

Corporate governance statement

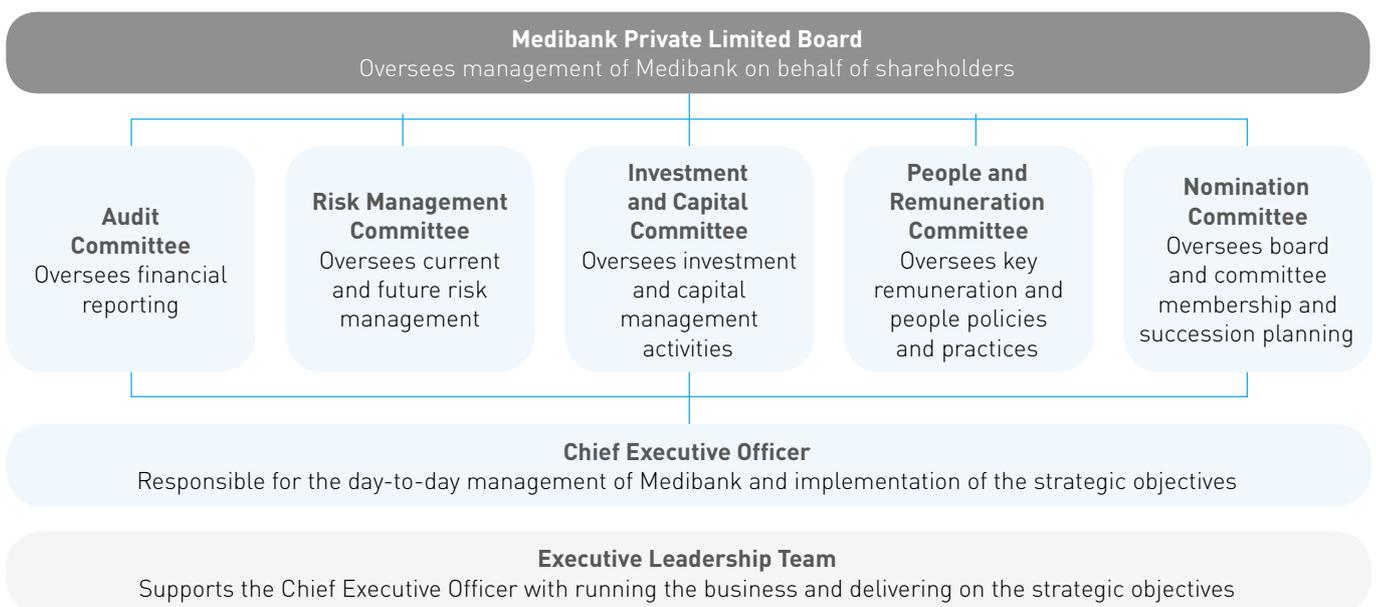
Medibank was founded in 1976 as a private health insurer and was operated by the Australian Government. In 1998, Medibank Private Limited became the operating entity with the Commonwealth of Australia as the sole shareholder. In 2014 the Australian Government sold Medibank by way of an initial public offering, and divested all its shares in Medibank. Medibank listed on the Australian Securities Exchange (ASX) on 25 November 2014.

The Board is committed to enhancing the customer experience and delivering greater value to customers and sustaining the growth and success of Medibank. In conducting business in accordance with these objectives, the Board seeks to ensure that Medibank is properly managed to protect and enhance shareholder interests, and that Medibank, its directors, officers and employees operate in an appropriate environment of corporate governance. The Board has a framework in place for governing Medibank. This includes adopting internal controls, risk management processes and corporate governance policies and practices, designed to promote responsible management and ethical conduct.

During the year, Medibank had in place policies and practices which comply with the recommendations in the ASX Corporate Governance Council Corporate Governance Principles and Recommendations, 3rd edition. As a registered private health insurer, Medibank also complies with an industry-specific governance standard issued by the Australian Prudential Regulation Authority (APRA). The key corporate governance practices applied at Medibank are described in this statement and the key corporate governance policies are available on Medibank's website.

Governance structure

The governance and performance of Medibank is overseen by the Board elected by the shareholders.



Roles and responsibilities of the Board and management

The Board provides overall strategic guidance for Medibank and effective oversight of management. Responsibility for the governance of Medibank, including establishing and monitoring key performance goals, rests with the Board. The Board monitors the operational performance and financial position of Medibank, as well as overseeing the business strategy and approving strategic goals. In performing its role, the Board is committed to ensuring sound corporate governance practices.

The Board Charter, which is available on Medibank's website, articulates the Board's roles and responsibilities, its membership and operation, and which responsibilities may be delegated to committees or to management. Specific responsibilities have been reserved by the Board in key areas of strategy, governance, executive appointments, financial approvals and reporting, disclosure and risk management. The Board has established standing committees to assist in performing its responsibilities. These committees examine particular issues in detail and make recommendations to the Board. A description of these committees can be found on page 36.

The Chief Executive Officer (CEO) has responsibility for managing the day-to-day affairs of Medibank. The CEO, with the support of the Executive Leadership Team (ELT), manages Medibank in accordance with the Board-approved Corporate Plan, the corporate strategy and policies within the risk appetite set by the Board. A detailed delegation of authority framework defines the decision making and expenditure limits that apply at various levels of management.

Key areas of focus for the Board in 2018

- Review of board composition and implementation of succession planning resulting in appointment of a new non-executive director.
- Oversight of the implementation of APRA Prudential Standard CPS 220 compliant risk management framework.
- Review of material risks and opportunities and emerging risks, and strengthening of risk culture throughout the organisation.
- Review of strategy, including evaluation of opportunities for enhancement of customer experience, expansion of health and care services in the home, improvement of customer healthcare outcomes and reducing costs.
- Oversight of acquisitions to support execution of strategy.
- Review of corporate plan, budget and performance targets and oversight of business performance against these targets.
- Oversight and monitoring of major litigation and regulatory compliance matters.
- Oversight and monitoring of the remuneration framework.
- Strengthening of the governance framework.

Structure and composition of the Board

Following the resignation of Dr Cherrell Hirst and appointment of Dr Tracey Batten on 28 August 2017, the Board comprised eight non-executive directors, including a non-executive Chairman and the CEO.

The Chairman of the Board, Elizabeth Alexander, is an independent, non-executive director. She is responsible for providing leadership to the Board and Medibank as a whole. The Chairman's other key responsibilities are outlined in the Board Charter.

Biographies of the directors, including their skills, experience and year of appointment, are set out on pages 26 to 28 of the annual report. Details of directors' attendance at Board and committee meetings during the year ended 30 June 2018 is on page 43. The length of service of the non-executive directors ranges from eleven months to nine years and ten months.

Independence

Directors are expected to bring an independent judgement to bear on all Board decisions. A director is considered independent if they are a non-executive director who is not a member of management, and is free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgement or could reasonably be perceived to do so.

Each director provides periodic updates of their interests, positions, associations and relationships, and all directors must immediately disclose any actual or potential conflicts of interest that could impact their independence. In some instances, the directors will be required to abstain from participating in discussions or voting on any matters if they have a conflict or a material interest.

The Board regularly assesses the independence of each director in light of the interests disclosed. The Board has assessed the interests, positions, associations and relationships of each director as at the date of this report. It has determined that all non-executive directors, including the Chairman, satisfy the independence criteria recommended by the ASX Corporate Governance Council and prescribed by APRA.

To provide an opportunity for independent discussion, the non-executive directors meet without management present at the commencement of each Board meeting.

Appointment and re-election of directors

The Medibank Constitution provides that directors will be appointed by the Board and are subject to election by shareholders at the annual general meeting following their appointment. Individuals may also be nominated by shareholders to stand for election as a director at the annual general meeting. The Constitution requires an election of directors at each annual general meeting, and a director must retire and may stand for re-election by the third annual general meeting following the director's election. Peter Hodgett and Christine O'Reilly will retire and offer themselves for re-election at the upcoming annual general meeting on 14 November 2018. Further information about these directors is set out on pages 26 to 28 of the annual report, and in the notice of annual general meeting.

Before appointing a person as a director, the Board undertakes checks as to that person's character, experience and background, including criminal and bankruptcy checks. Although it is not a requirement for Medibank or the private health insurance industry, Medibank has a 'Fit and Proper Policy' based on APRA's Fit and Proper Prudential Standard. This standard requires that a person in a position of responsibility, including a director, be assessed prior to appointment as to whether the person meets the fit and proper requirements. The person must have the appropriate skills, experience and knowledge to perform the role and act with the requisite character, diligence, honesty, integrity and judgement.

Upon appointment, each non-executive director enters into a service agreement setting out the terms of their appointment. This includes the requirement to build a shareholding in Medibank in order to align the interests of directors with those of shareholders. The Minimum Shareholding Policy requires non-executive directors to acquire shares equal to the value of one year's base fee after tax over a period of five years.

As part of the appointment process, Medibank enters into a deed of indemnity, insurance and access with each director. Each director is indemnified against liability in connection with their role as a director and Medibank is required to maintain a directors' and officers' insurance policy. The deed confirms and extends the director's general law rights of access to Board papers and other records of Medibank.

Director induction, continuing education and access to information

The Board is committed to enhancement of the capabilities of each director and the performance of the Board generally. Upon joining the Board, all new non-executive directors undertake a full, formal and tailored induction program. The program includes meetings with the Chairman, CEO, ELT and senior leaders on Medibank's business, strategy and operation. The Board is provided with ongoing professional development opportunities during the year. This involves formal briefing sessions on a range of subjects by key stakeholders, including regulators and industry experts, to provide deeper insights on industry context and trends. This also includes site visits to Medibank's operations and retail centres, customer engagement, conference attendance and one-on-one discussions on technical aspects of the business.

The Chairman and the Board have complete and open access to the CEO, ELT and to senior management as required. If necessary, a director may seek independent professional advice at Medibank's expense in respect of any matter connected with the discharge of the director's responsibilities. Directors also have direct access to the advice and services of the Company Secretary, who is accountable to the Board through the Chairman, and advises the Board and the Chairman on all governance matters.

Board skills, experience and diversity

The Nomination Committee regularly reviews the balance of skills, experience, independence, knowledge and diversity of the Board. The evolution of the mix of skills and diversity of the Board is a long-term process and the Nomination Committee weighs the various factors relevant to achieving the balance of skills and diversity of the Board.

The skills matrix set out below demonstrates alignment of the Board's responsibilities with the current skills mix. The Board believes these skills result in an appropriate set of experience and expertise and a diverse range of views and perspectives for effective governance, oversight and strategic leadership of Medibank and operational expertise in the area of customer proposition.

Insurance and healthcare sector experience	Proven knowledge of, and experience in, the insurance industry and healthcare sector.
Executive leadership	Sustainable success at a senior executive level in a large organisation.
Investment and treasury management	Knowledge and experience in capital markets and investments.
Government relations and public policy	Interaction with government and regulators and involvement in public policy decisions.
Marketing and customer focus	Experience in marketing, and development of product and/or customer management strategies.
Technology	Understanding of technology and innovation, and the development and implementation of initiatives to enhance productivity and customer experience.
Strategy	Proven ability in developing and implementing successful strategies, including appropriately probing and challenging management on the delivery of agreed strategic objectives.
Risk management and internal control	Experience in developing a business portfolio over the long term that remains resilient to strategic, business and financial risks, and establishing risk management and internal control frameworks, setting the risk appetite and overseeing organisational risk culture.
Financial acumen	Proficiency in financial accounting and reporting, corporate finance and internal financial controls, corporate funding, and understanding of the associated risks.
Legal, governance and compliance	Oversight of operations and obligations in a highly complex and regulated environment and commitment to highest standards and systems of governance.
Human resources and executive remuneration	Understanding of the link between strategy, performance, desired behaviours, long-term shareholder value creation and remuneration outcomes.
Project management	Proven experience in providing oversight and strategic input in projects to ensure desired outcomes and objectives are achieved.

Board performance evaluation

The Nomination Committee is responsible for reporting on the evaluation of the performance of the Chairman, Board, committees and individual directors to the Board. The evaluation is conducted annually either through an internal review process or an external consultancy.

The Board engaged an independent external consultancy in 2018 to undertake an external evaluation of the Board, committees and non-executive directors. The evaluation included a review of key documents relating to the operation and function of the Board and its committees, and a detailed survey completed by the directors and ELT. It also incorporated one-on-one interviews with directors and the ELT. The interviews sought feedback on the role of the Board in strategy, risk management and evaluating the performance of the CEO and senior management, the structure and composition of the Board, and director succession (including for the position of the Chairman), leadership and cohesion of the Board and senior management and the role of the Chairman and independent non-executive directors.

The external consultancy discussed the report and the recommendations with the Board in July 2018, with the Board subsequently using the report to identify opportunities to enhance its efficiency and effectiveness.

The Chairman continues to be responsible for the assessment of each individual non-executive director's performance and contribution. The Chairman met with each of the non-executive directors in 2018 to review their performance and training needs. Key outcomes from this process will be factored into development plans for each non-executive director and their progress towards agreed development goals will be monitored in future evaluation processes.

Committees of the Board

The Board has established five standing committees, namely the Audit Committee, Risk Management Committee, Investment and Capital Committee, People and Remuneration Committee and Nomination Committee, to assist in the execution of its responsibilities. Each committee is governed by a charter setting out the committee's role, responsibilities, membership and processes. The charters can be accessed on Medibank's website.

The membership, roles and responsibilities of each committee are summarised in the table below.

The relevant qualifications and experience of the members of each committee can be found in the director biographies on pages 26 to 28 of the annual report. The number of meetings of each committee, and the individual attendance of their members are provided on page 43.

Committee membership as at 24 August 2018

Committee membership	Composition	Key roles and responsibilities
Audit Committee <ul style="list-style-type: none"> • Christine O'Reilly (Chairman) • Elizabeth Alexander • Peter Hodgett 	<ul style="list-style-type: none"> • At least three non-executive directors, a majority of whom are independent directors and at least one being a member of the Risk Management Committee. • Structured so that members are all financially literate, and between them have accounting and financial expertise and experience and a deep understanding of health and insurance industries. • The chairman must be an independent non-executive director, and must not be the chairman of the Board. 	<ul style="list-style-type: none"> • Integrity of external financial reporting and financial statements. • The appointment, remuneration, independence and competence of external auditors. • Systems and procedures for compliance with relevant laws, regulations and codes. • Internal and external audit processes and internal control framework.
Risk Management Committee <ul style="list-style-type: none"> • David Fagan (Chairman) • Elizabeth Alexander • Christine O'Reilly • Mike Wilkins • Dr Tracey Batten¹ 	<ul style="list-style-type: none"> • At least three non-executive directors, a majority of whom are independent directors and at least one being a member of the Audit Committee. • Structured to have the necessary knowledge and a sufficient understanding of Medibank's industry. • The chairman must be an independent non-executive director, and must not be the chairman of the Board. 	<ul style="list-style-type: none"> • Systems to ensure effective management of financial and non-financial risks, including reputational and clinical risks. • Oversight of implementation of the risk management strategy and stress testing of key risks. • Establishment and monitoring of Medibank's overall risk appetite. • Monitor and review Medibank's risk culture. • Oversight and prior endorsement of the appointment and replacement of the Chief Risk Officer.
Investment and Capital Committee <ul style="list-style-type: none"> • Peter Hodgett (Chairman) • Anna Bligh • David Fagan • Mike Wilkins 	<ul style="list-style-type: none"> • At least three non-executive directors, a majority of whom are independent directors. • The chairman of the committee must be an independent non-executive director, appointed by the Board. 	<ul style="list-style-type: none"> • Oversight of investment and capital management activities. • Oversight of the investment strategy and Capital Management Policy. • Monitoring the effectiveness of the investment process. • Authorising delegated investment decisions.
People and Remuneration Committee² <ul style="list-style-type: none"> • Linda Bardo Nicholls (Chairman) • Anna Bligh • Dr Tracey Batten³ 	<ul style="list-style-type: none"> • At least three non-executive directors, a majority of whom are independent directors and at least one being a member of the Risk Management Committee. • The chairman of the committee must be an independent non-executive director, appointed by the Board. 	<ul style="list-style-type: none"> • Remuneration framework and arrangements for the CEO and ELT. • Executive management succession planning. • Incentive schemes and equity-based remuneration plans. • Measurable objectives for diversity. • Performance in relation to health and safety matters.
Nomination Committee <ul style="list-style-type: none"> • Elizabeth Alexander (Chairman) • Christine O'Reilly • Linda Bardo Nicholls • Peter Hodgett • David Fagan 	<ul style="list-style-type: none"> • At least three non-executive directors, a majority of whom are independent directors. • The chairman of the Board will be the chairman of the committee. 	<ul style="list-style-type: none"> • Director selection and appointment. • Board composition. • Board succession planning. • Performance evaluation of the Board, committees and individual directors.

1. Dr Tracey Batten was appointed a member of the Risk Management Committee effective 28 August 2017.

2. Further information about the activities of the People and Remuneration Committee during 2018 can be found in the remuneration report on pages 47 to 71 of the annual report.

3. Dr Tracey Batten was appointed a member of the People and Remuneration Committee effective 15 February 2018, following David Fagan's retirement from the committee.

Executive Leadership Team

The CEO supported by the ELT, is responsible for the day-to-day management and performance of Medibank. The ELT profiles and accountabilities are set out on pages 29 to 30. The ELT members have a clear understanding of their roles and responsibilities through position descriptions and a structured performance management system. Each ELT member has entered into a service agreement with Medibank which set out their terms of their employment. The remuneration policies and practices applying to the ELT as key management personnel are detailed in the remuneration report on page 47.

The remuneration report (page 47) contains the performance measures applied to ELT members and the process for the annual evaluation of their performance. A performance evaluation was undertaken during 2018 in accordance with that process for each ELT member as at 30 June 2018.

Ethical standards for management and employees

Central to the Board's governance framework is a culture of ethical behaviour based on Medibank's key values. These values are intended to guide the way employees work together and engage with customers, business partners, governments and the wider community, and are supported by a range of policies and procedures.

The Medibank Code of Conduct, available on Medibank's website, sets out the way employees, including directors and executives, work and the practical principles and minimum standards of expected behaviour. Responsibilities include behaving in a manner that promotes health, safety and wellbeing, that fosters relationships of trust and respect that avoids conflicts of interest (including not offering or accepting secret commissions or bribes) and that protects confidential information. Medibank has different options in place for dealing with breaches of the Code of Conduct depending on the circumstances. Through the Whistleblower Policy, identification and reporting of all conduct that is inappropriate or exposes Medibank to unacceptable loss or risk is encouraged. The policy protects whistleblowers from victimisation or disadvantage as a response to making reports. A whistleblower reporting service called Medibank Alert is available through an external provider, enabling whistleblowers to report conduct anonymously, or limit who is informed of their identity.

Ethical conduct is further supported by corporate policies, including the areas of anti-bribery, anti-corruption and conflicts of interest. Medibank has a health and safety management system in place to ensure it meets legislative requirements and proactively addresses its key risks in health and safety. The Health, Safety and Wellbeing Policy underpins the objective of preventing injury and illness through a culture of health promotion, injury prevention and early intervention.

The Share Trading Policy, available on Medibank's website, applies to directors, executives, employees and contractors. Restrictions include blackout periods during which trading in Medibank shares by directors, executives and specific corporate employees, is prohibited. These periods apply in the lead up to the release of financial results and at other times as required.

Diversity and inclusion

Medibank is committed to creating an inclusive culture that acknowledges and embraces difference in all its forms and leverages the benefits that diversity and inclusion brings to employees, shareholders, customers and the community. Medibank recognises that all employees are different, and these differences create organisational benefits.

The Board has adopted a Diversity and Inclusion Policy that supports and facilitates an inclusive environment. The policy outlines the role of the People and Remuneration Committee in recommending to the Board measurable objectives for diversity and annually assessing progress against these. The policy is reviewed annually and is available on Medibank's website. A diversity and inclusion strategy supports the policy and sets out the measurable objectives established by the Board.

The Board emphasises the importance of having a gender diverse leadership team, which is supported by Medibank's commitment to having and maintaining at least 40% female representation in the Senior Leader population. As at June 2018 the actual representation was 45%.

Corporate governance statement continued

In May 2018 Medibank completed the reporting of its gender equality indicators under the *Workplace Gender Equality Act 2012 (Cth)*. The reports can be accessed on Medibank's website. As at 30 June 2018 the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation were as follows:

Position	Men	Women	% women
Board	3	5	63%
Executive Committee	5	2	29%
Other executives and general managers	30	27	47%
Senior Leader¹ total	35	29	45%
Senior managers	170	158	48%
Other managers	275	319	54%
Non-managers	660	2,213	77%
Overall (excluding Board)	1,140	2,719	70%

1. Senior Leader positions includes all executive and general management positions (or equivalent), and was a population of 64 people as at 30 June 2018.

In 2017 the Board set measurable objectives for achieving diversity at Medibank, including gender diversity. It committed to reporting progress against these in the 2018 corporate governance statement. The table below shows Medibank's progress against these objectives:

Measurable objective	Progress towards achievement
Medibank will remain committed to ensuring a representation of at least 40% women across Medibank's leadership population.	As at June 2018, Medibank had achieved 45% female representation in senior leadership roles, and 51% across all manager roles. Female representation at senior manager level increased by 4% over the financial year (to 48%). Female representation at general manager level has decreased by 6% (three women) to 47%.
Medibank will commit to launching a new 'Stretch' Reconciliation Action Plan (RAP) for 2018-2020.	Medibank successfully launched its fourth RAP in February 2018. With indigenous health equality at its core, the 2018-2020 RAP sets out 16 new actions which focus on collaboration with the Aboriginal Community Controlled Health Sector, strengthening cultural awareness and understanding of Indigenous issues and history across Medibank, creating immersive experiences for the Senior Leaders, and providing sustainable employment for Indigenous Australians.
Medibank will commit to launching an Accessibility Action Plan in order to better attract and retain employees with disability, while improving the customer experience for people with disability.	Medibank launched its first Accessibility Action Plan in June 2018. The plan includes customer-focused actions including enhancing the experience of customers with disability through improving the accessibility of Medibank websites and customer communications. The plan also focuses on improving the experiences of employees with disability through actions including creating a disability-confident culture across Medibank and creating meaningful career opportunities for people with a disability within Medibank.
Medibank will maintain the proportion of employees working flexibly at a minimum of 70%.	As at February 2018, 76% of employees at Medibank utilise some form of flexible working, as measured through Medibank's annual engagement survey. Future efforts will focus on creating a greater consistency of experience, regardless of the type of flexibility that employees adopt.
Medibank will continue to benchmark the Diversity and Inclusion practices by maintaining citation as a Workplace Gender Equality Agency (WGEA) Employer of Choice for Gender Equality. Medibank will also benchmark its practice via the Australian Workplace Equality Index (AWEI) for LGBTI Inclusion, and the Australian Network on Disability's (AND) Access and Inclusion Index.	In 2018, Medibank was named an Employer of Choice for Gender Equality by WGEA for the second year running. Medibank was also named by AND as a top six organisation for accessibility and inclusion of people with disability. In addition, Medibank was named a Silver Tier (Top 20) employer for LGBTI inclusion through the AWEI.

For 2019 the Board has set the following measurable objectives for achieving diversity at Medibank, including gender diversity, and is committed to reporting on progress in the 2019 corporate governance statement:

1. Medibank will remain committed to ensuring a representation of at least 40% women across the senior leadership population.
2. Medibank will increase the representation and self-reported engagement of:
 - (a) Indigenous employees;
 - (b) Employees with disability.
3. Medibank will continue to benchmark the diversity and inclusion practices by maintaining its citation as a WGEA Employer of Choice for Gender Equality. Medibank will also benchmark LGBTI inclusion via the AWEI, and inclusion of people with disability via AND's Access and Inclusion Index.

Market and shareholder communication

Market disclosure

Medibank promotes investor confidence and the rights of shareholders by ensuring the immediate disclosure of market sensitive information regarding Medibank. The measures to further these commitments are detailed in the Disclosure and Communication Policy approved by the Board, which is available on Medibank's website. This policy is designed to facilitate compliance with Medibank's obligations under the ASX Listing Rules and the *Corporations Act 2001* (Cth) by assigning authorisation processes for market announcements, and reserving certain matters for approval by the Board. Processes for engagement with analysts and investors are detailed in the policy as well as the assignment of spokespersons for market and media communications. Awareness and compliance is promoted by compulsory periodic online employee training and additional information sessions for those likely to become aware of potentially market sensitive information.

The Board is supported by a management Disclosure Committee responsible for considering potentially market sensitive information and monitoring Medibank's disclosure processes and reporting framework. The Disclosure Committee Charter is available within the Disclosure and Communication Policy.

Information about Medibank and its governance

Medibank's website provides information about the company and its corporate governance, and an area specifically for prospective and existing Medibank shareholders which links to Medibank's results, annual reports, share price, ASX announcements and annual general meeting materials. A shareholder calendar of upcoming events is maintained on the website, along with information to assist investors in managing their shareholdings. Medibank's share register is managed by Computershare Investor Services Pty Limited which provides an accessible online platform for shareholders to access and manage their shareholdings.

Medibank encourages shareholders to receive communications securely by email for reasons of speed, security, environmental friendliness and cost reductions. Unless a shareholder elects to receive information by post, Medibank communicates with shareholders via email and other electronic channels, including providing notices of meetings and facilitating online voting on the annual general meeting resolutions.

Investor engagement

Medibank conducts briefings, meetings, telephone calls and webcasts for institutional and retail investors, analysts and proxy advisors to provide a greater understanding of the business, and results. Investor briefings and ad hoc meetings with institutional and private investors, analysts and proxy advisors provide a forum for two-way communications between Medibank and the investment community. During the year, Medibank participated and presented at several conferences including the Citi Australia and New Zealand Investment Conference in October 2017, the Morgan Stanley Private Health Forum in April 2018 and the Macquarie Australia Conference in May 2018.

Communication with the investment community is generally through the CEO, the Chief Financial Officer (CFO) and the General Manager Corporate Finance and, in relation to governance and remuneration issues, the Chairman. Feedback from engagement with the investor community is communicated to the Board at each Board meeting.

In all communications with investors, analysts and media, only publicly available information and information that is not market sensitive is discussed. In order to ensure that all shareholders have equal and timely access to material information concerning Medibank, advance notification of investor and analyst results briefings is announced via the ASX. The briefing materials are released first via the ASX and then on Medibank's website, together with a recording of the briefing.

Shareholder meetings

The Board encourages shareholders to attend the annual general meeting and to take the opportunity to ask questions of the Board. The meeting is held at an accessible venue in Melbourne. For shareholders unable to attend, the meeting is webcast live, and is then made available on Medibank's website. The external auditor attends the annual general meeting and is available at the meeting to answer questions relevant to the auditor's report.

Medibank provides shareholders with a clear and concise notice of meeting setting out the business to be considered, including all material information relevant to the election or re-election of directors. These materials, together with the presentations at the annual general meeting and the voting results, are released to the ASX and then made available on Medibank's website.

Integrity of financial reporting

The Board has a strong commitment to the integrity and quality of its financial reporting and its systems for risk management, compliance and internal control.

The role of the Audit Committee is to provide a non-executive review of the effectiveness of Medibank's financial reporting framework, and assist the Board in carrying out its accounting, auditing, and financial reporting responsibilities.

The Audit Committee currently comprises three non-executive directors. The chairman of the committee is an independent non-executive director who is not the Chairman of the Board. Committee members are appointed based on their qualifications and experience to ensure that the committee can adequately discharge its duties. The current committee comprises directors with accounting and financial expertise and experience, and who between them have a deep understanding of the health and insurance industries and includes at least one director who is a member of the Risk Management Committee. Any director may attend committee meetings. Representatives of management, the manager responsible for internal audit, the Chief Actuary, and the external auditors are invited as required.

Financial reporting assurances

The preparation of the full year and half year financial statements is subject to a detailed process of review and approval by the Board supported by the Audit Committee.

As required under section 295A of the *Corporations Act 2001 (Cth)*, the Board receives a declaration from the CEO and the CFO that the financial records of the company have been properly maintained and that the financial statements and notes comply with accounting standards and give a true and fair view of the consolidated entity's financial position and performance for the financial period. This includes a written declaration that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively in all material respects in relation to financial reporting risks.

This declaration was received by the Board prior to approving the financial statements for the half year ended 31 December 2017 and the full year ended 30 June 2018.

Internal audit

Medibank has an internal audit function. Its role is to provide independent and objective assurance to the Audit Committee on the adequacy and effectiveness of the risk management framework and internal control and compliance systems. The annual internal audit plan, which is approved by the committee, is developed using a risk-based approach and is driven by Medibank's strategy, risk profile and governance principles. The internal audit charter provides the internal audit team unrestricted access to review all activities of the business. The internal audit function is supplemented by the engagement of external subject matter experts when required.

The head of the internal audit function is the General Manager Internal Audit. To ensure the independence of the internal audit function the role reports directly to the committee chairman, with a direct communication line to the CEO and administrative reporting line to the CFO. The General Manager Internal Audit reports to each committee meeting on progress against the annual internal audit plan, audit findings and recommendations, business insights and the status of management actions.

Risk management

Medibank's Risk Management Framework encompasses the systems, structures, policies, processes and people that manage risks across the business. It guides risk management activities across the business to effectively identify, assess, manage, monitor and report risks. The framework is implemented through the three lines of defence model and its effectiveness is assessed by the internal audit function on an annual basis.

A key component of the framework is the definition of Medibank's risk appetite by the Board which informs management's decision making process.

Over the last twelve months, Medibank invested significant resources to strengthen the enterprise risk management practices to ensure alignment with the requirements outlined in the APRA Prudential Standard CPS220 – Risk Management which became applicable to the private health insurance industry on 1 April 2018.

Material business risks are discussed in the operating and financial review section on pages 23 to 24 of the annual report and can be broadly categorised as credit, capital and liquidity, market and investment, insurance, strategic, clinical, operational and regulatory compliance. Medibank has not identified any material exposures to environmental or social sustainability risks.

Governance

The Board has overall responsibility for Medibank's Risk Management Framework including setting the risk appetite for Medibank. The Board reviews the risk framework at least annually and satisfies itself that management has developed and implemented a sound system of risk management and internal control to effectively manage risk across the business in line with regulatory and statutory requirements. The Board reviewed the risk management framework during 2018 and concluded that it is sound.

The Risk Management Committee assists the Board in overseeing the implementation of the Risk Management Framework. Currently, the committee comprises five non-executive directors and at least one of whom is a member of the Audit Committee. The chairman of the committee is an independent non-executive director who is not the Chairman of the Board. Committee members are appointed based on their qualifications and experience to ensure that the committee can adequately discharge its duties.

The Board is further assisted by the Investment and Capital Committee, which oversees the implementation and monitoring of the investment strategy and Capital Management Policy approved by the Board, including monitoring the effectiveness of the investment process in achieving optimum return relative to risk.

The Executive Risk Committee and Divisional Risk Committees assist the CEO with the oversight of risk management activities across the business to ensure the material risks are managed in line with the approach defined in the risk management strategy and the risk appetite set by the Board.

Medibank has adopted a three lines of defence approach to define risk management roles, responsibilities and accountability.

First line: Management is accountable for identifying, assessing, monitoring and managing material risks in the business. They are responsible for decision making and the execution of business activities, whilst managing risk to ensure it is in line with the Board's risk appetite and strategy.

Second line: The Enterprise Risk and Compliance functions provides objective advice and challenge to the first line on risk and control activities and provides assurance and guidance on the design and implementation of appropriate risk management activities.

Third line: Internal Audit provides independent assurance to the Audit Committee and the Board on the adequacy and effectiveness of the risk management framework, financial reporting processes and internal control and compliance systems operating at the first and second line.

This corporate governance statement is accurate and up-to-date as at 24 August 2018 and has been approved by the Board.