

31 October 2018

Dear Member,

I am writing to advise you of this year's Annual General Meeting of members of Health Care Insurance Limited (**HCI**).

Annual General Meeting

The Annual General Meeting (**AGM**) of HCI will take place at 6:00pm on Monday, 26 November 2018, at the HCI office, 25 Cattley Street, Burnie. The notice of meeting accompanies this letter

Items of business for the AGM include changes to HCI's Constitution and appointment of Deloitte as auditor of HCI. Both items are responses to the recent regulatory focus on improving governance practices. The HCI Board's intention is for the Board and key business functions to be served by the best available mix of skilled and experienced people, whilst maintaining the optimum balance between independence and member representation. The notice of meeting contains detailed information relating to these and the other ordinary items of business.

Director Elections

Please note that a ballot for the election of two directors is being held this year, as two current directors are required to retire at the end of the AGM. HCI is pleased to announce that it has received three nominations and the ballot will be open until 5:00 p.m., Friday 23 November 2018.

The result of the ballot will be announced at the AGM.

Member Voting - Computershare

To increase the ease for members across Australia to engage with HCI, HCI has joined with Computershare Investor Services Pty Limited (**Computershare**) to set up a secure online voting and notification platform. Computershare is a highly trusted organisation in the Australian corporate sector, with a depth of experience and commitment to quality, innovation, security and certainty.

Members may vote on AGM items of business or in the director election online by going to www.investorvote.com.au/HCIAGM.

Alternatively, members can access a ballot pack by downloading a copy of from our website (<http://www.hcilt.com.au/downloads>), sending an email request to enquiries@hcilt.com.au, or phoning 1800 804 950.

2018 Annual Report

Members can access the 2018 Annual Report from the Computershare online voting and notification platform by following the steps set out above.

Alternatively, members can download a copy of the 2018 Annual Report from the HCI website (<http://www.hcilt.com.au/downloads>), sending an email request to enquiries@hcilt.com.au or phoning 1800 804 950.

Your Details

HCI will also send a copy of this correspondence by email to all members with a current email address. The email will contain a secure link to assist with electronic voting.

If you need to update your details, please contact our office by phoning 1800 804 950 or email us with your full name, address, phone number and membership number.

Yours sincerely,

A handwritten signature in black ink that reads "Jessica Lyons". The signature is written in a cursive style with a large initial 'J'.

Jessica Lyons
GENERAL MANAGER

HEALTH CARE INSURANCE LIMITED

ABN 43 009 579 088

NOTICE OF ANNUAL GENERAL MEETING

Health Care Insurance Limited (the "**Company**") gives notice that the Annual General Meeting of members will be held at the Company offices at 25 Cattley Street, Burnie, Tasmania on Monday, 26th November 2018 at 6:00 p.m.

BUSINESS

1. MINUTES

To review and confirm the minutes of the previous Annual General Meeting of the Company held on 20 November 2017.

2. REPORTS

To consider the financial report of the Company and the reports of the directors and auditor for the year ended 30 June 2018.

3. SPECIAL RESOLUTION TO AMEND THE CONSTITUTION OF THE COMPANY

To consider and, if thought fit, pass the following resolution as a special resolution:

'That from the close of the 2018 Annual General Meeting, the Company's constitution be amended as shown in the document marked 'Constitution of Health Care Insurance Limited' and signed by the chair of the meeting for the purposes of identification.'

4. APPOINTMENT OF AUDITOR

To consider and, if thought fit, pass the following resolution:

'That, subject to the Australian Securities and Investments Commission providing its consent to the resignation of the outgoing auditor, the Company appoint Deloitte as Company auditor from the close of the 2018 Annual General Meeting.'

5. ELECTION OF DIRECTORS

To declare the results of the election of directors.

6. OTHER BUSINESS

To consider other business raised by members of the Company.

PROXIES

Members may appoint any person (who need not be a member of the company) to act as proxy in any common form, but the proxy must be received at the Company's registered office or by Computershare Investor Services Pty Limited (**Computershare**) at least 6 hours before the meeting commences.

Members can appoint a proxy and direct their vote by accessing the Company's online voting portal, managed by Computershare, at www.investorvote.com.au/HCIAGM.

Alternatively, proxy forms can be downloaded from our website <http://www.hcilt.com.au/downloads> or copies can be sent on request by phoning 1800 840 950.

By order of the Board

A handwritten signature in blue ink, appearing to read 'R. Wood', with a small dot at the end.

Robert Wood

Company Secretary

30 October 2018

EXPLANATORY NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

This information forms part of the Notice of Annual General Meeting (**AGM**).

Minutes and Reports

Copies of the minutes of the previous Annual General Meeting of the Company held on 20 November 2017, the financial report of the Company and the reports of the directors and auditor for the year ended 30 June 2018 are available from the Company's online voting portal, managed by Computershare, at www.investorvote.com.au/HCIAGM.

Alternatively, the minutes and reports can be inspected at the Company's office, downloaded from the Company's website <http://www.hcilt.com.au/downloads> or requested by phoning 1800 840 950.

Special Resolution to amend the Constitution of the Company

Since the Constitution was last reviewed by the Company's legal advisers, there have been a number of changes to the legal and prudential framework to which the Company is subject including (notably):

1. the commencement of the *Private Health Insurance (Prudential Supervision) Act 2015* (Cth);
2. the cross-industry harmonisation of the Governance Standard for private health insurers (*Prudential Standard CPS510 – Governance*), to take effect from 30 June 2019; and
3. the extension to private health insurers of the cross-industry prudential standard for assessment of responsible persons as fit and proper (*Prudential Standard CPS 520 – Fit and Proper*), to take effect from 30 June 2019.

The approval of the members is sought for the following amendments to the Company's constitution (**Constitution**).

1. To incorporate amendments arising from changes to the legal and prudential framework to which the Company is subject.
2. To delete rule 4 of the Constitution (which set out the 'restricted access group' of the Company). This rule is now redundant. The Company became an 'open' insurer in May 2013.
3. To:
 - 3.1.1 reduce the number of Elected Directors from a maximum of four to three;
 - 3.1.2 increase the number of Appointed Directors from two to three; and
 - 3.1.3 incorporate a minor consequential change requiring a 'majority' of Independent Directors (rather than a fixed number of three Independent Directors), as required by *Prudential Standard CPS510 – Governance*.

To facilitate an orderly transition to the new Board structure, a transitional rule will apply to allow the Company to continue to have four Elected Directors until the 2019 Annual General Meeting. The longest serving Elected Director must retire from office no later than the 2019 Annual General Meeting.
4. To introduce a new rule providing for a maximum aggregate term for Directors of 12 years (that is, four terms of three years' duration). In order to ensure that the operation of this rule does not cause the automatic retirement of several long-serving Directors (and the consequential loss of necessary skills and experience), a transitional rule will apply to Elected Directors first elected before the 2009 Annual General Meeting. Those directors will be required to retire from office on the expiry of their current term of office or the 2021 Annual General Meeting (whichever occurs first).
5. To require the Board to:
 - 5.1.1 assess candidates for the position of Director against the Fit and Proper Policy required by *Prudential Standard CPS 520 – Fit and Proper*; and
 - 5.1.2 consider how the skills, knowledge and experience of a candidate for the position of Director complement the present needs of the Board the Company (as required by *Prudential Standard CPS510 – Governance*).
6. To require a person to be assessed by the Board against the Fit and Proper Policy required by *Prudential Standard CPS 520 – Fit and Proper* prior to being appointed as Secretary (and to provide for the automatic cessation of their appointment should they cease to meet the requirements of the Fit and Proper Policy).

7. To require the Board to establish a board risk committee, as required by *Prudential Standard CPS510 – Governance*.
8. To require the Board to establish a board remuneration committee, as required by *Prudential Standard CPS510 – Governance*.
9. To make a number of small administrative amendments (including deleting redundant or inoperative rules, correcting minor typographical errors and updating paragraph numbering).

A copy of the existing constitution with the proposed changes shown is available at the Company's office for inspection or can be viewed on the Company's website at <http://www.hcilt.com.au/downloads>. Amendment of the Constitution requires the passing of a special resolution with at least 75% of those present and entitled to vote in favour of the special resolution. The Board recommends voting in favour of the special resolution to amend the Constitution.

Appointment of Auditor

The Company's incumbent auditor, Crowe Horwath, was appointed in 2002 and since that time has performed as external auditor of the Company's:

- annual financial statements;
- compliance with the Australian Government Rebate on Private Health Insurance Premiums Reduction Scheme (Medicare); and
- quarterly and annual reporting to the Australian Prudential Regulation Authority (**APRA**).

In September 2018, APRA released a package of prudential standards and guides aimed at improving governance and decision-making in the private health insurance (PHI) industry.

(<https://www.apra.gov.au/media-centre/media-releases/apra-finalises-new-measures-enhance-governance-private-health-insurance>)

The new prudential standards for PHI are:

- *Prudential Standard CPS 510 Governance (CPS 510)*;
- *Prudential Standard CPS 520 Fit and Proper*; and
- *Prudential Standard HPS 310 Audit and Related Matters*.

Of note, CPS520 requires minimum levels of PHI experience and CPS510 expressly gives consideration to auditor independence and imposes a five year limit on individuals that play a significant role in the audit of regulated bodies.

In light of these new prudential standards, the Company has taken the opportunity to review its governance framework, including the appointment of its external auditor. The Company invited submissions of tenders for appointment as HCI's external auditor in August 2018.

The Company received three complying tenders that were reviewed by the Company's Audit Committee. The Audit Committee ultimately recommended to the Board that Deloitte be endorsed for appointment as the Company's external auditor by resolution of members at the Company's AGM.

The Board accepted the recommendation and the Company notified Crowe Horwath and Deloitte in September 2018. Crowe Horwath subsequently applied to the Australian Securities and Investments Commission for consent to resign as the Company's auditor and Deloitte has issued a consent to act.

The Board recommends voting in favour of the resolution to appoint Deloitte as Company auditor from the close of the 2018 AGM.

Election of Directors

A director election is being held by ballot in 2018 as two elected directors are due for re-election. Members may vote online at www.investorvote.com.au/HCIAGM.

Alternatively, members can request a postal ballot pack by contacting our office on 1800 804 950 or, alternatively, you may download a copy from our website <http://www.hcilt.com.au/downloads>.

The ballot will be conducted from Monday 5th November 2018 and will close at 5:00 p.m., Friday 23 November 2018 and the result of the election will be declared at the 2018 AGM.