

1. CORPORATE GOVERNANCE

The Board of Directors of The Hospital Contribution Fund of Australia Limited (HCF) is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and 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, no shareholders and no borrowings. It is operated on a not for profit basis as HCF's Constitution prohibits any distribution of surplus or assets to its Members. HCF is governed by a Board of Directors. In addition to the circumstances in which any Director may be removed or retire by rotation, HCF's Constitution and the *Corporations Act 2001* empowers the Members of HCF 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 Members for approval.

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.

1.2 Policy, framework and approach to corporate governance

HCF's policy on corporate governance is to have a culture, including appropriate values and behaviours, that underpins its everyday activities, ensures transparency and accountability and 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 and life insurance industries; and
- review and improve its governance practices.

HCF has taken into account the "Corporate Governance Principles and Recommendations" published in August 2007 ("Best Practice Recommendations") by the Australian Stock Exchange Limited's Corporate Governance Council [ASXCGC], Australian Standard AS8000 – Good Governance Principles, Private Health Insurance Administration Council's Industry Corporate Governance Guidelines [PHIACICGG], Private Health Insurance Code of Conduct developed under the auspices of the Australian Health Insurance Association and so far as HCF's subsidiaries; HCF Life Insurance Company Pty Limited and Manchester Unity Australia Ltd are concerned, the Australian Prudential Regulation Authority's Prudential Standards.

Additionally, in accordance with the ASXCGC Principles and Recommendations, HCF has posted copies of this Corporate Governance Statement on its website www.hcf.com.au.

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.

2. DATE OF THIS STATEMENT

This Corporate Governance Statement reflects HCF's corporate governance policies and practices as at 27 August 2009.

3. THE BOARD OF DIRECTORS

a) 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 Board composition as at the date of the last annual report, with details of each Director's background, is set out in the Directors' Report on pages 56 to 59 of the Annual Report. The Board considers that the current non-executive Directors bring the right mix of skills, knowledge, expertise and experience necessary to govern the HCF Group. Of the nine current non-executive Directors, two have financial experience, four have specific healthcare and legal experience and three have extensive business experience. 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 on pages 63 to 67 of this Corporate Governance Statement.

ASXCGC's Best Practice Recommendation 2.6

b) 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 its Committees, and those that the Board has delegated to management. In summary, the Board is accountable to its constituents and contributors for HCF's performance and its responsibilities include:

- strategy – providing strategic direction and approving corporate strategic initiatives;
- 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 Chief Executive Officer [CEO];
- succession planning – planning for Board and executive succession;
- remuneration – setting CEO remuneration, and setting

non-executive Director remuneration within guidelines furnished by the independent external remuneration consultants, subject to the approval of Members;

- 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 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;
- 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; and
- 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] and other regulators.

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 implementing corporate strategies and making recommendations on significant corporate strategic initiatives;
- 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;
- financial performance – developing HCF's annual operating plan and budget and managing day-to-day operations within the budget;
- risk management – maintaining an effective risk management framework;
- continuous disclosure – keeping the Board fully informed about material developments; and
- corporate responsibility – managing day-to-day operations in accordance with standards for social, ethical and environmental practices, which have been set by the Board.

HCF's Board Charter is available in the corporate governance section of its website at www.hcf.com.au

ASXCGC's Best Practice Recommendation 1.1

c) Board size and composition

As at the date of this Corporate Governance Statement there are nine independent 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 independent non-executive Directors and selects four independent non-executive Directors for election by voting contributors. The Board appoints the Chief Executive Officer as the sole executive 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.

d) 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:

- ensuring that, when all Board members take office, they undertake appropriate induction covering the terms of their appointment, their duties and responsibilities;
- providing effective leadership on formulating the Board's strategy;
- representing the views of the Board to the public;
- 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; and
- reviewing the performance of non-executive Directors.

The current 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 is a member of each Board Committee and Chairman of the Nominations and Remuneration Committees.

ASXCGC's Best Practice Recommendation 2.2, 2.3

e) 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

f) Avoidance of conflicts of interest by a Director

The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest [both real and apparent] 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 resolve 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.

g) 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 set the overall strategic direction of the organisation. The Chairman and the CEO 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 undertakes periodic development seminars to enhance Directors' knowledge of governance matters and related key issues facing HCF. Over the past year these included discussions on HCF's succession planning, International Financial Reporting Standards, organisational strategy, technology and IT strategy, risk management, regulatory compliance and Australian economic conditions. Senior managers attend Board meetings quarterly to present a Review of Operations for their business units and 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 meets without executive management at least once a year or as required.

The Audit, Risk and Compliance Committee meets with HCF's external auditors without executive management being present at the conclusion of each Audit, Risk and Compliance Committee meeting. Meetings attended by Directors for the past financial year are reported in the Directors' Report on page 55 of the Annual Report.

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

h) 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 CEO succession planning.

i) Review of Board 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 includes written surveys of Directors based on best practice questionnaires designed by "big four" accountancy firms. These reviews are wide-ranging and include, amongst other things, each Director's contributions to Board discussions, best features and recommendations for improvement. The survey results are collated by the Company Secretary and the results reviewed by the Board and Board Committees.

A performance review for the Board, its Committees and Directors was conducted in the reporting period in accordance with this process.

ASXCGC's Best Practice Recommendation 2.5, 2.6

j) Nomination and appointment of new HCF Directors

HCF has 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 a Director. Potential candidates for appointment or elections 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. Voting contributors are invited to nominate candidates for election as Directors. External consultants may also be used to access a wide base of potential candidates. Those selected are 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. New Directors receive a Letter of Appointment, which sets out their duties, their terms and conditions of appointment including expected term 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. Voting contributors are provided with relevant information on the candidates for 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.

k) 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 CEO, must retire. Retiring Directors are eligible for consideration by the Nominations Committee for re-appointment by the Board or re-election by voting contributors. The Nominations Committee evaluates the contribution of retiring Directors through a peer review process. The maximum time that each Director can serve in any single term is three years. The Board has not specified the maximum number of terms of office that any Director may serve.

l) 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 CEO, 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.

m) 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 an Access and Indemnity Deed 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 CEO, the CFO, the Company Secretary, the General Manager Group Risk Management, the Group Compliance Manager, and other General Managers and may consult with, and request additional information from, any HCF employee.

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

n) Company Secretary

The Group Company Secretary 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 Ian's 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 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

a) 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 27 August 2009 are set out in the table following.

b) 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.

ASXCGC's Best Practice Recommendation 4.3

c) Committee procedures

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 if required. The Remuneration Committee meets as necessary. Each Committee is entitled to the resources and information it requires, including direct access to employees and advisers as well as appropriate funding. The CEO, senior executives, other selected employees and external independent experts are invited to attend Committee meetings as necessary. All independent Directors receive all Committee papers and can attend all Committee meetings, subject to there not being any conflict of interest.

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 all 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 Committee is composed of three independent non-executive Directors.

How the Committees report to the Board

Following each Committee meeting, the Board is given an oral report by the Chairperson of each Committee. All Minutes of meetings of Committees are distributed to every independent Director.

How Committees' performance is evaluated

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

Committee member is evaluated as part of the performance review of each independent non-executive Director.

ASXCGC's Best Practice Recommendation 2.5

Membership of Board Committees as at 27 August 2009

Audit, Risk and Compliance Committee	Nominations Committee*	Remuneration Committee
C L Clifton	C L Clifton	J A B Dunlop*
S P Coppock	S P Coppock	J R O'Dea
J A B Dunlop	J A B Dunlop*	R J Schneider
R J Goaley	R J Goaley	
J R O'Dea	J R O'Dea	
M E Rummery	M E Rummery	
R J Schneider	R J Schneider	
L J Stone	L J Stone	
G W Wright*	G W Wright	

* Denotes Committee Chairman

Those Directors who seek reappointment are excluded from those meetings where independence/ conflict of interest is an issue.

Attendances of Directors at Committee meetings are set out in the Directors' Report on page 55 of the Annual Report.

ASXCGC's Best Practice Recommendation 2.6, 4.4, 8.3

d) Audit, Risk and Compliance Committee

Role of the Committee

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

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

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 and external auditors for which it is agreed action is required. These reports include responsible officers and implementation dates. Minutes of the Committee meetings are included in the papers provided to all independent Directors.

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 judgements 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.

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 its policy on the independence of the external auditor. This evaluation includes an annual review of the external auditor's internal quality control procedures and consideration of any inquiry or investigation by governmental or professional authorities, within the preceding three years in respect of assignments carried out by the external auditor. As well, the capabilities of the lead audit engagement staff are reviewed. The independent external auditor reports on their findings to this Committee and to the Board. For permitted non-audit services, use of the external audit firm must be assessed in accordance with HCF's pre-approval policy, which requires that all non-audit services be pre-approved by the Audit, Risk and Compliance Committee, by delegated authority to a sub-committee consisting of one or more members where appropriate. The external auditor receives all Audit, Risk and Compliance Committee papers and attends all Committee meetings. The Committee also meets with the external auditor and Appointed Actuary without management being present. Committee members are able to contact the external auditor and Appointed Actuary directly at any time.

Internal audit

The Audit, Risk and Compliance Committee approves the appointment and replacement of the Chief Internal Auditor and reviews the internal audit responsibilities, budget and staffing. The Audit, Risk and Compliance Committee Chairman meets separately with the Chief Internal Auditor.

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.

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 auditors their report regarding significant findings in the conduct of their audit and the adequacy of management's response;
- discusses with management, the external auditor and 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 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.

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 PHIAC Industry Corporate Governance Guidelines.

The Audit, Risk and Compliance Committee relies on the information provided by management, 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.

Risk Management oversight

The Audit, Risk and Compliance Committee oversees the risk profile of HCF within the context of the risk-reward strategy determined by the Board. The determination of this strategy includes recommendations from the CEO and senior management on the parameters of the HCF Group's risk-reward profile and appropriate strategy. 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 frameworks for managing HCF's operational and compliance risks;
- ensuring effective monitoring of the risk profile, performance, and management and control of HCF's risks;
- ensuring the development and ongoing review of appropriate policies that support HCF frameworks for managing risk;
- determining, approving and reviewing the limits and conditions that apply to the taking of risk, including the authority delegated by the Board to the Chief Executive Officer, Chief Financial Officer and General Manager Group Risk Management;

- The Committee reviews significant issues that may be raised by internal audit as well as the length of time and action taken to resolve such issues. At an individual risk type level the following are included:
 - reviewing and approving HCF's provisioning methodology;
 - reviewing and approving HCF's funding plan and ensuring appropriate monitoring of funding and liquidity requirements;
 - operational risk – reviewing the risk that arises from inadequate or failed internal processes, people and systems or from external events; and
 - 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, reviewing and discussing with management and the external auditor any correspondence with regulators or government agencies and any published reports that raise material issues for HCF, and ensuring procedures exist for appropriately managing complaints and whistleblower concerns.

The Committee routinely updates the Board about its activities quarterly and also monthly if significant new risks emerge.

ASXCGC's Best Practice Recommendation 4.1, 4.2

e) Nominations Committee

Role of the Committee

The primary function of the Nominations Committee is performing 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;
- performance review process of the Board, its Committees and individual Directors;
- developing and implementing induction programs for new Directors and ongoing education for existing Directors;
- assessing eligibility of potential candidates nominated for election as Directors;
- recommending potential candidates for appointment or election as Directors to the Board;
- reviewing Director independence;
- succession planning for the Board;
- reviewing HCF's corporate governance policies to ensure they meet Australian corporate governance standards; and
- considering whether HCF meets relevant corporate governance standards under legislation and of various regulatory bodies, including PHIAC, ASIC and APRA.

ASXCGC's Best Practice Recommendation 2.4, 2.5

f) Remuneration Committee

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

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

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

5. AUDIT GOVERNANCE AND INDEPENDENCE

a) 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.

b) Engagement and rotation of the external auditor

HCF's independent external auditor is Ernst & Young. Ernst & Young was appointed by Members at the 1985 annual general meeting in accordance with the provisions of the Corporations Act. 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 Andrew Price who assumed this responsibility in 2005. The Board requires a minimum five-year 'cooling off' period before an audit partner is allowed back onto the audit team.

c) Certification and discussions with the external auditor on independence

The Audit, Risk and Compliance Committee requires the external auditors to confirm quarterly to the Committee that they have maintained their independence and have complied with the independence standards as promulgated by Australian regulators and professional bodies. Periodically, the Committee meets separately with the external auditors without executive management being present. Certification is provided in the Non-Audit Services and Independence declaration in the Directors' Report on page 60.

d) Relationship with the external auditor

HCF's current policies on employment and other relationships with its external auditors 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 on 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.

e) 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, litigation or other expert 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, which requires that all non-audit services be pre-approved by the Chairman of the Audit, Risk and Compliance Committee.

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, tax and other services is provided in the 2009 Annual Financial Report.

f) Attendance at the Annual General Meeting

HCF's external auditor attends the annual general meeting and is available to answer questions from Members 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

a) 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 distinguishes four main types of risk:

- business risk – the exposure to changing government policies, new legislation, price control and fraud;
- operational risk – the risk that arises from inadequate or failed internal processes, people and systems or from external events;
- financial risk – associated with 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 four 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;
- reputational risk – the risk of negative experiences and perceptions impacting HCF's standing with stakeholders; and
- strategic risk – the risk associated with the vulnerability of a line of business to changes in the strategic environment.

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

ASXCGC's Best Practice Recommendation 7.1.

b) Risk management roles and responsibilities

The Board is responsible for reviewing and approving HCF's risk management strategy, frameworks and key risk parameters. HCF's risk management governance structure is set out in the table in this section. Approval 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 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 Audit, Risk and Compliance Committee.

c) CEO and CFO assurance

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

HCF's risk management governance structure

Board

Considers and approves the risk-reward strategy of HCF including social, environmental, ethical responsibility and reputational risk.

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		

Group 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.

Business Units

- Manage risks inherent in the business including the development of business-specific policies, controls, procedures and reporting in respect of the risk classes;
- the financial statements, and notes required by the accounting standards for the financial year comply with the accounting standards;
- the financial statements and notes for the financial year give a true and fair view of the company's and consolidated Group's financial position and of their performance; and
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

ASXCGC's Best Practice Recommendation 7.2 7.4.

d) 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.

e) Compliance framework

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

- 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 are 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 utilises a range of mechanisms, including audit, file reviews, customer surveys and operational risk assessments to measure the effectiveness of the HCF Group compliance programs. 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 the HCF Group. 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

a) 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 sets out the foundation principles and 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, 3.3.

b) 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, 3.3

c) Concern reporting and whistleblowing

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 be raised anonymously with the General Manager Risk and 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 concern 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, 3.3.

8. CORPORATE RESPONSIBILITY AND SUSTAINABILITY

a) 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 on 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 Recommendations 3.1 and 10.1.

ASXCGC's Best Practice Recommendation 3.1, 3.3.

b) Reporting on our corporate responsibility and sustainability performance

HCF has been reporting 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, 3.3

9. HCF LIFE POLICY

The economic entity includes a wholly owned life insurance subsidiary, HCF Life Insurance Company Pty Limited (HCF Life). HCF Life has a Board of six persons, four independent Directors, the Managing Director of the subsidiary and the Chief Executive Officer of the Parent Company. Currently none of HCF Life's independent Directors serve as Directors of the Parent Company.

HCF Life's independent Directors have specialised general management, financial, 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 and Compliance Committee composed solely of the independent Directors. Independent Directors other than the Life Board Chairman chair these Committees.

A management committee, the Investments Committee, is composed of the Managing Director and the Chief Financial Officer (Life). The two non-executive directors Messrs J.B. Gibson and R.G. Utz are attendees of the Investments Committee meetings.

The Charters of HCF Life's Board, Audit Committee and Risk and Compliance Committee are published on HCF's website www.hcf.com.au.

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

10. MANCHESTER UNITY POLICY

The economic entity includes a wholly owned jointly regulated subsidiary, Manchester Unity Australia Ltd (Manchester Unity).

HCF acquired Manchester Unity on 24 December 2008. Manchester Unity is both a friendly society under the *Life Insurance Act 1995* and a registered private health insurer under the *Private Health Insurance Act 2007*. Manchester Unity has a board of directors of nine persons, eight independent Directors and the Managing Director of the subsidiary who is also the Chief Executive Officer/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. Of the nine directors, two have financial experience, four have specific healthcare and legal experience and three have extensive business experience appropriate to meet the onerous regulatory obligations imposed on directors of companies in both the friendly society and health insurance industry. 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, the sole member of Manchester Unity being HCF has the discretion to appoint and remove directors. However, that discretion is exercised in accordance with applicable APRA and PHIAC standards and 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.

The Manchester Unity Board of Directors has an Audit, Risk and Compliance Committee composed solely of the 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 and Compliance Committees is published on HCF's website www.hcf.com.au.

The performance of the Board and the Committee is surveyed using "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.

Membership of Board and Board Committees as at 27 August 2009

Board	Audit, Risk and Compliance Committee
C L Clifton	C L Clifton
S P Coppock	S P Coppock
J A B Dunlop*	J A B Dunlop
J R O'Dea	J R O'Dea
M E Rummery	M E Rummery
R J Schneider	R J Schneider
T Smith	L J Stone
L J Stone	G W Wright*
G W Wright	

* Denotes Chairman

A management committee, the Investment Committee, is composed of the Chief Financial Officer and the General Counsel and Company Secretary of Manchester Unity and the Group Financial Officer and Group Company Secretary of HCF. Manchester Unity's appointed actuary is an attendee of the Investment Committee meetings. The Investment Committee meets at least four times each year. The primary purpose of the Investment Committee is to monitor and review, on behalf of the Board:

- the performance and effectiveness of the Board approved investment policy, strategy and rules of Manchester Unity in achieving optimum return relative to risk in relation to the management fund (excluding the retirement and aged care assets), the friendly society benefit funds and the health benefit fund;
- that reasonable care and due diligence is being used in the investment, administration and management of the assets of the benefit funds of Manchester Unity to ensure:
 - (a) compliance with Part 4 of the Life Act; and
 - (b) priority is given to the interests of owners and prospective owners of policies referable to the benefit fund; and
- that in the event of a conflict between the interests of owners and prospective owners of relevant policies and interests of Manchester Unity's shareholder, Manchester Unity gives priority to the interests of owners and prospective owners of policies over the interests of shareholders.

The Investment Committee reports to the Board after each Committee meeting.