



NEWCASTLE
PERMANENT

annual report 2019



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1 who we are

Newcastle Permanent's vision is to provide **Australia's favourite banking experience**, by helping our customers achieve financial success and contributing to the wellbeing and vibrancy of our local communities.

Our wonderful 116 year heritage is based on innovation and adaptation, beginning with a significant innovation for its time – the concept of finding an alternative way to achieve home ownership.

Numerous transformations through the decades have made us an industry leader today, and our talented workforce of nearly 1,000 staff continue to enhance our products and services to deliver exceptional customer service and solutions.

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

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

We are focussed on adapting our organisation, products and services to continue meeting and exceeding our customers' expectations. Our ongoing development of digital channels and services complement our branches, ATM network and locally-based Customer Contact Centre, so even more people can enjoy the benefits of our customer-owned banking model, which puts customers first.







2 a new direction

Our vision:

Australia's favourite banking experience

Our mission:

Banking the way it should be

Customers

Providing highly competitive products and exceptional service

Community

Making a real difference

People

One team working together to make it happen

Our strategic pillars:

Strategic pillars are the strategic priorities, or focus areas, we must excel at in order to achieve our vision; they include:

- Exceptional end-to-end digital customer experience
- A distinctive and compelling Customer Value Proposition
- Driving customer growth in new and existing markets



3 chair & ceo report

Introduction from the Chair

The 2018/19 financial year marked the beginning of a new era for Newcastle Permanent. In December 2018 it was with great pleasure that our Board of Directors announced the appointment of Bernadette Inglis to the role of CEO, ready to join the organisation on 1 July 2019.

Acting Chief Customer Officer Mark Williams performed the role of CEO between Bernadette's appointment and commencement, and I would like to thank him and acknowledge the significant amount of work undertaken during his tenure. Mark spearheaded a highly effective collaboration between the Board and Executive Management team to refresh our Strategic Direction.

I want to recognise the contribution of David Shanley, who recently retired from his roles as a Director of Newcastle Permanent Building Society, Newcastle Permanent Charitable Foundation and Newcastle Friendly Society. David was a diligent and passionate Director who was resolutely focussed on our people, providing the best customer outcomes, and making a real difference in our communities. My fellow Directors and I wish David well in the next stage of his career and thank him for his dedicated service.

With a future-focussed Strategic Direction and Bernadette at the helm, we look ahead with every confidence in Newcastle Permanent's ongoing success as we transform into a leading provider of banking services in the digital era, with a clear focus on our customers.

Message from Chair and CEO

This year has been another challenging one for our industry, characterised by historically low and rapidly reducing interest rates and housing credit demand, escalating competitive intensity and sustained risks in the housing market. While there has been some improvement in the risk profile of the housing market during the year and regulatory measures introduced by APRA in recent years have eased, the risk and regulatory environment has continued to impact Newcastle Permanent's growth profile in its primary asset class, home loans.

In recognition of the difficult trading conditions and consistent with our Strategic Direction, Newcastle Permanent has maintained its focus on sustainable business growth this year. This included managing home loan

growth at levels that, in the prevailing environment, support better long-term value for customers. As a result, home loan portfolio growth was 0.6% for the year, lifting Total Lending Assets to **\$9.1 billion** (see Chart A: Total Lending Assets) with stronger growth in lower risk sub-segments. The approach taken enabled the maintenance of the Net Interest Margin ratio, which is a key sustainability indicator.

Customer deposit growth was in line with home loan growth, posting an increase of 0.9% to **\$8.2 billion**, which enabled us to support home loans and maintain an exceptional proportion of customer deposits in our total funding mix of 84% (see Chart B: Total Customer Deposits).

While historically low interest rates provide benefits to our borrowers, we understand the pressure these place on our deposit customers, many of whom depend on interest income. As a result we will continue to consider the **appropriate balance** between the needs of all customers when setting our interest rates.

Despite the challenges of the economic, regulatory and competitive environments, and further significant investments in our key customer-facing digital capabilities, Newcastle Permanent achieved another well-balanced performance this year, recording a Net Profit After Tax of **\$35.1 million**. While this is a reduction on the prior year, the result included increased investment in strategic projects designed to deliver digital transformation for the benefit of customers. The result also reflects some material non-recurring costs associated with customer remediation work and restructuring of parts of the business to support future customer value.

In our customer-owned banking model, **profit is fully retained in the business** to sustain our exceptional financial strength. Our Capital Adequacy Ratio, a key measure of financial strength, ended the year at 20.1%, which is significantly above all our major competitors and regulatory requirements (see Chart C: Capital Adequacy Ratios). This affords Newcastle Permanent the opportunity to continue to invest in the future, deliver sustainable customer value over time and navigate challenging conditions with the long-term in mind rather than putting short-term profits before customers (see Chart D: Net Assets Trend).



Chart A: Total Lending Assets

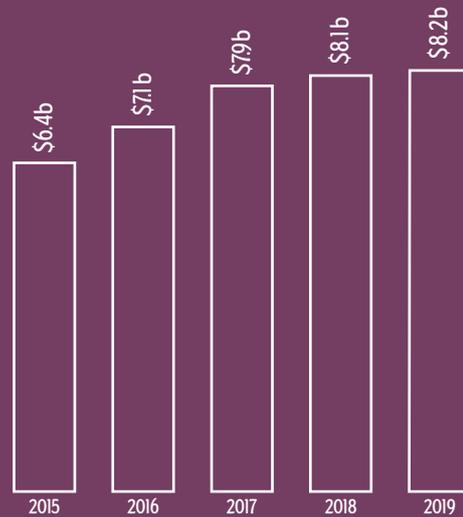


Chart B: Total Customer Deposits

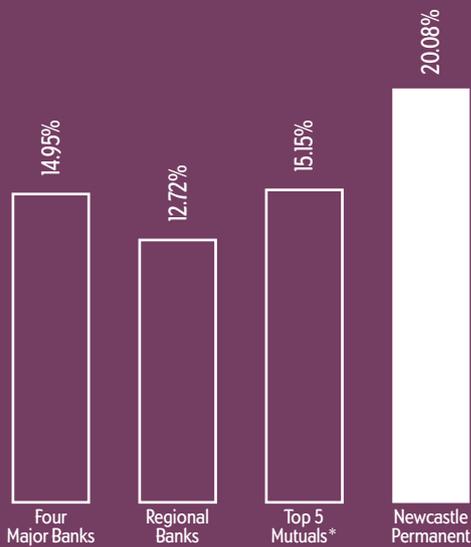


Chart C: Capital Adequacy Ratios

Source: Most recently available APS 330 disclosures as at 30 June 2019
 *Excludes Newcastle Permanent

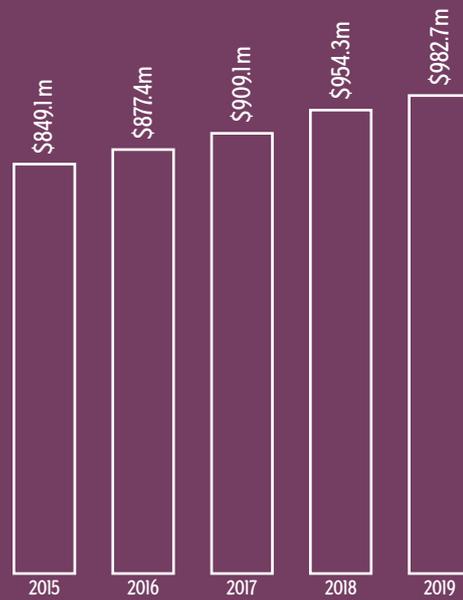


Chart D: Net Assets Trend

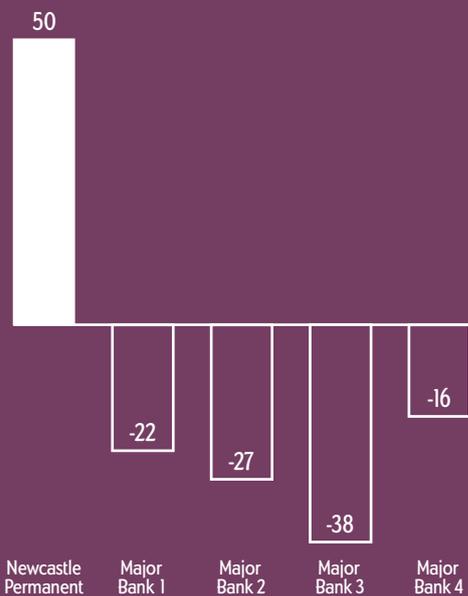


Chart E: Net Promoter Score

Source: Newcastle Permanent and competitor scores from 2018/19 Colmar Brunton Currency Satisfaction and Brand Health Studies respectively

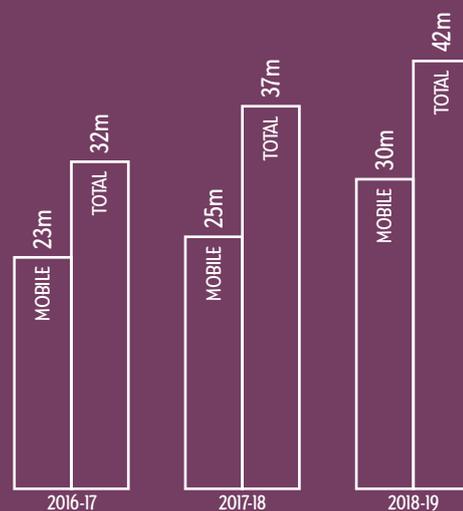


Chart F: Internet & Mobile Banking Customer Sessions

The Financial Services Royal Commission concluded on 1 February 2019. The Royal Commission dramatically highlighted the inherent conflict sharemarket-listed financial institutions face when trading off the best outcomes for customers in order to maximise profits and shareholder returns.

While the current economic climate is challenging, our customer-owned model creates a virtuous circle of value between Newcastle Permanent and our customers that makes us different to the sharemarket-listed banks. We don't have to pay dividends to shareholders, because we don't have any. Our customers are also our owners and so all the value we create is reinvested in the business to provide quality, and better value products and services for our customers.

A focus on customer experience

We constantly aspire to deliver exceptional customer service, and our customer metrics remain market leading. We received more monthly No. 1 rankings for customer satisfaction in the nationally-recognised Roy Morgan Customer Satisfaction Report than any other financial institution in Australia this year.

Supporting this result, our Net Promoter Score (a widely accepted measure of how likely our customers are to recommend us to friends and colleagues) also finished the year strongly at +50, compared with an overall average industry score of -6 (see Chart E: Net Promoter Score).

Guiding our commitment to providing an exceptional customer experience is the principle that although we may not get it right every time, we will own any mistakes and work incredibly hard to make amends, and do all we can to prevent an issue from recurring. This approach is vital for maintaining trust with our customers.

We review our business on an on-going basis to ensure we operate efficiently and provide the best experience, products and services to our customers. In a recent review of our offset home loan accounts, it was identified that some of our customers' offset transaction accounts may have not been properly linked to their home loans, meaning that some customers were not being charged the correct amount of interest. Our team are currently working hard to determine which customers have been affected. We sincerely apologise and we are committed to reimbursing any impacted customers. Accordingly, we have taken up a \$4.2m provision until we can determine the final remediation amount in relation to this matter.

Owning our mistakes is a core organisational value as we continue to honour our customers' trust through transparency and putting our customers first in all that we do.

Giving our customers new ways of banking with a human touch

This year we delivered a series of new services to help meet our customers' changing preferences in how they do their banking with us: the new webchat function on our website provides real-time information to customers researching our home loans; we expanded our social media channels; our customers can open transaction and savings accounts online in a matter of minutes; and our banking app supports biometric log-in using fingerprint and facial recognition and a number of key self-service functions. As a result our app continues to be embraced by customers with growing satisfaction, adoption and usage (see Chart F: Internet & Mobile Banking Customer Sessions).

We remain committed to a significant **digital transformation program** to strengthen and future-proof our services to help customers do their everyday banking more easily and ultimately, to reach their financial goals as a critical commitment to our customer service. In a time when call centres are being rationalised or have moved offshore, we're proud that our Customer Contact Centre is based in the Hunter region and staffed by our team of locals, delivering a first-class customer experience.

We are proud of our customer-owned model and continually review our business operations to ensure we invest our customers' funds responsibly. As customer needs change, so too does our role in delivering their financial services. In coming months, our front-line staff will host First Home Buyer information sessions at our branches within the Hunter region, to help empower our younger generations to gain entry to the challenging housing market. Due to increasing digital demand, this year we reviewed our branch network and made the difficult decision to close two branches due to declining customer usage and their proximity to other branches. The staff members impacted by this decision were successfully redeployed to other locations in our network.

Our heart, our community

We are owned by our customers, so delivering value to our customers and contributing to the communities that support us is core to our purpose. We have a long and proud history of supporting our local communities. Our decades-long partnerships with Surf Life Saving, Northern NSW Football, and the Newcastle Permanent Primary Schools Maths Competition continue to help create vibrant communities and encourage healthy minds and bodies.

This year we hosted 16 free Cinema Under the Stars events throughout regional NSW. These popular all-age events were attended by nearly **35,000 people** and provided the opportunity to enjoy a popular movie on the big screen, as well as local musical talent and children's activities in a picturesque outdoor setting.

Our communities also continue to benefit from the vital work of **Newcastle Permanent Charitable Foundation**. Addressing the needs of disadvantaged, marginalised and isolated people across regional NSW, during the past 16 years the Charitable Foundation has distributed \$19.9 million in grants to local charities and not-for-profit organisations.

We encourage you to read the Charitable Foundation section of this Annual Report for further details on how it's helping to rewrite the future for people in need.

Our people, our difference

With a team of fantastic and committed people, we are one of the Hunter region's largest employers. We are proud of our people and our ability to continue to attract, grow and retain top talent within Newcastle Permanent and the Hunter region.

Our staff are a key reason for our success and so we aim to offer our staff a rewarding career and a good work-life balance such as flexibility in how they fulfil their role, with more staff taking up work-from-home and other remote working opportunities. We're proud to have a number of internal programs that focus on providing scholarships to staff keen to further their studies via tertiary education, and our Aspire program, which gives front-line staff exposure to development opportunities to further their leadership experience.

Our 2018/19 Workplace Gender Equality Agency Report highlighted that 57% of promotions within Newcastle Permanent during the year were awarded to women, with 63% of manager-level promotions going to women. Additionally, the Ascend women's leadership program developed during the year continues to strengthen the pipeline of high-potential female leaders within our organisation.

Looking ahead

Looking forward to next financial year many of the same economic challenges we faced this year are expected to continue. The industry is evolving rapidly, with the significant impact of FinTechs and the arrival of Neobanks offering competitive innovation in products, pricing and digital experiences. In this context we remain focussed on our customer-owned banking model that gives back to our customers and our local communities, and open to a future full of new possibilities for our customers and staff.

We will continue to invest in our business to ensure we are as efficient as we can be to deliver even more value to our customers and maintain our exceptional financial strength long into the future. We are committed to keep transforming our business to ensure we continue to deliver better value, a superior customer experience and meaningful community support as we build Australia's favourite banking experience.

We're ready for the challenges and are excited about the opportunities that lie ahead as one of Australia's largest and financially strongest customer-owned banking organisations.



Jeff Eather
Chair

Bernadette Inglis
CEO

4 board of directors



Left-right: David Shanley, Jennifer Leslie, Samantha Martin-Williams, Jeffrey Eather (Chair), Ross Griffiths, Margaret Haseltine, 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 role 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 Chair of the University of Newcastle Foundation and Deputy Chair 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 former Director of Targus Australia Pty Ltd, Mirabela Nickel Limited and Commonwealth Managed Investments Limited, 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 5 years. She is an experienced and proven leader with more than 15 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, has 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. Margie is a current Non-Executive Director of Bapcor Ltd and a Chair of Bagtrans Group Pty Ltd.

Jennifer M. Leslie BCom, CFP, FCA (Aust) - FPS, MAICD, TFASFA, FGIA

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, Fellow of the Governance Institute of Australia and a Trustee Fellow of the Association of Superannuation Funds of Australia. She has a well-established career forged in the Hunter region, including 14 years as the inaugural Managing Director of Pitcher Partners Newcastle and Hunter Wealth Management from which she retired in 2019. 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, and Newcastle Friendly Society Ltd. She is a former Director of the Hillross Advisors Association, Mai Wel Ltd and a former Advisory Board Member of the Maitland-Newcastle Catholic Development Fund.

Samantha J. Martin-Williams BBus, MHR&IR, MCommLaw, FAICD

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 26 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 and has studied at Harvard Business School and INSEAD. She 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, the Supply Chain and Logistics Association of Australia Advisory Task Force, 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 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 from July 2003 to 16 July 2019, Member of the Audit and Remuneration & People Committees until 16 July 2019

David was a Director of Newcastle Permanent until his retirement from the Board in July 2019. He has more than 36 years' experience in the finance sector with a background in the building society and credit union industries. For over 26 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 was also a Director of Newcastle Friendly Society Ltd and Newcastle Permanent Community Foundation Company Ltd, which is the Trustee of Newcastle Permanent Charitable Foundation, until his retirement from those Boards in July 2019.

5 executive team



Bernadette Inglis



Christopher Cockburn



Anne Fullick



David Harney



Shaun Hassall

Bernadette Inglis BBus, MBA, GAICD, INSEAD Graduate
Chief Executive Officer

Bernadette joined Newcastle Permanent on 1 July 2019 as CEO. Bernadette has over 20 years' executive leadership experience in Financial Services. She has been a successful business leader in retail banking, wealth management, and insurance, and has held senior roles across core corporate services functions at both major and regional organisations.

Bernadette also has extensive experience across a broad spectrum of Board appointments including arts, education, real estate, infrastructure and financial services. Her involvement has also extended to a number of community engagements including being a Director on the Westpac Foundation Board and a member of the Royal Hospital for Women and Chief Executive Women Scholarship fundraising committees.

Christopher Cockburn BEc, LLB, Grad Dip Leg Prac, Grad Dip ACG, AGIA, ACIS
Company Secretary & General Counsel

Chris commenced with Newcastle Permanent in 2009 and was appointed to the role of Company Secretary & General Counsel in 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 13 years in private practice and corporate legal roles.

Anne Fullick BA (Hons), BBus (Accounting), CPA
Acting Head of Internal Audit

Anne commenced with Newcastle Permanent in December 2018 as Senior Internal Auditor, and was appointed to the role of Head of Internal Audit in an acting capacity in March 2019. She has over 20 years' experience in internal auditing roles having managed internal audit functions in a number of Newcastle businesses.

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 role of Chief Technology Officer in September 2013. He has over 21 years' experience in IT and project delivery roles working within the telecommunications and finance sectors in Australia.



Felicity Laczina

Edmund Larkin

Michael Leach

Tim Martin

Mark Williams

Shaun Hassall BCom, CA
Chief Financial Officer

Shaun commenced with Newcastle Permanent in January 2007 and was appointed to the role of Chief Financial Officer in December 2016. Prior to this appointment Shaun held the roles of Head of Risk Management and Financial Controller. He is a Chartered Accountant with over 20 years' experience working within the chartered accounting profession and other commercial finance roles.

Felicity Laczina MBus, GradCertSHRM, DipHR, CAHRI, GAICD
Chief People Officer

Felicity joined Newcastle Permanent in 2009 and was appointed to the role of Chief People Officer in December 2016. Prior to this appointment Felicity held the role of Manager, People and Development. She has over 19 years' experience in human resources management roles working within the health, government and financial services sectors in Australia.

Edmund Larkin BCom, CA, GAICD, F Fin
Chief Risk Officer

Edmund commenced with Newcastle Permanent in April 2018 as Head of Internal Audit. In July 2019, he was appointed as the Chief Risk Officer. Edmund has extensive experience within the financial services industry globally, with postings including New York, London and Singapore. He was a partner for KPMG in their Risk Consulting division and prior to that held the role of Head of Internal Audit for a major Australian bank.

Michael Leach BSc (Computer Science), MBA, FAMI CPM, GAICD
Chief Digital Banking & Marketing Officer

Michael commenced with Newcastle Permanent in August 2006. He has more than 20 years' experience in financial services sales, marketing and product management at most of the major banks in Australia. Michael's previous roles include General Manager of Marketing at a major regional bank and General Manager of Marketing at one of the major Australian banks.

Tim Martin BBus (Bkg&Fin)
Acting Chief Operations Officer

Tim commenced with Newcastle Permanent in November 2016 as Manager, Loans Processing, and has acted in the role of Chief Operations Officer for multiple periods since December 2018. He has over 25 years' experience in the financial services sector, having previously worked for mutual organisations and two of the major banks.

Mark Williams BCom, CA, GAICD, F Fin
Acting Chief Customer Officer

Mark joined Newcastle Permanent in 2006 as Financial Controller and has held executive positions as Chief Financial Officer and Chief Operations Officer. He is a Chartered Accountant with over 25 years' experience working within the chartered accounting profession and in a number of finance roles in the commercial and government sectors. Mark was the Acting CEO from December 2018 to July 2019 and is now leading our front-line teams as Acting Chief Customer Officer.



6 an incredible customer experience

Superior customer satisfaction. Again.

A key barometer of our performance is our customers' satisfaction with our products and services. This year we topped Roy Morgan's pre-eminent banking industry monthly Customer Satisfaction Report six times, more than any other financial institution in Australia. In the same report in May this year, 99.4% of our customers were satisfied or very satisfied with Newcastle Permanent as their main financial institution, which is the highest score recorded since the survey commenced more than 20 years ago.

Another measure of customer satisfaction is recorded in our Net Promoter Score, a widely used measure of how likely our customers are to recommend us to a friend or colleague. Ours remains significantly above that of all the major and mutual banks based on an independent survey conducted by respected research agency, Colmar Brunton.

We would like to thank our customers for these results and those that are generous advocates for our organisation.

Award-winning products

Our products and services were again recognised with a number of industry awards this year, reflective of our competitive Customer Value Proposition and reassuring to new and existing customers that we continue to deliver high quality products to our customers.

Our Everyday Account was recognised by *Money* magazine as the *Best of the Best 2019 – Best Everyday Account*, and both *Money* magazine and Canstar recognised our personal lending products with awards.

Our award-winning home loans continued to receive numerous awards, including:

- > Mozo: Experts Choice Home Loans 2019 – First Home Buyer Loan
- > Mozo: Experts Choice Home Loans 2019 – Investor Home Loan
- > Mozo: Experts Choice Home Loans 2019 – Fixed Rate Home Loan
- > Mozo: Experts Choice Home Loans 2019 – Investor Fixed Rate Home Loan
- > *Money* magazine: Investment Lender of the Year 2019
- > *Money* magazine: Best of the Best 2019 – Cheapest Five-Year Fixed Investment Loan (Non-Bank)
- > Canstar 5 Star Rating: Home Lender – Outstanding Value.

Mozo and Canstar both recognised our product range for under 25s by presenting us with the Mozo Pocket Money Regular Saver 2019 award for our Smart Saver Account, and Canstar bestowing a five-star rating in the Junior Saver category for our Smart Saver Account (under 25 years old).

We're thrilled that some of the financial services industry's pre-eminent customer advocacy organisations continue to recognise the excellent value we provide to our customers through our products.



7 our heart, our community

Every year we invest more than \$2 million supporting the communities that support us through our local sponsorships, staff donations, volunteering and fundraising activities with a focus on young families.

Community football

We've partnered with Northern NSW Football for more than a decade to help young families across northern NSW lead healthy, active and happy lives. Our ongoing investment in community football helps to make Australia's favourite game accessible and fun for more than **65,000 players** in northern NSW. We also recognise the contribution of the thousands of volunteers who generously give their time to their clubs, players and local community.

Surf Life Saving

For nearly 40 years we've supported Surf Life Saving by helping local branches and clubs purchase essential safety equipment, perform volunteer patrols, and deliver leadership and training programs to nurture our surf life savers of tomorrow.

This year we helped **6,278 volunteer surf life savers** and **9,880 junior surf life savers** to keep our beaches safe from the Central Coast all the way to the Queensland border.

Our partners: Surf Life Saving branches in the Hunter, Central Coast, Lower North Coast, Mid North Coast and Far North Coast.

Newcastle Permanent Primary School Mathematics Competition

The Newcastle Permanent Primary School Mathematics Competition is the longest running annual competition of its kind in Australia, helping local children get a great start in life. This year almost **20,000 students** from 315 schools tested their maths and problem-solving skills, without using any mathematical instruments or aids such as calculators.

Cinema Under the Stars

For more than a decade, our Cinema Under the Stars events have delighted tens of thousands of people each year in some of the most picturesque parks in our local communities with free family-friendly entertainment and a blockbuster movie shown under the stars on the big screen.

Cinema Under the Stars continues to be recognised as **Australia's largest free regional outdoor cinema program** and it's one we're proud to bring to our communities, providing entertainment for all ages that fosters community spirit and connection.



Staff *CommunityAssist* program

Supporting the community is in our DNA and our staff are very passionate about giving back to the communities that support us. Our *CommunityAssist* program was established to enable our staff to make a real difference in the communities they work and live in. Many of our staff use their community leave days to help local charities and make donations from their own pay.

Staff donations

Over the past 22 years, our staff have donated more than \$825,000 to support local charities across regional NSW. Donating money directly from their own salaries each fortnight supporting the vulnerable in our communities, our staff vote to select four charities each year that will receive a donation.

This year our staff gave more than \$65,000 from their own pockets to support:

- › **Neuroblastoma Australia** – raises awareness and supports Neuroblastoma cancer research. Neuroblastoma is the leading cause of death of children under five years old
- › **Got Your Back Sista** – supports women and children to escape domestic violence and begin again to lead confident, safe, happy, thriving and independent lives
- › **200 Bales** – supports drought-affected farmers and landholders to feed their stock and provides them with hope and strength to keep going until it rains
- › **Central Coast Kids In Need** – provides financial assistance to families of seriously ill Central Coast children who need to travel for vital medical treatment.

Staff volunteering

Each year our staff are provided with two paid community leave days which they can use to do volunteer work for local charities of their choice. This successful program is also a reflection of the generosity and community spirit of our staff. During the year our staff helped many local charities including:

- › The Salvation Army
- › Variety – the Children's Charity
- › NAIDOC
- › Rotary Youth
- › Got Your Back Sista
- › Ronald McDonald House
- › Starlight Foundation
- › Hunter Homeless Connect.

Charity fundraising

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

During 2018/19 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.





8 our people, 8 our difference

Earlier this year we assembled a diverse team of employees from throughout the organisation to revamp our organisational values, reflecting who we are today and who we aspire to be in the future. This team captured the essence of our culture as we unite toward our shared vision of delivering Australia's favourite banking experience.



Share the success



Do the right thing



Embrace the opportunity



Give a damn, every day

Our organisational values

Share the success

We love that our successes are shared with our customers through investment in important community programs as well as our award-winning products.

Do the right thing

We are absolutely committed to doing the right thing by our customers and follow our gut instinct, even if that means stepping outside of our comfort zone.

Embrace the opportunity

We're buzzing with excitement when it comes to our digital transformation journey. There has never been a better time to share an innovative idea that could make our customers' lives easier.

Give a damn, every day

It's all about the care factor! We are super passionate about everything we do and challenge ourselves and each other to ensure we are giving our all – each and every day.



Make the complex simple



Rise to the challenge



Own it

Our personal leadership principles

We also crafted three personal leadership principles that every team member can apply to their role to help guide their behaviour in support of our vision.

Make the complex simple

We strive for continuous improvement. This means not being afraid to challenge outdated or overcomplicated processes that get in the way of a fantastic experience for our customers.

Rise to the challenge

Life is all about ups and downs. We bounce back quickly from unexpected challenges and are not afraid to step up and do what it takes when it comes to our customers.

Own it

We are empowered to get on with the job and make the right things happen. We learn quickly from mistakes and don't shy away from healthy challenge if it means a better outcome for our customers.

It's fair to say that there has never been a more exciting time to be a part of the Newcastle Permanent team!



Newcastle Permanent Charitable Foundation Chair, Phil Neat

 Over **\$1.56 million** given in grants in 2018/19

 **\$19.9 million in funding** since 2003

 **25 projects funded** in 2018/19, making a total of **460 since 2003**

To ask an organisation to review its *vision* is to question not only what that organisation stands for now, but what influence it desires to have next month, next year and next decade.

The 2018/19 financial year was an opportunity for the Charitable Foundation Board to revisit our vision, strategy and operating model. The review reaffirmed our belief in our mission, our grant-giving model and our governance structure but produced a defining new vision, expressed as: **“Helping rewrite the future. Now. And for generations to come.”**

This new vision does not represent a major shift in how we operate but reflects the maturity level of the Charitable Foundation’s grant-giving model after more than 15 years, and the significant impact this model, with the shared vision of funding partners, can have on our community.

The Charitable Foundation delivered 25 new community grants during the year, across two funding rounds, which again totalled more than \$1.5 million. This has brought our total community commitment over the past 15 years to more than \$19.9 million for 460 important charitable initiatives. Each project has displayed an unwavering commitment to meaningful social change and the Charitable Foundation absolutely applauds these charity partners, staff and volunteers for their commitment, determination, innovation and spirit that have made these initiatives possible.

Travelling throughout our NSW regional footprint, undoubtedly during one of the toughest years for these communities, we have celebrated the launch of many diverse and life-changing initiatives that address important social issues now and for the future across our three core focus areas of health, youth and social wellbeing. Projects, which commenced this year, included supporting carers for people with dementia, breaking the stigma of mental illness for young people and providing expanded opportunities for people living with a disability.

Defining our new vision has presented an opportunity to take some of these stories to the wider community. In March, the Charitable Foundation launched a new campaign that has demonstrated the life-changing impact of these projects. Thank you to the individuals and families who shared their stories to portray and represent the thousands of people whose futures we’ve helped to rewrite since 2003.

Executive Officer, Graham Batten took an extended break during the year to spend time with family. Rebecca Wilson joined the Charitable Foundation as Acting Executive Officer for that period bringing fresh talent, eyes and enthusiasm, and was instrumental in the delivery of our new branding campaign.

The Charitable Foundation Board of Directors welcomed new faces, with Kurt Fearnley and Chad Watson joining, bringing with them board renewal, new insights and perspectives. Sadly, we farewelled longstanding Board members, Julie Ainsworth and David Shanley who retired, following years of most valuable and committed contribution. All Charitable Foundation Directors over the past 15 years have voluntarily given their time, skills and wise counsel, and their commitment. In May, the Founders' Group was announced to recognise those past Directors and Officers of the Foundation who have contributed greatly to our governance, operations and community over the past 15 years.

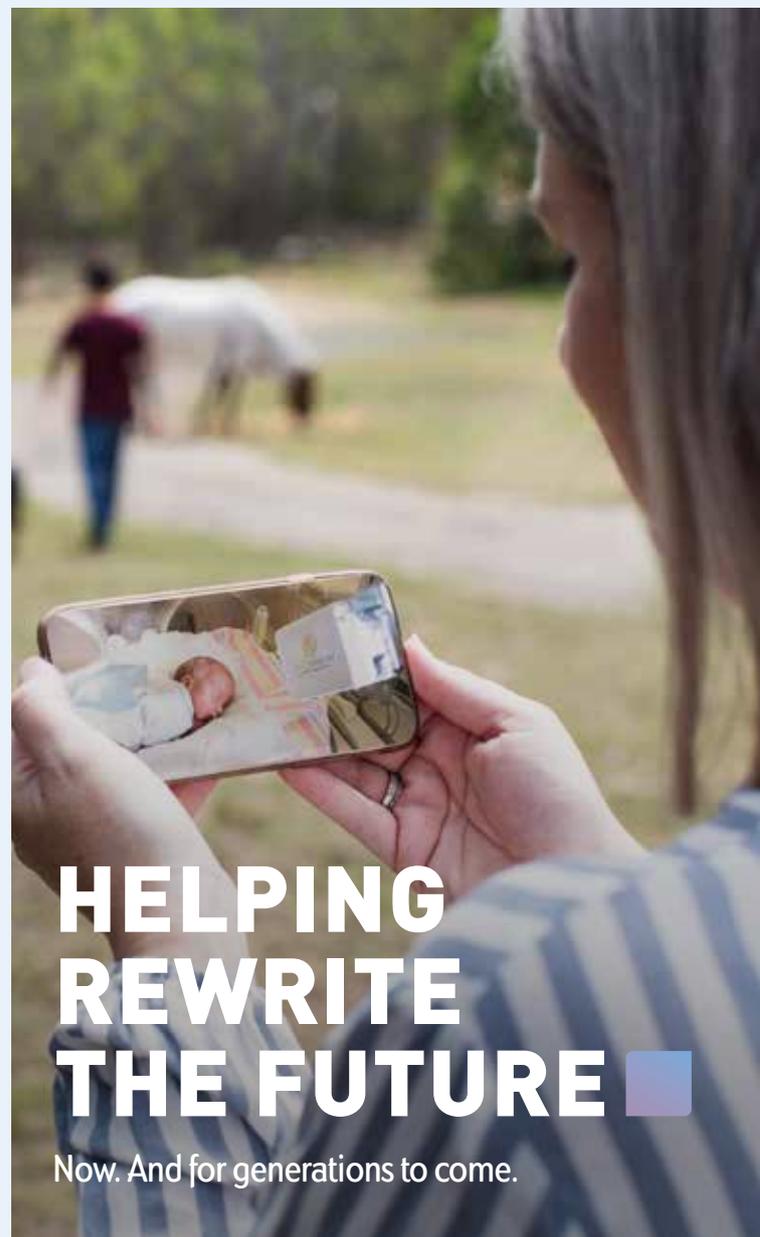
The Charitable Foundation Board and management acknowledge the most significant operational support provided by Newcastle Permanent that facilitates the maximum utilisation of the \$30 million endowment gifted by Newcastle Permanent in celebration of its 100-year anniversary. Special thanks must also be extended to Newcastle Permanent staff, who are our advocates and share the passion for improving the future for those in need in our community.

The new vision gives the Charitable Foundation the ability to focus on the future and to continue working with our charity partners on a shared belief for healthy, connected and resilient Australian regional communities. I invite you to learn more about the Charitable Foundation and its community impact. Our 2019 Annual Review is available at charitablefoundation.com.au



Phil Neat
Chair, Newcastle Permanent Charitable Foundation

Erin using a NICview webcam to watch over her newborn, proudly funded by the Charitable Foundation



**HELPING
REWRITE
THE FUTURE** 

Now. And for generations to come.

10 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 2019. 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

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 2019.

Directors

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

J.R. Eather (Chair)
 R.E. Griffiths
 M.A. Haseltine
 J.M. Leslie
 S.J. Martin-Williams
 P.J. Neat
 D.E. Shanley (resigned as a Director on 16 July 2019)

Details of the current Directors and their experience, qualifications and any special responsibilities are set out on page 11 of this Annual Report.

Meetings of Directors

The number of meetings of Newcastle Permanent's Board of Directors and of each Committee held during the year ended 30 June 2019 and the numbers of meetings attended by each Director were:

	Board		Committee Attendance									
			Audit		Risk		Corporate Governance & Nominations		Remuneration & People		Independent Board Committee ⁴	
	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	No. of Meetings	No. Attended
Jeffrey Eather	13	13	8	8	7	7	5	5	-	-	-	-
Ross Griffiths	13	13	8	8	7	7	5	5	-	-	2	2
Margaret Haseltine ¹	13	13	8	7	7	6	-	-	-	-	2	2
Jennifer Leslie	13	13	8	8	-	-	5	5	6	6	-	-
Samantha Martin-Williams ¹²	13	9	-	-	7	7	5	5	6	6	2	2
Philip Neat ¹	13	12	-	-	7	7	-	-	6	5	2	1
David Shanley ¹³	13	12	8	7	-	-	-	-	6	5	-	-

- Leave of absence may be granted by the Board in advance to excuse a Director from attending a particular meeting.
 - Samantha Martin-Williams was an apology for the April 2019 Board meeting as she attended a study tour on artificial intelligence, machine learning and big data on behalf of the Board.
 - David Shanley resigned as a Director on 16 July 2019.
 - The Independent Board Committee was established by the Board on 15 February 2019 to consider the provision of support by Newcastle Permanent to the funeral fund policyholders of Newcastle Friendly Society Ltd, an associated entity in the Newcastle Permanent consolidated group of companies. The composition of the Independent Board Committee is Directors Ross Griffiths (Chair), Margaret Haseltine, Samantha Martin-Williams and Philip Neat, all of whom are not Directors on the Board of Newcastle Friendly Society Ltd.
- > 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:
- three Board strategy workshops were held on 11 December 2018, 14 March 2019 and 11 April 2019;
 - two circulating resolutions were distributed to and signed by the Board on 11 July 2018 and 27 March 2019; and
 - one circulating resolution was distributed to and signed by the Audit Committee on 6 June 2019.

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 13 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.

Linda Lindsay

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

Linda Lindsay was appointed as the Assistant Company Secretary of Newcastle Permanent on 21 June 2019. She holds Commerce and Law degrees, a Graduate Diploma in Applied Corporate Governance, is admitted to practice law in the Supreme Court of NSW and admitted as a solicitor of the Supreme Court of England and Wales. She has practised law for more than 18 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.

Officers

In addition to the Directors and Secretaries outlined above, the following persons were Senior Executives or acted in a Senior Executive role for a substantial period during the year, and were therefore considered to be officers of Newcastle Permanent:

Officers for the full financial year:

C. Cockburn
D.J. Harney
S.O. Hassall
F.E. Laczina
M.D. Leach
L.N.C. Rees
M.B. Williams

Officers for part of the financial year:

T.B. Millett	until 14 December 2018
S.I. Andersson	from 6 May 2019 to 30 June 2019
A.M. Fullick	from 20 March 2019
E.J. Larkin	from 4 March 2019
T.S. Martin	from 19 December 2018 to 5 May 2019
A.M. Yost	until 20 March 2019

Objectives

The vision and mission of Newcastle Permanent is to provide Australia's favourite banking experience and banking the way it should be respectively. The core values of Newcastle Permanent are to share the success, do the right thing, embrace the opportunity and give a damn every day.

The mission of Newcastle Permanent defines its purpose and identifies that we are striving to provide highly competitive products and exceptional service to customers, make a real difference in our community and be one team working together to make it happen.

Newcastle Permanent has identified a number of strategic pillars that we must excel at in order to achieve our vision. Those strategic pillars include:

- › providing an exceptional end-to-end digital customer experience;
- › providing a distinctive and compelling Customer Value Proposition; and
- › driving customer growth in new and existing markets.

The performance of Newcastle Permanent was measured during the year 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 were:

- › **customer:** customer satisfaction and advocacy 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 2019.

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;
- › 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 Chief Executive Officer's reports, and the Management Discussion and Analysis in Note 4 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. As at 30 June 2019, the total amount that the members of Newcastle Permanent were liable to contribute if it was wound up was \$197,811.

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 matters or circumstances have arisen since 30 June 2019 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

Prior to 30 June 2019, the Board of Directors of Newcastle Friendly Society Limited (a related group entity) approved a plan to wind up its operations. The wind up plan requires regulatory approval before it can proceed. Should regulatory approval be granted, then it is likely that the operations of Newcastle Friendly Society Limited will cease within 12 months from the date of this report. At 30 June 2019, the business of Newcastle Friendly Society Limited comprised total net assets of \$1.1m, and the closure of this entity is not expected to have a material impact on the net assets or net earnings of the consolidated Newcastle Permanent group.

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 or other agreements with the CEO, Company Secretary, current and former 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 current and certain former 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 that 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 55.

Disclosure of Prudential Information

Newcastle Permanent is an Authorised Deposit-taking Institution 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 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

11 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. Newcastle Permanent currently measures its corporate governance practices against the third edition of the ASX Principles and will be transitioning to reporting against the fourth edition of the ASX Principles (released in February 2019) during 2020.

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 20 September 2019 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 customer 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 their 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, including having the necessary skills, knowledge and expertise to undertake and fulfil the particular duties and responsibilities of the role;
- › not be disqualified from holding a responsible person or accountable 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 Responsible Person Fitness and Accountability 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, including their responsibilities under the Banking Executive Accountability Regime (BEAR);
- › 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.

Senior 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.

In addition, each Director and Senior Executive has signed an Accountability Statement under BEAR which clearly outlines the aspects of Newcastle Permanent's operations that they have responsibility for.

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 and male 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 50%.

Newcastle Permanent is also committed to improving diversity at the management level and a Women in Leadership program has been introduced to support the pipeline of female talent within the senior levels of the organisation. As at the date of this report, the level of female representation on the Executive team is 30%.

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 2019. 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 arrangements 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

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, with the results submitted for review, consideration and discussion by the Directors 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 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 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 2019.

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 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. The Senior Executive performance criteria are also reviewed by the Remuneration & People Committee and flow directly from the Strategic Performance Scorecard.

The Board undertakes, through its relevant Committees, a separate annual assessment of the performance of the Company Secretary, Chief Risk Officer and Head of Internal Audit 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 will be reviewed by the Remuneration & People Committee and Board in October 2019.

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 page 11 of the Annual 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;
- › independent, non-executive Directors appointed as the Chairs of the Board and each Committee; 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.

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 standing Board Committees:

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

During the year, the Board also formed an Independent Board Committee to consider and approve the provision of support by Newcastle Permanent to the funeral fund policyholders of Newcastle Friendly Society Ltd, an associated entity in the Newcastle Permanent Group, to assist those policyholders through the wind-up process of that entity.

The Independent Board Committee was established to ensure there was an appropriate governance framework to consider this support and appropriately manage conflicts of interest. The Independent Board Committee only comprises Directors who do not have an interest or role in Newcastle Friendly Society Ltd.

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 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;
- › key Board processes and functions; and
- › continuous improvement provisions for the Board and individual Directors.

The Board has the capacity to engage consultants directly and this has been a particular focus throughout the year to ensure the Directors are kept informed of industry and regulatory developments, to assist the Board in the execution of its duties and to continually enhance Directors' skills and experience. The particular areas where the Board has engaged consultants during the year have included the Board performance evaluation process and advice on the design of the remuneration framework, revising the Board Charter and the key findings of the Financial Services Royal Commission.

[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 five times during the 2019 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 and processes, such as the Constitution, Board Charter, Code of Conduct and other Board policies, as well as reviewing the independence of Directors and conflicts of interest.

[Significant achievements during the year](#)

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

- › overseeing Newcastle Permanent's self-assessment of the maturity of its governance, accountability and culture frameworks. This self-assessment was undertaken in response to the Commonwealth Bank Prudential Inquiry Report released in May 2018.

The self-assessment identified a series of action items that are designed to improve Newcastle Permanent's governance, accountability and culture frameworks. The Corporate Governance & Nominations Committee is responsible for monitoring the progress of these items and has overseen the establishment of a Regulatory Governance Program to drive a co-ordinated, organisational wide approach to both these action items and other adjacent programs of work, such as addressing legislative changes arising from the Final Report of the Financial Services Royal Commission;
- › overseeing the recruitment and nomination process for the new CEO appointment;
- › overseeing the maturation of key elements of the Corporate Governance Framework, such as:
 - reviewing the Board Charter to align it with contemporary governance practice;
 - reviewing the results of the Director peer review and skills assessment results;
 - reviewing the Directors' letters of appointment; and
- › ongoing monitoring of developments in corporate governance and the regulatory environment.

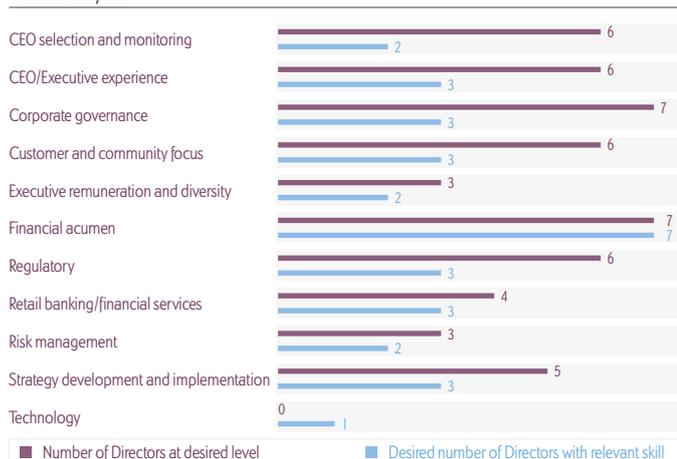
Recommendation 2.2 – Board skills and diversity

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 details¹:

- the technical skills that the Board considers necessary or desirable for its Directors²;
- the number of Directors that the Board considers should possess each skill on the Board³; and
- the number of Directors that were assessed as having each skill at the desired level in the 2018 skills analysis.³

Skills analysis



The skills analysis identified that at that time the Board composition met, and in many cases, exceeded the needs of Newcastle Permanent in all categories except for technology. Following David Shanley’s retirement from the Board in July 2019, the Board has commenced a recruitment process to appoint two new Directors over the next 12 months with the aim of bringing additional skills and experience in retail banking, risk management and technology onto the Board.

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.

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 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.

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. 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 advisor 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.

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:

- i. 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; and
- ii. 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.

The dates that the current Directors were appointed to the Board are outlined on page 11 of this Annual Report. As represented in the diagram below, the Board is composed of Directors with a mix of tenures, some with medium and longer tenures who have a detailed understanding of Newcastle Permanent and its corporate history and a newer Director who has brought a fresh perspective 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.

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 and Risk Committees 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 share the success, do the right thing, embrace the opportunity and give a damn every day;
- › 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 four Directors:

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

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 any co-sourced internal audit services provider, and reviews whether any proposal for the external auditor or the co-sourced internal audit services provider to provide non-audit services might compromise their independence.

The Audit Committee met eight times during the 2019 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 11 and 24 of the Annual Report.

Significant achievements during the year

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

- › on-boarding a new co-sourced internal audit services provider;
- › approval of, and overseeing the progress of the Action Plan to mature the sophistication and effectiveness of the internal audit function;
- › approving the Internal Audit Plan for the 2019 financial year and review of the indicative plans for the 2020 and 2021 financial years;
- › reviewing the group consolidated financial statements;
- › overseeing all internal and external audit activity; and
- › overseeing the establishment of a Tax Governance Framework and the approach for new Accounting Standards.

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 who 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 who 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 are 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 who 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 seven times during the 2019 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 and Risk Culture Framework, as well as new and emerging risks;
- › overseeing the review of the stress testing methodologies for Newcastle Permanent's material risks;
- › undertaking deep-dives into the risks arising from specific areas of Newcastle Permanent's business activities, including in respect of non-financial risks and risk culture; and
- › reviewing the risk considerations and outcomes throughout the year that were relevant to remuneration outcomes.

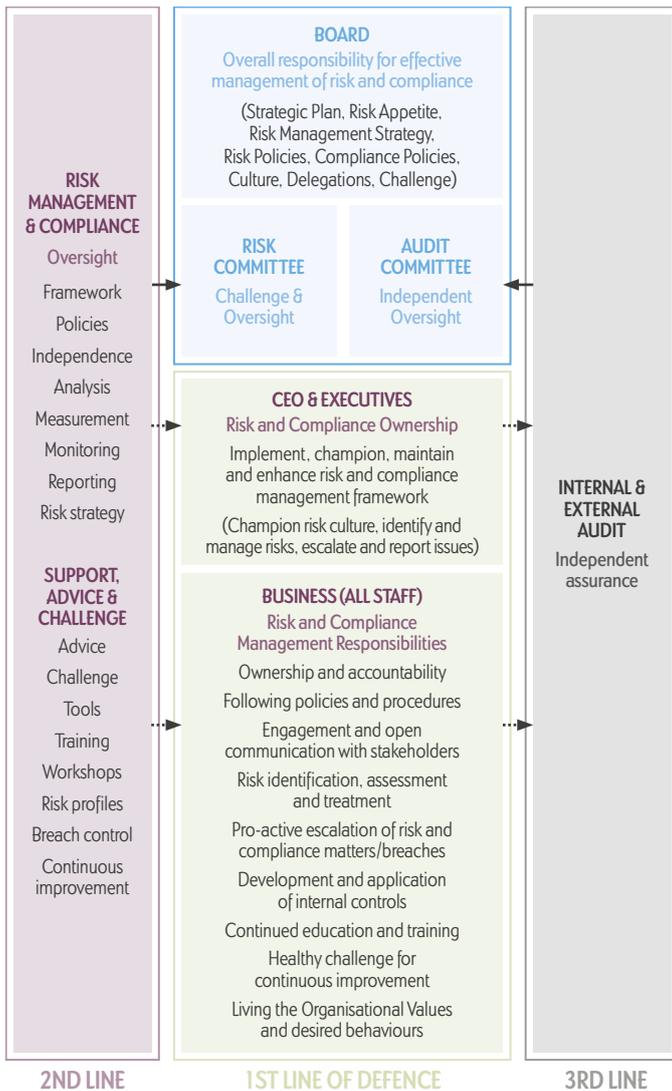
Recommendation 7.2 – Review of risk management framework

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 July 2019, the Committee reviewed Newcastle Permanent’s Strategic Risk Profile, 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 CEO. 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.

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 three independent Directors:

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

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's responsibilities include:

- > reviewing and making recommendations to the Board on the Remuneration Policy, the Directors' fees and remuneration packages of the CEO and Senior Executives, as well as their employment agreements and termination entitlements; and
- > overseeing and monitoring the people and organisational culture initiatives, transformation programs and key metrics.

The Remuneration & People Committee met six times during the 2019 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 the initiative to ensure Newcastle Permanent adhered to the requirements of BEAR from 1 July 2019;
- > undertaking a comprehensive review of the Remuneration Policy, the re-design of Newcastle Permanent's incentive schemes and the introduction of remuneration deferrals;
- > 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; and
- > assessing the performance of the CEO and Senior Executives and making recommendations to the Board.

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 Limited
Newcastle Permanent Community Foundation Company Limited
Newcastle Permanent Charitable Foundation
Newcastle Permanent Funding Trust No.1

12 concise financial report

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

Income statements

For the year ended 30 June 2019

	Notes	Parent entity		Consolidated entity	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Interest revenue	5	425,593	418,919	382,780	381,232
Interest expense	5	(230,581)	(228,422)	(186,853)	(189,555)
Net interest income		195,012	190,497	195,927	191,677
Fee and commission revenue	6	17,198	16,541	17,086	16,430
Fee and commission expense		(8,443)	(7,079)	(8,443)	(7,079)
Net fee and commission income		8,755	9,462	8,643	9,351
Other operating income	7	2,163	3,629	3,297	4,081
Other net gains and losses	8	256	-	1,204	-
Impairment losses on loans and advances to members		(505)	(221)	(505)	(221)
Impairment losses on financial assets at amortised cost		(125)	-	(123)	-
Depreciation and amortisation expense		(8,699)	(8,228)	(8,699)	(8,228)
Personnel related expenses		(90,410)	(85,654)	(90,428)	(85,670)
Operating expenses		(53,899)	(46,644)	(56,138)	(48,949)
Profit before income tax		52,548	62,841	53,178	62,041
Income tax expense		(17,429)	(19,073)	(17,491)	(19,029)
Profit for the year		35,119	43,768	35,687	43,012
<i>Attributable to:</i>					
Non-controlling interests		-	-	568	(756)
Members of Newcastle Permanent Building Society Ltd		35,119	43,768	35,119	43,768

Statements of comprehensive income

For the year ended 30 June 2019

	Parent entity		Consolidated entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Profit for the year	35,119	43,768	35,687	43,012
Other comprehensive income, net of tax				
<i>Items that may be reclassified to profit or loss:</i>				
Changes in the fair value of cash flow hedges	(5,972)	(1,664)	(5,972)	(1,664)
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
Other comprehensive income for the year, net of tax	(5,972)	1,867	(5,972)	2,210
Total comprehensive income for the year	29,147	45,635	29,715	45,222
<i>Attributable to:</i>				
Non-controlling interests	-	-	568	(413)
Members of Newcastle Permanent Building Society Ltd	29,147	45,635	29,147	45,635

Balance sheets

As at 30 June 2019

	Parent entity		Consolidated entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Assets				
Cash and cash equivalents	400,039	532,353	477,119	636,473
Prepayments and other receivables	29,690	24,490	9,115	5,618
Derivative financial instruments	2,371	214	2,371	214
Held-to-maturity investments ¹	-	2,261,424	-	915,023
Financial assets at amortised cost ¹	1,141,703	294	1,144,125	294
Available-for-sale financial assets ¹	-	-	-	23,080
Financial assets at fair value through profit or loss (FVTPL) ¹	1,348,479	-	26,868	-
Loans and advances to members ²	9,100,551	9,066,123	9,100,551	9,066,123
Net deferred tax assets	8,279	6,521	8,279	6,545
Current tax assets	407	-	407	-
Intangible assets	13,444	12,686	13,444	12,686
Property, plant and equipment	48,336	48,295	48,336	48,295
Investment properties	1,715	1,749	1,715	1,749
Total assets	12,095,014	11,954,149	10,832,330	10,716,100
Liabilities				
Payables	23,964	21,129	20,411	17,417
Derivative financial instruments	7,364	1,546	7,364	1,546
Deposits	8,483,469	8,248,096	8,478,794	8,242,302
Life investment contract liabilities	-	-	296	672
Life insurance contract liabilities	-	-	14,153	15,785
Borrowings	2,610,580	2,743,735	1,311,647	1,469,201
Current tax liabilities	-	1,615	-	1,619
Provisions	16,989	13,261	16,995	13,265
Total liabilities	11,142,366	11,029,382	9,849,660	9,761,807
Net assets	952,648	924,767	982,670	954,293
Equity				
Reserves	27,180	32,313	27,180	32,313
Retained profits	925,468	892,454	925,468	892,454
Parent entity interest	952,648	924,767	952,648	924,767
Non-controlling interest	-	-	30,022	29,526
Total equity	952,648	924,767	982,670	954,293

1. On adoption of AASB 9 on 1 July 2018, the classification and measurement of financial assets were revised. The held-to-maturity and available-for-sale classifications used in comparative periods cease to exist under AASB 9 and new classifications of financial assets at amortised cost and financial assets at fair value through profit or loss were introduced. Refer to Note 9 for further details. Comparative information has not been restated.

2. On adoption of AASB 9 on 1 July 2018, the provision for impairment losses was increased. Comparative information has not been restated. Refer to Note 9 for further details.

Statements of changes in equity – consolidated entity

For the year ended 30 June 2019

	Attributable to members of Newcastle Permanent Building Society Ltd				
	Reserves	Retained earnings	Total	Non-controlling interests	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2018	32,313	892,454	924,767	29,526	954,293
Change on initial application of AASB 9	-	(1,266)	(1,266)	(8)	(1,274)
Profit for the year	-	35,119	35,119	568	35,687
Other comprehensive income	(5,972)	-	(5,972)	-	(5,972)
Total comprehensive income for the year	(5,972)	33,853	27,881	560	28,441
Extraordinary bonuses credited to life insurance contract liabilities	-	-	-	(60)	(60)
Movement in death benefit reserve for life insurance contract liabilities	-	-	-	(4)	(4)
Transfers between reserves and retained earnings	839	(839)	-	-	-
Balance at 30 June 2019	27,180	925,468	952,648	30,022	982,670

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

Statements of changes in equity – parent entity

For the year ended 30 June 2019

	Attributable to members of Newcastle Permanent Building Society Ltd		
	Reserves	Retained earnings	Total equity
	\$'000	\$'000	\$'000
Balance at 1 July 2018	32,313	892,454	924,767
Change on initial application of AASB 9	-	(1,266)	(1,266)
Profit for the year	-	35,119	35,119
Other comprehensive income	(5,972)	-	(5,972)
Total comprehensive income for the year	(5,972)	33,853	27,881
Transfers between reserves and retained earnings	839	(839)	-
Balance at 30 June 2019	27,180	925,468	952,648

	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
Total comprehensive income for the year	1,867	43,768	45,635
Transfers between reserves and retained earnings	(138)	138	-
Balance at 30 June 2018	32,313	892,454	924,767

Statement of cash flows

For the year ended 30 June 2019

	Parent entity		Consolidated entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Cash flows from operating activities				
Interest received	426,342	420,623	383,525	382,885
Other income	1,360	3,724	1,854	4,028
Fees and commissions received	20,519	20,245	20,407	20,133
Interest paid	(233,336)	(228,582)	(186,876)	(190,085)
Donations paid	-	-	(1,413)	(1,459)
Payments to suppliers and employees (inclusive of GST)	(148,414)	(136,064)	(153,082)	(136,449)
Income tax paid	(18,361)	(19,175)	(18,404)	(19,258)
<i>(Increase)/decrease in operating assets:</i>				
Net movement in held-to-maturity investments ¹	-	123,758	-	288,847
Net movement in financial assets at amortised cost and FVTPL ¹	(229,406)	-	(232,588)	-
Net movement in loans and advances to members	(35,751)	(361,038)	(35,744)	(362,699)
<i>Increase/(decrease) in operating liabilities:</i>				
Life insurance contract contribution receipts	-	-	4	25
Life insurance contract withdrawal payments	-	-	(1,691)	(2,178)
Life investment contract contribution receipts	-	-	3	37
Life investment contract withdrawal payments	-	-	(383)	(19)
Net increase in deposits	235,373	68,608	236,492	78,097
Net cash inflow/(outflow) from operating activities	18,326	(107,901)	12,104	61,905
Cash flows from investing activities				
Payments on unwinding of interest rate swaps	(5,516)	(1,123)	(5,516)	(1,123)
Net movement in available-for-sale investments ¹	-	-	-	(22,712)
Payments for intangible assets	(4,137)	(6,835)	(4,137)	(6,835)
Payments for property, plant and equipment	(4,398)	(4,764)	(4,398)	(4,764)
Proceeds from disposal of intangibles	-	108	-	108
Proceeds from sale of investment property	-	401	-	401
Proceeds from sale of property, plant and equipment	468	1,289	468	1,289
Net cash outflow from investing activities	(13,583)	(10,924)	(13,583)	(33,636)
Cash flows from financing activities				
Net decrease in borrowings	(136,890)	(80,472)	(157,701)	(248,449)
Net cash outflow from financing activities	(136,890)	(80,472)	(157,701)	(248,449)
Net decrease in cash and cash equivalents	(132,147)	(199,297)	(159,180)	(220,180)
Cash and cash equivalents at the beginning of the financial year	532,353	731,650	636,473	856,653
Cash and cash equivalents at the end of the financial year (excluding provision for impairment losses)	400,206	532,353	477,293	636,473

1. On adoption of AASB 9 on 1 July 2018, the classification and measurement of financial assets were revised. The held-to-maturity and available-for-sale classifications used in comparative periods cease to exist under AASB 9 and new classifications of financial assets at amortised cost and financial assets at fair value through profit or loss were introduced. Refer to Note 9 for further details. Comparative information has not been restated.

notes to the financial statements

For the year ended 30 June 2019

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 2019. 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. Dividends

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

3. Comparative information

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

4. Management discussion and analysis

4.1 Income statement

(a) Net interest income

Consolidated	2019 (\$m)	2018 (\$m)	Var (\$m)
Interest revenue	383	381	2
Interest expense	(187)	(190)	3
Net interest income	196	191	5

Net interest income increased by \$5.0m compared to the previous year, primarily attributable to an improvement in the net interest margin ratio of **3 basis points**, which contributed additional net interest income of \$3.5m. This improvement reflects a focus throughout the year on supporting sustainable net interest margins over the long-term whilst balancing long-term customer value.

Growth in the home loan portfolio was moderate during the year in a challenging environment, with the total loan portfolio increasing by \$35m. The slightly higher average portfolio balance contributed an additional \$1.5m of net interest income.

(b) Other income

Consolidated	2019 (\$m)	2018 (\$m)	Var (\$m)
Net fee and commission income	9	9	-
Other operating income	3	4	(1)
Other net gains and losses	1	-	1

Other operating income

The decrease in other operating income of \$0.8m primary reflects a number of material non-recurring items in the prior financial year, including gains on the disposal of surplus commercial properties. There were no corresponding items of other operating income in the current year.

Other net gains and losses

In accordance with AASB 9 *Financial Instruments*, net gains and losses on financial assets at FVTPL are recognised directly in the income statement. The consolidated entity earned a net unrealised fair value gain for the year on the investment portfolio held by the Newcastle Permanent Charitable Foundation of \$1.0m.

(c) Non-interest expenses, excluding income tax

Total operating expenses of the consolidated entity were \$155.9m for the year ended 30 June 2019, representing an increase of \$12.8m (8.9%). Material components included:

Consolidated	2019 (\$m)	2018 (\$m)	Var (\$m)
Personnel expenses	90	86	4
Impairment losses on loans and advances	0.6	0.2	0.4
Customer remediation costs	4	-	4
Operating and administrative expenses	52	49	3

Personnel expenses

Personnel expenses represent 57.7% of the consolidated entity's operating expenses (2018: 59.8%). Overall, the increase in personnel expenses is primarily attributable to:

- > investment to support key strategic projects, Information Technology and Digital Banking designed to deliver improved services to customers;
- > non-recurring restructuring costs to support future business efficiency; and
- > annual performance-based salary increases and salary increases granted under the parent entity's Enterprise Agreement.

Impairment losses on loans and advances

Impairment losses on loans and advances for the year ended 30 June 2019 represents **less than 0.01%** of the total loan portfolio reflecting Newcastle Permanent's approach to prudent lending and its outstanding credit quality.

Customer remediation costs

During the year, Newcastle Permanent raised a provision for customer remediation costs. This represents an estimate of the amount payable to customers arising from interest being overcharged where mortgage offset accounts had not been correctly linked to an eligible mortgage. A remediation program has been established to comprehensively identify all affected customers and determine the amount of interest to be refunded.

Operating and administrative expenses

Other operating expenses increased by 6.1% including operational costs associated with strategic investment initiatives and ongoing investment in the second and third lines of defence to support effective risk management and continuous improvement in the control framework.

The consolidated entity's cost to income ratio has increased from 69.8% at 30 June 2018 to 74.6% at 30 June 2019. This is reflective of the increase in personnel and operational expense outlined above, as well as the challenging business environment negatively impacting net interest margin.

4.2 Balance sheet

(a) Assets

Total assets of the consolidated entity increased by \$0.1b to \$10.8b at 30 June 2019, representing an increase of 1.1%. Material components included:

Consolidated	2019 (\$m)	2018 (\$m)	Var (\$m)
Loans and advances	9,101	9,066	35
Cash and liquid assets	1,621	1,551	70
Other	111	99	12

Loans and advances

With respect to loans and advances to members, home loans represent 98.2% (2018: 98.1%) of total lending assets.

The growth in loans and advances to members during the 2019 year of \$35m represented an annualised growth rate of 0.4%, compared to overall system growth of 3.5%. This reflects Newcastle Permanent's prioritisation of sustainable portfolio growth, organisational resilience and preservation of customer value for both depositors and borrowers in a challenging economic environment.

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	2019 (\$m)	2018 (\$m)	Var (\$m)
Cash and cash equivalents	477	636	(159)
Financial assets at amortised cost	1,144	915	229
Total cash and liquid assets	1,621	1,551	70

During the year cash and liquid assets decreased by \$70m due to Newcastle Permanent adjusting its liquidity management strategy to prevailing market conditions.

The liquidity position of 15.4% (under the Minimum Liquidity Holding regime) was slightly higher than that observed in the previous year.

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 increased by \$0.1b (0.9%) from \$9.7b at 30 June 2018 to \$9.8b at 30 June 2019. Material components included:

Consolidated	2019 (\$m)	2018 (\$m)	Var (\$m)
Customer deposits	8,215	8,141	74
Other deposits and borrowings	1,575	1,571	4
Other	59	50	9

Customer deposits

Customer deposit funding increased by 0.9% during the year with growth levels managed in the context of asset growth and Newcastle Permanent's targeted liquidity position.

At 30 June 2019, customer deposits remain Newcastle Permanent's primary source of funding representing 83.9% of the consolidated entity's total funding (2018: 83.8%).

Other deposits and borrowings

In line with its strategy of maintaining a diversified funding base, Newcastle Permanent obtains a proportion of its funding from various wholesale funding sources. The balance of wholesale funding was maintained during the year with balance sheet growth being primarily funded by retail customer deposits.

At 30 June 2019 wholesale funding represents 16.1% of the consolidated entity's total funding (2018: 16.2%) comprised primarily of long term funding.

(c) Equity

Total equity of the consolidated entity has increased by \$28m (3.0%) to \$983m at 30 June 2019.

This is primarily attributable to the net profit after tax of \$35.1m generated by the parent entity during the year.

4.3 Cash flow statement

There has been a decrease in cash and cash equivalents during the year of \$159.2m in respect of the consolidated entity, compared to an increase of \$220.2m in the prior year.

The movement in cash and cash equivalents is detailed in 4.2(a).

	Parent entity		Consolidated entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
5. Net interest income				
<i>Interest revenue:</i>				
Loans and advances to members	346,244	342,616	348,122	344,156
Cash and liquid assets	79,349	76,303	34,658	37,076
	425,593	418,919	382,780	381,232
<i>Interest expense:</i>				
Deposits	140,007	141,920	139,638	141,796
Borrowings	90,574	86,502	47,215	47,759
	230,581	228,422	186,853	189,555
Net interest income	195,012	190,497	195,927	191,677
6. Fee and commission income				
Fee revenue	13,577	13,996	13,465	13,885
Commission revenue	3,537	2,462	3,537	2,462
Government subsidies	84	83	84	83
	17,198	16,541	17,086	16,430
7. Other operating income				
Net gain on disposal of property, plant and equipment	362	318	362	318
Net gain on disposal of investments	-	21	-	171
Rental income	200	174	200	174
Insurance recoveries	16	756	16	756
Partnership income	1,196	1,941	1,196	1,941
Other income	389	419	1,523	721
	2,163	3,629	3,297	4,081
8. Other net gains and losses				
Net fair value gains on financial assets at FVTPL	256	-	1,204	-

9. Changes in accounting policy

This note explains the impact of the adoption of AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* on Newcastle Permanent's financial statements.

(a) Consolidated balance sheet reconciliation

AASB 9 has been adopted without restating comparative information. The reclassifications and the adjustments arising from applying the new impairment rules are therefore not reflected in the prior year balance sheet at 30 June 2018, but are recognised in the opening balance sheet at 1 July 2018. The transition to AASB 15 had no impact on the opening balance sheet - refer to Note 9(c) below for further details.

The following table shows the transition adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail in sections (b) and (c) following:

Balance Sheet Extract	Note	30 June 2018 as originally presented	Transition adjustments – classification	Transition adjustments – measurement	1 July 2018 restated
		\$'000s	\$'000s	\$'000s	\$'000s
Assets					
Cash and cash equivalents	(b)(i)	636,473	-	(185)	636,288
Held-to-maturity investments	(b)(ii)	915,023	(915,023)	-	-
Loans and advances to members	(b)(i)	9,066,123	-	(444)	9,065,679
Available-for-sale financial assets	(b)(ii)	23,080	(23,080)	-	-
Financial assets at fair value through profit or loss	(b)(ii)	-	23,374	(943)	22,431
Financial assets at amortised cost	(b)(i)	-	915,023	(245)	914,778
Other financial assets		294	(294)	-	-
Net deferred tax assets		6,545	-	545	7,090
Equity					
Retained profits		892,454	-	(1,272)	891,182

(b) AASB 9 *Financial Instruments*

Newcastle Permanent has applied AASB 9 from 1 July 2018 and requirements were not applied retrospectively prior to this date.

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets. Newcastle Permanent has not applied the hedge accounting requirements of AASB 9, exercising an accounting policy choice to continue to apply the hedge accounting requirements of AASB 139.

The key changes to Newcastle Permanent's accounting policies and the impacts from the adoption of AASB 9 are described below:

(i) Impairment

AASB 9 introduced an expected credit loss (ECL) impairment model which differs significantly from the incurred loss approach under AASB 139. The ECL model reflects an unbiased, probability weighted prediction which evaluates a range of scenarios and takes into account the time value of money, past events, current conditions and forecasts of future economic conditions. The forward-looking model does not require evidence of an actual loss event for impairment provisions to be recognised.

The application of the new ECL impairment model has resulted in the provision for impairment increasing at 1 July 2018 for the following financial instrument classifications:

- > Loans and receivables (at amortised cost) - \$444k
- > Cash and liquid investments (at amortised cost) - \$430k

In addition to the above adjustments to the provision for impairment losses, a corresponding adjustment to the deferred tax asset was also recognised at 30% of the transition adjustment recorded.

Details of the ECL impairment model methodology and assumptions are outlined in Note 7.2(b) of Newcastle Permanent's full financial report.

(ii) Classification and measurement

Under AASB 9, financial assets are classified into measurement classifications based on two criteria:

- The business model within which the financial asset is managed; and
- The contractual cash flow characteristics of the financial assets (specifically whether the contractual cash flows represent solely payments of principal and interest).

The majority of Newcastle Permanent's financial assets pass the contractual cash flow characteristic test, and are held within a business model aligned to the collection of the contractual cash flows.

Following application of the classification criteria, the following changes were made on transition:

- The investment portfolio held by Newcastle Permanent Charitable Foundation (a group entity) was previously classified as 'available-for-sale', where fair value gains and losses were recorded within equity. The investments, primarily unit trust investments in managed funds, are now classified as 'financial assets at fair value through profit or loss'. They continue to be measured at fair value; however gains and losses are recognised through the income statement, rather than a reserve within equity. The balance of the available-for-sale investment reserve was transferred to retained earnings on 1 July 2018 following transition to AASB 9.
- Investments held in securitisation vehicles (including subordinated notes in warehouse trusts) are held within a business model primarily to collect contractual cash flows. However, the subordinated nature of these notes means that they also contain additional credit risk which introduces potential volatility to the cash flows, such that they are not deemed to be solely payments of principal and interest. Therefore, these investments are classified as 'financial assets at fair value through profit or loss'. The valuation method used to determine fair value resulted in a decrease in fair value of \$943k being recorded on transition to AASB 9. A corresponding adjustment to the deferred tax balance of 30% of the transition adjustment was also recognised.
- An equity investment previously measured at cost under AASB 139 is now classified as a 'financial asset at fair value through profit or loss' under AASB 9. The valuation method used to determine fair value has resulted in a fair value that approximates the carrying value of the investment.

(c) AASB 15 Revenue from Contracts with Customers

On 1 July 2018, Newcastle Permanent adopted AASB 15 which introduces a single, principle-based five-step recognition and measurement model that requires identification of distinct performance obligations within a contract, and allocation of the transaction price of the contract to those performance obligations. Revenue is then recognised as each performance obligation is satisfied. This has replaced the previous standard AASB 118 Revenue where revenue is recognised when risks and rewards have transferred from the seller to the buyer.

In accordance with the transitional provisions of AASB 15, Newcastle Permanent has adopted the retrospective approach subject to practical expedients. All contracts transitioning under AASB 15 were identified as completed contracts at the date of initial application. Under this approach there is no impact of AASB 15 to the comparative reporting period or opening retained earnings.

However, the adoption of AASB 15 has resulted in a change in accounting policy for the recognition of insurance commission revenue. Commission revenue previously recognised over time is now recognised at the time the underlying product is distributed to the customer, where it is highly probable the revenue will not need to be reversed in future periods. Where Newcastle Permanent acts as an agent in the provision of insurance products, performance obligations in contracts with customers are satisfied prior to receiving commission revenue.

10. Transition to new Accounting Standards

Newcastle Permanent will apply the new Accounting Standard AASB 16 Leases from 1 July 2019. No other new accounting standards or interpretations are applicable.

Nature of change

AASB 16 was issued in February 2016 and replaces existing standards AASB 117 Leases. It aims to improve transparency on financial leverage and capital employed by bringing the value of leased assets and lease liabilities onto the balance sheet. The accounting for lessors will not significantly change.

Likely impact to the consolidated entity

Classification and measurement

The classification and measurement of leases will change significantly under AASB 16:

- a Right of Use Asset will recognise the right of a lessee to use a specific asset for the duration of a lease;
- a Lease Liability will recognise the obligation a lessee has to make future lease payments in relation to a specific asset over the duration of a lease;
- Lease Expenses will be removed from the Income Statement; and
- Depreciation (of the Right of Use Asset), and Interest (on Lease Liability) will be added to the Income Statement.

The standard offers entities a number of transitional methods on adoption. Newcastle Permanent has elected to adopt the cumulative retrospective methods which measure:

- › the Lease Liability at the present value of lease payments that are not paid, discounted using the consolidated entity's Incremental Borrowing Rate; and
- › the Right of Use Asset at its carrying amount as if the standard had been applied from the commencement of the lease.

At 30 June 2019, Newcastle Permanent has leases relating to branch offices and ATM locations with lease terms of between one to twelve years, with an option or options to extend for up to fifteen years. All lease contracts contain contingent rental amounts based on consumer price index and market review clauses in the event that the consolidated entity exercises its options to renew. Newcastle Permanent does not have an option to purchase any leased asset at the expiry of the lease period.

Newcastle Permanent will classify these branch office and ATM leases under AASB 16 on 1 July 2019 and recognise an estimated \$32m Right of Use Asset and an estimated \$35m Lease Liability. This will result in an estimated \$2.1m adjustment to retained earnings and an estimated \$0.9m adjustment to Deferred Tax Assets on transition.

Key judgments which may impact these estimates are:

- › consistent with historical behaviour, it has been assumed all future lease options will be exercised; and
- › the Incremental Borrowing Rate implicit in each lease has been calculated based on internal cost of funding rates.

Newcastle Permanent intends to apply the following elections and practical expedients on transition:

- › elect not to apply the standard to short-term leases or leases for which the underlying asset is of low value;
- › apply a single discount rate to a portfolio of leases with similar characteristics; and
- › elect not to apply this standard to existing contracts which did not contain a lease as defined by AASB 117. Newcastle Permanent has leases relating to advertising billboards and office equipment which are relevant to this election. These potential lease arrangements will be assessed as these contracts are varied or renewed.

Disclosure

The new standard also introduces expanded disclosure requirements and changes presentation. These are expected to change the nature and extent of Newcastle Permanent's disclosures about its lease arrangements particularly in the year of adoption of the new standard.

Date of Adoption

Newcastle Permanent will apply the standard from 1 July 2019 and apply the new rules prospectively from 1 July 2019, with the practical expedients permitted under the Standard. Comparatives for 2019 will not be restated, with transitional adjustments recognised through retained earnings on 1 July 2019.

11. 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 2019. The process to renew the warehouse facilities with the warehouse providers has commenced and is intended to be completed prior to 15 October 2019. 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 2020.

directors' declaration

For the year ended 30 June 2019

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 2019 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 2019. 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
20 September 2019



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 Company) and its controlled entities (together, the Group) for the year ended 30 June 2019 complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

What we have audited

The Company and Group concise financial report derived from the financial report of the Company and Group for the year ended 30 June 2019 comprises:

- the income statements for the year then ended
- the statements of comprehensive income for the year then ended
- the balance sheets as at 30 June 2019
- the statements of changes in equity for the year then ended
- the statements of cash flows for the year then ended, and
- the related notes to the financial statements.

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 Company and the Group 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.

PricewaterhouseCoopers, ABN 52 780 433 757

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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 financial report and the auditor's report thereon.

The financial report and our report thereon

We expressed an unmodified audit opinion on the financial report in our report dated 20 September 2019.

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*.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Craig Stafford' in a cursive script.

Craig Stafford
Partner

Sydney
20 September 2019



Auditor's Independence Declaration

As lead auditor for the audit of Newcastle Permanent Building Society Limited for the year ended 30 June 2019, 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.

A handwritten signature in blue ink that reads 'Craig Stafford'.

Craig Stafford
Partner
PricewaterhouseCoopers

Sydney
20 September 2019

PricewaterhouseCoopers, ABN 52 780 433 757

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