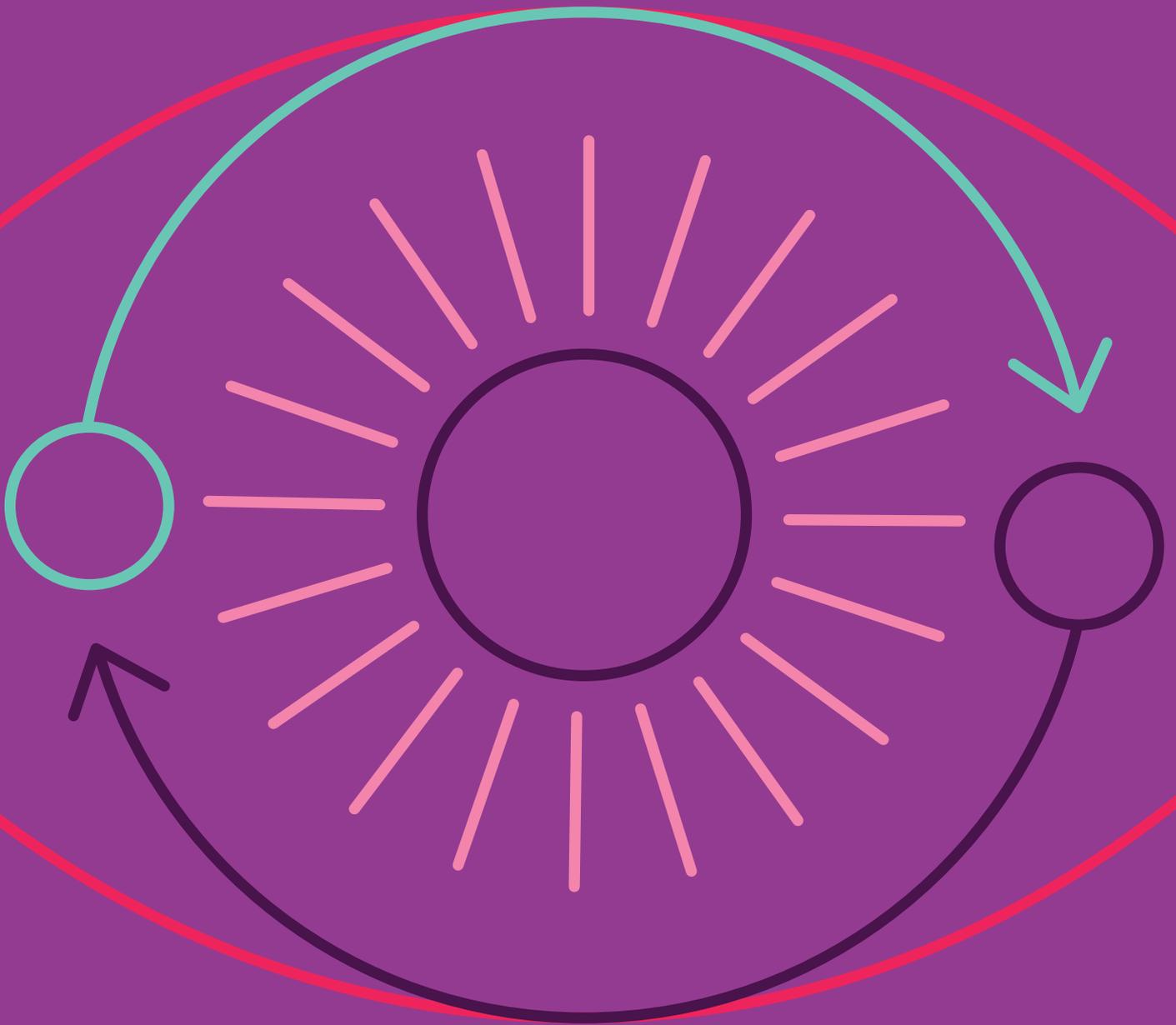


**CORPORATE
GOVERNANCE
STATEMENT**
FINANCIAL
YEAR
2019-20





MESSAGE FROM THE CHAIR



As Australia's largest not-for-profit health fund, we are single-mindedly focused on putting our policyholders' health first. We're not driven by profit but by improving and safeguarding the health of our policyholders. Our mutual ethos has permeated the organisation since we started and supports our dedication to transparency and accountability throughout the business, and extends to a commitment to maintaining the highest standards of corporate governance.

In an unprecedented period with communities and the economy impacted by the COVID-19 pandemic there is a more heightened regulatory, political and media focus. A strong corporate governance framework is critical to achieving our strategic objectives and vision – to make healthcare understandable, affordable, high quality and member centric. Our top priority has been on the safety and wellbeing of our policyholders, staff and on business continuity.

Robust governance practices that support sound decision making are essential to ensure HCF remains resilient and financially sustainable and able to adapt quickly to changes in the broader environment, while remaining prudentially sound. During the year we have made changes to enhance our corporate governance practices, address new regulatory requirements and ensure the efficiency and effectiveness of the boards and

committees within the group. We continue to ensure independent oversight of risk so the Board have assurance that management are appropriately implementing the Board's strategy for managing risk.

AN EVOLVING BOARD

On 30 June 2019 we said a fond farewell to Robert Goaley and welcomed Terry Agnew and Michael Bassingthwaighe at the 2019 AGM, both outstanding candidates who have added further depth and breadth to the Board. We were pleased that Catherine Hallinan was elected to the Board at the 2019 AGM after filling a casual vacancy in February 2019.

We remain focused on ensuring the Board continues to contain the right compilation of skills and experience relevant to Australia's largest not for profit health fund.

EXECUTIVE TEAM

We work 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

Forty-four per cent of our non-executive directors on the HCF board and 63 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

"Robust governance practices that support sound decision making are essential to ensure HCF remains resilient and financially sustainable..."

better business results and thus diversity for us is not restricted to gender but also includes religious background, ethnicity, sexuality, age and abilities.

CONTINUOUS IMPROVEMENT

Lastly, our organisation's number one focus continues to be on designing and delivering affordable and innovative products and services, aimed at putting our policyholders at the heart of everything we do. We are progressing well with our uplift in technology; for the benefit of our policyholders and staff.

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 are working together to adapt our strategic direction that is to deliver our platform for growth for now and in the future.

On behalf of our Directors, I am pleased to present the 2020 Corporate Governance Statement.

Mark Johnson
Chair, HCF Board

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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 2020 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 a

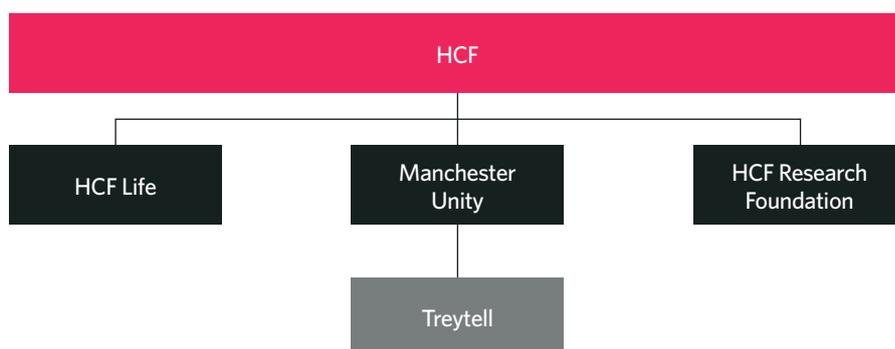


Figure 1: Structure of Operating Companies within HCF Group.

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 (**HCFLife**) is a wholly owned subsidiary of HCF. It has a Board of five Directors, being the Managing Director of HCF and four HCF Non-Executive Directors.

1. As HCF is not a listed entity and does not have security holders, certain principles/recommendations 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 different rights under the HCF Constitution including to participate in the election of Councillors and vote on a scheme of arrangement. 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.

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.

COMMITTEES

The HCF and HCF Life Board each have an Audit & Finance Committee and a Risk and Compliance Committee composed solely of the independent Directors.

The HCF People, Culture and Remuneration Committee assists 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). 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.

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. 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 four HCF Directors (including the Managing Director of HCF).

The HCF Research Foundation was originally established with donations from HCF. The HCF Research Foundation focuses on funding health services research that can benefit HCF's policyholders and all Australians.

Since inception it has committed a total of approximately \$20m towards health research in Australia.

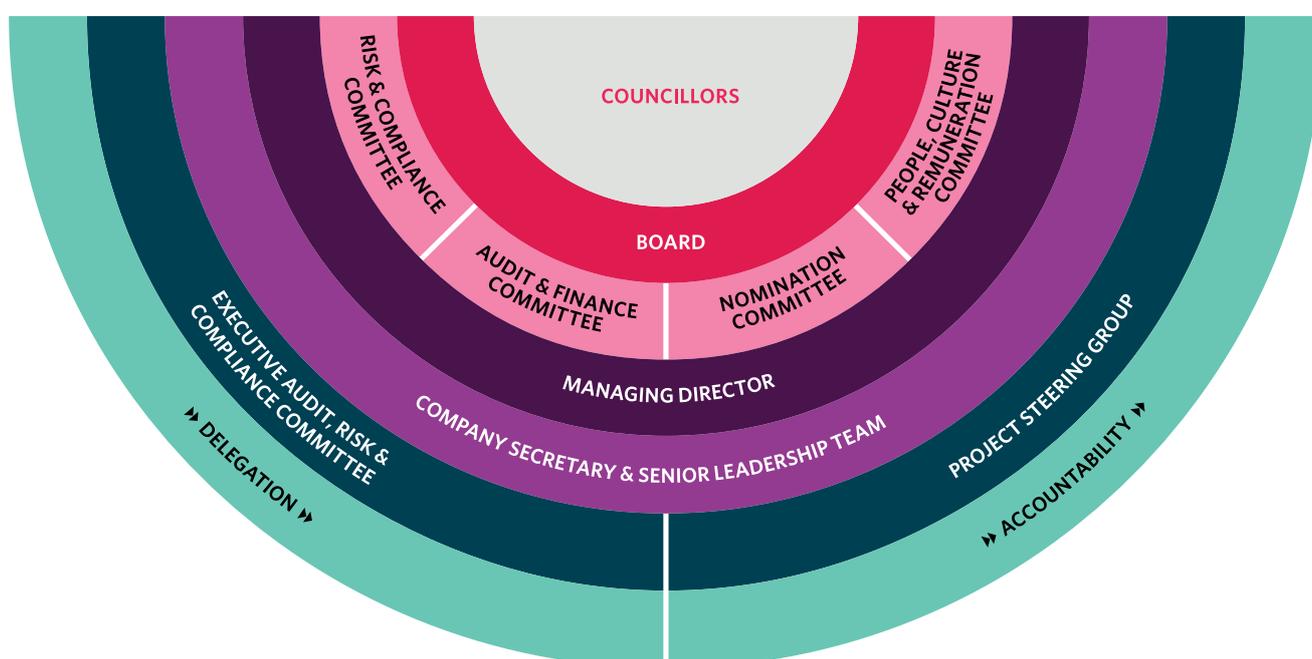
- **HCF Group** relates to all companies within the HCF Group. The operating companies within the HCF Group are currently HCF, HCF Life, HCF Research Foundation Ltd (as trustee for the HCF Research Foundation), Manchester Unity and its subsidiary Treytell Pty Limited; and
- the **Board and Board Committees** 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.

Go to hcf.com.au/governance for further information including copies of the Board and Board Committee charters.

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
- 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)
- 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 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, Chief Financial Officer and Chief Risk 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 & FINANCE COMMITTEE

The primary role of the Board's Audit & Finance 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
- 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.

RISK & COMPLIANCE COMMITTEE

The primary role of the Board's Risk & Compliance Committee is to provide oversight of the implementation and operation of the Company's risk management framework and compliance management in accordance with legislative and regulatory requirements.

Other key roles include:

- identification, assessment, control and treatment of risks
- risk culture and risk appetite
- information security
- business continuity management
- fraud control
- corporate insurance program.

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.

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.

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

The Company Secretary is accountable to the Board, through the Chair and Managing Director, 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 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.

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 material 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 Committee meetings 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 & Finance Committee | The Committee will be comprised of at least three Non-Executive Directors with a majority to be independent. All Committee members shall be financially literate. At least one Committee member shall have accounting and/or related financial management expertise. | Ms Lisa McIntyre (Chair) Mr John Barrington Ms Catherine Hallinan |
| Risk & Compliance Committee | The Committee will be comprised of at least three Non-Executive Directors with a majority to be independent. Collectively the Committee will have experience in risk and compliance management. | Mr John Barrington (Chair) Ms Catherine Hallinan Ms Lisa McIntyre Ms Jane Southwell |
| Nomination Committee | The Committee will be comprised of at least three Independent Directors. | Mr Mark Johnson (Chair) Mr Terry Agnew ⁴ Mr Michael Bassingthwaight ⁴ Mr John Barrington Ms Catherine Hallinan Ms Sheena Jack Prof Claire Jackson 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 Chris Wright (Chair) Prof Claire Jackson Ms Jane Southwell |

4. Mr Agnew and Mr Bassingthwaight were appointed as Directors of HCF effective 24 October 2019.

DIRECTOR TENURE AND MEETING ATTENDANCE

The table below outlines the tenure of each Director, number of scheduled Board and Committee meetings held in the year ending 30 June 2020 and number of meetings attended by the Director including in their capacity as a member of the Committee (where relevant).

| DIRECTOR | TENURE | BOARD MEETINGS | AUDIT & FINANCE COMMITTEE MEETINGS | RISK & COMPLIANCE COMMITTEE MEETINGS | NOMINATION COMMITTEE MEETINGS | PEOPLE, CULTURE AND REMUNERATION COMMITTEE MEETINGS |
|-------------------------------------------|--------------------|------------------|------------------------------------|--------------------------------------|-------------------------------|-----------------------------------------------------|
| | YEARS ⁹ | ATTENDED (HELD) | | | | |
| INDEPENDENT NON-EXECUTIVE DIRECTOR | | | | | | |
| No. of meetings held | | 17 ¹⁰ | 4 | 4 | 5 | 5 |
| M.G. Johnson⁵ (Chair) | 6 | 17 | - | - | 5 | - |
| T.T. Agnew⁶ | | 13 | - | - | 3 | - |
| J.M. Barrington | 5 | 16 | 4 | 4 | 5 | - |
| M.J. Bassingthwaight⁷ | | 13 | - | - | 3 | - |
| S.P. Coppock⁸ | 11 | 4 | 1 | 1 | 2 | - |
| C M Hallinan | 1 | 17 | 3 | 4 | 5 | - |
| C.L. Jackson | 7 | 15 | - | - | 3 | 4 |
| L.M. McIntyre | 8 | 14 | 4 | 4 | 5 | - |
| J.T. Southwell | 2 | 17 | - | 4 | 5 | 5 |
| C.E. Wright | 7 | 17 | - | - | 5 | 5 |
| EXECUTIVE DIRECTOR | | | | | | |
| Ms S.G. Jack | 2 | 17 | - | - | 3 | - |

5. Mr M.G. Johnson was appointed as Chair effective 1 July 2019.

6. Mr T.T. Agnew was appointed as a Director of HCF effective 24 October 2019.

7. Mr M.J. Bassingthwaight was appointed as a Director of HCF effective 24 October 2019.

8. Mr S.P. Coppock retired as a Director of HCF effective 24 October 2019.

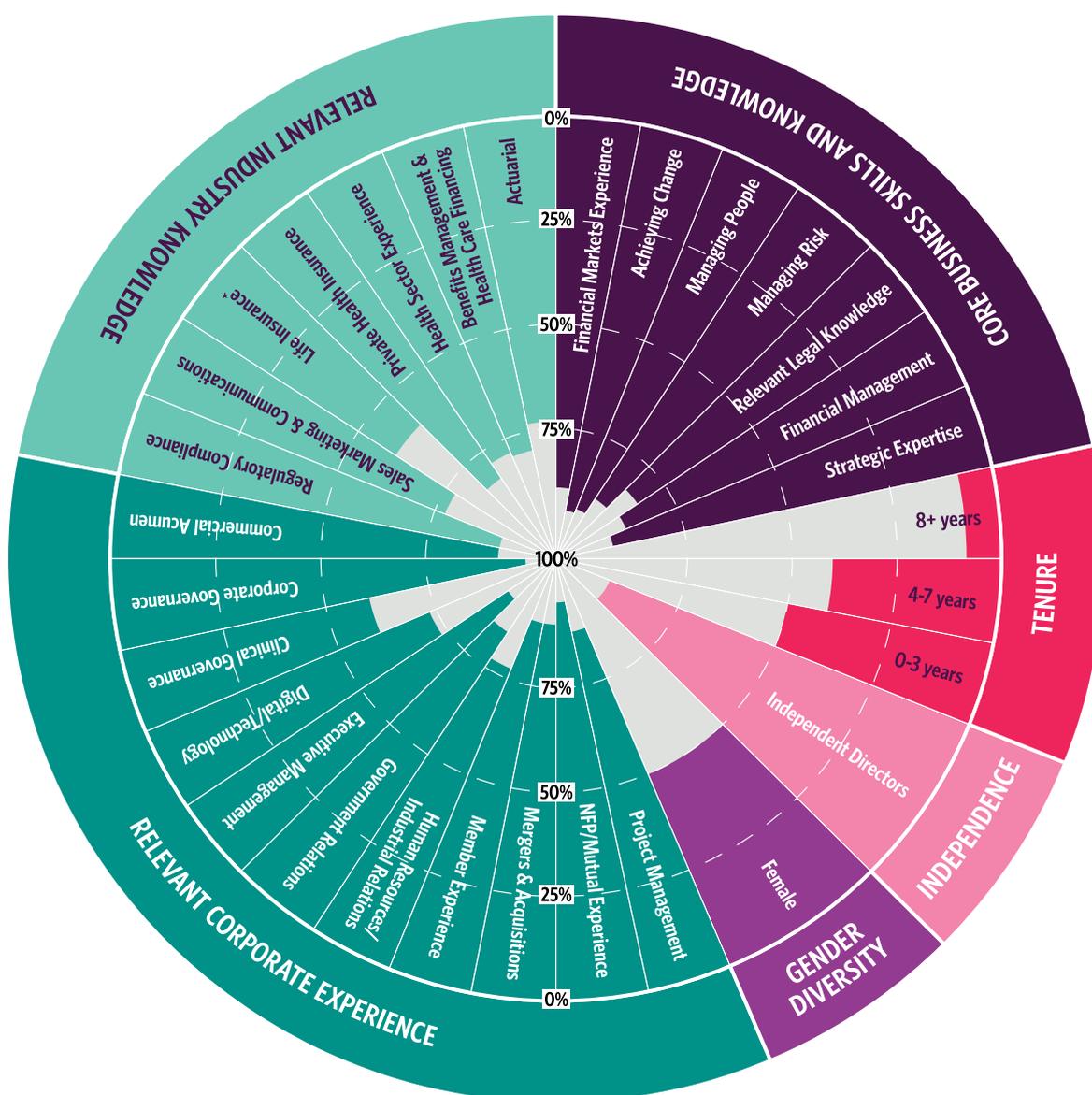
9. Completed years of service as a Director as at date of this report.

10. 6 of the 17 Board Meetings held were special COVID-19 related meetings.

Go to [hcf.com.au/governance](https://www.hcf.com.au/governance) for further information on each Director including qualifications, experience and other directorships.

4.0 SKILLS, EXPERIENCE & INDEPENDENCE

In order to ensure the Board has the optimal mix of skills, knowledge and experience a Board Skills Matrix is reviewed and updated annually. Other important considerations are tenure, independence and diversity.



* Rating is in the context of HCF Life as an HCF subsidiary. Refer also to Life Board skills and experience matrix.

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 of 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 financially 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 and 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.

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.

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

5.0 ELECTION / APPOINTMENT OF DIRECTORS



* Where a vacancy exists

Election not held for appointments to HCF Life, Manchester Unity and HCF Research Foundation 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 AND 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 regulatory and legal matters.

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, strengths 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 AND 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.

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 and Inclusion Statement is reviewed 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 managing diversity and inclusion in all facets of our employee experience including talent acquisition and management, professional and performance

development, leave entitlements, succession planning, and health and wellbeing.

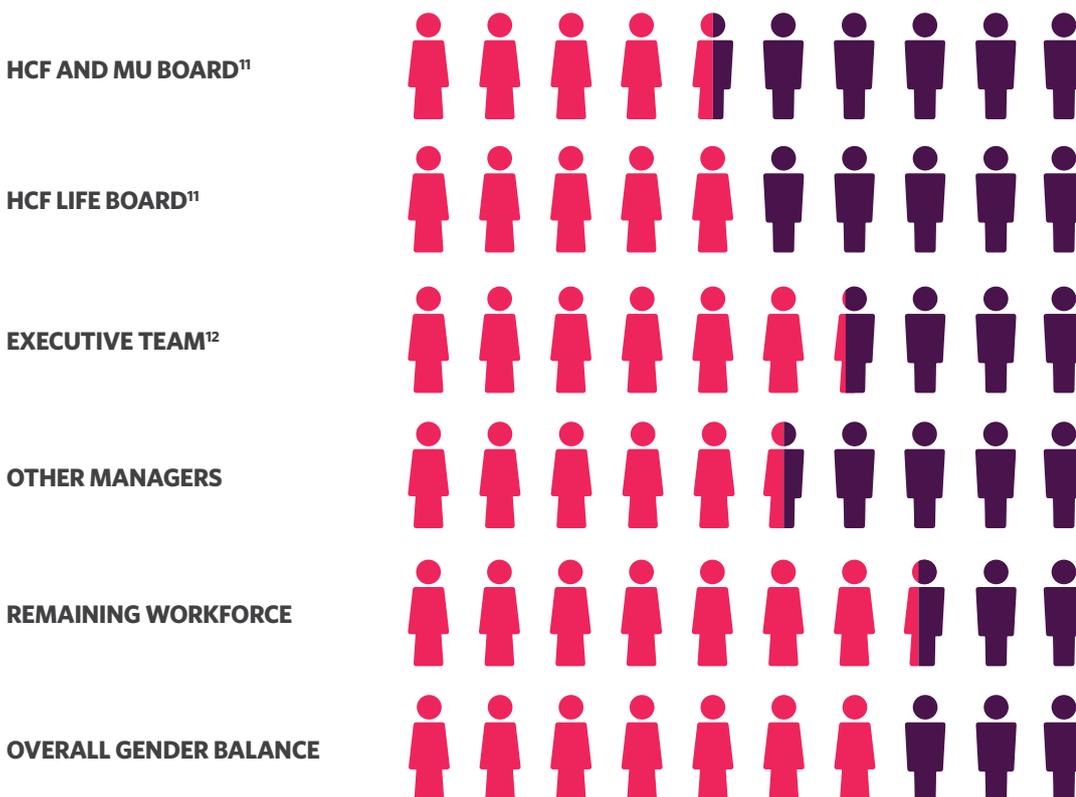
Each year the Board and Senior Leadership Team review progress on measurable objectives for achieving gender diversity and other aspects of diversity management. Current objectives for HCF relate to:

- 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
- employee engagement on diversity and inclusion – The HCF Diversity and Inclusion strategy includes opportunities for staff engagement on diversity and inclusion matters.

The Board is committed to, and has exceeded the Australian Institute of Company Directors’ 30 per cent initiative that aims to have at least 30 per cent female representation on boards.

WORKFORCE GENDER DIVERSITY



Source: Data is based on HCF Group’s 2020 Workplace Gender Equality Agency Report submitted on 31 July 2020. The reporting period is 1 April 2019 – 31 March 2020.

¹¹ Excludes the Managing Director given their executive director role. At 30 June 2020 female representation of non-executive directors on the HCF and MU Board is 44% and on the HCF Life Board is 50%.

¹² Includes the HCF Managing Director.

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 AND MANAGING CONFLICTS OF INTEREST

The Board is conscious of its obligations to ensure that Directors appropriately manage any 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 AND REPORTING INAPPROPRIATE CONDUCT

Employees are actively encouraged to bring any problems to the attention of management, the People and Culture team, the Risk and Compliance 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 People and Culture 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 People and Culture.

Concerns about breaches of our regulatory obligations or internal policies or procedures can also be raised anonymously in accordance with HCF's whistleblower process.

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.

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY

HCF believes that its long-term 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 hold the Board accountable to good corporate practices and governance. 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.

During the year the Councillor Charter was reviewed and amended by the Councillors, which included the introduction of the role of a Council Convenor. This role will facilitate meetings of Council, absent the Board Councillors and work with the Board Chair to facilitate discussions and raise any matters, as required.

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. HCF has a proactive approach to working with regulators on material matters.

Go to [hcf.com.au/governance](https://www.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 Board is ultimately responsible for HCF's Risk Management Framework and is responsible for the oversight of the RMF's operations by management. The Board directs and oversees the RMF through the Board Committees, in particular, the Risk & Compliance Committee. The Board has the overall responsibility for ensuring that the Risk Management Framework governs the way HCF identifies, measures, evaluates, monitors and reports risks associated with its decision making. This includes management strategy and risk appetite. It approves and regularly reviews policies that are associated with 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 Risk & 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 monitors and manages material risks being

strategic, financial, insurance, operational, technology and compliance risks that HCF faces, to ensure the Risk Management Framework remains sound and is compliant with APRA's Prudential Standard CPS220. Risks and controls are also monitored through the various Board committees.

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

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.

REPORTING

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 – are the risks associated with HCF failing to implement its business strategy due to adverse changes in the internal and external business environment including Government, Industry, Reputational and Transformation strategy.
- Insurance Risk – includes the risk of inadequate or inappropriate product design, pricing, underwriting and claims management that will expose HCF to financial loss and the consequent inability to meet its liabilities.

- Finance Risk – risk of financial losses arising as a result of market and investments, credit and liquidity, as well as risks of breaching enterprise or regulatory capital requirements.
- Operational Risk – risk of loss and/or non-compliance with laws resulting from inadequate or failed internal processes, people and/or systems, or from external events.
- Compliance Risk - risk of failure to act in accordance with laws, regulations, industry standards and codes, internal policies and procedures.
- Technology Risk – is any potential for technology failures to disrupt HCF's business, such as information security incidents or service outages.

Risks are continually monitored to ensure exposures are adequately identified and managed.

Deep Dive Reviews and incident management reporting determine the current status of risks.

11.0 INTERNAL AUDIT

INTERNAL AUDIT STRUCTURE



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.

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 & Finance Committee.

PwC was appointed as the Internal Auditor on 13 May 2020 and reports administratively to the Chief Financial Officer and functionally to the Chair of the Audit & Finance Committee. Annually (or as required) the Internal Auditor meets with the Committee without management present.

The function is governed by an Internal Audit Charter, its audit activities are agreed with management and the Board (via the Audit & Finance 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 & Finance 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 & Finance 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 &

Finance Committee on an annual basis. The Internal Audit Plan includes a dedicated independent assessment of the material risks for HCF Life and ensures appropriate audit coverage.

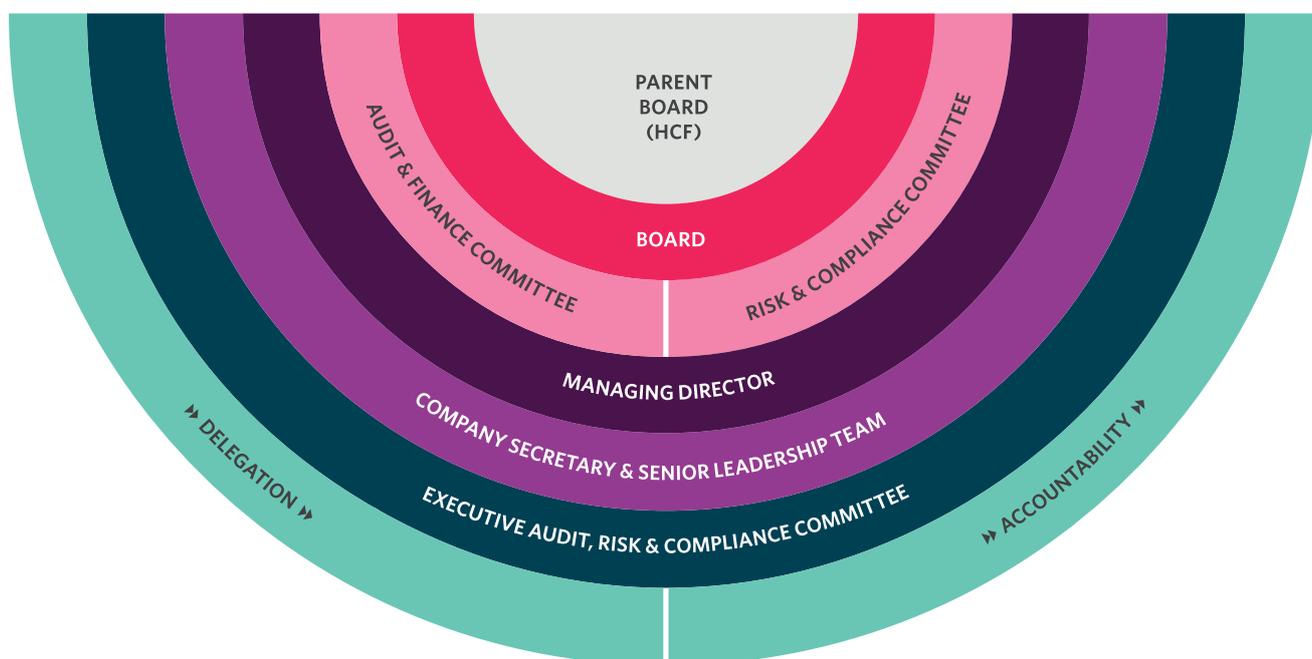
APPENDIX A

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.

GOVERNANCE FRAMEWORK AND 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 & FINANCE COMMITTEE

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

- 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 the:

- risk and compliance framework
- 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 appropriately managed as they emerge
- implementing the approved risk management strategy
- developing appropriate policies, controls, processes and procedures to identify and manage material risks.

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 & Finance Committee | The Committee will be comprised of at least three Independent Directors. All Committee members shall be financially literate. At least one Committee member shall have accounting and/or related financial management expertise. | Ms Lisa McIntyre (Chair) Ms Catherine Hallinan Mr John Barrington |
| Risk & Compliance Committee | The Committee will be comprised of at least three Independent Directors. | Mr John Barrington (Chair) Ms Catherine Hallinan Ms Lisa McIntyre |

DIRECTOR TENURE AND MEETING ATTENDANCE

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director were as follows:

| | BOARD | AUDIT & FINANCE COMMITTEE | RISK & COMPLIANCE COMMITTEE |
|-------------------------------------|-----------------|---------------------------|-----------------------------|
| Number of meetings held: | 9 ¹³ | 4 | 4 |
| Number of meetings attended: | | | |
| Mark J. Gallagher ¹⁴ | 3* | - | - |
| Catherine M. Hallinan ¹⁵ | 9* | 4 | 4 |
| John M. Barrington | 8 | 4 | 4* |
| Lisa M. McIntyre | 9 | 4* | 4 |
| Sheena G. Jack | 9 | - | - |
| Christopher E. Wright | 9 | - | - |
| Stuart P. Coppock ¹⁶ | 2 | 1 | 1 |
| Claire L. Jackson ¹⁷ | 1 | - | - |
| Mark G. Johnson ¹⁸ | 3 | - | - |
| Jane T. Southwell ¹⁹ | 3 | - | 1 |

* Denotes Chair

13. One of the Board meetings was a special purpose meeting relating to COVID-19.

14. Mark J. Gallagher retired as Non-Executive Director on 30 September 2019.

15. Catherine M. Hallinan became Chair of the HCF Life Board on 1 October 2019.

16. Stuart P. Coppock retired as Non-Executive Director of HCF Life on 30 September 2019.

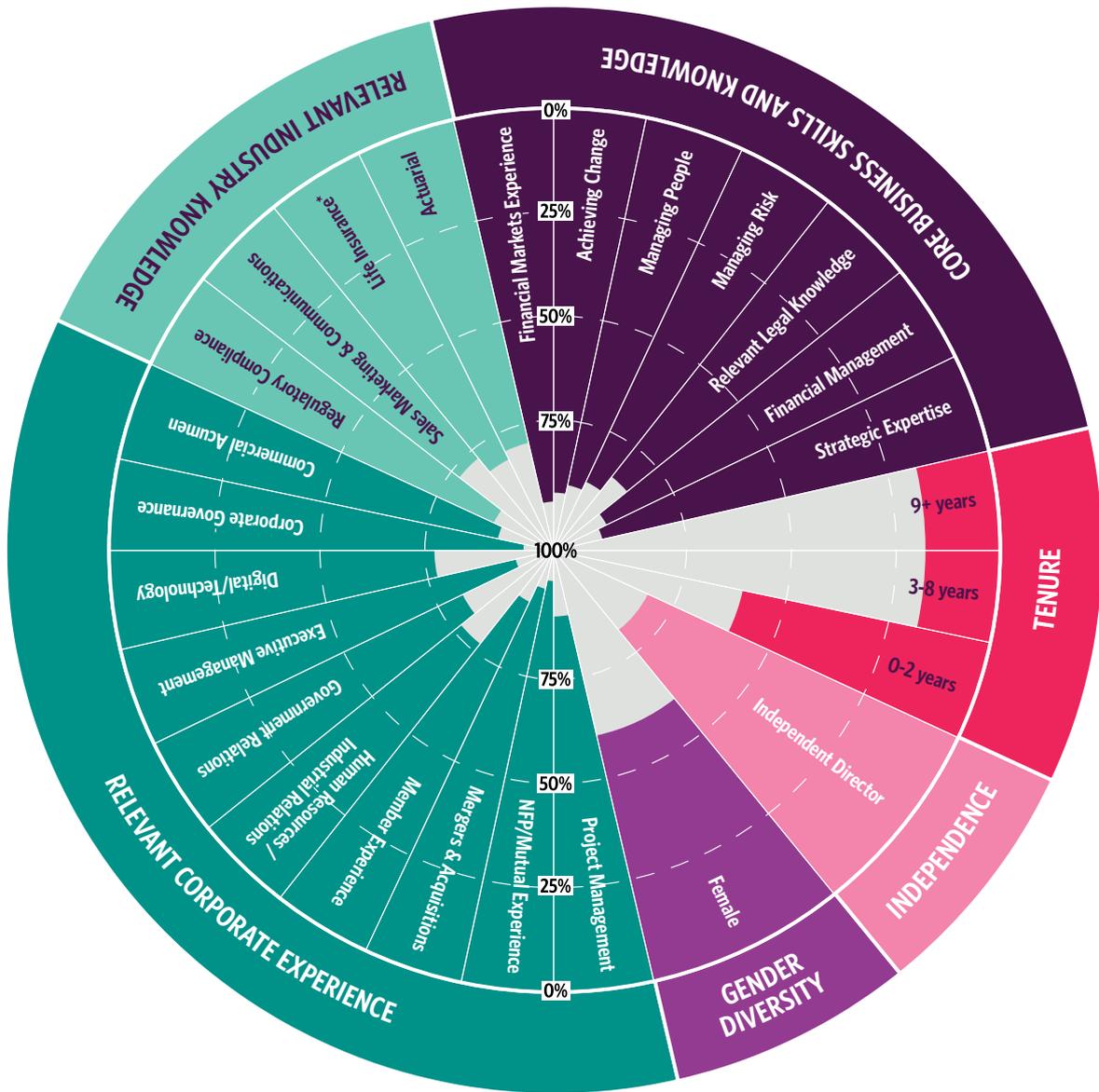
17. Claire L. Jackson retired as Non-Executive Director of HCF Life on 30 September 2019.

18. Mark G. Johnson retired as Non-Executive Director of HCF Life on 30 September 2019.

19. Jane T. Southwell retired as Non-Executive Director of HCF Life on 30 September 2019.

Go to [hcf.com.au/governance](https://www.hcf.com.au/governance) for further information on each Director including qualifications, experience and other directorships.

HCF LIFE BOARD SKILLS, EXPERIENCE, DIVERSITY AND INDEPENDENCE



* Rating is in the context of HCF Life as an HCF subsidiary.

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 and 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.

Mergers/Acquisitions

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

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'.

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

