

*115 years*

OF BETTER VALUE BANKING





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## who we are

Newcastle Permanent's vision is to be the leading retail banking business in Australia by helping our customers achieve financial success and contributing to the wellbeing and vibrancy of the local communities we serve.

For the past 115 years our mission has been to provide exceptional banking products and customer support to help our customers transact, save, invest, borrow, and protect their valuable assets, including the Australian dream of owning their own home.

We believe our customer-owned banking model delivers **better outcomes for customers** than the profit-maximising cultures of the four major banks. We are 100% owned by our customers, not shareholders, so all the value we create is shared **only** with our customers and our local communities.

Newcastle Permanent is the **largest and financially strongest customer-owned banking institution** based in NSW in terms of net assets, and just like the four major banks is regulated under the *Banking Act 1959* (Cth), and supervised by the Australian Prudential Regulation Authority (APRA).

We will continue to evolve with our customers' needs and develop our range of digital channels and services to complement our physical branch and ATM networks and our locally-based Customer Contact Centre, so even more people can enjoy the benefits of our customer-owned banking model, which puts people before profits.

# performance highlights 2017/18



Proudly owned by customers, not shareholders, for 115 years



Australia's Best Customer-Owned Banking organisation\*



Australia's Home Lender of the Year, again\*



Over \$2m invested in community events, children's sport and education



Celebrated 10 years of partnering with Northern NSW Football



Over \$1.5m distributed in Newcastle Permanent Charitable Foundation grants



Rated No. 1 Australian financial institution for customer satisfaction in June 2018<sup>^</sup>



Our staff rate us above industry average for employee engagement



Largest and financially strongest customer-owned banking institution based in NSW<sup>#</sup>



Launched Osko<sup>®</sup> (near real-time payments) ahead of two of the four major banks



Enhancements to digital capability via Internet and Mobile Banking, and instant account opening

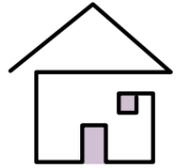


\$43.8m net profit after tax reinvested



References to the four major banks in this Annual Report are to ANZ, Commonwealth Bank, NAB and Westpac, and do not include their subsidiary entities or brands, such as St. George and Bankwest. <sup>^</sup>Mozo Experts Choice 2018 Annual Awards. <sup>\*</sup>Ratings sourced from Roy Morgan Customer Satisfaction Survey, June 2018. <sup>#</sup>Based on net assets. BPAY<sup>®</sup> and Osko<sup>®</sup> are trademarks of BPAY Pty Ltd ABN 69 079 137 518.

# celebrating 115 years of better value banking



**1903**  
**We were born**  
An organisation of about 400 members was started in Newcastle to help local families buy their own home.

**1939**  
**Building Society**  
A new structure created a secure and forward-looking institution, with the new name Newcastle Permanent Building Society emphasising the 'permanent'.

**1940**  
**Hunter Street**  
We operated solely out of 450-454 Hunter Street, Newcastle from 1940 to 1966.

**1966**  
**First branch opened**  
Our first branch office was established in Charlestown.

**1979**  
**'Our Town'**  
The iconic 'Our Town' advertising campaign that ran for over 20 years and became synonymous with the region was launched.

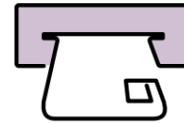
**1981**  
**SLS and Maths Competition**  
The start of long and fruitful sponsorships of Hunter Surf Life Saving (SLS) and the Primary School Mathematics Competition.



**1970**  
**House logo**  
We introduced our brand logo, consisting of an 'n' and 'p' in a house shape. It also symbolises some of our core beliefs.

**1997**  
**Big financial milestone**  
Financially the strongest building society in Australia by total assets.

**1983**  
**New headquarters**  
On 15 November we moved into our iconic headquarters at 307 King Street, Newcastle.



**1984**  
**First ATM**  
We installed our first ATM. This was the start of a rapid expansion of the ATM network.

**2001**  
**Internet Banking**  
The launch of Internet Banking heralded a new age.

**2003**  
**Centenary**  
We celebrated 100 years of our customer-owned banking model.



**2004**  
**Charitable Foundation**  
The Newcastle Permanent Charitable Foundation distributed its first grant, and has now donated more than \$18 million to regional charities.

**2008**  
**Community investment**  
Sponsorship of grassroots football for juniors and seniors in northern NSW started. We first sponsored Cinema Under the Stars before taking ownership. Our branch network grew into the New England and Northern Rivers regions with branches opening in Armidale, Tamworth, Lismore and Ballina, followed by Grafton in 2011.

**2014**  
**Expansion west**  
With growing success, we continued to expand into the Central West opening branches in Bathurst, Mudgee and Orange, followed by Dubbo in 2016.



**2015**  
**Here for our customers**  
Awarded the Decade of Excellence from the *Financial Review's* Smart Investor Blue Ribbon Awards for consistently providing market-leading banking products. Launched new website, designed to work seamlessly on desktop, mobile or tablet.

**2017**  
**Outperforming major banks**  
We continued to outperform the four major banks and grew to almost \$11 billion in total assets as Australia's largest building society. Launched new Internet and Mobile Banking platform to enable ongoing capability enhancements for our customers.

**2018**  
**115 years**  
We celebrated 115 years of helping customers achieve financial success and contributing to our communities. Launched Osko ahead of two of the four major banks. Reached milestone of \$750,000 donated through staff wages in our Staff *CommunityAssist* Program.

# digital sales and service transformation program



## The future Onwards and upwards

The future looks bright as we continue to deliver the biggest digital transformation in our history!



The digital transformation we are about to undertake is really exciting. For the IT teams, we will be challenged to deliver real-time banking and engagement to our customers and respond to their needs by offering first class financial products and services to anyone, anywhere, at any time.

Jodie Emanuel, Manager COBOL Solutions (IT)





Chair Jeff Eather

## chair's report

This year we marked our **115 year anniversary** of providing exceptional value and high quality retail banking products and services to our customers, and support for our local communities. As a regional business, this is a significant milestone and one we are very proud of.

In December 2017, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was established, designed to inquire into and report on misconduct in the sector. The recent findings from the Royal Commission, which is still in progress, have already exposed serious failings from some of our major financial institutions. The Royal Commission process has shown that in some of these organisations, the inherent obligation to maximise profits for shareholders coupled with significant personal financial incentives for senior managers can result in highly negative outcomes for their customers.

In stark contrast, a cornerstone of Newcastle Permanent's ethos is the belief that our **customer-owned** banking model produces consistently better outcomes for our customers and local communities than the profit-maximising cultures of the sharemarket-listed banks.

Our mission is to help our customers enjoy financial success, realise the Australian dream of owning their own home, save for something important, or just manage their everyday banking efficiently and cost-effectively. Newcastle Permanent now serves more customers in Newcastle and the Hunter than any other bank or financial institution\* including the four major banks. This is a rare achievement for any customer-owned organisation in a major Australian city.

The year was characterised by a continuation of historically low interest rates coupled with intense competition from the four major banks for home loans and customer deposits. Our industry regulator, APRA, maintained a range of restrictive measures on home lending in response to heightened risks in the housing market due to rising housing prices, high and rising household debt and subdued household income growth. The measures were designed to limit lending in some of the higher risk home lending segments such as Investment loans, Interest Only loans and higher Loan-to-Valuation Ratio (LVR) loans. These limits significantly increased the complexity of managing home loan volumes and increased price competition in narrower segments of the home loan market.

Despite these challenges and a complex home lending environment, Newcastle Permanent has achieved another **strong and balanced** financial performance this year in line with expectations, recording a **Net Profit After Tax (NPAT)** of **\$43.8 million**, a 12.4% increase on last year's result.

Overall a total of **\$102.2 million in long-term value** was created for our customers, made up of our \$43.8 million in NPAT and a \$58.4 million Mutuality Dividend, which is an amount independently calculated<sup>1</sup> by Canstar to estimate the additional, collective financial benefit our customers receive by banking with Newcastle Permanent rather than the four major banks.

<sup>1</sup>Roy Morgan Research Mortgage/Deposit Customers 12 months to December 2017.  
Mutuality Dividend is the average of the two six-monthly calculations.



Chart A: Total Lending Assets

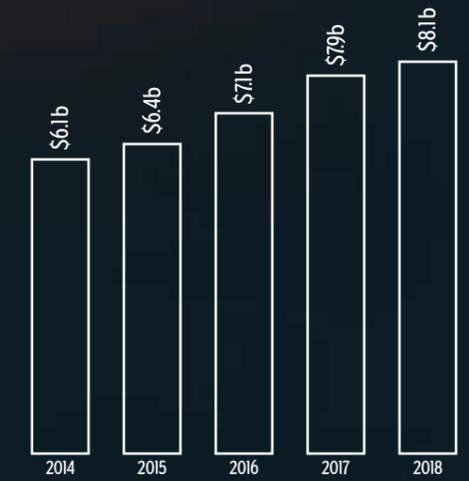


Chart B: Total Customer Deposits

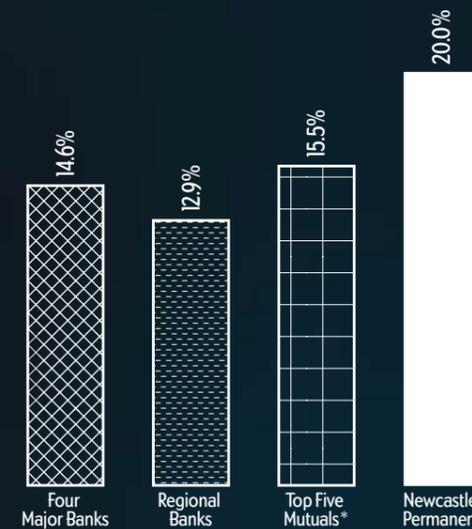


Chart C: Capital Adequacy Ratios

Source: Most recently available APS330 disclosures as at 30 June 2018  
\*Excludes Newcastle Permanent

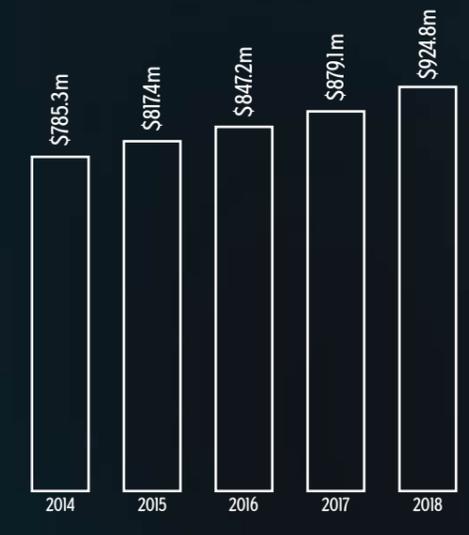


Chart D: Total Members' Equity

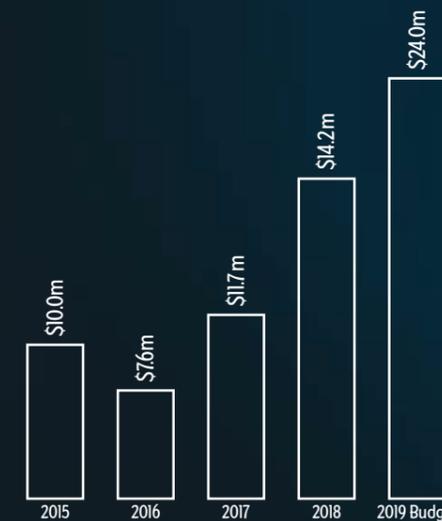


Chart E: Investment in Projects & Capital Expenditure

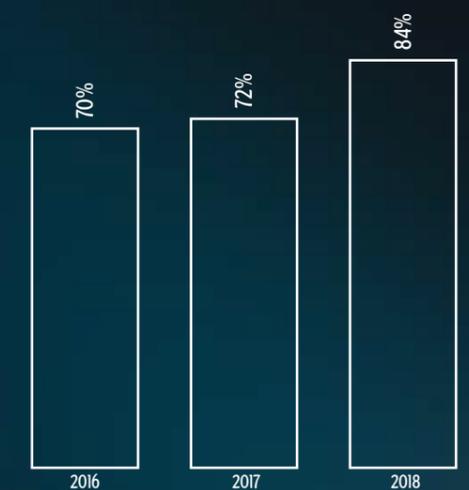


Chart F: Internet & Mobile Banking Customer Usage

Consistent with Newcastle Permanent's Strategic Plan, there was a continued focus on **sustainable business growth**. We achieved above industry growth for the owner-occupier portfolio, and home loan portfolio growth came in at 4.4% overall for the year. As a result, Total Home Loans rose to \$8.9 billion and lifted Total Lending Assets to \$9.1 billion (see Chart A: Total Lending Assets). This result was a little under industry home loan growth of 5.6% due in large part to the impact of the APRA restrictions on certain home loan segments, coupled with a significantly increased level of customer prepayments and heightened refinance activity, in an environment of escalating competitive intensity.

Managed in line with home loan growth, the customer deposit portfolio increased to \$8.1 billion, maintaining a **healthy proportion** of total funding (see Chart B: Total Customer Deposits).

We demonstrated the long-term sustainability of our **Customer Value Proposition** through the stabilisation and improvement in the Net Interest Margin (NIM) ratio, which is primarily the difference between the income earned on Newcastle Permanent's home loans and the costs associated with funding these loans. In addition, there was a closer alignment between revenue growth and balance sheet growth. With expense cost growth of just 3.2%, and combined with increased revenue of 5.8%, this improved both our Cost to Income ratio and Return on Assets.

Under our customer-owned banking model, profit is fully retained in the business to sustain our exceptional financial strength. Our **Capital Adequacy Ratio**, a core measure of financial strength and resilience, stands at 20.0%, significantly above regulatory requirements and **far superior** to the four major banks and all other significant customer-owned banking institutions in Australia (see Chart C: Capital Adequacy Ratios).

The sustained increase in our customers' (or members') equity is testament to the focus and success of our Strategic Plan in generating long-term value for customers coupled with competitive strength (see Chart D: Total Members' Equity).

### Here for our customers

In this rapidly evolving digital world where customers expect to undertake their banking on a smartphone 24/7, we are committed to a significant digital transformation program to strengthen and future-proof our Customer Value Proposition. We have invested more than **\$55 million over the past five years** in major strategic projects, including the ongoing maintenance of our information technology infrastructure and development of enhanced capability (see Chart E: Investment in Projects & Capital Expenditure).

The **digital transformation** program is well underway and has already delivered a number of critical infrastructure and customer-facing digital enhancements including online product applications, and Internet and Mobile Banking. These developments are in direct response to the rapid rise in customer demand for digital banking services including electronic communications and payments. Since the launch of the new Internet and Mobile Banking platform early in the financial year, it is pleasing to see the customer engagement in these new services and features, with significant growth in registrations and usage during the year (see Chart F: Internet & Mobile Banking Customer Usage).

A key requirement in managing the roll out of further digital capabilities and enhancements is to ensure we deliver our new digital services not just with additional customer usability and convenience, but also with a strong focus on system integrity and security.

### Here for our community

Also core to our ethos is our dedication to improving the lives of the people who live in the local communities that support Newcastle Permanent. We take great pride in continuing our meaningful support through community sponsorships, staff donations and corporate fundraising initiatives which enrich the lives of many people across regional NSW, whether they are customers of Newcastle Permanent or not.

In addition, the disadvantaged, marginalised and isolated people in our communities benefit from the vital work of the Newcastle Permanent Charitable Foundation. We are proud to say that in the past 15 years the Charitable Foundation has distributed more than \$18 million in grants to local charities and not-for-profit organisations.

We would encourage you to read the dedicated Charitable Foundation section of this Annual Report for further details regarding these life-changing community initiatives.

### A team achievement

Newcastle Permanent's ongoing success is a result of the contribution of my fellow Directors, a highly effective partnership with the Chief Executive Officer (CEO) and Executive Team, enduring commitment from our staff, and a relentless focus on achieving our strategic objectives.

In March we had the pleasure of welcoming Margie Haseltine as a non-executive Director to the Newcastle Permanent Board. Her change management, information technology, CEO and Board experience is an asset to the organisation.

Our strong organisational performance over many years confirms our strategy is delivering strong outcomes for our customers and communities as we strive to be the best retail banking organisation in Australia.

### Farewell to our CEO, Terry Millett

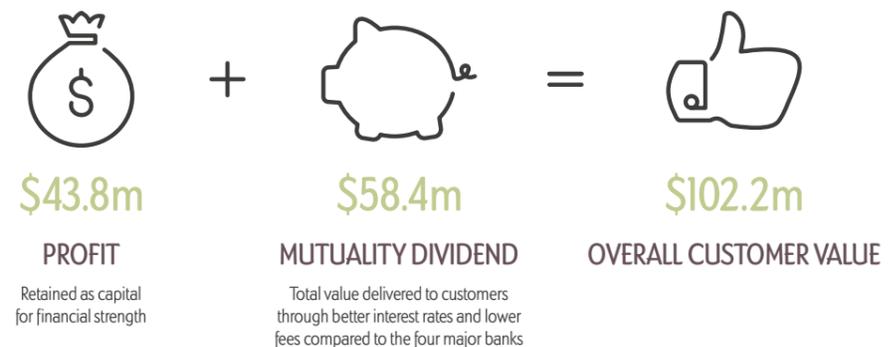
After 10 highly successful years as CEO, Terry Millett has decided to call time and tendered his resignation. On behalf of the Newcastle Permanent Board, I would like to thank Terry for his dedication, enthusiasm and keen business acumen during his time at Newcastle Permanent.

A large part of Newcastle Permanent's success over this time is due to the strong and collaborative relationship that Terry has built with the Board. Terry's tenure as CEO has been exemplary, evidenced by the strong and consistent business performances and the many industry awards Newcastle Permanent has accumulated during his time here.

There is no doubt that Terry's greatest legacy is the outstanding team he has built, and a culture that focusses on strong, positive behaviours. I would like to thank Terry for his hard work, the contribution to our joint success and support for the Board and myself, and we wish Terry all the very best and every success for the future.



Jeff Eather  
Chair



## board of directors



Left-right: Samantha Martin-Williams, Ross Griffiths, Margaret Haseltine, David Shanley, Jennifer Leslie, Jeffrey Eather (Chair), Philip Neat.

### **JEFFREY R. EATHER** BCom, CPA, FGIA, MAICD

Chair, Board Member since May 2013, Chair of the Corporate Governance & Nominations Committee, Member of the Audit and Risk Committees

Jeff is a qualified accountant with strong governance credentials and hands-on business experience, having overseen some of Newcastle's leading corporations including in his former position as CEO of NBN Television. He is also the Chair of Newcastle Friendly Society Ltd, the Managing Director of The Callaghan Institute and was formerly Chairman of the University of Newcastle Foundation and Deputy Chairman of Hunter Water Corporation. Jeff holds a Bachelor of Commerce from the University of Newcastle and is a Certified Practising Accountant, a Fellow of the Governance Institute of Australia and a Member of the Australian Institute of Company Directors.

### **ROSS E. GRIFFITHS** Dip Bus Studies (Acc), MBA, FCA (Aust), GAICD

Board Member since January 2015, Chair of the Risk Committee, Member of the Audit and Corporate Governance & Nominations Committees

Ross is a Chartered Accountant with extensive retail banking, finance and risk management experience. Ross had 28 years' experience at one of Australia's major banks before retiring in 2014. His appointments at that bank included Group Chief Credit Officer and Head of Credit Management. Ross is a Director of Targus Australia Pty Ltd and a former Director of Mirabela Nickel Ltd and Commonwealth Managed Investments Ltd, which was the Responsible Entity for two ASX listed Property Trusts. He holds a Diploma of Business Studies (Accounting) and Master of Business Administration. Ross is also a Fellow of Chartered Accountants Australia and New Zealand and a Graduate of the Australian Institute of Company Directors.

### **MARGARET A. HASELTINE** BA, FAICD

Board Member since March 2018, Member of the Audit and Risk Committees

Margie forged a successful executive career with Mars Incorporated and led the company as its CEO for five years. She is an experienced and proven leader with more than 14 years' experience as a Director on boards across a range of industries, including education, retail, hospitality and freight. Margie is a Fellow of the Australian Institute of Company Directors, completed the General Manager School program tailored for Mars at Harvard University and holds a number of other leadership qualifications. She has expertise in change management, information technology, supply chain management and strategic planning and procurement.

### **JENNIFER M. LESLIE** BCom, CFP, FCA (Aust) - FPS, MAICD, TFASFA

Board Member since June 2015, Chair of the Audit Committee, Member of the Corporate Governance & Nominations and Remuneration & People Committees

Jennifer is a Fellow of Chartered Accountants Australia and New Zealand, Certified Financial Planner, a Member of the Australian Institute of Company Directors and a Trustee Fellow of the Association of Superannuation Funds of Australia. She has a well-established career forged in the Hunter Region, including over 13 years as Managing Director of Pitcher Partners Newcastle and Hunter Wealth Management. Jennifer holds a Bachelor of Commerce (Accounting) and Diploma of Financial Planning. She is also a Director of Newcastle Permanent Community Foundation Company Ltd, which is the Trustee of Newcastle Permanent Charitable Foundation, Newcastle Friendly Society Ltd, the Hillross Advisors Association and a member of the University of Newcastle's Alumni Advisory Council. She is a former Director of Mai Wel Ltd and a former Advisory Board Member of the Maitland-Newcastle Catholic Development Fund.

### **SAMANTHA J. MARTIN-WILLIAMS** B.Bus, M.HR&IR, M.CommLaw, FAICD, GIA (Cert)

Board Member since February 2012, Chair of the Remuneration & People Committee, Member of the Corporate Governance & Nominations and Risk Committees

Samantha has had a career with over 25 years' diverse business experience in complex and highly regulated industries including financial services, education, health, resources and logistics. Samantha is a former CEO with expertise in strategic transformation, commercial change and business growth. She has degrees in Business, Industrial Relations and Commercial Law, is a Fellow of the Australian Institute of Company Directors and member of the Chartered Institute of Transport and Logistics. She currently serves on the Salvation Army Advisory Board, and is a conjoint lecturer and member of the MBA Advisory Board at the University of Newcastle Business School.

### **PHILIP J. NEAT** MBA, MAICD, FAMI, CPM, GIA (Cert)

Board Member since July 2003, Member of the Remuneration & People and Risk Committees

Phil was an adviser for over 30 years to major Australian and international corporations involved in the Infrastructure, Property Development and Resource/Mining sectors. He had a background in journalism before establishing his own consultancy and group of associated companies. Phil is also the Chair of the Board of Newcastle Permanent Community Foundation Company Ltd, which is the Trustee of Newcastle Permanent Charitable Foundation. He is a former Chair of the Risk Management and Remuneration Committees. He holds a Master of Business Administration, is a Member of the Australian Institute of Company Directors and the Governance Institute of Australia and a Fellow of the Australian Marketing Institute. Phil was a former Chairman of the Hunter Olympic Committee and was awarded the NSW Olympic Council's Order of Merit in 2010.

### **DAVID E. SHANLEY** BCom, CFP, GAICD, GIA (Cert)

Board Member since July 2003, Member of the Audit and Remuneration & People Committees

David has more than 35 years' experience in the Finance sector with a background in the building society and credit union industries. For over 25 years David has been an adviser to personal and corporate clients on technical financial planning issues. He is a Certified Financial Planner (CFP), a member of the Financial Planning Association and a Graduate of the Australian Institute of Company Directors. David holds a Bachelor of Commerce and Certificate in Governance and Risk Management from the Governance Institute of Australia. David is also a Director of Newcastle Friendly Society Ltd and Newcastle Permanent Community Foundation Company Ltd, which is the Trustee of Newcastle Permanent Charitable Foundation.



CEO Terry Millett

ceo's report

As the Chair noted, we have continued to perform strongly again this year against our balanced scorecard of performance measures. The operating environment was characterised by an intensely competitive home loan market coupled with the challenge of managing regulatory home lending composition constraints.

Our customer-owned banking model means we don't have shareholders demanding higher profits and dividends every year. Instead, **all the profits** we generate are reinvested in the business for the benefit of our customers and our local communities by providing exceptional value and quality retail banking products and services. Proof of our success in this regard is the number of prestigious industry and product awards we received again this year including **Home Lender of the Year** from Mozo, which are detailed later. Our success in these national awards reflects the exemplary value products and services we provide compared to the four major banks, regional banks, mutual banks and all other competitors.

Newcastle Permanent approved \$2.1 billion in home loans this year, growing the portfolio by 4.4% to **\$8.9 billion**, which includes more than \$2.0 billion of home loans in the Sydney market (see Chart G: Total Home Lending Assets). Achieving these outcomes was significantly complicated by the various APRA-mandated regulatory restrictions imposed on certain segments of home lending, such as Investment loans, Interest Only loans and higher LVR loans. The higher LVR lending restrictions also negatively impacted first home buyers who tend to have relatively smaller deposits.

We have also maintained our **outstanding** credit quality, which is evidenced by our arrears rate of just 0.1% and is **significantly better** than all sharemarket-listed banks including the four major banks (see Chart H: Home Loan Arrears Rates).

The customer deposit portfolio size increased by 3.7% to \$8.1 billion. This increase was materially in line with the growth in our home loan portfolio. Our customer deposits comprise approximately 84% of our total funding. This means our business is **far less reliant** on the more volatile wholesale funding to support our home loan growth when compared to other significant banking institutions in Australia.

Customers who hold deposits with us continue to make up more than 80% of our customers overall. As a result we seek to ensure that there is demonstrable value for these customers across our savings, investment and transaction products to recognise the mutual dependence between our home loan and deposit customers who underpin our retail banking model.

The ongoing success of Newcastle Permanent's balance sheet growth and profitability is testimony to the **competitiveness** of our Customer Value Proposition and the intense focus and organisational alignment to achieve our strategic goals.

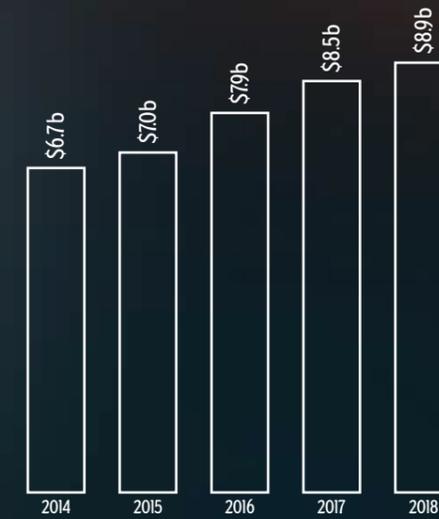


Chart G: Total Home Lending Assets

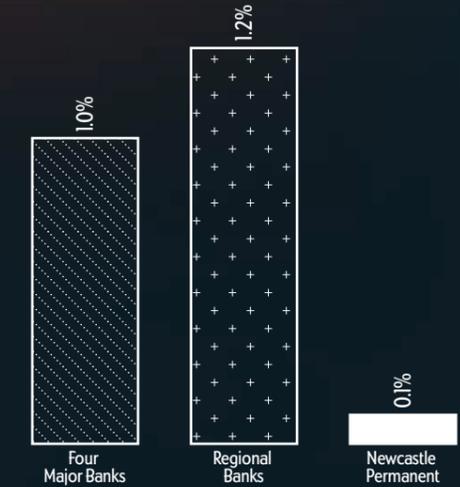


Chart H: Home Loan Arrears Rates

(% of total loans 90+ days)

Source: Standard & Poor's RMBS data June 2018

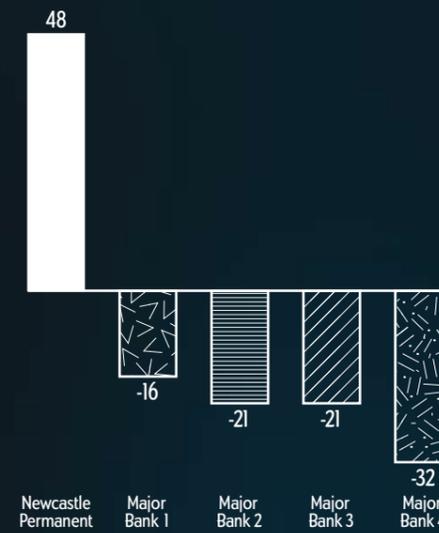


Chart I: Net Promoter Score

Source: Newcastle Permanent and competitor scores from 2017/18 Colmar Brunton Customer Satisfaction and Brand Health Studies respectively



Chart J: Internet & Mobile Banking Sessions

Differences in total sessions due to rounding

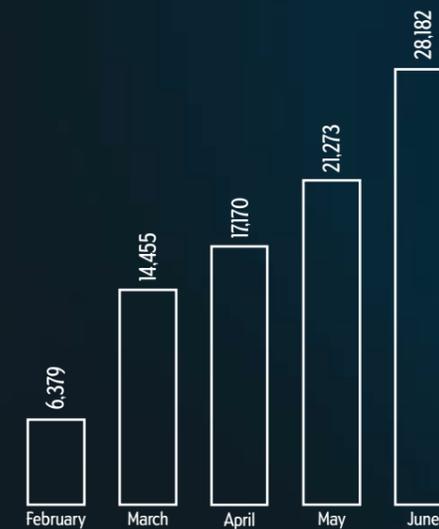


Chart K: Outward Osko Payments Made by Customers

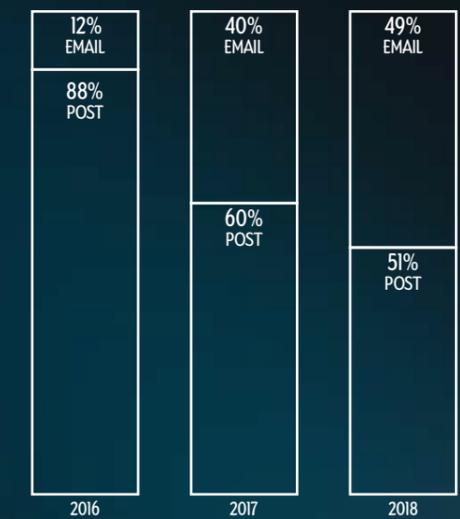


Chart L: Essential Mail Correspondence

### Award-winning product range

The range and value of our products continue to be widely recognised. We received numerous national awards including the prestigious **Home Lender of the Year** and **Australia's Best Customer-Owned Banking organisation** in Mozo's annual awards.

We were also recognised in Mozo's **Experts Choice Awards** for:

- > Fixed rate home loans;
- > Packaged home loans;
- > Split home loans; and
- > Investor fixed rate home loans.

Canstar awarded us their **Outstanding Value Home Lender** for 2018 and also presented us with more of the highest five-star ratings across our range of retail banking products than the four major banks, recognising the outstanding value that our home loans, personal loans and savings accounts provide to consumers.

Newcastle Permanent also secured *Money* magazine's **Investment Lender of the Year Award** for 2018, and **Best Home Loan Owner-Occupied 3-Year Fixed Award** from comparison site Finder for 2017.

We were also very pleased to receive the national **Tier 2 Lender of the Year** award from national mortgage broking business, Mortgage Choice, which is especially gratifying for a regionally-based financial institution.

Customers can be proud that Newcastle Permanent continues to win a range of national awards against all major financial institutions despite only operating in NSW. These awards are further evidence that our range of retail banking products is consistently high quality and exceptional value.

### Improving our Customer Value Proposition

There was a strong focus again this year on the relentless pursuit to continue to strengthen the competitiveness of our Customer Value Proposition. Newcastle Permanent's performance in terms of meeting customer expectations is market leading.

Newcastle Permanent's customer satisfaction was independently measured by research firm Roy Morgan at more than **93%** as at June this year, significantly higher than any of the four major banks. This made Newcastle Permanent the **No. 1 rated financial institution in Australia**. As an example, the highest rated of the four major banks was just 78.3%.

In addition, Newcastle Permanent's **Net Promoter Score**, which measures how likely your customers are to recommend you to a friend or colleague (and so is often considered a stronger form of satisfaction), was independently measured by research firm Colmar Brunton at **+48** this year. This result is again **vastly superior** to the four major banks, who did not achieve a score greater than zero (see Chart I: Net Promoter Score).

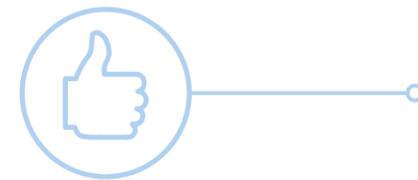
We are committed to providing our customers with a range of ways they can do their banking with us, whether it is face-to-face, via a phone call to our Newcastle-based Customer Contact Centre or via one of our online channels. Reflecting the trend across the entire retail banking industry, customer preferences are evolving quickly and they are increasingly seeking to do banking on their own terms, on a mobile device at a time and place that suits them.

This year we have delivered further enhancements to our website, made further improvements to our online account opening capability and continued to develop our Internet and Mobile Banking platform. When we launched our Internet and Mobile Banking platform in August 2017 some of our customers found logging in to the new system for the first time was more difficult than we had anticipated. Since that time, we have focussed intensely on delivering further improvements and new functionality. The usage and uptake of our Internet and Mobile Banking platform has been very positive (see Chart J: Internet & Mobile Banking Sessions). The Internet and Mobile Banking platform is also a key enabler to facilitate the regular release of a range of new features and enhancements that our customers have indicated they value highly.

Earlier this year we enabled our customers to access faster payments on the New Payments Platform via Osko by BPAY®. Osko allows our customers to send or receive payments using their PayID, a registered mobile number, email (or ABN if they are a business customer), and arrive at participating banks in under a minute. Newcastle Permanent launched this service well ahead of two of the four major banks and we have seen impressive growth in customer usage since launch (see Chart K: Outward Osko Payments Made by Customers).

We also continued the development of our electronic communication options and have made significant progress in meeting customer demand for electronic, rather than paper-based, regular communications. Regular electronic communications are more convenient, reduce costs and are better for the environment (see Chart L: Essential Mail Correspondence).

This year we have also continued the **multi-year digital transformation** of our end-to-end lending processes and the upgrade of our systems to provide a significantly better experience for our customers including faster, streamlined home loan documentation.



Customers can be proud that we continue to win a range of national awards against all major financial institutions despite only operating in NSW.



## Our people, our difference

Employing nearly 1,000 people and being one of the largest employers in the Hunter region, we are proud of our people and the talent we continue to attract, develop and retain within the business.

Our vision is to be recognised as the **leading retail banking business in Australia** and we are committed to our Customer Contact Centre and our branches as important channels for delivering exceptional customer service.

It was a year for marking significant milestone anniversaries with our branches at Raymond Terrace, Green Hills, Hamilton and The Junction all celebrating 40 years of serving their communities. Tamworth and Armidale marked a decade of service and our newest branch at Dubbo completed its first year of operation.

During the year we continued the investment in our branch network to ensure they remain relevant to customer needs. We undertook refurbishments at the Kotara, Glendale and Waratah branches. In addition, we updated Toronto, Cessnock, Swansea and The Junction branches. In undertaking our branch refurbishments, we have not sought to replace staff with rows of self-service machines to reduce costs, but rather have sought to maintain a friendly and people-focussed environment that is warm and inviting for both our customers and staff.

We seek to ensure we are running our organisation effectively and efficiently so we made the difficult decision to close two branches in Newcastle due to declining customer usage and their proximity to other branches. The staff members impacted by the decision to close the two branches were successfully redeployed to other locations in our branch network. It is important to recognise that we have an extensive branch network located across northern and central west NSW and we have more branches in the Hunter region than any other financial institution.

With our eyes firmly set on the future, we launched our strategic **People and Culture roadmap**, with five key pillars: growth and development, recognition, leadership, inclusion & diversity and wellness.

While it is still early days for the program, it has already produced some notable achievements including:

- > significantly outperforming the Australia New Zealand employee engagement benchmark;
- > participation in the **Workplace Gender Equality Agency** report highlighted 82.4% of employees awarded promotions were women, with 80% of manager level promotions awarded to women;
- > launch of **Ascend**, a leadership program to strengthen the pipeline of talent of high-potential female leaders; and
- > successful launch of the agile working environment for our digital banking team transforming the way this team approaches and completes projects.

We also took on board our staff feedback and launched a **new corporate uniform** – the first full redesign in six years. The new uniform was designed in-house in consultation with our Employee Consultative Committee and features a pattern interpreted from our iconic logo which has been very well received for the wide range of choices, comfort, practicality, style and ease of care.

## Here for our community

Our customer-owned model means we are **100% owned by our customers** and all our profits are reinvested in the business for the benefit of our customers and local communities.

Each year we invest more than \$2 million in community programs and events which directly engage around **200,000 people** in our communities, helping them to lead happy and healthy lives.

Please see the Community Section for further details.

## Here for the future

Our success is the result of effective stewardship and strategic planning delivered over many years. Our Board of Directors provide guidance and make a vital contribution to the business to ensure Newcastle Permanent's ongoing success.

The results recorded for this year are also testament to the Executive Team and the many staff that I have the pleasure of working alongside. I take this opportunity to thank them for their unwavering dedication and commitment to our business and our customers, especially during this exciting time of rapid change in customer preferences for digital banking services.

To our customers, right throughout regional NSW and beyond, you are the heartbeat of our business and the reason we exist. Thank you for choosing our way of banking that puts people before profits. Newcastle Permanent remains 100% committed to providing you the best possible value and quality banking products and services and offering support to our communities, both now and into the future.

## Farewell

After 10 wonderful and fulfilling years as CEO with many organisational successes along the way, I felt that it was time for me to 'pass the baton' to a new CEO to steer the organisation through the next phase of its ongoing evolution. Consequently this will be my last Report as the CEO of Newcastle Permanent.

I would like to thank the Newcastle Permanent Board for their support, trust and the strong collaborative relationship that we have enjoyed over the past 10 years. Without their support and leadership our continued strong organisational performances would not have been possible.

I will look back on my time as part of the Newcastle Permanent team with many treasured memories, a sense that we have achieved so much together for both our customers and our communities, competitively taken on the four major banks and very importantly, that I will be leaving the organisation in great shape and in very good hands.

What I will miss the most are all the people that I have met and worked with over the last 13 years at Newcastle Permanent. It has been a privilege and a pleasure to know all of them.



Terry Millett  
CEO

## executive team

Left-right: Shaun Hassall, Christopher Cockburn, Mark Williams, David Harney, Michael Leach, Terry Millett (CEO), Felicity Laczina, Lincoln Rees, Andrew Yost.



**TERRY MILLETT** BSc, MAgr (Preliminary year), Grad Dip Computing, MBA, FIML, FAICD  
CHIEF EXECUTIVE OFFICER

Terry joined Newcastle Permanent in July 2005 and was appointed to the position of Chief Executive Officer in September 2008. He has over 20 years' experience in the financial services industry. Prior to joining Newcastle Permanent, Terry held senior management positions with a major Australian bank over a nine-year period. These positions included responsibility for Retail Banking in northern and central NSW, development of a group-wide Private Banking business and leadership of the Funds Management, Insurance and Financial Advisory business in New Zealand. He has also held senior positions with a major Funds Management and Insurance group over a 10-year period. In his prior position with Newcastle Permanent, Terry was Chief Member Officer with responsibility for leading the member-facing components of the organisation.

**CHRISTOPHER COCKBURN** BEc, LLB, Grad Dip Leg Prac, Grad Dip ACG, AGIA, ACIS  
COMPANY SECRETARY & GENERAL COUNSEL

Chris commenced with Newcastle Permanent in January 2009. He was appointed to the position of Company Secretary & General Counsel in February 2018. He is a Chartered Secretary and a qualified lawyer and is admitted to practice law in the Supreme Court of NSW and the High Court of Australia. He has practised law for 12 years in private practice and corporate legal positions.

**DAVID HARNEY** GAICD, FIML  
CHIEF TECHNOLOGY OFFICER

David commenced with Newcastle Permanent in October 2011 as Senior Manager Development and Support IT, and was appointed to the position of Chief Technology Officer in September 2013. He has over 20 years' experience in IT and project delivery positions working within the Telecommunications and Finance sectors in Australia.

**SHAUN HASSALL** BCom, CA  
CHIEF FINANCIAL OFFICER

Shaun commenced with Newcastle Permanent in January 2007 and was appointed to the position of Chief Financial Officer in December 2016. Prior to this appointment Shaun held the positions of Head of Risk Management and Financial Controller. He is a Chartered Accountant with over 10 years' experience working within the chartered accounting profession and other commercial finance positions.

**FELICITY LACZINA** MBus, GradCertSHRM, DipHR, CAHRI, GAICD  
CHIEF PEOPLE OFFICER

Felicity joined Newcastle Permanent in 2009 and was appointed to the position of Chief People Officer in December 2016. Prior to this appointment Felicity held the position of Manager, People and Development. She has over 18 years' experience in human resources management positions working within the Health, Government and Financial Services sectors in Australia.

**MICHAEL LEACH** BSc (Computer Science), MBA, FAMI CPM, GAICD  
CHIEF DIGITAL BANKING & MARKETING OFFICER

Michael commenced with Newcastle Permanent in August 2006. He has over 20 years' experience in financial services Sales, Marketing and Product Management at most of the major banks in Australia. Michael's previous positions include General Manager of Marketing at a major regional bank and General Manager of Marketing at one of the major Australian banks.

**LINCOLN REES** MBA (CSU), GAICD, FIML, FFINSIA  
CHIEF CUSTOMER OFFICER

Lincoln joined Newcastle Permanent in February 2009. He has 20 years' experience in the financial services industry, having held several senior executive positions in Retail Banking. Lincoln has had responsibility for leading national distribution teams in the areas of Mortgage Lending, Wealth and Business Banking in major financial services organisations.

**MARK WILLIAMS** BCom, CA, GAICD, F Fin  
CHIEF OPERATIONS OFFICER

Mark joined Newcastle Permanent in July 2006 and was appointed to the position of Chief Operations Officer in December 2016. Prior to this, Mark held the position of Chief Financial Officer for seven years. He is a Chartered Accountant with over 25 years' experience working within the chartered accounting profession and in a number of finance positions in the Commercial and Government sectors. Mark has also previously acted as a Director of two Authorised Deposit-taking Institutions (ADIs), including a period as Chairman of the Audit Committee of one ADI and a member of both the Audit and Risk Committees of another ADI.

**ANDREW YOST** B Leg S, LLM, Grad Dip ACG, FGIA, FCIS  
CHIEF RISK OFFICER

Andrew commenced with Newcastle Permanent in August 2004. He was appointed to the position of Chief Risk Officer in December 2016. Prior to this Andrew held the position of Company Secretary & General Counsel for over 12 years. He is a Chartered Company Secretary and a qualified lawyer. Andrew has practised law extensively in the areas of banking and finance, and corporate and commercial law, both in private practice and in corporate legal positions. Andrew has worked at partnership level in private practice and has held Chief Legal Counsel positions in a subsidiary of an ASX 50 company and in an Australian subsidiary of a large multinational company.



“

Our new uniform encompasses corporate functionality with an essence of style and flare with a sense of belonging to Newcastle Permanent. It makes us want to put our make-up on each morning!

Philippa Brynes, Member Service Officer



## supporting our customers and their communities

Every year, through our community partnerships, staff donations, volunteering and fundraising we invest over \$2 million into the local communities that support us.



“

Newcastle Permanent's support helps us keep player registration fees as low as possible – a major drawcard for parents looking for an affordable, fun and safe sport for their children.

David Eland, CEO – Northern NSW Football

## Community football

This year marked a decade partnering with Northern NSW Football to help young families across northern NSW lead healthy, active and happy lives. The total value of our support over this time has now surpassed \$2.5 million.

Through our ongoing investment in community football across regional NSW we are helping to make the game accessible and fun for the 75,000 players, while also recognising the contribution of the thousands of volunteers who freely give their time to their clubs, players and their local community.

**Our partners:** Northern NSW Football, Central Coast MarinersACTIVE Schools Program and School Holiday Clinics.

## Surf Life Saving

Our local surf life savers and junior surf life savers do a lot of good in our community – this is something we're proud to support. For more than 35 years we've supported Surf Life Saving (SLS) helping SLS branches and clubs purchase essential safety equipment, perform volunteer patrols, and provide leadership and training programs to nurture our surf life savers of tomorrow.

This year we helped more than 3,840 volunteer surf life savers and 3,300 junior surf life savers from the Central Coast all the way to the Queensland border to help keep our beaches safe for everyone to enjoy.

**Our partners:** SLS branches Hunter, Central Coast, Lower North Coast, Mid North Coast, North Coast and Far North Coast.

## Newcastle Permanent Primary School Mathematics Competition

We want our children to get a great start in life and so for almost 40 years we've supported the Newcastle Permanent Primary School Mathematics Competition, the longest running annual mathematics competition of its kind in Australia.

Last year almost 20,000 students from more than 320 schools tested their maths and problem solving skills, which are vital life skills, in a 35-question paper without the use of a calculator, ruler, or any other mathematical instruments.

## Cinema Under the Stars

For more than a decade we've brought our free, family-friendly outdoor cinema event to our local communities. Each year, our Cinema Under the Stars events delight tens of thousands of attendees with a unique opportunity to enjoy a range of entertainment and a blockbuster movie in some of the most picturesque parks our local communities have to offer.

Cinema Under the Stars continues to be recognised as Australia's largest free regional outdoor cinema program and one we're proud to bring to our communities.

## Community fun runs

We continue to invest in community fun runs because we love getting behind community events that help promote a healthy and active lifestyle.

This year we supported six community running festivals across regional NSW and cheered on more than 4,000 participants.

**Our partners:** Lake Macquarie Running Festival, Tamworth Ten, Forster Running Festival, Port Macquarie Running Festival, Ballina Lions Club Fun Run-Walk and Mudgee Running Festival.

## Christmas carols

Christmas is a special time of year that families come together to spend quality time with each other. Through our support we're helping communities spread the magic of Christmas with an evening of great music and family entertainment.

This year we supported four community Christmas carol events which were enjoyed by more than 50,000 people.

**Our partners:** Newcastle Carols, Lake Macquarie Carols, Medowie Carols and Cessnock Carols.

## Newcastle and Hunter Combined Schools ANZAC Service

We are proud to continue our 15 year partnership with the Newcastle and Hunter Combined Schools ANZAC Service, helping it to become a treasured local tradition and an important educational initiative.

Themed ANZAC Services are performed by school students from Newcastle and the Hunter, providing a unique opportunity for them to learn about the heritage of our ANZACs through researching their incredible stories and feats of courage, sacrifice and endurance. These moving Services are also attended by hundreds of students ensuring the memory of the ANZACs lives on for future generations.



Each year our staff are provided with two paid community leave days which they can use to volunteer for local charities of their choice.

### Staff *CommunityAssist* program

Our staff are very passionate about supporting their local communities. Through our *CommunityAssist* program our staff are making a real difference in the communities where we live and work. Many of our staff donate to our *CommunityAssist* program and use their community leave days to assist charities in need across regional NSW.

#### Staff donations

During the past 20 years our staff have donated more than \$750,000 to support charities across regional NSW to continue their work in our local communities. The majority of staff elect to participate in the program by donating money to charity directly from their own salaries each fortnight and vote on the beneficiaries of the donated funds. Four charities are selected by our staff each year.

This year our staff gave more than \$60,000 from their own pockets to support:

- > Little Wings – assisting families by providing air and ground transport for seriously ill children in regional and rural NSW.
- > Bears of Hope – supports and cares for families who, either through pregnancy or through infancy, experience the loss of a child.
- > Joshua Caruso – provides support for and raises awareness about heart-related sudden death in young people.
- > Thirsty Cow – provides support to farmers in financial distress as a result of natural disasters such as drought, flood and bushfire.

#### Staff volunteering

Each year our staff are provided with two paid community leave days which they can use to volunteer for local charities of their choice. The success of our staff volunteering program is a reflection of the generosity and community spirit of our staff.

During the year our staff helped numerous local charities including:

- > John Hunter Children's Hospital
- > The Salvation Army
- > Variety – the Children's Charity
- > Landcare
- > Rotary Youth.

#### Charity fundraising

In addition to our formal community sponsorship program we're proud to also support local charity fundraising campaigns and are overwhelmed at the generosity shown by our customers and our staff.

During 2017/18 we participated in fundraising activities and collections for some great causes including:

- > Australia's Biggest Morning Tea – Cancer Council NSW
- > Steptember – Cerebral Palsy Alliance
- > Jeans for Genes Day – Children's Medical Research Institute
- > Christmas Appeal – The Salvation Army
- > Blood Giving Appeal – Red Cross.

“

After that first circuit around the track in that chair... the smile on her face... it was huge.

Julie, Aimee's mother



Aimee, participant at Wheelchair Sports NSW

## NEWCASTLE PERMANENT CHARITABLE FOUNDATION

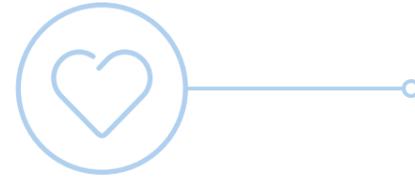
### 15 years of grant giving

Newcastle Permanent Charitable Foundation was created 15 years ago as a gift from Newcastle Permanent Building Society to the community.

The mission of the Charitable Foundation is to help people who are disadvantaged or marginalised and support social opportunity and development in our Australian regional communities. Each year the Charitable Foundation provides more than \$1.5 million in grants to fund projects and initiatives that directly benefit those most in need in our local community.



Newcastle Permanent Charitable Foundation Chair, Phil Neat



In our 15th year we achieved some notable milestones: total grants exceeded \$18.3 million and we have supported 435 important community projects.

More than \$1.5 million in grants given in 2017/18

 **Social Wellbeing**  
Eight grants totalling \$295,300

 **Young People**  
13 grants totalling \$663,400

 **Health**  
10 grants totalling \$609,500

The Newcastle Permanent Charitable Foundation (Charitable Foundation) was established in 2003 and has received a \$30 million endowment from Newcastle Permanent Building Society as its way of saying thank you to the community which had supported its growth for 100 years. Now, in its 15th year, the Charitable Foundation has become what we believe is the largest charitable foundation in regional Australia.

On this 15th anniversary in 2018 the Charitable Foundation achieved some notable milestones: total grants exceeded \$18.3 million and we have supported 435 important community projects.

As our grant giving footprint has expanded during the past 15 years, we remain committed to our key focus areas of supporting the disadvantaged, marginalised and isolated across the areas of health, young people and better social outcomes. The Charitable Foundation Board and management continues to evolve our grant-giving model to align with the community's changing needs and provide the scope to directly respond to new opportunities to help those most in need.

In 2017/18 we refined our core values to create and assist partnerships that make the greatest impact. We supported projects that use innovative technology to advance health treatment and care, such as Hunter Medical Research Institute which received funding to create a face-matching database to help find a diagnosis for children with an intellectual disability or rare genetic disorder. Previously, this was described as akin to finding a needle in a haystack. A grant to Cancer Council NSW was provided to develop an online booking platform for patients to access free transport to cancer treatment across regional NSW.

We funded opportunities for youth to develop their talents through projects such as a Wheelchair Sports NSW program, enabling people with physical disabilities to participate in sport, and the RED Studios mobile recording studio for aspiring musicians with disabilities.

There was grassroots funding to establish other important community projects such as the expansion of the National Stroke Foundation's StrokeSafe Ambassador Program, a public education program about stroke and what to do when someone has a stroke. A grant to Lifeline Central West funded a series of talks about issues that cause mental illness and how to seek help. The program is designed to provide women with tools as a way to overcome the common issue of male resistance to seeking help.

The Charitable Foundation initiated a new volunteer-recognition award, known as the Chairman's Medal to honour past Newcastle Permanent and Newcastle Permanent Charitable Foundation Chairman Michael Slater, who passed away suddenly in 2017. This Medal recognises the achievements and contribution of an outstanding individual volunteer. The inaugural winner Damian Charleson, who is a Camp Quality volunteer, has given countless hours of service during the past eight years, has helped raise a significant amount of funds and brought joy to thousands of children whose lives are affected by cancer.

I thank my fellow Charitable Foundation Directors for their stewardship, continued dedication to what is a voluntary role and their commitment to delivering our Charitable Foundation promise to make a meaningful difference to our community.

The Board acknowledges the significant resources provided by Newcastle Permanent Building Society supporting the day-to-day operations and resources of the Charitable Foundation. This enables a continuing focus on our mission and the ability to give more than \$1.5 million each year to projects and initiatives in regional NSW communities.

Charitable Foundation Directors and management are fortunate to experience and value the positive impact our grant recipients make within local communities with the projects and initiatives they bring to life with grants. I encourage all our community stakeholders to read more about these projects, the amazing volunteers and the people they assist. Our 2018 Annual Review is available at [charitablefoundation.com.au](http://charitablefoundation.com.au)

Phil Neat  
Chair, Newcastle Permanent Charitable Foundation



Danica from the Leukaemia Foundation's Young Bloods Program

## directors' report

### Relationship of the concise financial report to the full financial report

The concise financial report is an extract from the full financial report for the year ended 30 June 2018. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Newcastle Permanent Building Society Ltd (Newcastle Permanent) and its controlled entities as the full financial report. Further financial information can be obtained from the full financial report.

The full financial report and auditor's report will be sent to members on request, free of charge. Please call 13 19 87 to request a copy, or visit [newcastlepermanent.com.au/annual-report](http://newcastlepermanent.com.au/annual-report)

The Directors present their report on the consolidated entity consisting of Newcastle Permanent and the entities it controlled at the end of, or during, the year ended 30 June 2018.

#### Directors

The following persons were Directors of Newcastle Permanent during the financial year and, unless otherwise indicated, up to the date of this report:

J.R. Eather  
R.E. Griffiths  
M.A. Haseltine (appointed 8 March 2018)  
J.M. Leslie  
S.J. Martin-Williams  
P.J. Neat  
D.E. Shanley  
M.D. Slater (passed away 11 July 2017)

Details of the current Directors and their experience, qualifications and any special responsibilities are set out on pages 16 and 17 of this Annual Report.

#### Information on former Director

##### The Late Michael D. Slater

BCom, MBA, FCPA, FCIS, FGIA, FAICD, FTIA, FAIM, FCIM

Board member from October 2007 until 11 July 2017.

Michael was a Director until passing away in July 2017. Michael was also a former Chairman of Newcastle Permanent Building Society Ltd until October 2016 and a former Chairman and Director of Newcastle Permanent Community Foundation Company Ltd and Newcastle Friendly Society Ltd, as well as a former Chairman of Regional Development Australia Hunter and Director of the Hunter Westpac Rescue Helicopter Service Ltd.

Michael was a qualified accountant and had financial and management experience with expertise in financial and management analysis, commercial and organisational reviews and audits, due diligence and corporate governance.

#### Meetings of Directors

The number of meetings of Newcastle Permanent's Board of Directors and of each Board committee held during the year ended 30 June 2018 and the number of meetings attended by each Director are outlined in the table below.

	Board Meetings <sup>1</sup>		Audit Committee <sup>1</sup>		Risk Committee		Corporate Governance & Nominations Committee <sup>5</sup>		Remuneration & People Committee	
	No. of meetings	No. attended	No. of meetings	No. attended	No. of meetings	No. attended	No. of meetings	No. attended	No. of meetings	No. attended
Jeffrey Eather	13	13	8	8	4	4	4	4	-	-
Ross Griffiths <sup>3</sup>	13	13	8	8	4	4	2	2	-	-
Margaret Haseltine <sup>2,4</sup>	4	3	2	2	2	1	-	-	-	-
Jennifer Leslie <sup>4</sup>	13	13	8	8	-	-	4	3	4	3
Samantha Martin-Williams <sup>3,4</sup>	13	12	-	-	4	3	2	1	4	4
Philip Neat <sup>3,4</sup>	13	11	-	-	4	4	2	2	4	2
David Shanley <sup>3,4</sup>	13	13	8	8	-	-	2	2	4	3

#### Notes:

1. Michael Slater was a Director and member of the Audit Committee until his passing on 11 July 2017. There were no Board or Committee meetings held in the period from 1 to 11 July 2017.
2. Margaret Haseltine was appointed as a Director and as a member of the Audit and Risk Committees on 8 March 2018.
3. On 1 January 2018, Ross Griffiths and Samantha Martin-Williams were appointed to the Corporate Governance & Nominations Committee and Philip Neat and David Shanley stood down from that Committee.
4. Leave of absence may be granted by the Board in advance to excuse a Director from attending a particular meeting.
  - > Number of meetings noted is the number of meetings of the Board or relevant Committee that were held while that Director was on the Board or relevant Committee.
  - > In addition to the formal meetings noted:
    - two Board strategy workshops were held on 12 December 2017 and 15 March 2018 and the Audit Committee held two planning workshops on 23 May and 27 June 2018; and
    - one circulating resolution was distributed to and signed by the Board on 25 August 2017.

#### Company Secretaries

The following persons were Company Secretaries of Newcastle Permanent as at the end of the financial year:

##### Christopher Cockburn

B.Ec, LL.B, Grad Dip Leg Prac, Grad Dip ACG, AGIA, ACIS

Christopher Cockburn is the Company Secretary & General Counsel of Newcastle Permanent and was initially appointed as a Company Secretary on 16 December 2016. He is a Chartered Secretary and a qualified lawyer. Chris holds Economics and Law degrees, a Graduate Diploma in Applied Corporate Governance and is admitted to practice law in the Supreme Court of NSW and the High Court of Australia. He has practised law for 12 years in private practice and corporate legal roles and is a member of the Law Society of NSW and an Associate of the Governance Institute of Australia and the Institute of Chartered Secretaries and Administrators. Prior to his appointment as Company Secretary, Chris held the position of Assistant Company Secretary & Deputy General Counsel for Newcastle Permanent.

##### Melissa Robinson

B.Sc, LL.B, Grad Dip Leg Prac, Grad Dip CSA, AGIA, ACIS

Melissa Robinson was appointed as the Assistant Company Secretary of Newcastle Permanent on 14 June 2018. She is a Chartered Secretary and a qualified lawyer. Melissa holds Science and Law degrees, a Graduate Diploma in Corporate Governance, is admitted to practice law in the Supreme Court of NSW and is a notary public. She has practised law for more than 10 years in private practice and in-house legal roles and is a member of the Law Society of NSW and an Associate of the Governance Institute of Australia and the Institute of Chartered Secretaries and Administrators. Prior to her appointment with Newcastle Permanent, Melissa held similar positions with listed financial services entities.

#### Officers

The following persons were Senior Executives of Newcastle Permanent during the financial year and up to the date of this report and are, therefore, considered to also be officers of the company:

T.B. Millett  
C. Cockburn (commenced as a Senior Executive on 5 February 2018)  
D.J. Harney  
S.O. Hassall  
F.E. Laczina  
M.D. Leach  
L.N.C. Rees  
M.B. Williams  
A.M. Yost

#### Objectives

The mission of Newcastle Permanent is to be here for the good of its three key stakeholders, namely its customers, people and communities, and ensure that it has a sustainable business in perpetuity. The vision of Newcastle Permanent is to be the leading retail banking business in Australia from the customers' perspective. The current strategies in place to achieve these short and long-term objectives include:

- i. maintaining a strong retail banking Customer Value Proposition;
- ii. continuing to be recognised as a leading retail banking organisation in Australia;
- iii. effectively managing risk and compliance requirements; and
- iv. continuing to contribute meaningfully to the community.

Newcastle Permanent measures its performance against a balanced scorecard of key performance indicators (KPIs) across each of the customer, people, community and long-term business health focus areas. The main KPIs are:

- > **customer:** customer satisfaction levels, overall customer value and the number of products per customer;
- > **people:** employee engagement;
- > **community:** brand consideration;
- > **long-term business health:** capital position, net profit after tax and the cost to income ratio.

#### Principal activities

During the year, the principal continuing activities of the consolidated entity consisted of the provision of a range of financial products and services to members and the operation of a charitable trust. There has been no significant change in the nature of these activities during the year ended 30 June 2018.

The key focus areas for Newcastle Permanent during the financial year were sustainably growing the home loan and deposit portfolios and continuing to invest in a number of major projects and initiatives to enhance the business and support its current and future performance. This included projects and initiatives that:

- > continued the development of Newcastle Permanent's digital sales and service capability to strengthen the competitiveness of the Customer Value Proposition;
- > supported the effective management of the retail banking fundamentals, risk and compliance requirements;
- > involved the launch of a strategic People and Culture Roadmap to support the growth and development of Newcastle Permanent's employees; and
- > invested more than \$2 million in community programs and events to support Newcastle Permanent's communities.

#### Review of operations

For information in respect of the consolidated entity's review of operations, refer to the Chair's and the CEO's reports, and the Management Discussion and Analysis in Note 8 to the Concise Financial Report.

#### Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

#### Liability of Members

Newcastle Permanent is a company limited by shares and guarantee, however there are no shares currently on issue. Under the Constitution, the liability of each person who became a member of Newcastle Permanent after 29 September 2000 is limited to an obligation to contribute a maximum amount of \$1 if Newcastle Permanent is wound up while they are a member or within one year after they cease to be a member. The member liability provision of the Constitution does not apply to those persons who became members of Newcastle Permanent prior to 29 September 2000. The total amount that the members of Newcastle Permanent are liable to contribute if it is wound up is \$194,272.

#### Dividends or distributions

Newcastle Permanent is a mutual company operated for the benefit of its members. It does not pay dividends or distributions to its members, but reinvests its profits for the future benefit of its members.

#### Matters subsequent to the end of the financial year

No other matters or circumstances have arisen since 30 June 2018 that have significantly affected, or may significantly affect:

- i. the consolidated entity's operations in future financial years;
- ii. the results of those operations in future financial years; or
- iii. the consolidated entity's state of affairs in future financial years.

#### Likely developments and expected results of operations

There are no likely developments that would be expected to have a material impact on the operations of the consolidated entity as at the date of this report. The consolidated entity expects to continue operating profitably during the next financial year whilst continuing to undertake its principal activities.

#### Environmental regulation

The consolidated entity has assessed whether there are any particular or significant environmental regulations which apply to it and has determined that there are none.

#### Directors' and officers' indemnities

All past and present Directors, Company Secretaries and Senior Executives of Newcastle Permanent and its wholly owned subsidiaries are indemnified under Newcastle Permanent's Constitution, on a full indemnity basis and to the extent permitted by law, against:

- i. every liability incurred by them in their respective capacities (except a liability for legal costs); and
- ii. all legal costs incurred by them in defending or resisting proceedings in which the person becomes involved because of that capacity.

Newcastle Permanent has also executed:

- i. Deeds of Indemnity with each current Director and a number of former Directors; and
- ii. employment agreements with the Company Secretary, Chief Risk Officer, Assistant Company Secretary and Newcastle Permanent's in-house lawyers, that provide them with indemnification in substantially the same terms to that provided in the Constitution.

In the case of the Directors, the indemnification extends to any liabilities incurred by them as a result of being a Director of another company in the consolidated group of Newcastle Permanent.

#### Insurance of officers

During the financial year, Newcastle Permanent paid a premium to insure the Directors, Company Secretaries and the Senior Executives of Newcastle Permanent and its controlled entities. In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

No insurance cover has been provided for the benefit of the auditors of the consolidated entity.

#### Proceedings on behalf of Newcastle Permanent

No person has applied to the Court under section 237 of the *Corporations Act 2001* (Cth) for leave to bring proceedings on behalf of Newcastle Permanent, or to intervene in any proceedings to which Newcastle Permanent is a party, for the purpose of taking responsibility on behalf of Newcastle Permanent for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of Newcastle Permanent with leave of the Court under section 237 of the *Corporations Act 2001* (Cth).

#### Rounding of amounts

Newcastle Permanent is an entity referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

#### Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration, as required under Section 307C of the *Corporations Act 2001* (Cth), and the name of the Audit Partner are set out on page 71.

#### Disclosure of prudential information

Newcastle Permanent is an ADI regulated by APRA. As a result of this regulation, Newcastle Permanent is required to comply with Australian Prudential Standards (APSs) released by APRA. APS 330 *Public Disclosure* requires Newcastle Permanent to disclose information regarding the composition of its regulatory capital base, risk exposures, a reconciliation of the balance sheet in the financial statements to the balance sheet prepared under the regulatory scope of consolidation and the full terms and conditions of any issued regulatory capital instruments. Please refer to the 'Regulatory Disclosures' section of Newcastle Permanent's website at [newcastlepermanent.com.au/regulatory-disclosures](http://newcastlepermanent.com.au/regulatory-disclosures) for further information. Newcastle Permanent does not currently have any regulatory capital instruments on issue.

This report is made in accordance with a resolution of the Directors.



J.R. Eather  
Chair



J.M. Leslie  
Director

Newcastle  
21 September 2018

# corporate governance statement

Although Newcastle Permanent is not bound by the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (ASX Principles), the Board has elected to adopt a best practice governance approach and will apply them where possible.

As the ASX Principles relate to listed companies, the terminology typically refers to listed entities and security holders. We have changed the terminology where applicable to refer to Newcastle Permanent and its members for greater relevance.

This statement was approved by the Board on 17 August 2018 and was current as at that date unless otherwise indicated.

## PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

### Recommendation 1.1 – Respective roles and responsibilities of the Board and management

#### Role of the Board

The Board's primary role is to govern Newcastle Permanent so that long-term member value is enhanced and protected. The Board is responsible for the overall corporate governance of Newcastle Permanent.

The responsibilities of the Board and powers that it has reserved to itself include:

- › providing leadership to Newcastle Permanent by:
  - establishing, reviewing and monitoring policies, procedures, corporate values and governance responsibilities; and
  - setting the tone of, influencing and overseeing Newcastle Permanent's culture and values;
- › approving the Strategic Plan and overseeing the performance and activities of Newcastle Permanent through management's implementation of the approved strategies and actions;
- › approving and monitoring the annual budget, capital expenditure and major corporate initiatives;
- › overseeing the management of Newcastle Permanent's business, including the appointment of the CEO and Senior Executives and evaluating the performance of the CEO and Senior Executives;
- › ensuring that appropriate controls are in place to manage risk;
- › ensuring that effective risk, legal and regulatory compliance systems are in place and monitored;
- › approving and monitoring financial, regulatory and other reporting; and
- › approving new business activities, the termination of existing business activities or major changes to the field of Newcastle Permanent's business activities.

The role and responsibilities of the Board are set out in the Board Charter.

#### Role of the CEO and Senior Executives

The Board delegates to the CEO, subject to Board oversight, the day-to-day management of Newcastle Permanent consistent with the Strategic Plan, objectives, culture, values, budgets and risk appetite agreed to and set by the Board. The CEO is authorised to sub delegate any of his functions to the Senior Executives and employees.

The CEO and Senior Executives are also responsible for providing the Board with accurate, clear and timely information to enable the Board to perform its role.

All delegations are comprehensively set out in a Delegations Manual.

The delegations to the CEO and Senior Executives are designed to assist in decision-making and the efficient operation of Newcastle Permanent. The Board reserves the power to make decisions in relation to specific matters as set out in the Delegations Manual.

### Recommendation 1.2 – Process for undertaking appropriate checks before appointing or recommending the appointment of a Director

In general, a proposed new Director of Newcastle Permanent is required to satisfy a fit and proper assessment prior to their appointment to that role, which means that the person must:

- › possess the competence, character, diligence, honesty, integrity and judgment to perform their duties;
- › not be disqualified from holding a responsible person position under the *Banking Act 1959* (Cth); and
- › not suffer from an actual or perceived conflict of interest that would create a material risk that the Director will fail to perform their duties properly.

There are very limited circumstances where the fit and proper assessment may occur shortly after a person is appointed as a Director, such as where the Director is appointed pursuant to a members' resolution at the Annual General Meeting (AGM).

Once appointed, all Directors must satisfy a fit and proper assessment annually. The specific requirements of the fit and proper assessment are set out in the Fit and Proper Policy. For a new Director appointment, the assessment will generally include verification of the person's qualifications and experience, criminal history, personal insolvency and reference checks, and searches and enquiries of the ASIC 'banned and disqualified persons register' and APRA's 'disqualification register'.

Where a person is standing for election or re-election as a Director of Newcastle Permanent, the explanatory notes in the Notice of AGM include a summary of the Director's relevant qualifications, skills, experience and other material information to assist members in making an informed decision on whether to elect or re-elect the candidate. The explanatory notes also include a statement as to whether the Board considers the candidate to be an independent Director and supports the election or re-election of the candidate.

### Recommendation 1.3 – Written agreement with each Director and Senior Executive setting out the terms of their appointment

#### Directors

Each Director has signed a letter of appointment acknowledging the terms of their appointment to the Board. The letter of appointment allows each Director to gain an understanding of:

- › the expectations of them as Directors and their commitment to the role;
- › the structure of Newcastle Permanent, its governance framework and key policies;
- › the roles and responsibilities of the Board and management team; and
- › the strategic, financial, operational and risk management position of Newcastle Permanent.

#### Executives

The CEO and Senior Executives have each entered into a written employment agreement with Newcastle Permanent, which sets out, amongst other things:

- › a description of their position, duties, responsibilities and remuneration;
- › the person or body to whom they report; and
- › the circumstances in which their employment may be terminated and any entitlements on termination.

### Recommendation 1.4 – Company Secretary should be accountable directly to the Board

The Company Secretary of Newcastle Permanent has a direct and independent reporting responsibility to the Board and each of its Committees. The Company Secretary reports directly to the Chair as the representative of the Board, however each Director can communicate directly with the Company Secretary and vice versa.

The Board is responsible for the appointment and termination of the Company Secretary, and also the terms and conditions of that appointment.

The Company Secretary is charged with advising on and facilitating Newcastle Permanent's corporate governance processes and as such, holds primary responsibility for ensuring that the Board processes and procedures run efficiently and effectively.

### Recommendation 1.5 – Diversity Policy and workplace gender equality

In recognition of the value and benefits that diversity on a Board can deliver, the Board has adopted a Diversity Policy, which relates to the Boards of Newcastle Permanent and the other group companies, Newcastle Friendly Society Ltd and Newcastle Permanent Community Foundation Company Ltd (Newcastle Permanent Group).

The Diversity Policy confirms the Board's commitment to encouraging a corporate culture that supports diversity within the workplace and on the Board. The Diversity Policy also acknowledges that the concept of diversity is broad and not limited to any one attribute. It includes gender, age, ethnicity and cultural background.

The process for selecting and identifying prospective candidates for appointment as new Directors is transparent, independent and aims to be free from conscious or unconscious biases. When undertaking searches for prospective candidates, the Board stipulates as one of its criteria that appropriately skilled and experienced female candidates should be shortlisted by the independent search firm. The overriding qualification in the Diversity Policy however remains that the principal criteria for selecting and appointing Directors must be based on the skills, experience and expertise that they can bring to the role, and the overall prospect of adding value to the Newcastle Permanent Group.

There are a number of initiatives in place at Newcastle Permanent to increase the level of female representation within the top levels of the organisation.

In 2015, the Board formally established measurable objectives for increasing the level of female representation on the Board of Newcastle Permanent, with the current objective seeking to maintain a level of female representation on the Board of at least 30% on an ongoing basis. The current level of female representation on the Board is 42.8%.

Newcastle Permanent is also committed to improving diversity at the management level and a Women in Leadership program was recently introduced to support the pipeline of female talent within the senior levels of the organisation.

In accordance with the requirements of the *Workplace Gender Equality Act 2012* (Cth), Newcastle Permanent lodged its annual gender equality report with the Workplace Gender Equality Agency on 16 May 2018. The gender equality indicators reported against include the gender composition of the workforce, the gender composition of governing bodies, equal remuneration between women and men, flexible working and support for employees with family and caring responsibilities, consultation with employees on issues concerning gender equality in the workplace and sex-based harassment and discrimination. A copy of this report is available to review at [newcastlepermanent.com.au/gender-equality](http://newcastlepermanent.com.au/gender-equality)

### Recommendation 1.6 – Process for evaluating the performance of the Board, its Committees and individual Directors

#### Board performance assessment

The Board Charter provides that the performance of the Directors in discharging their functions should be regularly assessed. The Board undertakes a monthly review of its performance at the conclusion of each scheduled Board meeting by each Director completing an individual assessment. The assessments are collated and analysed by an independent, expert governance consultant, with the results submitted for review, consideration and discussion by the Board at its next Board meeting. The object is to optimise the effectiveness and efficiency of Board performance and processes.

#### Committee performance assessment

The Board Committees undertake a formal self-assessment of their own performance and effectiveness each year. The performance of the Chair of each Committee is also reviewed on an annual basis, with this assessment facilitated by an independent, external governance consultant with expertise in this area.

The outcomes from these reviews are considered by the Chair of the Board and through the Corporate Governance & Nominations Committee. The individual Committee Chairs have a separate feedback session with the Chair of the Board and formulate individual development plans.

#### Director performance assessment

The Board also undertakes an annual performance assessment where each Director is assessed by their peers. The performance assessment for the Chair of the Board considers both his performance as a Director and as Chair. A biennial skills analysis is also undertaken for each Director. These assessments are also facilitated by an independent, external governance consultant.

The outcomes from these reviews are considered on an aggregated basis by the Corporate Governance & Nominations Committee with a view to developing actions and goals to guide improvement. Individual Directors have a feedback session with the Chair and formulate individual development plans. The Chair of the Audit Committee undertakes the feedback session with the Chair in relation to the Chair's performance.

The Board does not endorse the reappointment of a Director who is not assessed as satisfactorily performing their role.

The most recent Committee, Director and Chair performance assessments were completed in March 2018.

### Recommendation 1.7 – Process for evaluating the performance of the CEO and Senior Executives

The Board is ultimately responsible for evaluating the performance of the CEO and Senior Executives. The Board reviews the performance of the CEO and Senior Executives annually, with the evaluation of the Senior Executives including recommendations from the CEO. This includes approving all merit based salary increases and incentive bonuses that might be paid to the CEO and Senior Executives.

The Remuneration & People Committee undertakes these reviews on behalf of the Board and makes appropriate recommendations to the Board for its decision. The CEO's performance evaluation is carried out in accordance with the CEO Evaluation Workbook, which includes a requirement that the CEO provide six monthly self-assessments of their own performance for review and assessment by the Committee. The Senior Executive performance criteria flow directly from the pre-determined criteria set out in the CEO Evaluation Workbook.

The Board also undertakes, through its relevant Committees, a separate assessment of the performance of the Company Secretary, Chief Risk Officer and designated Head of Internal Audit on an annual basis in relation to their independent reporting obligations to the Board and its Committees.

In accordance with Newcastle Permanent's current performance and development review process, the performance of the CEO and Senior Executives was reviewed by the Remuneration & People Committee and Board in July and August 2018 respectively.

## PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

### Board composition

The names of the Directors of Newcastle Permanent and their respective qualifications, experience and special responsibilities are set out on pages 16 and 17 of this report.

The composition of the Board is determined using the following principles:

- a minimum of five and not more than nine Directors as required by the Constitution of Newcastle Permanent, with a broad range of relevant expertise;
- a majority of independent, non-executive Directors;
- a relevant blend of skills, including experience in financial services and retail banking, accounting and financial management, risk management, corporate governance, strategy development, people and culture and business experience at CEO, senior management, or Board level;
- an independent, non-executive Director appointed as Chair; and
- enough Directors to serve on various committees without overburdening the Directors or making it difficult for them to fully discharge their responsibilities.

Some of the criteria established for determining the composition of the Board and its Committees are laid out in mandatory Prudential Standards issued by Newcastle Permanent's prudential regulator, APRA.

The Corporate Governance & Nominations Committee is responsible for making recommendations to the Board on the appointment of Directors consistent with the criteria established by the Board. The process of Board succession planning and Director renewal is an ongoing process. The process for selecting and identifying prospective candidates for appointment to the Board is transparent, impartial and independent. It is outlined in the Board Charter and, except in extraordinary circumstances, includes the utilisation of an independent, external search agency to identify and shortlist candidates.

### Board processes

The full Board currently holds a minimum of 12 scheduled meetings each year and any extraordinary meetings at such other times as may be necessary to address any specific, significant matters that may arise. In addition to attending Board and Committee meetings, the Directors allocate time for strategy sessions and preparation in advance of meetings. The Chair commits additional time and meets regularly with the CEO to review and discuss business and strategic issues, the Committee Chairs in respect of Committee activities and the Company Secretary to discuss governance matters.

To assist in the execution of its responsibilities and streamlining of its processes, the Board has established the following Board Committees:

- > Corporate Governance & Nominations Committee
- > Audit Committee
- > Risk Committee
- > Remuneration & People Committee

Each Committee has a written Charter that contains the mandates and operating procedures of the Committee. The structure and composition of the Committees and their respective Charters are reviewed on a regular basis to match the skills of Directors with the work of the relevant Committee and to balance the time that each of the Directors must dedicate to the governance of Newcastle Permanent.

The Board has established a Corporate Governance Framework for the governance and management of Newcastle Permanent, including a system of internal controls, legal and regulatory compliance, business risk management processes and the establishment of appropriate ethical and behavioural standards.

The Board has also adopted its own Charter that contains:

- > expectations and obligations for key governance roles, including the Board, individual Directors, the Chair, Company Secretary and the CEO;
- > Board processes and operating procedures;
- > key Board functions; and
- > continuous improvement provisions for the Board and individual Directors.

The Board has the capacity to engage independent consultants directly to assist it in the execution of its duties. Throughout the year, the Board has done so where it was deemed prudent or mandatory, including with respect to advising on remuneration, corporate governance, and in relation to the Board performance and skills assessment processes.

**Recommendation 2.1 – A Nominations Committee should be established**

The Board has established a Corporate Governance & Nominations Committee, which currently consists of the following four independent, non-executive Directors:

- Mr J.R. Eather (Chair)
- Mr R.E. Griffiths
- Ms J.M. Leslie
- Ms S.J. Martin-Williams

The Committee met four times during the 2018 financial year. Details of the individual attendances at the Committee meetings are set out in the Directors' Report.

The Corporate Governance & Nominations Committee oversees the appointment, induction and succession planning processes for Directors and Committee members, as well as the optimal size and mix of skills required on the Board and Committees.

The Corporate Governance & Nominations Committee facilitates the annual review of the effectiveness of the Board, its Committees and individual Directors. It also monitors, evaluates and makes recommendations to the Board in respect of Newcastle Permanent's key governance documents, such as the Constitution, Corporate Governance Framework, Board Charter, Code of Conduct and other Board policies, as well as reviewing the independence of Directors, conflicts of interest and compliance with new statutory and regulatory requirements.

**Significant achievements during the year**

The significant achievements of the Corporate Governance & Nominations Committee during the year included:

- > reviewing and overseeing the maturation of key elements of the Corporate Governance Framework, such as:
  - reviewing the duties and responsibilities of each Committee to align them with contemporary governance practice;
  - amending the Board Renewal Policy to introduce a maximum tenure limit of 12 years for Directors first appointed to the Board after 1 January 2012 and a maximum tenure limit of nine years for the Board Chair role;
  - recalibrating the desired technical skills and behavioural attributes required on the Board; and
  - reviewing the Director skills and performance assessment frameworks;
- > overseeing the succession planning for, and rotation of, the Committee Chairs to encourage new perspectives and ideas;
- > reviewing the results of the Director peer review assessment process; and
- > ongoing monitoring of developments in corporate governance and the regulatory environment.

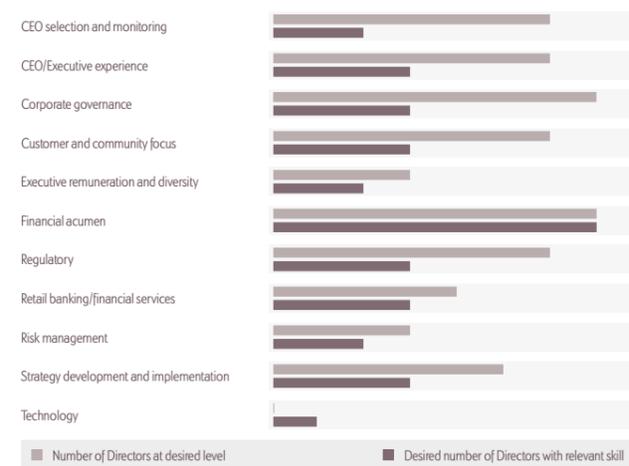
**Recommendation 2.2 – Board skills and diversity**

Directors are required to have relevant experience in a field which is complementary to Newcastle Permanent's activities, or to have appropriate qualifications and experience sufficient to provide meaningful contributions to the operation of the Board and to its role in governing Newcastle Permanent and overseeing the proper functioning of management.

A biennial skills analysis is undertaken for each Director, with the most recent assessment occurring in April 2018. The graph below sets out a summary of the 2018 skills analysis results for the Board collectively and details<sup>1</sup>:

- > the technical skills that the Board considers necessary or desirable for its Directors<sup>2</sup>;
- > the number of Directors that the Board considers should possess each skill on the Board<sup>3</sup>; and
- > the number of Directors that were assessed as having each skill at the desired level in the 2018 skills analysis<sup>3</sup>.

**Skills analysis**



The skills analysis identified that the current Board composition meets, and in many cases, exceeds the needs of Newcastle Permanent in all categories except for technology, which was identified as a desired skill at the 'extensive' level for the first time in 2017 given the rapidly changing digital landscape. The Board will endeavour to address this skill gap over time through its succession planning processes. In the interim, the Directors' skills in the technology space are complemented by expertise amongst, and regular reporting and presentations from, the senior management team.

Each Director is also required to have and exhibit the following key behavioural attributes:

- > integrity and ethics;
- > leadership and mentoring abilities;
- > ability to operate as a team;
- > ability and preparedness to constructively challenge and question management;
- > sufficient time to undertake their responsibilities;
- > exemplary communication and listening skills; and
- > understanding of effective decision-making.

The Board also recognises the value of diversity and its application to the structure of the Board is set out under Recommendation 1.5.

**Recommendations 2.3 and 2.4 – Independence of Directors**  
**Independent decision-making**

The Board recognises that not only is it critical to have a majority of independent Directors, it is essential that all Directors possess, exhibit and bring to bear, independent decision-making abilities to all Board deliberations.

The Board regularly meets without any management representatives present, generally prior to each monthly scheduled Board meeting.

**Independent professional advice**

Each Director has the right of access to all relevant Newcastle Permanent information and, subject to the protocols adopted in the Board Charter, to Newcastle Permanent's Senior Executives.

Subject to prior consultation with the Chair, individual Directors may, in appropriate circumstances, seek independent professional advice at Newcastle Permanent's expense. The Director must consult with an adviser suitably qualified in the relevant field and obtain the Chair's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the Director is made available to all other members of the Board.

1. In line with market practice, the skills assessment results are based on a self-assessment of the Directors' competency in each technical skill utilising a questionnaire process designed and conducted by an external governance consultant. 2. The Directors' capabilities in various sub-categories of the technical skills are also assessed to ensure the Board has certain specific skill-sets, such as for accountancy and project management experience. The Board skills matrix is reported at the category level to simplify the reporting. 3. The relevant threshold required by the Board for each skill is 'extensive' experience or a rating of four on a five-point rating scale. The only exception to this is the requirement for financial acumen, which is assessed at a 'competent' level or a rating of three on a five-point rating scale, but all Directors on the Board are required to achieve this threshold.

### Independence of Directors

The Board Charter incorporates a requirement for the independence of the Directors to be assessed on an ongoing basis and formally at least once each year. The criteria for assessment have been based on the factors set out in the ASX Principles and APRA Prudential Standard CPS 510 – Governance.

The formal annual review is undertaken by the Corporate Governance & Nominations Committee with a report and recommendation made by the Committee to the Board.

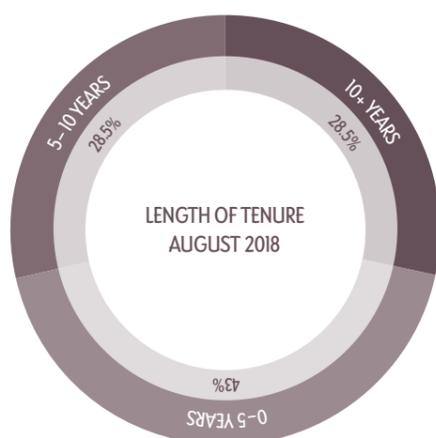
The last formal assessment found that **all** of the Directors were independent based on the criteria established.

### Independence and Director tenure

The Board acknowledges that Board renewal is a fundamental governance consideration that is designed to ensure that it remains open to new ideas and ways of thinking and continues to be independent from and prepared to question and challenge the ideas and recommendations of management. To support this, the Board has adopted the following policy in respect of Director tenure:

- the maximum tenure of Directors first appointed after 1 January 2012 will be 12 years from the date of their appointment to the Board unless exceptional circumstances apply;
- the Board will endeavour to have its membership composed of Directors with a mix of length of service ranging from short, medium and longer terms; and
- if an existing Director's duration of service is greater than 12 years and the Director intends to stand for re-election at the AGM when they are next required to retire by rotation under the Constitution, an independent consultant will be engaged to review and assess the actual and perceived independence of that Director.

The dates that the current Directors were appointed to the Board are outlined on pages 16 and 17 of this Annual Report. As represented in the diagram below, the Board is composed of Directors with a mix of tenures, some with longer tenures who have a detailed understanding of Newcastle Permanent and its corporate history and others with shorter tenures who bring fresh perspectives to the Board.



### Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of Newcastle Permanent. The Board has developed procedures to assist Directors with the disclosure of potential conflicts of interest and all material personal interests.

Directors are required to be meticulous in ensuring that not only actual, but potential and perceived conflicts of interest are disclosed as required by the *Corporations Act 2001* (Cth) and Newcastle Permanent's own policies. A register is maintained of all standing conflicts of interest and material personal interests disclosed by the Directors.

Individual interests that might arise during a particular meeting are noted at the commencement of each Board or Committee meeting, recorded in the minutes and dealt with at that time, as required by law.

Where the Board believes that a significant conflict exists for a Director on a Board matter, the Director concerned does not receive the relevant Board papers, is not present at the meeting whilst the item is considered and does not vote on the matter.

Details of Directors' related-entity transactions with Newcastle Permanent and the consolidated entity are set out in the notes on 'Key Management Personnel Disclosures' in Newcastle Permanent's full financial report.

### Recommendation 2.5 – Independence of the Chair

As indicated above, all Directors of Newcastle Permanent have been assessed as independent and, as such, the Chair is independent. The Board Charter provides that the Chair must be an independent, non-executive Director and that the roles of the Chair and CEO cannot be exercised by the same person except in exceptional circumstances.

### Recommendation 2.6 – Director induction and education

Newcastle Permanent has induction procedures for new Directors to enable them to participate in Board decision-making at the earliest opportunity. New Directors are supplied with Board governance documents, the Strategic Plan and corporate policies and are invited to have individual meetings with the Chair, CEO, Company Secretary and Senior Executives. All of these steps are designed to ensure that new Directors gain an understanding of:

- > Newcastle Permanent's culture, values and financial, strategic, operational and risk management position;
- > the rights, duties and responsibilities of the Directors;
- > the roles and responsibilities of the CEO and Senior Executives;
- > the role of Board Committees;
- > meeting arrangements and conduct; and
- > Director interaction with each other, the CEO, Senior Executives and other stakeholders.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to be members of the Australian Institute of Company Directors and undertake ongoing professional education and development in fields relevant to their role on the Board and the operations of Newcastle Permanent. The professional education is aligned to the individual development plans for each Director. Professional development is undertaken through approved external service providers. Minimum ongoing professional education is mandated for each Director and records are maintained to ensure those requirements are met.

### PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY

Ethical and responsible decision-making is fundamental to the operations of Newcastle Permanent. The Committees established by the Board assist in such processes, particularly through the governance oversight of the Corporate Governance & Nominations Committee, the Audit Committee and ultimately the Board.

The Board has also established a number of policies that ensure and create a culture within Newcastle Permanent of acting fairly and transparently, and in an ethical and responsible manner in all of its dealings with members and stakeholders. In addition, Newcastle Permanent has a Whistleblower Protection Policy to encourage employees to disclose unacceptable activities and protect them from any adverse repercussions of reporting. That policy provides employees with an independent, external contractor to which reports can be made.

### Recommendation 3.1 – Newcastle Permanent's Code of Conduct

Each Director, manager and employee must comply with Newcastle Permanent's Code of Conduct Policy. The Code of Conduct sets out Newcastle Permanent's expectations which include:

- > aligning the behaviour of the Board and management with Newcastle Permanent's values of member focus, equitable distribution of benefits between members, community engagement, personal and professional wellbeing, integrity and fairness, and teamwork and accountability;
- > creating a culture within Newcastle Permanent that promotes ethical and responsible behaviour and the reporting of unethical behaviour;
- > fulfilling responsibilities to members by delivering high standards of product quality, service standards and commitment to providing fair value to members;
- > ensuring compliance with responsibilities to members, such as privacy and confidentiality obligations, and assisting with conflict resolution;
- > declaring and managing conflicts of interest in accordance with approved policies;
- > controlling and monitoring corporate opportunities by preventing Directors and employees from taking advantage of property, information or position for personal gain;
- > dealing fairly with each other, members and third parties;
- > protecting and properly using Newcastle Permanent's assets; and
- > complying with all laws and regulations, including in respect of work health and safety.

The Code of Conduct Policy also includes a specific Directors' Code of Conduct, which imposes additional standards and requirements on Directors, consistent with their duties as Directors of Newcastle Permanent.

### PRINCIPLE 4: SAFEGUARD INTEGRITY IN CORPORATE REPORTING

#### Recommendation 4.1 – Audit Committee and its structure

The Board has established an Audit Committee which is appointed by the Board from amongst the independent Directors. It currently consists of the following five Directors:

Ms J.M. Leslie (Chair)  
Mr J.R. Eather  
Mr R.E. Griffiths  
Ms M.A. Haseltine  
Mr D.E. Shanley

The Audit Committee Charter mandates that the Chair of the Committee must be an independent Director and cannot be the same person as the Chair of the Board. The Charter also sets out the membership of the Committee, its invitees, meeting protocols and the duties and powers of the Committee.

The Charter is reviewed at least once per year by the Audit Committee with any changes recommended to the Board. Only the Board can approve changes to the Charter.

The Audit Committee provides objective, non-executive oversight and review of:

- the integrity of Newcastle Permanent's financial statements, financial reporting systems and external reporting;
- the effectiveness of the internal control environment and risk management framework; and
- the internal audit function.

The Audit Committee also advises the Board on the appointment and review of Newcastle Permanent's external auditor and reviews whether any proposal for the external auditor to provide non-audit services might compromise their independence.

The Audit Committee met eight times during the 2018 financial year. Further details on the qualifications and experience of the Audit Committee members and the individual attendances at the Committee meetings are set out on pages 16-17 and 38 of this report.

#### Significant achievements during the year

The significant achievements of the Audit Committee during the year included:

- > overseeing an external review of the effectiveness of the internal audit function and the appointment of a new co-sourced internal audit services provider;
- > overseeing the maturity and transformation plans for the internal audit and finance functions;
- > approval of the Internal Audit Plan for the 2018 to 2020 financial years;
- > review of, and recommendations in relation to, the group consolidated financial statements; and
- > review and oversight of all internal and external audit activity.

**Recommendation 4.2 – Declarations from the CEO and CFO**

Each year, the CEO and Chief Financial Officer (CFO) are required to declare in writing to the Board that, in their opinion, Newcastle Permanent's:

- > financial records have been properly maintained;
- > financial statements comply with appropriate accounting standards and give a true and fair view of the financial position and performance of Newcastle Permanent; and
- > financial statements are founded on a sound and effective system of risk management and internal control.

These declarations are received prior to the Board approving Newcastle Permanent's financial statements.

**Recommendation 4.3 – External auditor attendance at the AGM**

Newcastle Permanent ensures that a representative of its external auditor attends the AGM and is available to answer questions from members relevant to the external audit.

**PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE**

This Principle is designed for entities that are listed on the ASX. Since Newcastle Permanent is not a listed entity, this Principle is not relevant to it.

**PRINCIPLE 6: RESPECT THE RIGHTS OF MEMBERS**

**Recommendation 6.1 – Information on Newcastle Permanent's website**

Newcastle Permanent includes details of its most recent annual reports in electronic form on its public website. The website also includes a summary of the financial highlights for the immediately preceding financial year and the most recent prudential disclosures regarding the capital adequacy, risk exposures and remuneration practices of Newcastle Permanent.

Other details regarding Newcastle Permanent's history, Member Charter, strategy, Board, management structures, community activities and other member-related information is readily available on the website.

**Recommendation 6.2 – Member relations program**

Newcastle Permanent does not have a member communication policy but strives to keep all its members informed of its activities.

Newsletters are regularly distributed to members, providing a basis to inform members on developments and issues that may be of interest. Financial, regulatory and other general information is available on Newcastle Permanent's website as indicated above.

Copies of the Constitution are available to any member on request. The AGM is also a key engagement point with members. Details on the processes to encourage member participation at the AGM are set out in Recommendation 6.3.

**Recommendation 6.3 – Processes to facilitate and encourage participation at general meetings**

**Election to receive communications**

Newcastle Permanent informs all members when they become a member of the company, that they are entitled to receive copies of the Annual Report and Notice of AGM. This is consistent with the requirements of the *Corporations Act 2001* (Cth).

Members can change their mind about receiving the Annual Report and Notice of AGM at any time.

**Meetings**

Newcastle Permanent provides written notice of its AGM to all members that have requested notice, and places notices in conspicuous locations in all its branches and Head Office for at least three weeks in advance of the AGM. Newcastle Permanent offers members that are unable to attend the AGM the opportunity to participate in the meeting by lodging a direct vote or by appointing a proxy to vote on their behalf.

Members are encouraged, and given sufficient opportunity, to ask questions in relation to each of the items of business before the AGM, including the financial results, as well as in relation to operational performance or any other matters not included on the agenda for the meeting. The external auditor also attends the AGM to answer questions from members.

The full financial report is available on Newcastle Permanent's website for members to review and it includes relevant information about the operations of Newcastle Permanent during the year, changes in the state of affairs and details of future developments.

The Board encourages participation of members at the AGM, to ensure a high level of accountability and identification with Newcastle Permanent's strategy and goals. Important issues are presented to the members as single resolutions.

**Recommendation 6.4 – Electronic communications**

Newcastle Permanent offers members the choice of receiving their account statements and other communications via email. Members are also able to make general enquiries online through the public website or product and service enquiries through a secure message via Internet Banking. Members that elect to receive the Annual Report also have the option of receiving it electronically.

**PRINCIPLE 7: RECOGNISE AND MANAGE RISK**

**Recommendation 7.1 – Risk Committee and its structure**

The Board has established a Risk Committee, which currently consists of the following five members, all of whom are independent:

- Mr R.E. Griffiths (Chair)
- Mr J.R. Eather
- Ms M.A. Haseltine
- Ms S.J. Martin-Williams
- Mr P.J. Neat

The Chair of the Risk Committee must be an independent Director. The Committee has a formal Charter, which is reviewed at least once per year by the Committee, with any changes recommended to the Board for approval.

The Risk Committee oversees and makes recommendations to the Board in relation to:

- > the establishment, review, ratification and implementation of Newcastle Permanent's risk management strategy and framework, risk appetite and risk tolerance levels;
- > the establishment of an aggregate view of Newcastle Permanent's risk profile;
- > Newcastle Permanent's risk culture;
- > the adequacy and effectiveness of the compliance management framework;
- > managing the group's insurable interests;
- > the identification, monitoring and receipt of information from management on any new and emerging risks; and
- > due diligence activities, including potential mergers or acquisitions.

The Committee met four times during the 2018 financial year. Details on the individual attendances at the Committee meetings are set out in the Directors' Report.

**Significant achievements during the year**

The significant achievements of the Risk Committee during the year included:

- > reviewing Newcastle Permanent's Risk Management Strategy, Strategic and Corporate Risk Profiles, Risk Appetite Statement and material risk policies and Risk Culture Framework;
- > overseeing the review of the stress testing methodologies for Newcastle Permanent's material risks; and
- > undertaking deep-dives into the risks arising from specific areas of Newcastle Permanent's business activities.

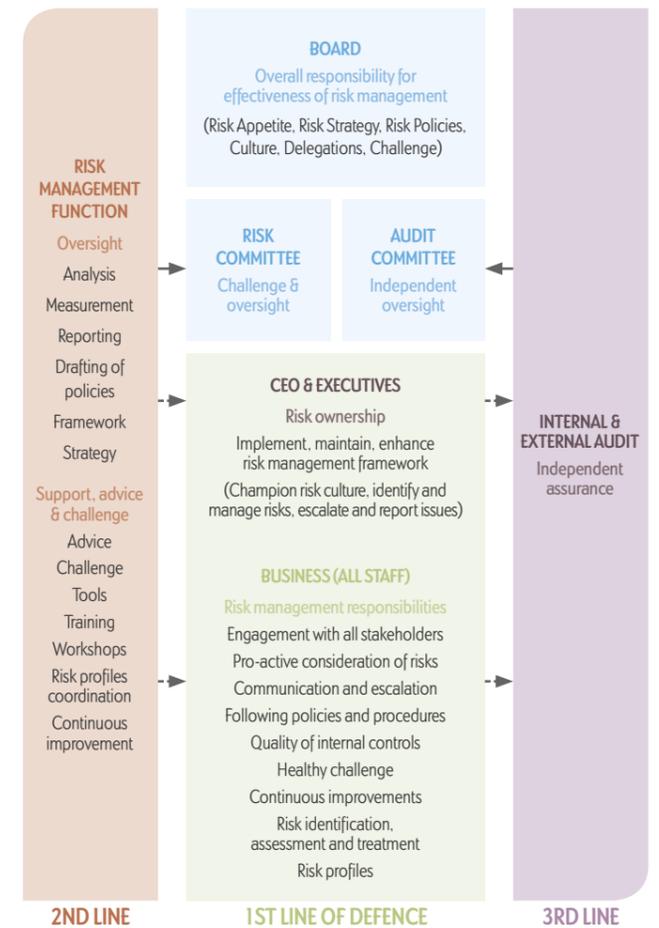
**Recommendation 7.2 – Review of risk management framework**

The Board has an approved risk management framework that includes policies designed to identify, assess, monitor and mitigate all material business risks.

Newcastle Permanent's risk management framework includes a specific Risk Appetite Statement that articulates, in both qualitative and quantitative terms, the risk appetite and tolerance for each of Newcastle Permanent's material risks.

The Board has also established a 'three lines of defence' risk governance model, which is illustrated in the diagram below.

The Risk Committee regularly reviews and makes recommendations to the Board regarding the risk management framework. In April 2018, the Committee reviewed Newcastle Permanent's Strategic Risk Profile and the risk appetite settings for each of its material risks. In June 2018, the Committee reviewed and recommended amendments to the Risk Appetite Statement and the policies and tolerances for Newcastle Permanent's material risks.



**Recommendation 7.3 – Structure and role of internal audit function**

Newcastle Permanent maintains an in-house internal audit function as well as using the service of a co-sourced internal audit service provider. The internal auditors work with management to systematically review systems and operations, based on the key areas of risk and strategic activities. Those reviews are aimed at identifying how well risks are managed and identifying areas where efficiencies or innovations could be made to enhance the effectiveness and efficiency of governance, risk management and control processes.

The Head of Internal Audit reports functionally to the Audit Committee through its Chair and administratively to the CFO. The Audit Committee has direct access to the internal auditors and both the Audit Committee and the internal auditors have access to management to seek all necessary information and explanations.

**Recommendation 7.4 – Management of economic, environmental and social sustainability risks**

Newcastle Permanent considers and has processes in place to manage its material risk exposures, including the economic, environmental and social sustainability risks pertaining to its activities.

Newcastle Permanent maintains a strong capital and liquidity position as a key mechanism for managing its exposure to economic risks. It also monitors and manages its material exposure to economic risks through the use of quantitative risk limit frameworks, modelling and stress testing.

Newcastle Permanent has practices in place to manage environmental and social sustainability risks. For example, its procurement practices incorporate environmental and social responsibility considerations in major purchasing decisions and a number of operational initiatives have been introduced to reduce Newcastle Permanent's environmental impact such as reducing energy and water consumption.

Overall, Newcastle Permanent takes a long-term view regarding its business activities, with the goal of being economically, environmentally and socially sustainable.

**PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY****Recommendation 8.1 – The Board should establish a Remuneration Committee**

The Board has established a Remuneration & People Committee, which currently consists of the following four independent Directors:

Ms S.J. Martin-Williams (Chair)  
Ms J.M. Leslie  
Mr P.J. Neat  
Mr D.E. Shanley

The Chair of the Committee must be an independent Director. Two members of the Risk Committee are also members of the Remuneration & People Committee to facilitate linkages between risk management and remuneration practices. The Committee has a formal Charter, which is reviewed at least once per year by the Committee, with any changes recommended to the Board for approval.

The Remuneration & People Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the CEO, Senior Executives and Directors. It is also responsible for making recommendations to the Board about the Remuneration Policy, employment agreements, incentive performance packages and termination entitlements.

During the year, the Committee's responsibilities were expanded to include oversight and monitoring of people and organisational culture initiatives and transformation programs. This change reflected the importance of Newcastle Permanent's employees and these initiatives to the Strategic Plan.

The Remuneration & People Committee met four times during the 2018 financial year. Details on the individual attendances at the Committee meetings are set out in the Directors' Report.

**Significant achievements during the year**

The significant achievements of the Remuneration & People Committee during the year included:

- > overseeing and monitoring the progress of the People and Culture Roadmap;
- > reviewing and monitoring the key people-related metrics, including the results of the People and Culture Survey, work health and safety data and employee retention statistics;
- > reviewing the Remuneration & People Committee Charter; and
- > reviewing the Remuneration Policy and annual incentive schemes.

**Recommendation 8.2 – Policies regarding the remuneration of Directors and Senior Executives**

The Board has adopted a Remuneration Policy that contains, amongst other things, an alignment of remuneration with Newcastle Permanent's risk management framework. Any incentive schemes that operate are based on pre-determined criteria and key performance indicators.

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced Directors and Senior Executives. The Remuneration & People Committee obtains independent advice on the appropriateness of remuneration packages and trends in comparable organisations and makes recommendations to the Board regarding the remuneration of Directors and Senior Executives.

The structure of remuneration for Directors is distinct from that of the Senior Executives and management. Recommendations for increases in the total Directors' remuneration pool must be submitted to and approved by the members at the AGM. Directors do not participate in any performance incentive schemes in order to preserve the independence of the Board and its decision-making processes. Directors first appointed after 1 January 2011 do not receive any retirement benefits from Newcastle Permanent other than compulsory superannuation entitlements.

The remuneration for Senior Executives comprises a mix of fixed and performance-based remuneration, as well as other benefits prescribed in Newcastle Permanent's approved policies from time to time. The CEO and Senior Executives may be entitled to a payment upon termination of employment from Newcastle Permanent. Where so entitled, the termination payment has been agreed in the contract of employment and is not payable where termination of employment is for misconduct.

**Recommendation 8.3 – Equity-based remuneration schemes**

Newcastle Permanent does not have equity-based remuneration schemes for its Directors or employees.

**Associated Entities**

Newcastle Permanent has several associated entities, which are consolidated into the group for reporting purposes. These associated entities are:

Newcastle Friendly Society Ltd  
Newcastle Permanent Community Foundation Company Ltd  
Newcastle Permanent Charitable Foundation  
Newcastle Permanent Funding Trust No.1



“

We first approached Newcastle Permanent to get a house loan and then we found premises we wanted for our business. We found Andrew from the business team to be very helpful. Nothing was too much for him. He was available, he was open and he gave it everything. He was very supportive and we're grateful for that.

Kristy & Luigi, Bacco's Bakeries

## concise financial report

This report should be read in conjunction with the accompanying notes.

### Income statements

For the year ended 30 June 2018

	Notes	Parent entity		Consolidated entity	
		2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Interest revenue	4	418,919	405,222	381,232	371,210
Interest expense	4	(228,422)	(228,145)	(189,555)	(192,627)
<b>Net interest income</b>		<b>190,497</b>	<b>177,077</b>	<b>191,677</b>	<b>178,583</b>
Fee and commission revenue	5	16,541	18,753	16,430	18,715
Fee and commission expense		(7,079)	(6,440)	(7,079)	(6,440)
<b>Net fee and commission income</b>		<b>9,462</b>	<b>12,313</b>	<b>9,351</b>	<b>12,275</b>
Other operating income	6	3,895	3,243	4,347	3,243
Impairment losses on loans and advances to members		(487)	(725)	(487)	(725)
Depreciation and amortisation expense		(8,228)	(7,649)	(8,228)	(7,649)
Personnel related expenses		(85,654)	(84,870)	(85,670)	(84,893)
Operating expenses		(46,644)	(43,778)	(48,949)	(45,488)
<b>Profit before income tax</b>		<b>62,841</b>	<b>55,611</b>	<b>62,041</b>	<b>55,346</b>
Income tax expense		(19,073)	(16,663)	(19,029)	(16,671)
<b>Profit for the year</b>		<b>43,768</b>	<b>38,948</b>	<b>43,012</b>	<b>38,675</b>
<i>Attributable to:</i>					
Non-controlling interests		-	-	(756)	(273)
Members of Newcastle Permanent Building Society Ltd		43,768	38,948	43,768	38,948

### Statements of comprehensive income

For the year ended 30 June 2018

	Parent entity		Consolidated entity	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>Profit for the year</b>	<b>43,768</b>	<b>38,948</b>	<b>43,012</b>	<b>38,675</b>
<b>Other comprehensive income, net of tax</b>				
<i>Items that may be reclassified to profit or loss:</i>				
Changes in the fair value of cash flow hedges	(1,664)	(7,466)	(1,664)	(7,466)
Changes in the fair value of available-for-sale assets	-	-	343	-
<i>Items that will not be reclassified to profit or loss:</i>				
Changes in the fair value of property	3,531	-	3,531	-
<b>Other comprehensive income for the year, net of tax</b>	<b>1,867</b>	<b>(7,466)</b>	<b>2,210</b>	<b>(7,466)</b>
<b>Total comprehensive income for the year</b>	<b>45,635</b>	<b>31,482</b>	<b>45,222</b>	<b>31,209</b>
<i>Attributable to:</i>				
Non-controlling interests	-	-	(413)	(273)
Members of Newcastle Permanent Building Society Ltd	45,635	31,482	45,635	31,482

## Balance sheets

As at 30 June 2018

	Parent entity		Consolidated entity	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>Assets</b>				
Cash and cash equivalents	532,353	731,650	636,473	856,663
Prepayments and other receivables	24,490	27,470	5,618	6,898
Derivative financial instruments	214	48,602	214	48,602
Held-to-maturity investments	2,261,424	2,385,182	915,023	1,203,746
Loans and advances to members	9,066,123	8,703,912	9,066,123	8,703,912
Available-for-sale financial assets	-	-	23,080	-
Other financial assets	294	294	294	294
Net deferred tax assets	6,521	6,723	6,545	6,749
Intangible assets	13,026	9,259	13,026	9,259
Property, plant and equipment	47,955	45,095	47,955	45,095
Investment properties	1,749	2,061	1,749	2,061
<b>Total assets</b>	<b>11,954,149</b>	<b>11,960,248</b>	<b>10,716,100</b>	<b>10,883,279</b>
<b>Liabilities</b>				
Payables	21,129	18,333	17,417	12,737
Derivative financial instruments	1,546	3,366	1,546	3,366
Deposits	8,248,096	8,179,488	8,242,302	8,164,204
Life investment contract liabilities	-	-	672	652
Life insurance contract liabilities	-	-	15,785	17,931
Borrowings	2,743,735	2,865,489	1,469,201	1,760,725
Current tax liabilities	1,615	1,118	1,619	1,256
Provisions	13,261	13,322	13,265	13,337
<b>Total liabilities</b>	<b>11,029,382</b>	<b>11,081,116</b>	<b>9,761,807</b>	<b>9,974,208</b>
<b>Net assets</b>	<b>924,767</b>	<b>879,132</b>	<b>954,293</b>	<b>909,071</b>
<b>Equity</b>				
Reserves	32,313	30,584	32,313	30,584
Retained profits	892,454	848,548	892,454	848,548
<b>Parent entity interest</b>	<b>924,767</b>	<b>879,132</b>	<b>924,767</b>	<b>879,132</b>
Non-controlling interest	-	-	29,526	29,939
<b>Total equity</b>	<b>924,767</b>	<b>879,132</b>	<b>954,293</b>	<b>909,071</b>

## Statements of changes in equity – consolidated entity

For the year ended 30 June 2018

	Attributable to members of Newcastle Permanent Building Society Ltd				
	Reserves \$'000	Retained earnings \$'000	Total \$'000	Non-controlling interests \$'000	Total equity \$'000
<b>Balance at 1 July 2017</b>	30,584	848,548	879,132	29,939	909,071
Profit for the year	-	43,768	43,768	(756)	43,012
Other comprehensive income	1,867	-	1,867	343	2,210
<b>Total comprehensive income for the year</b>	<b>1,867</b>	<b>43,768</b>	<b>45,635</b>	<b>(413)</b>	<b>45,222</b>
Transfers between reserves and retained earnings	(138)	138	-	-	-
<b>Balance at 30 June 2018</b>	<b>32,313</b>	<b>892,454</b>	<b>924,767</b>	<b>29,526</b>	<b>954,293</b>

	Attributable to members of Newcastle Permanent Building Society Ltd				
	Reserves \$'000	Retained earnings \$'000	Total \$'000	Non-controlling interests \$'000	Total equity \$'000
<b>Balance at 1 July 2016</b>	37,283	809,906	847,189	30,212	877,401
Profit for the year	-	38,948	38,948	(273)	38,675
Other comprehensive income	(7,466)	-	(7,466)	-	(7,466)
<b>Total comprehensive income for the year</b>	<b>(7,466)</b>	<b>38,948</b>	<b>31,482</b>	<b>(273)</b>	<b>31,209</b>
Transfers between reserves and retained earnings	767	(767)	-	-	-
Deferred tax adjustment on disposal of assets	-	461	461	-	461
<b>Balance at 30 June 2017</b>	<b>30,584</b>	<b>848,548</b>	<b>879,132</b>	<b>29,939</b>	<b>909,071</b>

## Statements of changes in equity – parent entity

For the year ended 30 June 2018

	Attributable to members of Newcastle Permanent Building Society Ltd		
	Reserves	Retained earnings	Total equity
	\$'000	\$'000	\$'000
Balance at 1 July 2017	30,584	848,548	879,132
Profit for the year	-	43,768	43,768
Other comprehensive income	1,867	-	1,867
<b>Total comprehensive income for the year</b>	<b>1,867</b>	<b>43,768</b>	<b>45,635</b>
Transfers between reserves and retained earnings	(138)	138	-
<b>Balance at 30 June 2018</b>	<b>32,313</b>	<b>892,454</b>	<b>924,767</b>

	Attributable to members of Newcastle Permanent Building Society Ltd		
	Reserves	Retained earnings	Total equity
	\$'000	\$'000	\$'000
Balance at 1 July 2016	37,283	809,906	847,189
Profit for the year	-	38,948	38,948
Other comprehensive income	(7,466)	-	(7,466)
<b>Total comprehensive income for the year</b>	<b>(7,466)</b>	<b>38,948</b>	<b>31,482</b>
Transfers between reserves and retained earnings	767	(767)	-
Deferred tax adjustment on disposal of assets	-	461	461
<b>Balance at 30 June 2017</b>	<b>30,584</b>	<b>848,548</b>	<b>879,132</b>

## Statement of cash flows

For the year ended 30 June 2018

	Parent entity		Consolidated entity	
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
<b>Cash flows from operating activities</b>				
Interest received	420,623	406,092	382,885	372,110
Other income	3,724	1,862	4,028	1,862
Fees and commissions received	20,245	21,527	20,133	21,489
Interest paid	(228,582)	(229,562)	(190,085)	(190,654)
Donations paid	-	-	(1,459)	(1,460)
Payments to suppliers and employees (inclusive of GST)	(136,064)	(129,071)	(136,449)	(135,114)
Income tax paid	(19,175)	(17,904)	(19,258)	(18,125)
<i>(Increase)/decrease in operating assets:</i>				
Net movement in held-to-maturity investments	123,758	(352,450)	288,847	(254,281)
Net movement in loans and advances to members	(361,038)	(656,544)	(362,699)	(654,626)
<i>Increase/(decrease) in operating liabilities:</i>				
Life insurance contract contribution receipts	-	-	25	67
Life insurance contract withdrawal payments	-	-	(2,178)	(2,185)
Life investment contract contribution receipts	-	-	37	40
Life investment contract withdrawal payments	-	-	(19)	(120)
Net increase in deposits	68,608	870,998	78,097	866,340
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(107,901)</b>	<b>(85,052)</b>	<b>61,905</b>	<b>5,343</b>
<b>Cash flows from investing activities</b>				
Payments on unwinding of interest rate swaps	(1,123)	(1,740)	(1,123)	(1,740)
Net movement in available-for-sale investments	-	-	(22,712)	-
Payments for intangible assets	(6,835)	(3,190)	(6,835)	(3,190)
Payments for property, plant and equipment	(4,764)	(5,884)	(4,764)	(5,884)
Proceeds from disposal of intangibles	108	-	108	-
Proceeds from sale of investment property	401	-	401	-
Proceeds from sale of property, plant and equipment	1,289	4,543	1,289	4,543
<b>Net cash outflow from investing activities</b>	<b>(10,924)</b>	<b>(6,271)</b>	<b>(33,636)</b>	<b>(6,271)</b>
<b>Cash flows from financing activities</b>				
Net increase/(decrease) in borrowings	(80,472)	314,307	(248,449)	223,566
<b>Net cash inflow/(outflow) from financing activities</b>	<b>(80,472)</b>	<b>314,307</b>	<b>(248,449)</b>	<b>223,566</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(199,297)</b>	<b>222,984</b>	<b>(220,180)</b>	<b>222,638</b>
Cash and cash equivalents at the beginning of the financial year	731,650	508,666	856,653	634,015
<b>Cash and cash equivalents at the end of the financial year</b>	<b>532,353</b>	<b>731,650</b>	<b>636,473</b>	<b>856,653</b>

# notes to the financial statements

For the year ended 30 June 2018

This concise financial report relates to both Newcastle Permanent as an individual entity and the entities it controlled at the end of, or during, the year ended 30 June 2018. The accounting policies adopted have been consistently applied to all years presented.

Newcastle Permanent is an entity referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the concise financial report have been rounded off in accordance with that Instrument to the nearest thousand dollars.

## 1. Presentation currency

The presentation currency used in this concise financial report is Australian dollars.

## 2. Changes in accounting policy

There have been no changes in accounting policy during the financial year ended 30 June 2018.

Comparative information has been reclassified where appropriate to enhance comparability. Please refer to the full set of financial statements for further information.

## 3. Dividends

Newcastle Permanent is a mutual building society and is prohibited from paying dividends.

	Parent entity		Consolidated entity	
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
<b>4. Net interest income</b>				
<i>Interest revenue:</i>				
Loans and advances to members	342,616	334,190	344,156	335,406
Cash and liquid assets	76,303	71,032	37,076	35,804
	418,919	405,222	381,232	371,210
<i>Interest expense:</i>				
Deposits	141,920	141,555	141,796	141,415
Borrowings	86,502	86,590	47,759	51,212
	228,422	228,145	189,555	192,627
Net interest income	190,497	177,077	191,677	178,583
<b>5. Fee and commission income</b>				
Fee revenue	13,996	15,734	13,885	15,696
Commission revenue	2,462	2,918	2,462	2,918
Government subsidies	83	101	83	101
	16,541	18,753	16,430	18,715

	Parent entity		Consolidated entity	
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
<b>6. Other operating income</b>				
Net gain on disposal of property, plant and equipment	318	1,211	318	1,211
Net gain on disposal of investments	21	-	171	-
Rental income	174	302	174	302
Bad debts recovered	266	230	266	230
Insurance recoveries	756	30	756	30
Partnership income	1,941	1,062	1,941	1,062
Other income	419	408	721	408
	3,895	3,243	4,347	3,243

## 7. Matters subsequent to the end of the financial year

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Interest bearing notes of the consolidated entity have been issued from external funding warehouse facilities that expire on 15 October 2018. The process to renew the warehouse facilities with the warehouse providers has commenced and is intended to be completed prior to 15 October 2018. Both parties have shown intent to rollover the facility and it is considered probable that the facilities will be rolled over on maturity by the funding providers under normal terms and conditions for an additional period ending 15 October 2019.

## 8. Management discussion and analysis

### 8.1 Income statement

#### (a) Net interest income

Consolidated	2018	2017	Var
	(\$m)	(\$m)	(\$m)
Interest revenue	381	371	10
Interest expense	190	193	3
<b>Net interest income</b>	<b>191</b>	<b>178</b>	<b>13</b>

Net interest income increased by \$13.0m compared to the previous year, primarily attributable to the following items:

- › the growth in the home loan portfolio of \$0.4b (see Note 8.2(a) over the page) contributed additional net interest income of \$9.0m; and
- › an improvement in the net interest margin ratio of 5 basis points, which contributed additional net interest income of \$4.0m. This improvement reflects a focus throughout the year on supporting sustainable net interest margins over the long term whilst balancing sustainable long-term customer value.

## (b) Other income

Consolidated	2018 (\$m)	2017 (\$m)	Var (\$m)
Net fee and commission income	9	12	(3)
Other operating income	4	3	1

*Net fee and commission income*

The decrease in net fee and commission income primarily reflects a continued decrease in the volume of transactions that are subject to transaction fees.

*Other operating income*

The increase in other operating income of \$1.1m primary reflects a number of non-recurring items, with material items including:

- › insurance recoveries on flood damaged properties of \$0.7m, which were used to offset repair costs incurred;
- › material gains of \$1.2m realised in the prior year from the disposal of surplus commercial properties, with a lower level of net gains realised in the current year; and
- › an increase of \$0.9m in sundry income received from business partners to assist with implementing key customer-focussed initiatives.

## (c) Non-interest expenses, excluding income tax

Total operating expenses of the consolidated entity were \$143.3m for the year ended 30 June 2018 compared to \$138.8m for the year ended 30 June 2017, representing an increase of \$4.5m (3.2%). Material components included:

Consolidated	2018 (\$m)	2017 (\$m)	Var (\$m)
Personnel expenses	86	85	1
Impairment losses on loans and advances	0.5	0.7	(0.2)
Operating and administrative expenses	49	45	4

*Personnel expenses*

Personnel expenses represent 59.8% of the consolidated entity's operating expenses (2017: 61.2%). Overall, the increase in personnel expenses is primarily attributable to annual performance-based salary increases and salary increases granted under the parent entity's Enterprise Agreement, the applicable on-costs and the revaluation of employee leave provisions reflecting changes to salaries.

*Impairment losses on loans and advances*

Impairment losses on loans and advances for the year ended 30 June 2018 represents less than 0.01% of the total loan portfolio (2017: 0.01%) reflecting the parent entity's approach to prudent lending and its outstanding credit quality.

*Operating and administrative expenses*

Other operating expenses increased by 8.9% including operational costs associated with strategic investment initiatives.

The consolidated entity's cost to income ratio has decreased from 71.5% at 30 June 2017 to 69.8% at 30 June 2018. This is reflective of a prudent approach to operational expense management, as well as the improved net interest income discussed at Note 8.1(a) above.

## 8.2 Balance sheet

## (a) Assets

Total assets of the consolidated entity decreased by \$0.2b from \$10.9b at 30 June 2017 to \$10.7b at 30 June 2018, representing a decrease of 1.8%.

Material components included:

Consolidated	2018 (\$m)	2017 (\$m)	Var (\$m)
Loans and advances	9,066	8,704	362
Cash and liquid assets	1,551	2,061	(510)
Other	99	118	(19)

*Loans and advances*

With respect to loans and advances to members, home loans represent 98.1% (2017: 97.9%) of total lending assets.

The growth in loans and advances to members during the 2018 year of \$362.2m represented an annualised growth rate of 4.2%. This reflects strong growth in Newcastle Permanent's core owner-occupier home loan segment relative to industry growth, offset by lower growth in the higher risk sub-segments of the portfolio including Investment, Interest Only and higher LVR loans.

*Cash and liquid assets*

Newcastle Permanent operates a cash and liquid asset portfolio consisting of cash and cash equivalents and held-to-maturity investments.

Consolidated	2018 (\$m)	2017 (\$m)	Var (\$m)
Cash and cash equivalents	636	857	(221)
Held-to-maturity investment	915	1,204	(289)
Total cash and liquid assets	1,551	2,061	(510)

During the year cash and liquid assets decreased by \$510m due to Newcastle Permanent adjusting its liquidity management strategy to prevailing market conditions.

At 30 June 2017 Newcastle Permanent's liquidity levels were elevated (19.4%) as it prudently managed through a period of funding market imbalances primarily caused by the sector wide credit rating downgrades in May and June 2017. At 30 June 2018 funding conditions were improved and Newcastle Permanent normalised its liquidity position (15.2%) primarily by reducing short-term wholesale funding.

At all times Newcastle Permanent maintains sufficient liquidity to meet its obligations, regulatory requirements and operate within its prudent liquidity risk appetite.

## (b) Liabilities

Total liabilities of the consolidated entity decreased by \$0.2b (2.0%) from \$10.0b at 30 June 2017 to \$9.8b at 30 June 2018. Material components included:

Consolidated	2018 (\$m)	2017 (\$m)	Var (\$m)
Customer deposits	8,141	7,851	290
Other deposits and borrowings	1,571	2,074	(503)
Other	50	49	1

*Customer deposits*

The increase in customer deposit funding consisted of an increase in at-call deposits of \$187.9m (4.0%) and an increase in fixed-term deposits of \$101.4m (3.2%). Overall customer deposit funding increased by 3.7% and was the primary balance sheet growth funding mechanism for the consolidated entity.

At 30 June 2018, customer deposit funding represented 83.8% of the consolidated entity's total funding (2017: 79.1%).

#### *Borrowings and other deposits*

In line with its strategy of maintaining a diversified funding base, Newcastle Permanent obtains a proportion of its funding from various wholesale funding sources. Wholesale funding decreased by \$503m (24%) during 2018 as a result of a deliberate strategy to improve the risk and maturity profile of Newcastle Permanent's funding base during the year and normalise lending levels.

This included the final repayment of offshore funding raised during the global financial crisis and a reduction in other short-term wholesale funding sources. At 30 June 2018 wholesale funding represents 16.2% of the consolidated entity's total funding (2017: 20.9%) comprised primarily of long-term funding.

#### (c) Equity

Total equity of the consolidated entity has increased by \$45.2m (5.0%) from \$909m at 30 June 2017 to \$954m at 30 June 2018.

This is primarily attributable to the net profit after tax of \$43.8m generated by the parent entity during the year.

#### 8.3 Cash flow statement

There has been a decrease in cash and cash equivalents during the year of \$220.2m in respect of the consolidated entity, compared to an increase of \$222.6m in the prior year.

The movement in cash and cash equivalents is detailed in 8.2(a).

## 9. Transition to new Accounting Standards

The consolidated entity will apply two new Accounting Standards from 1 July 2018:

- > AASB 9 *Financial Instruments*; and
- > AASB 15 *Revenue from Contracts with Customers*.

A high level summary of the expected impact of adopting these new Standards is outlined below:

#### 9.1 AASB 9 *Financial Instruments*

AASB 9 is a new Accounting Standard that replaces AASB 139 *Financial Instruments: Recognition and Measurement*.

AASB 9 introduces a simpler approach for the classification and measurement of financial assets compared with AASB 139:

- > financial assets that are debt instruments are classified on the basis of the objective of the entity's business model for managing the financial assets, and the characteristics of the contractual cash flows; and
- > financial assets that are equity instruments are generally measured at fair value through profit or loss, unless they are not held for trading, in which case the fair value adjustments can be processed through other comprehensive income.

The majority of the consolidated entity's financial assets are debt instruments that are managed as part of its high quality liquid asset portfolio. These financial assets are managed to collect contractual cash flows and therefore it is expected that there will be no material change in the classification and measurement of these assets on transition to AASB 9.

In addition to the classification and measurement requirements, AASB 9 introduces a new **expected credit loss (ECL)** impairment model. The ECL model will require the consolidated entity to account for expected credit losses when financial instruments are first recognised, and to also recognise full lifetime expected losses on a more timely basis.

On 1 July 2018, the consolidated entity will recognise its new ECL impairment provision, with a corresponding adjustment to retained earnings. It is expected that the consolidated entity will increase its current provision for impairment by \$0.9m.

#### 9.2 AASB 15 *Revenue from Contracts with Customers*

AASB 15 is a new Accounting Standard that replaces AASB 118 *Revenue*. It specifies the accounting treatment for revenue arising from contracts with customers, except for contracts within the scope of other accounting standards (such as financial instruments under AASB 9).

The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

The majority of the consolidated entity's revenue is derived as net interest income on financial instruments. Given that these contracts are within the scope of AASB 9, they will not be impacted by the new requirements outlined in AASB 15. The consolidated entity therefore does not anticipate any material impact on transition to AASB 15.



## directors' declaration

For the year ended 30 June 2018

The Directors of Newcastle Permanent Building Society Limited declare that in their opinion, the concise financial report of the consolidated entity for the year ended 30 June 2018 as set in the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

The concise financial report is an extract from the full financial report for the year ended 30 June 2018. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report, which is available on request.

This declaration is made in accordance with a resolution of the Directors.



J.R. Eather  
Chair



J.M. Leslie  
Director

Newcastle  
21 September 2018

## independent audit report



### *Independent auditor's report*

To the members of Newcastle Permanent Building Society Limited

### *Report on the concise financial report*

#### *Our opinion*

In our opinion, the accompanying concise financial report of Newcastle Permanent Building Society Limited (the Parent) and its controlled entities (together the Consolidated entity) for the year ended 30 June 2018 complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

#### **What we have audited**

The Parent and Consolidated entity concise financial report derived from the financial report of the Parent and Consolidated entity for the year ended 30 June 2018 comprises:

- the Parent and Consolidated entity balance sheets as at 30 June 2018
- the Parent and Consolidated entity income statements for the year then ended
- the Parent and Consolidated entity statements of comprehensive income for the year then ended
- the Parent and Consolidated entity statements of changes in equity for the year then ended
- the Parent and Consolidated entity statements of cash flows for the year then ended
- the related notes to the financial statements, and
- the directors' declaration

#### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the concise financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Independence**

We are independent of the Parent and Consolidated entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the concise financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been provided to the directors of Newcastle Permanent Building Society Limited on 21 September 2018, is also applicable to this concise financial report.

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### Concise financial report

The concise financial report does not contain all the disclosures required by the Australian Accounting Standards in the preparation of the financial report. Reading the concise financial report and the auditor's report thereon, therefore, is not a substitute for reading the complete financial report of the Parent and Consolidated entity and the auditor's report thereon.

### The financial report and our report thereon

We expressed an unmodified audit opinion on the complete financial report of the Parent and Consolidated entity in our audit report dated 21 September 2018.

### Other information

The directors are responsible for the other information. The other information comprises the information included in the concise financial report for the year ended 30 June 2018, including the Chair's Report, CEO's Report, Community Support, Directors' Report and the Corporate Governance Statement, but does not include the concise financial report and our auditor's report thereon.

Our opinion on the concise financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the concise financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the directors for the concise financial report

The directors are responsible for the preparation of the concise financial report in accordance with Accounting Standard AASB 1039 Concise Financial Reports, and the Corporations Act 2001, and for such internal control as the directors determine is necessary to enable the preparation of the concise financial report.

### Auditor's responsibilities for the audit of the concise financial report

Our responsibility is to express an opinion on whether the concise financial report complies, in all material respects, with AASB 1039 *Concise Financial Reports* based on our procedures which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*.

PricewaterhouseCoopers

Craig Stafford  
Partner

Sydney  
21 September 2018

## auditor's independence declaration



### Auditor's Independence Declaration

As lead auditor for the audit of Newcastle Permanent Building Society Limited for the year ended 30 June 2018, I declare that to the best of my knowledge and belief there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Newcastle Permanent Building Society Limited and the entities it controlled during the period.

Craig Stafford  
Partner  
PricewaterhouseCoopers

Sydney  
21 September 2018

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