

HCF GROUP 2018 CORPORATE GOVERNANCE STATEMENT



MESSAGE FROM THE CHAIR



Robert Goaley
Chair, HCF Board



As has been said on numerous occasions, we're a little different from most health funds; we're not driven by profit but by improving and safeguarding the health of our policyholders. As a not-for-profit organisation our core philosophy is - to put the interests of our policyholders first. This mutual ethos has permeated the organisation since we started and supports our dedication to transparency and accountability throughout the business.

We firmly believe a strong corporate governance framework is critical to achieving our strategic objectives and mission - to be the partner of choice in enabling people to care for their health.

In 2010 we implemented a skills matrix to review the current Board experience and knowledge and assist in assessing requirements for new appointments. Since then we have continued to evolve our corporate governance practices to ensure the efficiency and effectiveness of the boards within the group. This includes at least annually assessing that our boards contain the right compilation of skills and experience relevant to the needs of the relevant entity.

MANAGEMENT

In the same spirit, we recognise the importance of working together as a team to ensure we achieve our vision. Good governance is also the responsibility of management and is embedded throughout our organisation. It's not one or the other; we work in partnership to ensure we're all on the same page when it comes to the future direction.

DIVERSITY AND INCLUSION

At the moment 37.5 per cent of our non-executive directors on the HCF board and 43 per cent of our executive team are women. Addressing gender imbalance is an issue we are striving to improve upon and we are committed to 'walking the talk' with regards to diversity. We understand that having an inclusive and diverse workplace delivers better business results and thus diversity for us is not restricted to gender but also includes geographical location, nationality, background, skills, knowledge and experience.

"We firmly believe a strong corporate governance framework is critical to achieving our strategic objectives and mission..."

CONTINUOUS IMPROVEMENT

Lastly, our organisation's number one focus continues to be on designing and delivering products and services to make our policyholders healthier. We are progressing with our uplift in technology; for the benefit of our policyholders. We have a complex, constantly changing industry so we must keep looking forward. We continue to look at a number of major initiatives in order to get ahead of the field. Our Board and management continue to work together to adapt our strategic direction that is to deliver our platform for growth for now and in the future.

On behalf of our boards, I am pleased to present the 2018 Corporate Governance Statement.

CONTENTS

Message from the Chair	3	7.0 Diversity	15
1.0 Approach to Governance/Company Profiles	4	8.0 Promoting Ethical & Responsible Behaviour	16
2.0 Governance Framework & Structure	6	9.0 Engaging with Stakeholders	18
3.0 Board/Committee Composition & Attendance	9	10.0 Risk Management	19
4.0 Skills, Experience & Independence	11	11.0 Internal Audit	21
5.0 Election / Appointment of Directors	13	Appendix A HCF Life	22
6.0 Evaluating Performance	14		

1.0 APPROACH TO GOVERNANCE / COMPANY PROFILES

HCF is committed to maintaining a high standard in its governance practices and seeks to:

- embrace the ASX Corporate Governance Principles and Recommendations (3rd Ed) as appropriate¹
- take a leadership role in reform impacting the industries in which it operates (supported by active participation in Government/Regulator relations and contributing to debates on such reforms)
- integrate best practice governance standards into its operations.

The governance practices across the HCF Group also comply with prudential standards applicable to HCF and HCF Life as Australian Prudential Regulation Authority (APRA) regulated entities.

The Board of Directors of HCF has overall responsibility for the corporate governance of the HCF Group. The Board guides and monitors the business affairs of the HCF Group.

The information in this statement is current as at 30 June 2018 and has been approved by the Board.

POLICY, FRAMEWORK AND APPROACH TO CORPORATE GOVERNANCE

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

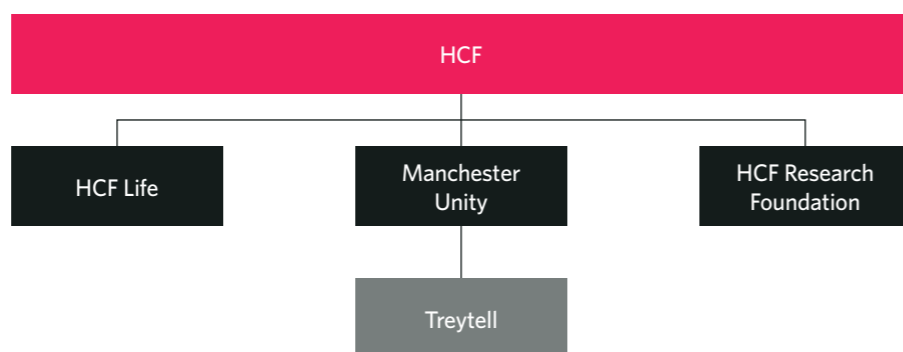


Figure 1: Structure of Operating Companies within HCF Group

a commitment to best practice governance standards, which the Board sees as fundamental to achieving its strategic objectives and the sustainability of HCF's businesses and performance.

HCF PROFILE

The Hospitals Contribution Fund of Australia Limited (**HCF** or the **Company**) is Australian registered (under the *Corporations Act 2001*) as a public company limited by guarantee. It is also registered under the *Private Health Insurance Act 2007* and is Australia's largest not-for-profit private health insurer.

The Company has no share capital and as such, no shareholders. The corporate members of the Company, known as the Councillors, are entitled under the *Corporations Act 2001* to vote at Company meetings². Up to 16 Elected Councillors are elected by the Voting Policyholders³ (or appointed by the Directors where there

is a casual vacancy) and up to eight Board Councillors appointed by the Board.

HCF is operated on a not-for-profit basis and its Constitution prohibits any distribution of surplus or assets to the Councillors. It is exempt from income tax for its health insurance business.

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

HCF LIFE PROFILE

HCF Life Insurance Company Pty Ltd (**HCF Life**) is a wholly owned subsidiary of HCF. It has a Board of five Directors, being the Managing Director of HCF and four independent Directors including the Chair of HCF.

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

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

MANCHESTER UNITY PROFILE

Manchester Unity Australia Ltd (**Manchester Unity**) is a wholly owned subsidiary of HCF (acquired on 24 December 2008). It is currently an approved provider of home care services under the *Aged Care Act 1997* and, through its wholly owned subsidiary Treytell Pty Limited (**Treytell**), an owner-operator of a

retirement village. Manchester Unity was also a registered private health insurer under the *Private Health Insurance Act 2007* up until 30 June 2011, at which point the private health insurance business was transferred to HCF. It was also an owner-operator of two aged care facilities until May 2016.

The Board of Directors consists of eight independent Directors. Manchester Unity's Board of Directors are the same Directors who sit on the HCF Board. The Board of Directors considers that the Manchester Unity non-executive Directors bring the right mix of skills, knowledge, expertise and experience necessary to govern Manchester Unity. In addition, if necessary, the Board can utilise the past experience and expertise of Robert Goaley, a previous Chief Executive Officer, Director and Chair of Manchester Unity. Under Rule 7.1(3) of Manchester Unity's Constitution, HCF (as the sole member of Manchester Unity) has the discretion to appoint and remove Directors. However, that discretion is exercised in accordance with the Manchester Unity Board Charter.

HCF RESEARCH FOUNDATION PROFILE

HCF Research Foundation Ltd is a public company limited by guarantee and HCF is its sole member. HCF Research Foundation Ltd acts as the corporate trustee for the HCF Research Foundation (a charitable trust).

The Board of Directors consists of seven Directors made up of four HCF Directors (including the Managing Director of HCF) and three non-HCF Directors.

The HCF Research Foundation was originally established with a donation from HCF. While HCF has donated money, the HCF Research Foundation operates independently and with specific focus on funding health services research that can benefit all Australians.

Since inception it has committed a total of \$18.5m towards health research in Australia.

- **HCF Group** relates to all companies within the HCF Group. The operating companies within the HCF Group are currently HCF, HCF Life, HCF Research Foundation Ltd (as trustee for the HCF Research Foundation), Manchester Unity and its subsidiary Treytell Pty Limited; and
- the **Board and Board Committees** in sections 2 to 11 of this Corporate Governance Statement is a reference to the Board, and Board Committees, of HCF.

Note: Appendix A details the corporate governance frameworks applicable to HCF Life where they differ from that of HCF.

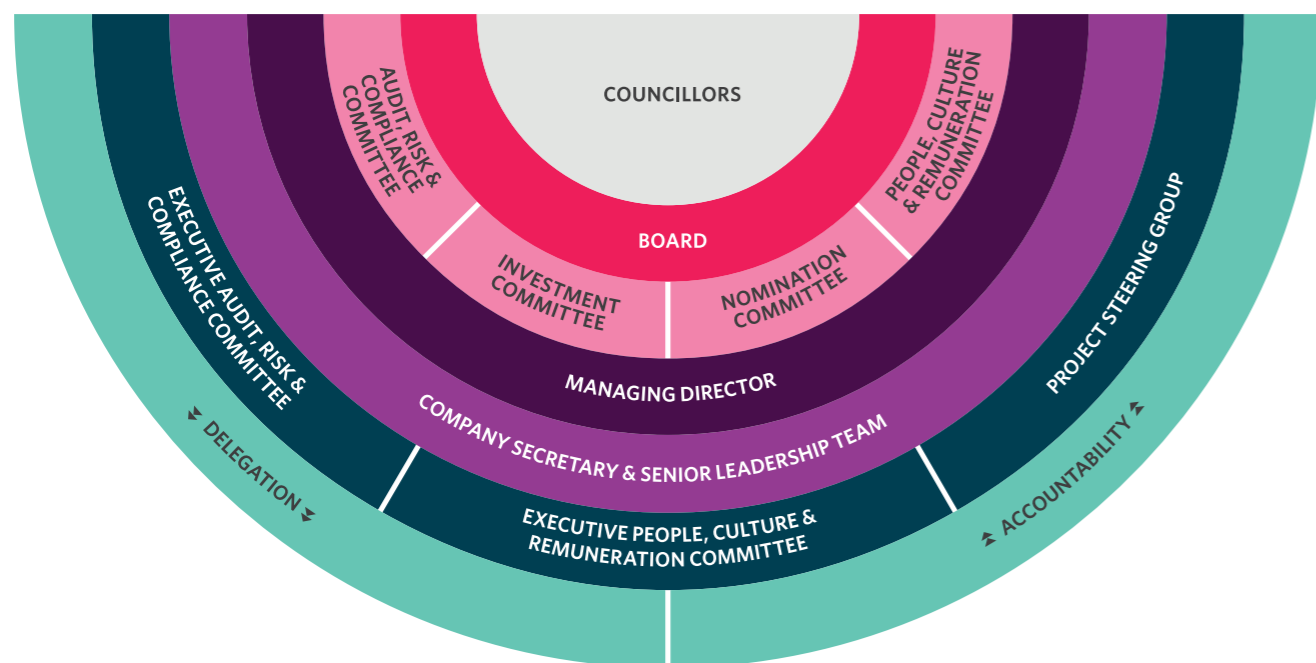
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for further information including copies of the Board and Board Committee charters.

1. As HCF is not a listed entity and does not have security holders, principles/recommendations 5.1, 6.2, 6.3 and 6.4 are not relevant to its operations. However HCF regularly engages with its Councillors who are the Members of the Company. Further detail is available on page 18.
2. A reference to a member of the Company is to the meaning as defined in the *Corporations Act 2001*. It does not mean a member of the health fund, a policyholder or a contributor. Policyholders are not corporate Members and have no rights or entitlements under the HCF Constitution, beyond the right, for those policyholders who are Voting Policyholders to participate in the election of Councillors in accordance with the HCF Constitution. Policyholders are customers of HCF, with rights and obligations under the rules of the health benefits fund.
3. A Voting Policyholder includes the Directors, HCF customers who were, on or around 24 November 2011, a 'voting contributor', and HCF customers that have been a hospital cover policyholder for a continuous period of at least five years.

2.0 GOVERNANCE FRAMEWORK & STRUCTURE

The diagram below summarises HCF's governance framework including any matters that have been reserved for the Board and the role of the four standing Board Committees.



COUNCILLORS

The primary role of the Councillors under HCF's Constitution is to see that:

- accepted governance standards are properly implemented and maintained;
- the organisation is professionally governed and managed for the benefit of all policyholders; and
- the Board is held to account for its leadership and management.

As the Members of the Company for the purposes of the Corporations Act, Councillors also exercise powers that either the Act or the Constitution require are reserved for a general meeting.

These include:

- electing and/or removing directors;
- appointing and/or removing the auditors;
- approving alterations to the Constitution;
- changing the company type;
- calling meetings and/or proposing resolutions (in limited circumstances); and
- setting director remuneration and approving certain financial transactions (such as related party transactions).

As HCF is a company limited by guarantee, in the event it is wound up each Councillor undertakes to contribute up to \$2 towards the property of the Company where required. The Constitution prohibits the distribution of any property or profit of the Company to Councillors and requires that all surplus upon winding-up is given or transferred to a person or entity with similar objects to that of HCF.

BOARD

The Board is responsible for the overall governance of the Company including ensuring the continuity of its business and long-term viability.

It formally delegates certain functions and authority to Board Committees (documented in the Board and Board Committee charters) and management (documented in the HCF Group Delegated Authority Policy). It retains authority for:

- Strategy - setting, monitoring and revising strategic direction and performance objectives.
- Oversight of management - appointing/removing the Managing Director, Company Secretary and Chief Financial Officer; approving succession plans; and monitoring senior management performance against agreed criteria.
- Oversight of financial and capital matters - approving and monitoring performance against financial budgets; approving financial statements and considering the Financial Condition Report; appointing the external auditor (subject to confirmation by Councillors at the next AGM); appointing/removing investment advisers and the Head of Internal Audit; and reviewing, approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures, investment management and material commitments.
- Risk Management and Compliance - approving the risk appetite statement and risk management and compliance frameworks; and monitoring the effectiveness of and compliance with policies governing HCF's operations (including ensuring regulatory reporting and notification requirements are met).

AUDIT, RISK & COMPLIANCE COMMITTEE

The primary role of the Board's Audit, Risk and Compliance Committee is to oversee, review and make recommendations on:

- integrity of the financial statements and financial reporting systems
- compliance with financial reporting and related regulatory requirements including the Financial Condition Report
- the identification, assessment, control and treatment of risks, including HCF's corporate insurance program
- fraud control
- performance and effectiveness of the assurance functions including internal audit, Appointed Actuary and External Auditor (including independence).

The Board approves the external and internal audit plans and appointments to the role of External Auditor and Appointed Actuary on recommendation of the Committee.

NOMINATION COMMITTEE

The primary role of the Board's Nomination Committee is to oversee, review and make recommendations on:

- policies relating to the Board's composition, skills/expertise mix, strategic function and size
- performance review processes of the Board, its Committees and individual Directors
- Director independence and succession planning for the Board and Councillors
- criteria for election as Directors and Elected Councillors and potential candidates nominated for such roles.

PEOPLE, CULTURE & REMUNERATION COMMITTEE

The primary role of the Board's People, Culture and Remuneration Committee is to oversee, review and make recommendations on:

- the HCF Group Remuneration Policy and practices to encourage behaviours that support long-term financial soundness and prudent risk taking
- remuneration and performance incentives of the Managing Director, senior managers, non-executive Directors and other employees within the HCF Group
- conditions of service, training, development and succession plans for Directors, Managing Director and senior managers
- performance against the Diversity Policy including recommending appropriate changes (where required)
- workplace health and safety policies and programs including monitoring performance of the HCF Group against agreed health and safety measures
- key human resource practices, organisational engagement and culture survey results.

INVESTMENT COMMITTEE

The primary role of the Board's Investment Committee is to oversee and review performance of investments (including investment advisers) and make recommendations to the Board in relation to its investment strategy, Capital Management Policy and Capital Management Plan.

MANAGING DIRECTOR

The Board has delegated authority to the Managing Director to achieve corporate objectives. This authority extends to all areas except those reserved to the Board or Councillors.

The Managing Director remains accountable to the Board for all authority delegated including where authorities have been further delegated to management and/or management committees.

COMPANY SECRETARY

In addition to the role as a member of the Executive Team (below), the Company Secretary is accountable to the Board, through the Chair, on matters pertaining to proper functioning of the Board.

EXECUTIVE TEAM

The primary role of the Executive Team is to assist the Managing Director to pursue the corporate objectives by:

- providing leadership
- debating and resolving matters of importance to HCF Group
- implementing strategic objectives, determining priorities and agreeing the manner in which these will be achieved (in collaboration with the Managing Director) within the risk appetite set by the Board
- overseeing and reviewing business operations against agreed metrics.

It also provides the Board with accurate, timely and clear information to enable the Board to perform its responsibilities.

EXECUTIVE AUDIT, RISK & COMPLIANCE COMMITTEE

The primary role of the Executive Audit, Risk and Compliance Committee is to assist the Managing Director to monitor and oversee the management of audit, risk and compliance related matters impacting HCF and Manchester Unity by:

- ensuring that key corporate risks are identified, assessed, regularly reassessed and appropriately managed as they emerge
- implementing the approved risk management strategy
- developing appropriate policies, controls, processes and procedures to identify and manage material risks.

A copy of the Committee's minutes are made available to the next meeting of the Board's Audit, Risk and Compliance Committee.

PROJECT STEERING GROUP

The primary role of the Project Steering Group is to assist the Managing Director pursue the corporate objectives by ensuring:

- projects undertaken by the organisation align with the agreed corporate and strategic objectives
- appropriate oversight and accountability of projects having regard to the project's size, complexity, priority and risk profile (including appropriate management of associated risks)
- major issues impacting project progress are resolved
- appropriate resources (including human, financial and infrastructure) are made available to achieve stated objectives.

The Project Steering Committee has oversight of all projects within the HCF Group and all project related delegations are set out in the Board approved Delegated Authority Policy.

3.0 BOARD/COMMITTEE COMPOSITION & ATTENDANCE

BOARD COMMITTEES COMPOSITION AND MEMBERSHIP

The Board determines committee membership and is reviewed annually, with a view to rotating members periodically, without losing continuity of experience and knowledge gained by members of the Committee. All Directors are entitled to receive Committee papers and non-Committee members can attend the Committee as an invitee, subject to there being no conflict of interest. Directors attending as an invitee are entitled to ask questions and express their views.

The applicable composition requirements and membership of each of the four standing Board Committees are set out below.

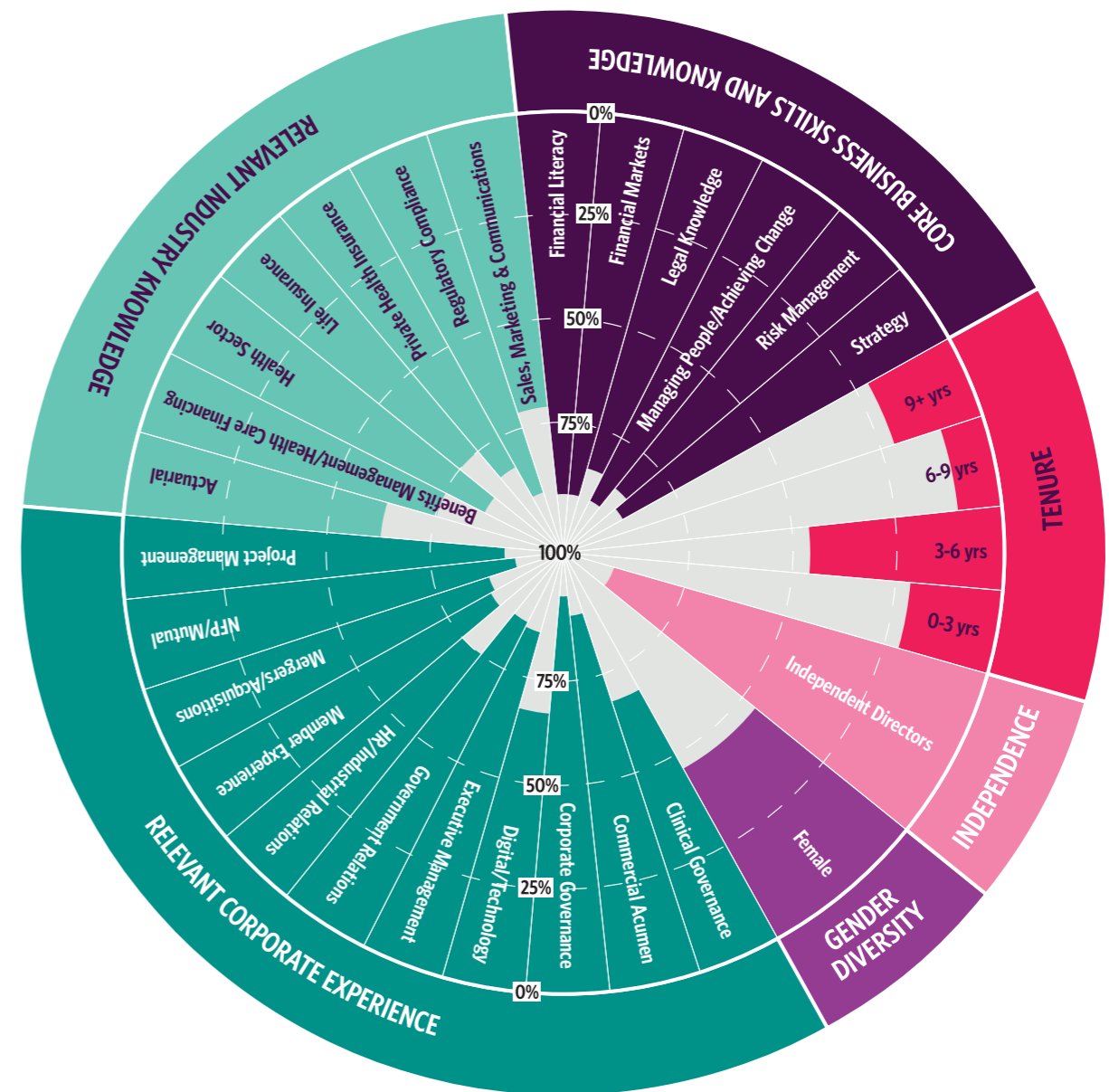
BOARD COMMITTEE	COMPOSITION REQUIREMENTS	CURRENT MEMBERSHIP
Audit, Risk & Compliance Committee	The Committee will be comprised of at least 4 Independent Directors. All Committee members shall be financially literate. At least one Committee member shall have accounting and/or related financial management expertise.	Mr Mark Johnson (Chair) Mr John Barrington Mr Stuart Coppock Ms Lisa McIntyre
Investment Committee	The Committee will be comprised of at least 4 Directors. A majority of members will be Independent Directors. Collectively the Committee will have experience in financial markets, property and accounting/financial management.	Mr Robert Goaley (Chair) Mr John Barrington Mr Stuart Coppock Ms Sheena Jack Prof Claire Jackson Mr Mark Johnson Ms Lisa McIntyre Ms Jane Southwell Mr Chris Wright
Nomination Committee	The Committee will be comprised of at least 3 Independent Directors.	Mr Robert Goaley (Chair) Mr John Barrington Mr Stuart Coppock Prof Claire Jackson Mr Mark Johnson Ms Lisa McIntyre Ms Jane Southwell Mr Chris Wright
People, Culture & Remuneration Committee	The Committee will be comprised of at least 3 Independent Directors. All members of the Committee must be non-executive directors and a majority must be independent.	Mr Robert Goaley (Chair) Prof Claire Jackson Ms Jane Southwell Mr Chris Wright

4.0 SKILLS, EXPERIENCE & INDEPENDENCE

DIRECTOR TENURE AND MEETING ATTENDANCE

The tenure of each Director, number of scheduled Board and Committee meetings held in the year ending 30 June 2018 and number of meetings attended by the Director including in their capacity as a member of the Committee (where relevant).

DIRECTOR	TENURE	BOARD	AUDIT, RISK & COMPLIANCE COMMITTEE	INVESTMENT COMMITTEE	NOMINATION COMMITTEE	PEOPLE, CULTURE & REMUNERATION COMMITTEE
	YEARS ⁴	ATTENDED (HELD)				
INDEPENDENT NON-EXECUTIVE DIRECTOR						
Mr Robert Goaley (Chair)	9	9 (9)	4 ⁵	4 (4)	4 (4)	4 (4)
Mr John Barrington ⁶	3	9 (9)	4 (4)	4 (4)	4 (4)	4 ⁵
Mr Stuart Coppock	10	9 (9)	4 (4)	4 (4)	4 (4)	4 ⁵
Prof Claire Jackson	5	6 (9)	1 ⁵	4 (4)	4 (4)	4 (4)
Mr Mark Johnson	4	6 (9)	4 (4)	4 (4)	4 (4)	4 ⁵
Ms Lisa McIntyre	6	6 (9)	4 (4)	4 (4)	4 (4)	4 ⁵
Ms Jane Southwell ⁷	0	5 (5)	3 ⁵	2 (2)	2 (2)	2 (2)
Mr Russell Schneider ⁸	12	4 (4)	1 ⁵	1 (1)	2 (2)	2 (2)
Mr Chris Wright	5	9 (9)	4 ⁵	4 (4)	4 (4)	4 (4)
EXECUTIVE DIRECTOR						
Ms Sheena Jack ⁹	0	6 (6)	4 ⁵	2 (2)	3 ⁵	4 ⁵



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for further information on each Director including qualifications, experience and other directorships.

4 Completed years of services as at the date of this report
 5 Attendance at Committee meeting as a non-member
 6 Mr Barrington was Acting Managing Director until 1 August 2017 at which time Ms Jack was appointed Chief Executive Officer
 7 Ms Southwell commenced as a director on 26 October 2017 and attended all meetings held since her appointment
 8 Mr Schneider ceased as a director on 26 October 2017
 9 Ms Jack commenced as a director on 28 September 2017 and attended all meetings held since her appointment

CORE BUSINESS SKILLS AND KNOWLEDGE[#]

Financial Literacy[#]

Ability to read and comprehend corporate accounts, financial materials, financial reporting requirements and an appropriate understanding of corporate finance.

Financial Markets[#]

Experience in provision or management of financial products.

Legal Knowledge[#]

Appropriate understanding of legal concepts and frameworks applicable to both the role of director and to the industries in which the entity operates.

Managing People/Achieving Change[#]

Successful career at a senior executive level including responsibilities for people management and successful implementation of change.

Risk Management[#]

Experience in implementing, managing or overseeing risk management in relation to an organisation.

Strategy[#]

Demonstrated success in developing and implementing a successful strategic plan and attainment of stated objectives.

RELEVANT INDUSTRY KNOWLEDGE[#]

Actuarial

Experience in the provision, managing or overseeing actuarial services.

Benefits Management/Health Care Financing

Experience in implementing, managing or overseeing frameworks designed to manage health care benefit costs or financing health care services in a financial sound and sustainable manner.

Health Sector

Experience at a senior level relating to the development or management of either health care systems or service provision, such as:

- Private Hospitals
- Public Hospitals
- Medical Services
- Aged Care
- Population Health
- Allied Health.

Life Insurance

Experience at a senior level in implementing, managing or overseeing the underwriting, sale or provision of life insurance products in Australia.

Private Health Insurance

Experience at a senior level in implementing, managing or overseeing the underwriting, sale or provision of private health insurance products in Australia.

Regulatory Compliance

Experience in implementing, managing or overseeing compliance with legislative or regulatory obligations.

Sales, Marketing & Communications

Experience at a senior level with responsibilities for either sales through retail or digital channels and/or advertising or social media/communication activities.

RELEVANT CORPORATE EXPERIENCE

Clinical Governance

Experience in implementing, managing or overseeing clinical governance frameworks.

Commercial Acumen

Demonstrated success in development or expansion of business having regard to the organisation's stated corporate objectives, operating environment and risk appetite.

Corporate Governance

Experience in sophisticated governance/assurance structures and/or prior experience on a Board or governing body.

Digital/Technology

Experience in implementing, managing or overseeing information and communication technology.

Executive Management

Experience managing large and complex business operations at an executive level.

Government Relations

Experience in Government relations and/or health related public policy.

HR/Industrial Relations

Experience in human resource management or industrial relations.

Member Experience

Experience at a senior level with responsibilities for member experience related activities related activities.

Mergers/Acquisitions

Demonstrated success at a senior executive level in merger/acquisitions activities (including successful implementation).

Not-for-Profit/Mutual

Demonstrated success at a senior executive level in managing or overseeing a not-for-profit or mutual entity.

Project Management

Demonstrated success in managing or overseeing major projects of an organisation.

5.0 ELECTION / APPOINTMENT OF DIRECTORS



* Where a vacancy exists

Election not held for appointments to HCF Life, Manchester Unity and HCF Research Foundation Ltd Boards

NOMINATION AND ELECTION PROCESS

The Nomination Committee review the existing skills matrix and make recommendations to the Board on any desirable skills and/or experience for the vacant position. After the Board has considered the recommendation and approved the selection criteria, the Nomination Committee reviews potential candidates by reference to the Elected Director Eligibility Criteria specified in the Constitution, approved selection criteria and having regard to the potential candidates' experience and other qualities. External consultants may be used to access a wide base of potential candidates.

Those selected by the Nomination Committee are further assessed by the Board against the Elected 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. This includes candidate interviews and reference checks.

If the vacancy relates to the HCF Board, the approved Elected Director nominee then commences the election process.

Councillors are provided with relevant information on the candidates for election. For vacancies pertaining to all other Boards in the HCF Group, the HCF Board will select the successful candidate/s in consultation with Directors of the relevant Board.

Final probity checks are undertaken on the successful candidate/s. Each new Director receives a Letter of Appointment, which sets out their duties, their terms and conditions of appointment, the expectations of the role and remuneration. A Deed of Access, Indemnity and Insurance is also executed.

INDUCTION

Each new Director undertakes an 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 Chair, the Managing Director, each Chair of the respective Board Committees, senior management and the Company Secretary.

INTERIM APPOINTMENTS

If the Board appoints a new Director to the HCF Board during the year to fill a casual vacancy in the position of an Elected Director, that person must stand for election by Councillors at the next election.

TENURE OF DIRECTORS

The HCF Constitution requires that at each Annual General Meeting 25% of the Elected Directors (excluding Managing Director) must retire from office. If that number is not two or a multiple of two, then the nearest number not exceeding 25% of Elected Directors. In addition, the Constitution requires that no Elected Director may retain office for more than four consecutive years without retiring.

Retiring Directors can nominate for re-election provided that their cumulative tenure does not exceed 12 years (without Board approval).

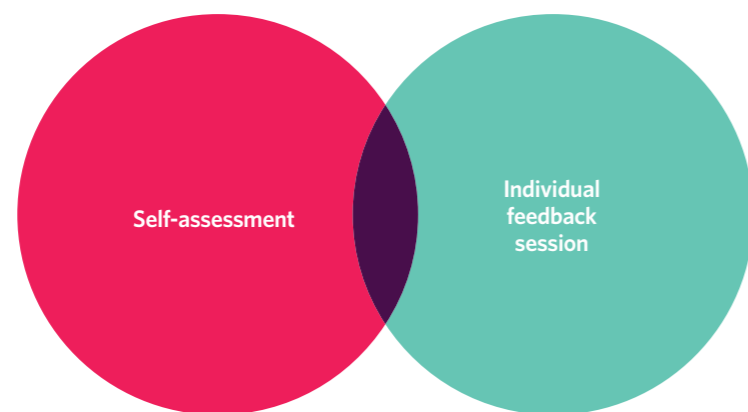
The HCF Life Board Renewal Policy sets out requirements on tenure and re-appointment for HCF Life Directors.

EDUCATION & DEVELOPMENT

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.

Criteria as recommended by the Australian Institute of Company Directors when 'Selecting a New Director'.

6.0 EVALUATING PERFORMANCE



ASSESSING PERFORMANCE

BOARD/BOARD COMMITTEES/ DIRECTORS

The Board undertakes ongoing self-assessment and reviews the performance of the Board, Board Committees and individual Directors annually. This is to ensure that the Board and Board Committees are working effectively. The performance review process is conducted internally and may include written surveys of Directors based on best practice questionnaires designed by external bodies. A review of Board and Director performance was conducted in the reporting period.

These reviews are wide-ranging and include, amongst other things, each Director's contribution to Board discussions, best features and recommendations for improvement. The collated results are reviewed and discussed by the Directors.

INDIVIDUAL FEEDBACK SESSION

Following the self-assessment process, the Chair of the Board meets with each Director individually to discuss performance and development opportunities.

EXECUTIVE DIRECTORS & SENIOR MANAGEMENT

At least annually a formal performance review is undertaken for all employees (including executive director and senior managers). Through this process the next line manager (and in the case of the Managing Director, the Board) facilitate a performance assessment with the employee against agreed performance metrics and feedback received from key stakeholders. Where areas for development are identified, a development plan is designed and agreed with the employee. Progress against this development plan is regularly monitored and formally considered in the next performance review process.

A performance review was undertaken during the reporting period for each senior manager and executive director who was with the entity.

REMUNERATION

Independent remuneration consultants are engaged by the People, Culture and Remuneration Committee to ensure that HCF's reward practices and levels are consistent with market practice. Remuneration of non-executive Directors comprises Directors' fees and the applicable superannuation contributions. Any proposed increases to the remuneration pool for non-executive directors must be approved by Councillors at an Annual General Meeting.

Remuneration of executive directors and senior managers 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. Key role requirements and expectations are set out in the contract of service and position description.

7.0 DIVERSITY

The HCF Group Diversity Policy is reviewed annually by the Board and sets out the organisation's commitment to building and maintaining an inclusive and collaborative work environment. It recognises that leveraging the diverse experience, perspectives and backgrounds of our people is crucial to ensuring we provide excellence in customer service for our members.

This commitment extends to recognising the importance of diversity in all facets of HCF business including recruitment, training and development, performance development, leave entitlements, succession planning and health and wellbeing.

Each year the Board and Senior Leadership Team will establish and review progress on measurable objectives for achieving gender diversity and other aspects of diversity management. Current objectives for HCF relate to:

- Gender diversity in leadership roles - HCF has an ongoing aim to have leadership vacancies, from frontline management to board level, filled with a balance of genders. There will be ongoing annual measurement of progress.
- Inclusivity and Respect - This is measured annually through the use of an employee opinion survey.

- Staff engagement on diversity - The ongoing development and management of an HCF diversity strategy includes opportunities for staff engagement on diversity matters.

The Board is committed to the Australian Institute of Company Directors' 30 percent initiative that aims to have at least 30 percent female representation on boards.

WORKFORCE GENDER DIVERSITY



Source: Data is based on HCF Group's 2018 Workplace Gender Equality Agency Report submitted on 30 May 2018.

8. Includes Managing Director given their executive director role. Female representation of non-executive directors on the HCF & MU Board is 37.5% and on the HCF Life Board is 50%.

9. Defined as the HCF Managing Director and all direct reports.

8.0 PROMOTING ETHICAL & RESPONSIBLE BEHAVIOUR

The Board is resolutely committed to ethical and responsible business practices. The following policies help ensure the Company is run with integrity, and that it remains focused on the goal of delivering more to its customers.

PRIVATE HEALTH INSURANCE CODE OF CONDUCT

HCF is committed to industry best practice. It is a signatory to the industry's voluntary Private Health Insurance Code of Conduct which provides additional commitments to key stakeholders including consumers, intermediaries and other insurers. The self-regulated code covers dispute resolution processes, employee training, responsibilities to intermediaries selling HCF's products, policy documentation, notification processes for detrimental product or hospital contracting changes, guidelines for pre-existing conditions, 'cooling off' periods and privacy protections.

HCF GROUP CODE OF CONDUCT

The HCF Group Code of Conduct sets out the principles which govern the conduct and behaviour stakeholders can expect from HCF employees. It applies without exception to all Directors, management and employees, and is aligned to HCF's core values of integrity, customer focus, personal accountability, strong teamwork and innovation and improvement.

The Code of Conduct broadly expects employees to:

- 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
- strive to be a good corporate citizen and achieve community respect.

OTHER INTERNAL POLICIES AND PROCEDURES

Beyond both Codes of Conduct, 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.

IDENTIFYING & MANAGING CONFLICTS OF INTEREST

The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (actual or potential) between their duty to the Company and their own interests. The Board has adopted a procedure to ensure that any actual or potential conflicts of interest of Directors are disclosed to the Board.

Any Director with a material personal interest in a matter being considered by the Board must declare their interest and, unless the Board resolves otherwise, they may not participate in boardroom discussions or vote on such matters. 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.

IDENTIFYING & REPORTING INAPPROPRIATE CONDUCT

Employees are actively encouraged to bring any problems to the attention of management, the Human Resources team, the Governance team or the independent external whistleblower hotline service. 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:

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

Concerns about breaches of our regulatory obligations or internal policies or procedures can also be raised anonymously with the Chief Governance Officer, the Head of Internal Audit or using the external whistleblower hotline appointed by HCF.

HCF has a Whistleblower Policy to protect employees who make reports about suspected breaches of HCF's policies through these channels. The reporting system complies with the whistleblower provisions of all relevant legislative requirements and the Australian Standard AS8004 — Whistleblower Protection Programs for Entities.

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY

HCF believes that its business success, and therefore the ability to serve its members and support the broader community, is linked to a sustainable future. In order to achieve this goal, it has in place appropriate policies and practices to achieve performance that is economically viable, environmentally sound and socially responsible.



GO TO
[hcf.com.au/governance](https://www.hcf.com.au/governance)

for further information on
HCF's approach to Corporate
Social Responsibility.

9.0 ENGAGING WITH STAKEHOLDERS

INFORMATION SESSIONS FOR COUNCILLORS

The HCF Councillors are the Members of the Company for the purposes of the Corporations Act and see high levels of governance are maintained. HCF regularly engages with its Councillors both formally and informally throughout the year.

Outside of its AGM, the Company convenes information sessions with Councillors (supported by appropriate reports and materials) to present and discuss the operational performance of the Company and adequacy of governance control and oversight. In between meetings, Councillors are regularly updated on key developments and governance matters within the Company.

Councillors are encouraged to engage with the Board and the Company through the Chair.

GOVERNMENT RELATIONS

HCF strives to take a leadership role in reforms that impact entities within the group. It regularly engages with government at all levels to provide input into policy debates and help shape reform.

ATTENDANCE OF EXTERNAL AUDITOR AT THE AGM

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

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

REGULATOR RELATIONS

HCF maintains strong relations and regular engagement with its key regulators. It participates in industry consultations on regulatory frameworks impacting its industries. HCF has a proactive approach to working with regulators on material matters.



GO TO hcf.com.au/governance

for further information including the Elected Councillor Charter and a list of our current Elected Councillors.

10.0 RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK

HCF provides a framework for risk management which supports the achievement of its strategic and operational objectives. It is committed to maintaining an organisational philosophy and culture which ensures that effective risk management is an integral part of its activities. Its culture, led by the Board and Executive Team, promotes a 'tone from the top' approach in conducting day-to-day business in a risk-aware manner. The Risk Management Framework is represented below.



GOVERNANCE

The Risk Management Framework is directed and overseen by the Board through the Board Committees, in particular, the Audit, Risk & Compliance Committee. The Board has the overall responsibility for ensuring that the Risk Management Framework governs the way HCF identifies, manages and treats risks associated with its decision making. This includes approving HCF's strategic plan, risk management strategy and risk appetite. It also approves and regularly reviews policies that cover risk reporting mechanisms and outlines specific limits to ensure the Company operates within the agreed appetite and is compliant with applicable

laws and regulations. The Board endorses a 'Three Lines of Defence' risk governance model set out in the diagram on the following page.

In recognition of the importance of effective risk management, HCF's Audit, Risk and Compliance Committee assists the Board in fulfilling its corporate governance and risk oversight responsibilities. The Committee reviews the Risk Management Framework at least annually. By seeking input from the Executive Team and Business Management, the Committee identifies, monitors and manages significant business, economic, environmental and social risks facing the Company to ensure the Risk Management Framework remains sound. Risks and

controls are also monitored through the Investment Committee and People, Culture & Remuneration Committee, in relation to their activities as set out in the respective charters.

The Executive Audit, Risk and Compliance Committee, comprising the Executive Team, meets quarterly to consider and discuss key risk management, compliance and audit activities ahead of the quarterly Board Audit, Risk and Compliance Committee meetings.

HOW WE MANAGE RISK

HCF adopts a three lines of defence model for risk management, as represented in the diagram below.



FIRST LINE OF DEFENCE

The Executive Team and Business Management are responsible for owning and managing the risks within their business unit. They are supported by assurance activities undertaken within the business unit as shown in line 1.5 business oversight.

SECOND LINE OF DEFENCE

The Risk Management and Compliance Team are responsible for overseeing the implementation and monitoring of practices and processes to identify, assess, monitor and manage material risks and provide expertise and oversight on material business decisions.

THIRD LINE OF DEFENCE

Internal Audit provide independent assurance regarding the adequacy of the design and operating effectiveness of risk governance, identification and controls.

MD AND CFO ASSURANCE

The Board receives regular reports about the financial condition and operational results of HCF Group. The Managing Director and Chief Financial Officer annually provide formal statements to the Board assuring that the Company's financial records for the financial year comply with applicable accounting standards and have, in all material respects, been properly maintained in that they correctly record and explain its transactions, financial position and performance. The Board received and considered the annual certification within the reporting period.

MATERIAL RISKS

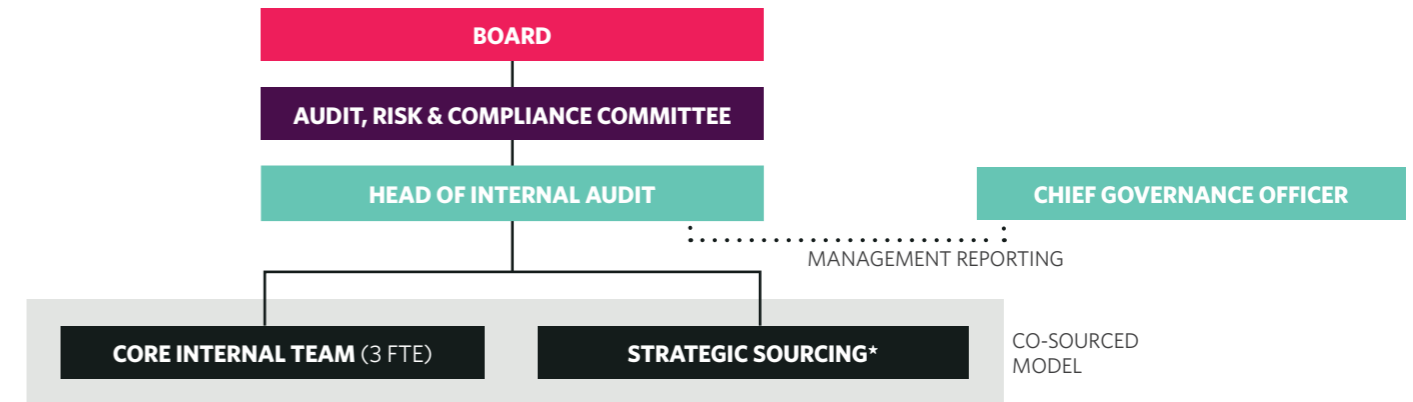
Achievement of the strategic and financial performance objectives and safeguarding HCF's reputation can be adversely affected by the following material risks. These risks are closely monitored through the Board, relevant Committees and Executive Team.

- Strategic Risk – risks which arise in relation to HCF's Strategic and Business Plans and the market in which the HCF Group operates.
- Insurance Risk – risks of loss due to underwriting of insurance risk. Including (but not limited to) pricing and product design risk and claims variability.
- Investment Risk – risks of loss (relative to expected) due to the Company's investments.
- Operational Risk – risks of loss (including to policyholders) resulting from inadequate or failed internal processes and systems, from human error or from external events.

Risks are continually monitored to ensure exposures are adequately identified, understood and managed. HCF's Quarterly Assurance Program, Annual Management Questionnaire, Ad-hoc Risk Reviews, Area Deep Dive Reviews and reporting on incident management and control failures help determine whether risks are still current, controls are effective and identify any emerging risks. These management processes are complemented by Internal Audit who regularly report to the Executive Team and the Board on risk management.

11.0 INTERNAL AUDIT

INTERNAL AUDIT STRUCTURE



* External expertise engaged for specialised audits

The Internal Audit function provides the Board and management with an independent and objective evaluation of control adequacy and effectiveness for HCF and its subsidiaries. The core internal team has relevant and appropriate financial and business skills as well as soft skills in light of the key risks the group faces. Operating in a co-sourced model, the team also leverages specialised skills, support and advice from external experts as required.

To maintain objectivity, Internal Audit has no operational responsibility or authority over any business activities, day-to-day risk management or control processes. It regularly engages in dialogue with management in order to effectively understand issues and risks. Audit findings and recommendations (including management's response) are formally reported to the next meeting of the Audit, Risk and Compliance Committee.

The Head of Internal Audit reports administratively to the Chief Governance Officer and functionally to the Chair of the Audit, Risk and Compliance Committee and

annually (or as required) meets with the Committee without management present. Every five years an independent review of the Internal Audit team is undertaken to assess the effectiveness of the team and their compliance with international internal audit standards. This review was last performed in 2014.

The function is governed by an Internal Audit Charter, its audit activities are agreed with management and the Board (via the Audit, Risk and Compliance Committee) each year and documented in an Internal Audit Plan. This plan is dynamic and based on the understanding of industry, business and environment, as well as stakeholder expectations and critical business data. It is reviewed each quarter by both the Executive Audit, Risk and Compliance Committee and the Board's Audit, Risk and Compliance Committee to ensure that activities are appropriate given emerging risks or material changes within the operating environment. Where appropriate, changes are recommended to and agreed with the Board via the Audit, Risk and Compliance Committee.

Internal Audit has embedded ACL data analytics into its planning, fieldwork, testing, and reporting processes, whilst also delivering data dashboards to the various businesses to allow them to review and follow up any exceptions, trends, and potential errors. The data dashboards and associated findings are incorporated into continuous risk monitoring activities which impact the Annual Internal Audit Plan. Internal Audit findings are monitored and substantiated on completion, with periodic reporting to the Audit, Risk and Compliance Committee.

The function also provides audit services to HCF Life under the Service Agreement between HCF and HCF Life. The Internal Audit Plan for HCF Life is approved by the Board via the HCF Life Board Audit Committee on an annual basis, includes a dedicated independent assessment of the material risks for HCF Life and ensures appropriate audit coverage.

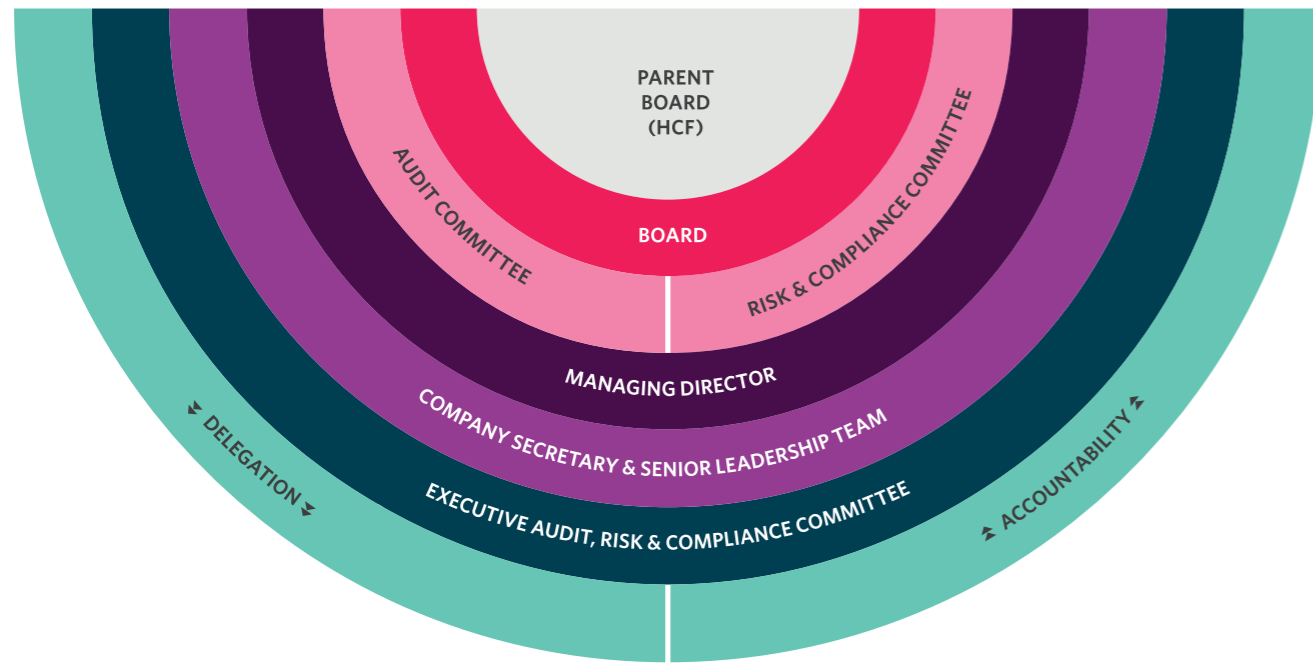
APPENDIX A HCF LIFE

The diagram below summarises HCF Life's governance framework including any matters that have been reserved for the Board and the role of the two standing Board Committees.

In addition, the HCF Life Board has delegated relevant matters to the parent board's People, Culture and Remuneration Committee and Nomination Committee.

An HCF Life representative also sits on the HCF Executive People, Culture and Remuneration Committee and Project Steering Group which also considers matters affecting HCF Life.

GOVERNANCE FRAMEWORK & STRUCTURE



BOARD

The Board is responsible for the overall governance of the Company including ensuring the continuity of its business and long-term viability.

It formally delegates certain functions and authority to Board Committees (documented in the Board and Board Committee charters) and management (documented in the HCF Group Delegated Authority Policy). It retains authority for:

- Strategy - setting, monitoring and revising strategic direction and performance objectives.
- Oversight of management - appointing/

removing the General Manager, Company Secretary and Chief Financial Officer; approving succession plans; and monitoring senior management performance against agreed criteria.

- Oversight of financial and capital matters - approving and monitoring performance against financial budgets; approving financial statements and considering the Financial Condition Report; appointing the external auditor; appointing/removing investment advisers and internal auditors; and reviewing, approving and monitoring the progress of major capital expenditure,

capital management, acquisitions and divestitures, investment management and material commitments.

- Risk Management and Compliance - approving the risk appetite statement and risk management and compliance frameworks; and monitoring the effectiveness of and compliance with policies governing HCF Life's operations (including monitoring regulatory reporting and notification requirements are met).

AUDIT COMMITTEE

The primary role of the Board's Audit Committee is to oversee, review and make recommendations on:

- integrity of the financial statements and financial reporting systems
- compliance with financial reporting and related regulatory requirements including the Financial Condition Report
- performance and effectiveness of the assurance functions including internal audit, Appointed Actuary and External Auditor (including independence).

The Board approves the external and internal audit plans and appointments to the role of External Auditor and Appointed Actuary on recommendation of the Committee.

RISK & COMPLIANCE COMMITTEE

The primary role of the Board's Risk and Compliance Committee is to oversee, review and make recommendations on:

- risk and compliance framework
- the identification, assessment, control and treatment of risks
- corporate insurance program
- fraud control.

GENERAL MANAGER

The Board has delegated authority to the General Manager to achieve corporate objectives. This authority extends to all areas except those reserved to the Board.

The General Manager remains accountable to the Board for all authority delegated including where authorities have been further delegated to management and/or management committees.

COMPANY SECRETARY

The Company Secretary is accountable to the Board, through the Chair, on matters pertaining to proper functioning of the Board.

LEADERSHIP TEAM

The primary role of the Leadership Team is to assist the General Manager to pursue the corporate objectives by:

- providing leadership
- debating and resolving matters of importance to HCF Life
- implementing strategic objectives, determining priorities and agreeing the manner in which these will be achieved (in collaboration with the General Manager) within the risk appetite set by the Board
- overseeing and reviewing business operations against agreed metrics.

EXECUTIVE AUDIT, RISK & COMPLIANCE COMMITTEE

The primary role of the Executive Audit, Risk and Compliance Committee is to assist the General Manager to monitor and oversee the management of audit, risk and compliance related matters impacting HCF Life by:

- ensuring that key corporate risks are identified, assessed, regularly reassessed and appropriate managed as they emerge
- implementing the approved risk management strategy
- developing appropriate policies, controls, processes and procedures to identify and manage material risks.

A copy of the Committee's minutes are made available to the next meeting of the Board's Audit or Risk and Compliance Committees (which ever meets first).

BOARD COMMITTEES COMPOSITION AND MEMBERSHIP

The Board determines committee membership and is reviewed annually. All Directors are entitled to receive Committee papers and non-Committee members can attend the Committee as an invitee, subject to there being no conflict of interest. Directors attending as an invitee are entitled to ask questions and express their views.

The applicable composition requirements and membership of each of the two standing Board Committees are set out below.

BOARD COMMITTEE	COMPOSITION REQUIREMENTS	CURRENT MEMBERSHIP
Audit Committee	The Committee will be comprised of at least 3 Independent Directors. All Committee members shall be financially literate. At least one Committee member shall have accounting and/or related financial management expertise.	Ms Catherine Hallinan (Chair) Ms Nancy Fox Mr Mark Gallagher Mr Robert Goaley
Risk & Compliance	The Committee will be comprised of at least 3 Independent Directors.	Ms Nancy Fox (Chair) Mr Mark Gallagher Mr Robert Goaley Ms Catherine Hallinan

DIRECTOR TENURE AND MEETING ATTENDANCE

The tenure of each Director, number of scheduled Board and Committee meetings held in the year ending 30 June 2018 and number of meetings attended by the Director including in their capacity as a member of the Committee (where relevant).

DIRECTOR	TENURE	BOARD	AUDIT COMMITTEE	RISK & COMPLIANCE
	YEARS ¹⁰	ATTENDED (HELD)		
INDEPENDENT NON-EXECUTIVE DIRECTOR				
Mr Mark Gallagher (Chair)	10	6 (7)	4 (4)	4 (4)
Ms Nancy Fox	6	7 (7)	4 (4)	4 (4)
Mr Robert Goaley	5	7 (7)	4 (4)	4 (4)
Ms Catherine Hallinan	7	7 (7)	4 (4)	4 (4)
EXECUTIVE DIRECTOR				
Mr John Barrington¹²	0	2 (2)	2 ¹¹	1 ¹¹
Ms Sheena Jack¹³	0	5 (5)	2 ¹¹	3 ¹¹

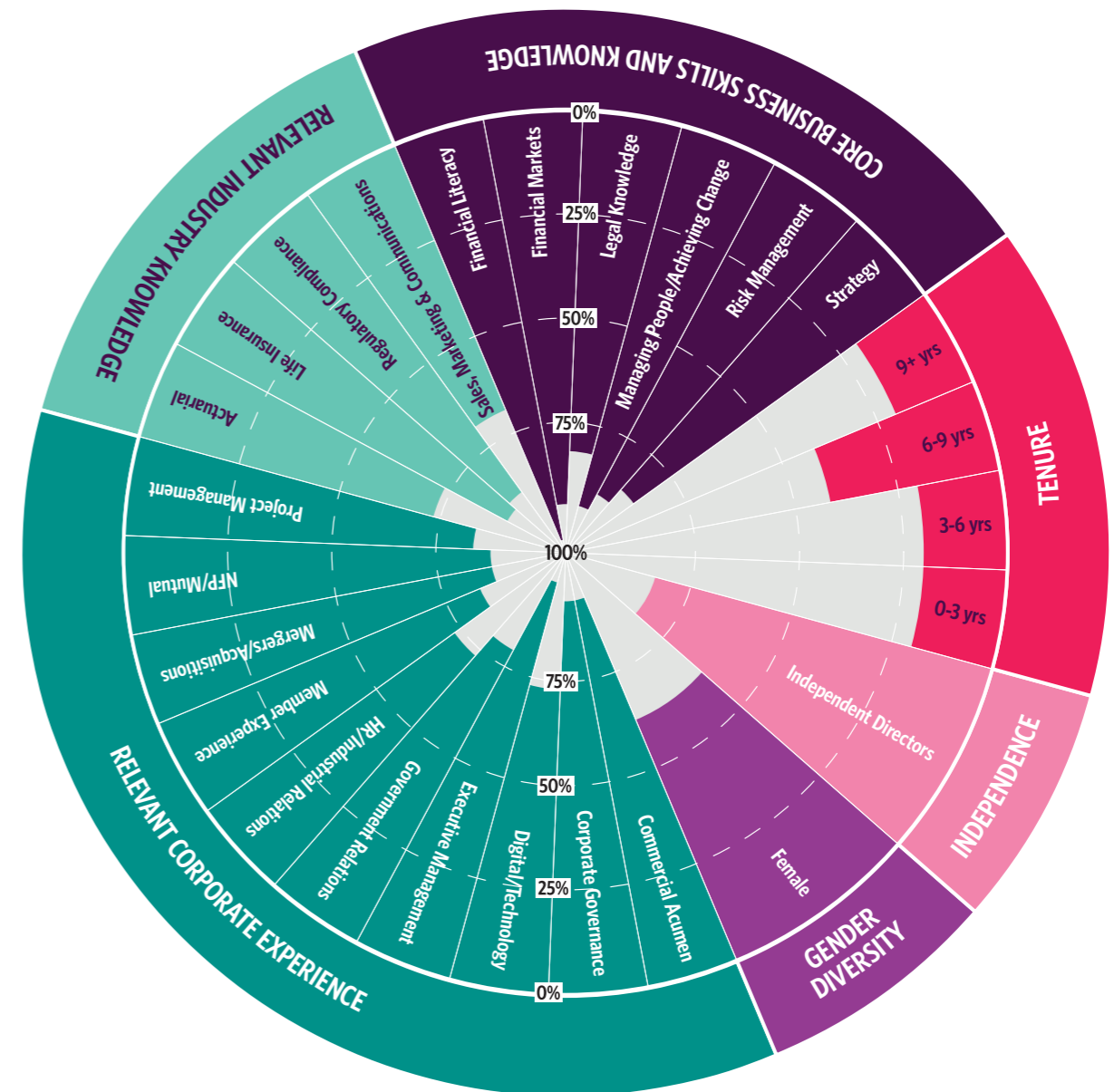
¹⁰ Completed years of services as at the date of this report

¹¹ Attendance at Committee meeting as a non-member

¹² Mr Barrington ceased as a director on 31 August 2017

¹³ Ms Jack commenced as a director on 31 August 2017 and attended all meetings held since her appointment

BOARD SKILLS, EXPERIENCE, DIVERSITY AND INDEPENDENCE



GO TO
hcf.com.au/governance

for further information on each Director including qualifications, experience and other directorships.

CORE BUSINESS SKILLS AND KNOWLEDGE[#]

Financial Literacy[#]

Ability to read and comprehend corporate accounts, financial materials, financial reporting requirements and an appropriate understanding of corporate finance.

Financial Markets[#]

Experience in provision or management of financial products.

Legal Knowledge[#]

Appropriate understanding of legal concepts and frameworks applicable to both the role of director and to the industries in which the entity operates.

Managing People/ Achieving Change[#]

Successful career at a senior level including responsibilities for people management and successful implementation of change.

Risk Management[#]

Experience in implementing, managing or overseeing risk management in relation to an organisation.

Strategy[#]

Demonstrated success in developing and implementing a successful strategic plan and attainment of stated objectives.

RELEVANT INDUSTRY KNOWLEDGE[#]

Actuarial

Experience in the provision, managing or overseeing actuarial services.

Life Insurance

Experience at a senior level in implementing, managing or overseeing the underwriting, sale or provision of life insurance products in Australia.

Regulatory Compliance

Experience in implementing, managing or overseeing compliance with legislative or regulatory obligations.

Sales, Marketing & Communications

Experience at a senior level with responsibilities for either sales through retail or digital channels and/or advertising or social media/ communication activities.

RELEVANT CORPORATE EXPERIENCE

Commercial Acumen

Demonstrated success in development or expansion of business having regard to the organisation's stated corporate objectives, operating environment and risk appetite.

Corporate Governance

Experience in sophisticated governance/ assurance structures and/or prior experience on a Board or governing body.

Digital/Technology

Experience in implementing, managing or overseeing information and communication technology.

Executive Management

Experience managing large and complex business operations at an executive level.

Government Relations

Experience in Government relations and/ or health related public policy.

HR/Industrial Relations

Experience in human resource management or industrial relations.

Member Experience

Experience at a senior level with responsibilities for member experience related activities related activities.

Mergers/Acquisitions

Demonstrated success at a senior level in merger/acquisitions activities (including successful implementation).

Not-for-Profit/Mutual

Demonstrated success at a senior executive level in managing or overseeing a not-for-profit or mutual entity.

Project Management

Demonstrated success in managing or overseeing major projects of an organisation.

[#] Criteria as recommended by the Australian Institute of Company Directors when 'Selecting a New Director'

