audit, Risk and Compliance Committee meets quarterly. The Nominations Committee meets annually and at other times as required. The Remuneration Committee meets at least twice a year and at other times as required. Each Committee is entitled to the resources and information it requires, including direct access to employees and external advisers as well as appropriate funding. The Managing Director, senior executives, other selected employees and external independent experts are invited to attend Committee meetings as necessary. All Directors receive all Committee Agenda papers including minutes of past meetings, and can attend all Committee meetings as an invitee, subject to there not being a conflict of interest. They are entitled to ask questions and express their views.

#### b) Composition and independence of the Committees

Committee members are chosen for the skills, experience and other qualities they bring to the Committees. The Audit, Risk and Compliance Committee is required to have at least three independent non-executive Directors as members. The Nominations Committee is composed of all independent non-executive Directors. When independent non-executive Directors are being considered for re-appointment or re-election as Directors, they do not participate as members of the Nominations Committee unless and until they are re-appointed or re-elected. The Remuneration Committees is composed of three independent non-executive Directors.

#### c) How the Committees report to the Board

Following each Committee meeting, the Board is given a report by the Chairperson of each Committee. Where possible draft minutes of the Committee are provided or, if not possible within the time frame, a written summary of the meeting is provided. Committee Agenda items are referred for noting and for all material items are referred to the Board with a recommendation as required. Final Minutes of meetings of Committees are subsequently distributed to every Director, unless a conflict of interest situation arises.

## 4.4 Audit, Risk and Compliance Committee

### a) Role of the Committee

The Audit, Risk and Compliance Committee, which currently comprises four independent non-executive Directors, oversees all matters concerning:

- integrity of the financial statements and financial reporting systems;
- compliance with financial reporting and related regulatory requirements including the financial condition report of the Appointed Actuary;
- the identification, assessment, controls and treatment of risks;
- fraud control;
- performance of the internal audit function;
- making recommendations to the Board for the appointment of the Appointed Actuary
- making recommendations to the Board for the appointment of the External Auditor; and
- External Auditor's qualifications, performance and independence.

The Board approves the external and internal audit plans on the recommendation of the Audit, Risk and Compliance Committee.

The Committee ensures that all recommendations arising from internal and external audits are reviewed and implemented where appropriate and reasons given when recommendations have not been implemented. The Committee is provided with a status report for all recommendations provided by the Internal Auditor and External Auditor for which it is agreed action is required. These reports include the responsible officers and implementation dates for those agreed actions.

### b) Integrity of the financial statements

The Audit, Risk and Compliance Committee considers whether the accounting methods applied by management are consistent and comply with applicable accounting standards and concepts. The Committee reviews and assesses:

- any significant estimates and judgments in financial reports and monitors the methods used to account for unusual transactions;
- the processes used to monitor and ensure compliance with laws, regulations and other requirements relating to external reporting of financial and non-financial information; and
- the major financial risk exposures and the process surrounding the disclosures made by senior executives in connection with their personal certifications of their respective responsibility for information disclosed in the annual financial statements.

## c) External audit

The Audit, Risk and Compliance Committee is responsible for making recommendations to the Board concerning the appointment of HCF's External Auditor and the terms of engagement. The Committee reviews the performance of the External Auditor and regularly reviews the policy on the independence of the External Auditor. This evaluation includes questioning the External Auditor annually on the External Auditor's internal quality control procedures and consideration of any inquiry or investigation by governmental or professional authorities, within the preceding five years in respect of assignments carried out by the External Auditor. As well, the capabilities of the audit engagement staff are considered. All potential non audit engagements must be pre-approved on a case by case basis and should be submitted to the Chief Financial Officer, General Manager Risk & Compliance or Managing Director for approval prior to being commissioned, within normal delegations. Engagements exceeding these delegations will be submitted to the Committee Chairman. The External Auditor shall not be engaged to perform any non-audit services that impair or appear to impair the External Auditor's judgment or independence in respect of the company. Management shall present the details of approved non-audit engagements to the full Committee at its next scheduled meeting.

The External Auditor reports on their findings to this Committee.

## d) Internal audit

The Audit, Risk and Compliance Committee approves the appointment and replacement of the Chief Internal Auditor and reviews the internal audit responsibilities including the audit plan, budget and staffing.

## e) Appointed Actuary

The Audit, Risk and Compliance Committee is responsible for making recommendations to the Board concerning the appointment of the Appointed Actuary and the terms of engagement. The Committee reviews the Appointed Actuary's performance.

## f) Committee access to the External Auditor, Internal Auditor and Appointed Actuary

The Committee meets with the External Auditor, the Internal Auditor and the Appointed Actuary without management being present. Committee members are able to contact the External Auditor, Internal Auditor or Appointed Actuary directly at any time.

The External Auditor, Internal Auditor and Appointed Actuary have direct access to discuss matters in private and with confidentiality with the Chairman and/or Chairman of the Audit, Risk and Compliance Committee, as required.

## g) Compliance with financial reporting and related regulatory requirements

The Audit, Risk and Compliance Committee is responsible for ensuring compliance with applicable financial reporting and related regulatory requirements. The Committee, amongst other things:

- discusses with management and the External Auditor, HCF's major financial risk exposures and the steps management has taken to monitor and control such exposures, including HCF's risk assessment and risk management policies;
- discusses with the External Auditor their report regarding significant findings in the conduct of their audit and the adequacy of management's response;
- discusses with management and the Appointed Actuary, the Appointed Actuary's financial condition report;
- discusses with management, the External Auditor and the Appointed Actuary the annual financial statements;
- discusses with management, the External Auditor and Appointed Actuary correspondence with regulators or government agencies and reports which raise issues of a material nature;
- discusses with the Company Secretary, Chief Financial Officer or legal advisors legal matters that may have a material impact on the financial statements and/or HCF's compliance with financial reporting and related regulatory policies; and
- establishes procedures for the receipt, retention and treatment of financial complaints, including accounting, internal accounting controls or auditing matters and the confidential or anonymous submission by employees of concerns regarding accounting or auditing matters.

## h) Financial knowledge of Committee members

The Audit, Risk and Compliance Committee includes members who have appropriate financial experience and an understanding of the industry in which HCF operates. All members of the Audit, Risk and Compliance Committee satisfy the independence requirements under the ASXCGC Best Practice Recommendations and PHIAAC Governance Standard.

The Audit, Risk and Compliance Committee relies on the information provided by management, the Internal Auditor, the External Auditor and the Appointed Actuary. Management determines that HCF's financial statements and disclosures are complete and accurate. The External Auditor has the duty to plan and conduct audits. Further information on audit governance and independence is included in section 5 of this Corporate Governance Statement.

## i) Risk Management oversight

The Audit, Risk and Compliance Committee oversees the risk profile of HCF within the context of the risk management strategy determined by the Board. The determination of this strategy includes recommendations from the Managing Director and senior management on the parameters of the HCF risk management profile and appropriate strategies to mitigate those risks. The Committee monitors the alignment of risk profile with current and future capital/liquidity requirements and oversees the risks inherent in HCF's operations. For all risk types this includes:

- reviewing and approving the framework for managing HCF's operational and compliance risks;
- ensuring the development and ongoing review of appropriate policies that support HCF framework for managing risk;
- ensuring effective monitoring of the risk profile, performance, and management and control of HCF's risks;
- determining, approving and reviewing the limits and conditions that apply to the taking of risk, including the authority delegated by the Board to the Managing Director, Chief Financial Officer and General Manager Risk & Compliance.

The Committee's involvement includes reviewing HCF major corporate risks and the risk mitigation plans to reduce those risks, including:

- reviewing HCF's provisioning methodology;
- reviewing HCF's capital management plan and ensuring appropriate monitoring of funding and liquidity requirements;
- reviewing operational risk – the risk that arises from inadequate or failed internal processes, people and systems or from external events; and
- reviewing compliance risk – ensuring processes are in place to anticipate and effectively manage the impact of regulatory change on HCF's operations, and overseeing compliance with applicable laws, regulations and regulatory requirements, and any published reports that raise material issues for HCF, and ensuring procedures exist for appropriately managing complaints and whistleblower concerns.

ASXCGC's Best Practice Recommendation 4.1, 4.2

## 4.5 Nominations Committee

### a) Composition of the Committee

The Nominations Committee comprises all the Independent Directors.

### b) Role of the Committee

The primary function of the Nominations Committee is to review procedures to assist the Board in fulfilling its oversight responsibility by ensuring that the Board comprises individuals best able to discharge the responsibilities of directors, having regard to the law and the highest standards of governance. The Committee is responsible for:

- developing and reviewing policies on Board composition, strategic function and size;
- reviewing Director independence;
- performance review process of the Board, its Committees and individual Directors;
- succession planning for the Board;
- assessing eligibility of potential candidates nominated for election as Directors;
- recommending potential candidates for appointment or election as Directors to the Board; and
- developing and implementing induction programs for new Directors and ongoing education for existing Directors.

ASXCGC's Best Practice Recommendation 2.4, 2.5

## 4.6 Remuneration Committee

### a) Composition of the Committee

The Remuneration Committee comprises three independent directors (including the Chairman of the Committee).

### b) Role of the Committee

The Remuneration Committee assists the Board by working to ensure that HCF has remuneration policies and practices that fairly and responsibly reward executives. The Committee's decision on reward structures are based on business performance, legal obligations and high standards of corporate governance. The Committee's purpose is to:

- review and recommend to the Board on corporate goals and objectives relevant to the Managing Director, and the performance of the Managing Director in light of these objectives;
- recommend to the Board on the remuneration of the Managing Director;
- recommend to the Board remuneration packages for positions reporting directly to the Managing Director;
- review and recommend to the Board executive remuneration policy;
- recommend to the Board all performance recognition expenditure;
- oversee general remuneration practices across the HCF Group; and
- review and recommend to the Board, on the advice of independent external consultants, Directors' fees.

Independent remuneration consultants are engaged by the Committee to ensure that HCF's reward practices and levels are consistent with market practice. Remuneration of non-executive Directors comprises Directors fees and the applicable superannuation contributions. Remuneration of the Executive Director and senior executives comprises a combination of fixed remuneration that reflects core performance requirements and expectations and performance based remuneration that is linked to clearly specified performance targets. A performance review for senior executives was conducted in this reporting period in accordance with this process.

The Committee also reviews and recommends to the Board on the recruitment, retention, termination, and succession planning policies and procedures for the Managing Director and senior positions reporting directly to the Managing Director.

ASXCGC's Best Practice Recommendation 1.2, 1.3, 8.1, 8.2, 8.3.

## Membership of HCF Board and HCF Board Committees as at 29 September 2011

Board	Audit, Risk and Compliance Committee	Nominations Committee <sup>o</sup>	Remuneration Committee
R A Birchall	R A Birchall	R A Birchall	S P Coppock
S P Coppock	S P Coppock	S P Coppock	J A B Dunlop*
J A B Dunlop*	L J Stone	J A B Dunlop*	R J Schneider
R J Goaley	G W Wright*	R J Goaley	
S M Larkin#		M E Rummery	
M E Rummery		R J Schneider	
R J Schneider		L J Stone	
T J Smith		G W Wright	
L J Stone			
G W Wright			

\* Denotes Chairman

<sup>o</sup> Directors and Committee members are excluded from those meetings where independence/ conflict of interest is an issue

# Managing Director

Attendances of Directors at Committee meetings are set out in the Directors' Report contained in the Annual Report.

ASXCGC's Best Practice Recommendation 2.6, 4.4, 8.4

## 5. Audit governance and independence

### 5.1 Approach to audit governance

The Board is committed to three basic principles:

- that HCF's financial reports present a true and fair view;
- that HCF's accounting methods are comprehensive and relevant and comply with applicable accounting rules and policies; and
- that the External Auditor is independent.

Australian and international developments are monitored.

### 5.2 Engagement and rotation of the External Auditor

HCF's independent External Auditor is Ernst & Young. Ernst & Young's predecessor organisation was appointed by the Members of the Company at the 1985 annual general meeting. The Board has adopted a policy that the responsibilities of the lead audit partner cannot be performed by the same person for longer than five years. The present Ernst & Young lead audit partner for HCF's audit is Paul Harris who assumed this responsibility for the 2010/11 financial year. The Board requires a minimum five-year 'cooling off' period before an audit partner is allowed back onto the audit team.

### 5.3 Certification and discussions with the External Auditor on independence

The Audit, Risk and Compliance Committee requires the External Auditor to confirm annually to the Committee that they have maintained their independence and have complied with the independence standards as promulgated by Australian regulators and professional bodies. The Independence declaration from the External Auditor is attached to the Directors' Report contained in the Annual Report.

### 5.4 Relationship with the External Auditor

HCF's current policies on employment and other relationships with its External Auditor include the following:

- the audit partners and any employee of the external audit firm on the HCF audit are prohibited from being an officer of HCF;
- an immediate family member of an audit partner or any employee of the external audit firm performing the HCF audit is prohibited from being a Director or an officer in a significant position at HCF;
- any former external audit partner or external audit firm's former employees who have participated on HCF audits are prohibited from becoming a Director or officer in a significant position at HCF for at least three years, and after the three years can have no continuing financial relationship with the audit firm;
- members of the audit team and audit firm are prohibited from having a business relationship with HCF or any officer of HCF unless the relationship is clearly insignificant to both parties;
- officers of HCF are prohibited from receiving any remuneration from the external audit firm; and
- the audit team in any given year cannot include a person who had been an officer of HCF during that year.

### 5.5 Restrictions on non-audit services by the External Auditor

To avoid possible independence or conflict issues, the External Auditor is not permitted to carry out certain types of non-audit services for HCF, including:

- preparation of accounting records and financial statements;
- financial information systems design and implementation;
- appraisal or valuation services and other corporate finance activities;
- internal audit services;
- temporary or permanent staff assignments, or performing any decision-making or ongoing monitoring or management functions;
- legal or litigation services;
- recruitment services for managerial, executive or Director positions; and
- For all other non-audit services, use of the external audit firm must be assessed in accordance with HCF's pre-approval policy.

The breakdown of the aggregate fees billed by the External Auditor in respect of each of the two most recent financial years for audit, audit-related, taxation consulting and other services is provided in the Financial Statements in the Annual Report.

## 5.6 Attendance at the Annual General Meeting

HCF's External Auditor attends the Annual General Meeting and is available to answer questions from Members of the Company on:

- the conduct of the audit;
- the preparation and content of the audit report;
- the accounting policies adopted by HCF in relation to the preparation of the financial statements; and
- the independence of the auditor in relation to the conduct of the audit.

## 6. Controlling and managing risk

### 6.1 Approach to risk management

HCF approaches risk management by identifying, assessing and managing the risks that affect its businesses in accordance with a set of core risk management values. This approach enables the risks to be balanced against appropriate rewards and reflects HCF's vision and values, objectives and strategies, and procedures and training. HCF addresses the following main types of risk:

- strategic risk – associated with the vulnerability of a line of business to changes in the competitive, economic, social or political environments eg. the exposure to changing government policies, new legislation, price control;
- operational risk – the risk that arises from inadequate or failed internal processes, people and systems or from external events;
- financial risk – associated with not achieving revenue and income growth targets including fluctuations in investment markets impacting on HCF's investment portfolio; and
- compliance risk – the risk of failing to comply with all applicable legal and regulatory requirements and industry codes of practice, and to meet HCF's ethical standards.

In addition to and linked to these main types of risk, HCF allocates resources to manage the following risks:

- claims risk – the risk of not being able to meet contributors' claims for benefits;
- liquidity risk – the risk of failing to adequately fund cash demand in the short term; and
- reputational risk – the risk of negative experiences and perceptions impacting HCF's standing with stakeholders.

As these risks are interlinked, HCF takes an integrated approach to managing them.

[ASXCGC's Best Practice Recommendation 7.1.](#)

### 6.2 Risk management roles and responsibilities

The Board is responsible for reviewing and approving HCF's risk management strategy, frameworks and key risk parameters. Monitoring of HCF's risk management framework and significant policies resides with the Audit, Risk and Compliance Committee under powers delegated by the Board. Executive management is responsible for implementing the Board approved risk management strategy and developing policies, controls, processes and procedures to identify and manage the mitigation of risks in all of HCF's activities. HCF's business model recognises that the responsibility for managing risks inherent in its business lies with the business units. This responsibility includes developing business unit specific policies, controls, procedures and monitoring and reporting capability, and is aligned with the risk frameworks approved by the Board.

### 6.3 Managing Director and CFO assurance

The Board receives regular reports about the financial condition and operational results of HCF and its subsidiaries. The Managing Director and CFO annually provide formal statements to the Board that the financial records of the company for the financial year have in all material respects been properly maintained in that they:

- correctly record and explain its transactions and financial position and performance;
- enable true and fair financial statements to be prepared and audited; and
- are retained for seven years after the transactions covered by the records are completed.

### 6.4 HCF's risk management governance structure

#### a) Board

The Board considers and approves the risk management strategy of HCF including social, environmental, ethical responsibility and reputational risk.

#### b) Board Committees

Audit, Risk and Compliance Committee	Nominations Committee	Remuneration Committee
Integrity of financial statements and systems.	Board experience, mix of skills, succession and governance	Responsible reward practices in line with performance
Risk profile and risk management.		

#### c) Management Committee

The Executive, Audit, Risk and Compliance Committee (EARCC) consists of the Managing Director, all the General Managers, Technical Manager, Risk Manager, Chief Internal Auditor and Compliance Manager. The EARCC meets on a monthly basis and is responsible for identifying, assessing and treating risks as they emerge and implementing the approved risk management strategy including the development of policies, controls, processes and procedures to identify and manage the mitigation of those risks.

## d) Risk Monitoring

- Drives HCF's risk management culture, frameworks and reviews of assessments for maximum performance in line with risk appetite;
- Ensures risk management is a competitive advantage, delivers better solutions for customers, protects capital and grows surplus, and builds stakeholder value; and
- Forges a partnership with the business, which shares the vision and the responsibility for superior risk management.

## e) Business Units

- Business units ensure the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively; and
- manage risks inherent in the business including the development of business-specific policies, controls, procedures and reporting in respect of the risk classes.

ASXCGC's Best Practice Recommendation 7.2, 7.4.

## 6.5 Internal review and risk evaluation

The Risk Management and Compliance managers together with the Chief Internal Auditor provide independent assurance to the Board, executive management and External Auditor on the adequacy and effectiveness of management controls for risk. The compliance function also carries out activities that measure the effectiveness of compliance risk management as provided in more detail below.

## 6.6 Compliance framework

HCF's compliance framework is driven by a strong culture of compliance and a series of principles and practices including:

- compliance is the responsibility of every staff member;
- complying with both the letter and spirit of regulatory standards;
- embedding compliance in how HCF conducts its businesses;
- visibility and accountability of senior management to ensure a strong compliance culture;
- advice and assistance is provided by a dedicated compliance function; and
- active engagement in meetings to ensure high standards for the industry in which HCF operates.

Primary responsibility for managing compliance risk resides with business unit line management, who are required to demonstrate that they have effective processes in place consistent with HCF's compliance principles and practices. Within each major business area there is a clear compliance function, with specific responsibilities designed to guide compliance within that business as part of the business unit risk management team. The compliance framework

is established and maintained by the Audit, Risk and Compliance Committee which receives regular reports from the Compliance Manager and Risk Manager on the status of compliance across HCF. Key components of the framework established to support these principles include:

- environment – board and management oversight and accountability, culture and independence;
- identification – identifying obligations, compliance plans and implementing change;
- controls – policies, processes, procedures, communications and training, documentation; and
- monitoring and reporting – monitoring, incident and breach escalation, reporting, issue management and managing regulatory relationships.

## 7. Promoting ethical and responsible behaviour

### 7.1 HCF's Code of Conduct

HCF's Code of Conduct sets out the principles that govern HCF's conduct and the behaviour that stakeholders can expect from HCF. The Code of Conduct applies without exception to all directors, executives, management and employees, and is aligned to HCF's core values of teamwork, integrity, achievement, responsibility and accountability. HCF's Code of Conduct operates under the following key guidelines:

- act with honesty and integrity;
- respect the law and act accordingly;
- respect confidentiality and not misuse information;
- value and maintain professionalism;
- avoid conflicts of interest; and
- strive to be a good corporate citizen and achieve community respect.

ASXCGC's Best Practice Recommendation 3.1, 3.4.

### 7.2 Internal policies and procedures

Beyond HCF's Code of Conduct, HCF complies with a range of external industry codes, such as the AHIA Code of Conduct and Electronic Funds Transfer Code of Conduct. In addition, HCF has a number of key policies to manage its compliance and human resource requirements. There are a range of guidelines, communications and training processes and tools to support these policies. These tools include the content of the Compliance Portal of HCF's Intranet, which forms part of the staff induction process and the online compliance tests that staff undertake. Individual business units also have systems and procedures in place to support HCF policies.

ASXCGC's Best Practice Recommendation 3.1, 3.4.

## 7.3 Whistleblowing and reporting

Employees are actively encouraged to bring any problems to the attention of management, the human resources team or the Compliance Manager. This includes activities or behaviour that may not be in accord with the Code of Conduct of HCF or the industry, other HCF policies, or other regulatory requirements or laws. HCF provides a mechanism to raise issues, including:

- raising issues concerning fraud directly with HCF's Fraud Control team;
- making suggestions for more efficient processes via the online incident reporting facility; and
- raising concerns about "people issues" such as harassment or discrimination directly with Human Resources management.

Concerns about breaches of our regulatory obligations or internal policies or procedures can also be raised anonymously with the General Manager Risk & Compliance or the Chief Internal Auditor. HCF has a Whistleblower Protection Policy to protect individuals who make reports about suspected breaches of HCF's policies through these channels. The reporting system complies with the whistleblower provisions of all relevant legislative requirements and the Australian Standard AS 8004 - Whistleblower Protection Programs for Entities.

ASXCGC's Best Practice Recommendation 3.1, 3.4.

## 8. Corporate responsibility and sustainability

### 8.1 Approach to corporate responsibility and sustainability

HCF aims to produce positive outcomes for all stakeholders in managing its business and to maximize financial as well as social and environmental value from our activities. In practice this means having a commitment to transparency, fair dealing, responsible treatment of employees and customers, and positive links into the community.

Sustainable and responsible business practices within HCF are integrated into and viewed as an important long term driver of capacity, performance and reputation. Through such practices HCF seeks to reduce operational and reputation risk, and enhance operational efficiency, while contributing to a more sustainable society. HCF accepts that the responsibilities of the Board and Management, which flow from this approach, go beyond strict legal and financial obligations. In particular, HCF's Board seeks to take a practical and broad view of Directors' fiduciary duties, in line with community expectations. HCF's corporate responsibility and sustainability approach goes beyond ASXCGC's Best Practice Recommendation 3.1.

ASXCGC's Best Practice Recommendation 3.1, 3.4.

### 8.2 Reporting on our corporate responsibility and sustainability performance

HCF reports on its social, ethical and environmental performance through its Annual Report. HCF also seeks to ensure that transparent and comprehensive reporting on all dimensions of its performance is central to HCF's approach to governance and responsibility management. First and foremost the reports seek to address the issues that matter most to contributors, employees, other stakeholders and the community.

ASXCGC's Best Practice Recommendation 3.1, 3.4.

### 8.3 Diversity Policy

HCF has a diversity policy that includes measurable objectives for achieving gender diversity that the Board can assess annually, in accordance with the ASXCGC's Best Practice Recommendation 3.2 (amended on 30 June 2010).

ASXCGC's Best Practice Recommendation 3.2, 3.3.

## 9. HCF Life Board

The economic entity includes a wholly owned life insurance subsidiary, HCF Life Insurance Company Pty Limited (HCF Life). HCF Life has a Board of seven persons, being six independent Directors including (by APRA definition) the Chairman of the Parent Company and the Managing Director of the Parent Company.

HCF Life's Directors have specialised general management, financial and investment management skills and experience appropriate to life insurance and to meet the onerous regulatory obligations imposed on directors of companies in the industry.

The Life Board has an Audit Committee and a Risk & Compliance Committee composed solely of the independent Directors. Independent Directors other than the Life Board Chairman chair these Committees. The HCF Remuneration Committee is also established to assist with corporate governance of the HCF Life Board in relation to remuneration.

A management committee, the Investment Committee, is composed of the General Manager – HCF Life and the Chief Financial Officer – HCF Life. Two non-executive directors Messrs J.B. Gibson and R.G. Utz are attendees of the Investment Committee meetings and the Chief Financial Officer of the Parent Company is an invitee.

The Charters of HCF Life's Board, Audit Committee and Risk & Compliance Committee are published on HCF's website [www.hcf.com.au](http://www.hcf.com.au) under the corporate governance section.

The review of Board and Committee members conducted in 2010 included engagement of an external consultant interviewing each Director individually and discussing the results with the Chairman of the Parent Company who discussed this with the Chairman of HCF Life.

## Membership of HCF Life Board and HCF Life Board Committees as at 29 September 2011

Board	Audit Committee	Risk and Compliance Committee
D A Dixon	D A Dixon	D A Dixon*
J A B Dunlop	J A B Dunlop	J A B Dunlop
M J Gallagher	M J Gallagher	M J Gallagher
J B Gibson*	J B Gibson	J B Gibson
C M Hallinan	C M Hallinan	C M Hallinan
S M Larkin		
R G Utz	R G Utz*	R G Utz

\* Denotes Chairman

## 10. Manchester Unity Board

The economic entity includes a wholly owned subsidiary; Manchester Unity Australia Ltd (Manchester Unity). HCF acquired Manchester Unity on 24 December 2008. Manchester Unity was a registered private health insurer under the *Private Health Insurance Act 2007* up until 30 June 2011 at which point the private health insurance business was transferred to HCF. It is currently an approved provider of aged care services under the *Aged Care Act 1997* and an owner-operator of retirement villages. Manchester Unity has a board of directors of nine persons, being seven independent Directors, one non-independent director and the Managing Director of the subsidiary who is also the Managing Director of the Parent Company, HCF.

Manchester Unity's board of directors is made up of nine of HCF's board of directors (Mr R. J. Goaley is the only HCF director who does not sit on the Manchester Unity board of directors). The board of directors considers that the Manchester Unity non-executive directors bring the right mix of skills, knowledge, expertise and experience necessary to govern Manchester Unity. In addition, if necessary, the Board can utilise the past experience and expertise of Mr R. J. Goaley, a previous Chief Executive Officer, director and Chairman of Manchester Unity.

Under Rule 7.1(3) of Manchester Unity's constitution, HCF as the sole member of Manchester Unity has the discretion to appoint and remove directors. However, that discretion is exercised in accordance with the Manchester Unity Board Charter. The Manchester Unity Board Charter includes that every 3 years, the Board shall conduct, in consultation with its parent company, 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 independence, expertise and responsiveness to change.

The charter of Manchester Unity's Board is published on HCF's website [www.hcf.com.au](http://www.hcf.com.au) under the corporate governance section.

The Manchester Unity Board of directors has an Audit, Risk & Compliance Committee currently composed of four independent Directors. An independent Director other than Manchester Unity's board of directors Chairman chairs this Committee.

The Charter of Manchester Unity's Board, Audit, Risk & Compliance Committees is published on HCF's website [www.hcf.com.au](http://www.hcf.com.au) under the corporate governance section.

The performance of the Board and the Committee is surveyed and can include the use of "best practice" questionnaires. Results, including the identification of strengths, weaknesses and recommended improvements, are discussed and reviewed initially within the Committee and then reviewed by the Board.

The review of Board and Committee members conducted in 2010 included engagement of an external consultant interviewing each Director individually and discussing the results with the Chairman, who in turn reviewed the performance of the Board, Board Committees and the Director's performance with each Director.

## Membership of MU Board and MU Board Committee as at 29 September 2011

Board	Audit, Risk and Compliance Committee
R A Birchall	R A Birchall
S P Coppock	S P Coppock
J A B Dunlop*	L J Stone
S M Larkin	G W Wright*
M E Rummery	
R J Schneider	
T J Smith	
L J Stone	
G W Wright	

\* Denotes Chairman